



Inverclyde Council

Annual Report 2012-13

October 2013

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1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Inverclyde Council (the Council) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the second year of our appointment. This report summarises the findings from our external audit work for the year ended 31 March 2013.

Overall conclusions

We use the table on page 3 to highlight the key findings emerging from each aspect of our work during 2012-13. Overall, the Council is in good financial health with a strong general fund position. The general fund now stands at £45.3 million, an increase in funds from the previous year of £4.5 million.

Overall, the Council performs well in delivering services and has good financial management arrangements in place. In particular, the Council has been able to build up significant reserves during a period of financial austerity. This has been achieved through disciplined financial management, strong leadership by the senior management team in delivering the Council's vision and corporate priorities to focus investment and savings decisions.

Meeting future challenges

This strong leadership may also, however, have resulted in an opportunity cost by delaying investment during a period of economic recession and part of the challenge the Council now faces is to use its reserves in a planned way to drive forward investment in the local area. I am satisfied that the Council has good plans in place to meet this challenge.

We also found that the Council has generally good internal governance arrangements in place and that they work well in most cases.

Improving the local economy is a key policy area for the Council as Inverclyde has one of the highest rates of unemployment in Scotland and suffers from lower levels of economic activity. This may in part be causing population decline as people leave the area to seek work. As council funding from government is linked mainly to population levels, this could lead to lower levels of future funding unless addressed.

One of the many ways in which the Council was seeking to take forward its economic development agenda was through the creation of Riverside Inverclyde as a joint venture with Scottish Enterprise. A recent consultant's report has identified that this organization, which has received investment of £59 million from public funds over a 5 year period, has significantly underperformed against some of its economic development targets. The Council in conjunction with Scottish Enterprise as Company Member Organisations are taking action to address the concerns raised in the consultant's report, and are reviewing its overall strategy for economic development in the process. However, delivering on the Council's economic development priorities remains a key challenge going forward.

The Council currently has 77 bodies which it procures a variety of services from and regards as 3rd party organisations, 13 of which receive funding of over £1m annually. 3rd party organisations can represent a best value way to deliver services as they can be less expensive and more effective than in-house teams. However, their arms-length nature does require effective management oversight to exercise proper stewardship over public funds, ensure achievement of best value, and to ensure key policy objectives are being met. The Council have reviewed its arrangements for governance of 3rd party organisations and ALEO's, and while it acknowledges that the process has bedded down reasonably well, there were some areas where meetings and reporting had not taken place as required. We plan to undertake a further review of the Council's strategy and arrangements for working with 3rd party organisations and ALEOs as part of our 2013-14 audit.

We are pleased to report that the Council has again made good progress in delivering savings through its programme of efficiency workstreams, but it is becoming increasingly clear that there are significant challenges and difficult decisions ahead. The collaboration and shared service agenda is a key national government strategy for improving efficiency and effectiveness in the delivery of public services. The Council has a number of shared services already in place or being developed. We also note that plans to increase shared services in a number of areas have not been progressed, often for reasons outwith the Council's control, and further savings are not factored into the 2013/16 budget. We will continue to monitor progress in this area.

Community planning arrangements as a mechanism to improve economy, efficiency and effectiveness in service delivery remain a point of focus. The Council generally has good arrangements in this area, but there is scope to do better and we note the outcomes from the recent Audit Scotland review of community planning

partnerships which identifies a number of recommendations at a local and national level to improve joint working across organisations in the public sector. We will work with the Council in the coming year to support its development of community planning partnerships.

Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> The Council had a general fund balance of £45.3 million at the year end. The General Fund increased more than budgeted in the year as a result of additional workstream savings and Service underspends. The uncommitted portion of the General Fund is £5.5 million, which is £1.5 million higher than the Council's target for reserve balances. The Council recorded an underspend of £2.8 million against service budgets in the year, representing 1.8% of net service expenditure. Mainly caused by 'one-off' items such as receipt of the Council's unbudgeted share of police and fire board reserves.
Governance	<ul style="list-style-type: none"> The Council's governance arrangements are generally operating well. The Council has arrangements in place for the governance of 3rd party organisations but there are areas where those arrangements need to be more effectively applied. Our review of internal controls found that they operate effectively, and the internal audit section performs well.
Performance	<ul style="list-style-type: none"> The Council has worked well with its partners to agree a shared vision for the area, supported by shared priorities for future improvement within the Single Outcome Agreement. The Council has revised its Strategic Planning and Performance Management Framework during 2012-13, which places a strong emphasis on robust self-evaluation. The Council has well-developed arrangements to monitor and report on performance through Inverclyde Performs. Our analysis of progress against the Single Outcome Agreement and Statutory Performance Indicators highlights continuing improvement within services.

2. Introduction

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Inverclyde Council (the Council) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the second year of our appointment.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and Inverclyde Council (the Council).

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by the Accounts Commission and the Auditor General for Scotland. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

Our Annual Report

This report summarises the findings from our 2012-13 audit of Inverclyde Council. The scope of our work was set out in our Audit Plan, which was presented to the Audit Committee on 26 February 2013.

The main elements of our audit work in 2012-13 have been:

- the audit of the financial statements, including a review of the Statement of Systems of Internal Control
- a review of corporate governance arrangements, internal financial controls and financial systems
- review of arrangements for statutory performance indicators; and
- a review of the council's response to Audit Scotland's national study reports.

The key issues arising from these outputs are summarised in this annual report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by elected members and officers of the Council during our audit.

3. Financial Position

The Council has a general fund balance of £45.3m, with £5.5m available for new expenditure or to meet unforeseen costs. The Council recorded an underspend against budget for the year and is making good progress in delivering the efficiency savings required in its Budget Strategy to meet continuing financial challenges.

Financial Reporting

The Statement of Accounts is the key method that Councils use to report to elected members and the public on how effectively they use public funds. However, local authorities are large and complex organisations, and the nature of the regulatory framework means that large accounting adjustments are made to accounts that can be difficult to explain or understand.

We reviewed the Chief Finance Officer's Foreword and concluded that it provides a good summary of the Council's financial performance for the 2012-13 financial year, including performance against budget, and outcomes against the prudential indicators.

The CIPFA Directors of Finance working group approved a number of financial ratios for use within the annual accounts to enhance comparability across Scottish councils. 2012-13 is the first year that the Council has provided this analysis.

The LASAAC August meeting featured the Council's Explanatory Foreword as an example of good practice, in particular the focus on risk and the economic environment, and the 'brief and concise explanation of the main financial statements.'

The Council has invested a large amount of time and resource during 2012-13 to review the content of the financial statements. The Council has taken on board key messages from the Audit Commission report 'Cutting the Clutter' and our own report 'Clear and Concise.' As a result, the Council has made a number of changes to its financial statements compared with 2011-12, making them shorter, more concise and the disclosures more relevant.

We have worked with the Council to ensure that the amended financial statements remain compliant with

applicable accounting standards. Through early engagement we agreed the changes before production of the financial statements, which reduced the amount of work to be completed after the year end.

There are opportunities to build on this success to further enhance financial reporting and the financial statements for 2013-14, and we look forward to working with the Council to support achievement of this.

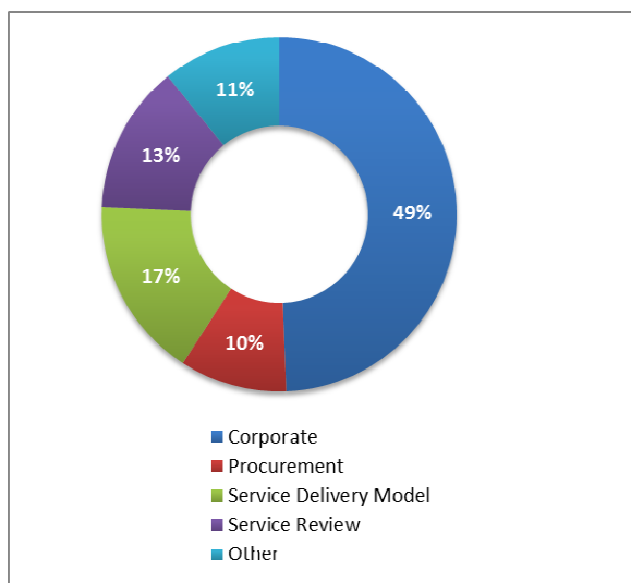
Budget Strategy

The Council has a well-established Medium Term Financial Plan to prepare for lower financial settlements from the Scottish Government in future years.

The approved 2012/13 revenue budget included a projected surplus of £4.55 million which would be transferred to reserves to offset future years projected shortfalls. The out-turn surplus transferred to reserves was £5.5 million due in part to earlier realisation of workstream savings. 2012/15 revenue gap, at the time of approving the annual budget was £15.6 million.

In 2012-13, the Council set a workstream savings target of £2.5 million for the year, by February 2013 workstream savings of £3 million had been achieved.

Figure 1: The Council delivered workstream savings of £3 million during 2012-13



Source: Inverclyde Council 2012/13 General Fund Revenue Budget as at January 2013

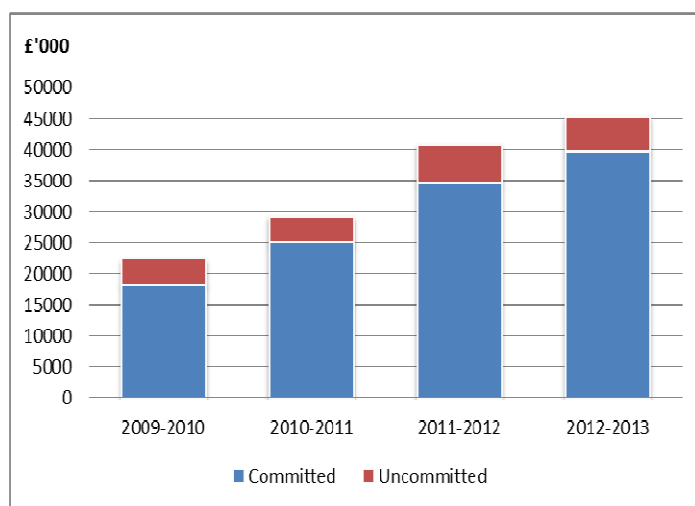
The Council has outperformed its expectations in delivering savings. By February 2013 it had achieved £20.2 million of the £23.2 million workstream savings target to be achieved by the end of 2013-14. A number of the original workstream savings have now been transferred to the service budgets. The revised target for corporate workstream savings is £2.6 million by the end of 2015/16. The Council has agreed a balanced 2013/16 Budget with a surplus of £4.7 million in 2013/14 and £1.8 million in 2014/15.

Financial Position

One of the key measures of financial health at a local authority is the level of uncommitted reserves balances. The Council has set a target to maintain reserves at 2% of budget to allow flexibility and the ability to respond to unexpected events.

At 31 March 2013, the Council reported a general fund balance of £45.3 million (2011-12: £40.7m), of which £5.5 million is uncommitted. This is £1.5 million higher than the Council's target level of reserves, of 2% of budget.

Figure 2: The Council's earmarked reserves continue to increase, and uncommitted reserves remain above target



Source: Inverclyde Council Statement of Accounts

Over the past four years the Council has contributed almost £25 million to reserves, during a period of reduced public funding, the majority of reserve contributions have been earmarked for specific policy priorities

There are a number of key contributing factors to the Council's increase in reserves:

- a successful medium term Financial Strategy
- robust financial discipline in budget monitoring and management arrangements
- early implementation of efficiency savings projects
- effective use of strategic asset management plans
- a prudent view of potential future liabilities
- one off wind fall savings.

It is anticipated that, unless the financial outlook changes considerably over the next 3 years, the level of

Useable Reserves held by the Council will reduce significantly. We will monitor the Councils reserves strategy and general fund budget to ensure that levels of reserves are regularly reviewed and the anticipated call on reserves is met.

Comprehensive Income and Expenditure Statement

The Council reported significant movement in balances between years in its Comprehensive Income and Expenditure Statement, principally as a result of revaluation of land and buildings and favourable change in actuarial assumptions.

Table 1: Financial Results for 2012 and 2013

	2013	2012
	£'000	£'000
Net Cost of Services	223,850	209,818
Other operating expenditure	(27)	(15)
Financing and investment income and expenditure	14,072	10,427
Taxation and non-specific grant income	(217,516)	(215,667)
(Surplus)/deficit on the provision of services	20,379	4,563
(Surplus)/deficit arising on revaluation of non-current assets	(49,871)	18,287
Impairment losses on non-current assets charged to the revaluation reserve	6,883	5,754
Actuarial (Gains) / Losses on Pension Assets and Liabilities	22,538	44,638
Other Comprehensive I&E	(20,450)	68,679
Total Comprehensive I&E	(71)	73,242

Source: Inverclyde Council Statement of Accounts 2012-13

As **Table 1** highlights, the Council reported total net comprehensive income in year of £(0.071) million (2011-12: expenditure of £73.2 million).

The key variances relate to the valuation of the Councils assets, last completed on 2008-09, resulting in an accounting gain.

In addition the actuarial losses were £22.1 million lower in 2012-13 than in 2011-12. This is due to annual variations in the assumptions used by actuaries.

Service expenditure

The Council underspent against budget by £2.8 million (1.6% of the revised 2012/13 revenue budget), with all services recording underspends against budget. The largest underspend was recorded in the Policy and Resources committee which recorded an underspend of 8.5%.

Performance against service budgets were reported to the Policy and Resources Committee throughout the year.

Table 2: Projected underspend 2013

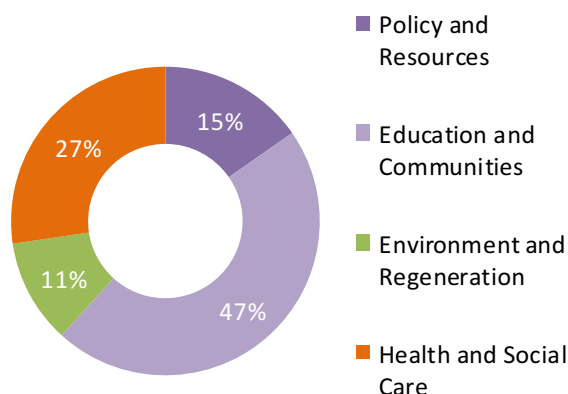
	Projected over/(under) spend £'000
Period 4	(806)
Period 8	(1,941)
Period 11	(2,787)
Out-turn	(2,835)

Whilst the underspend represents only 1.6% of the net revenue budget it does indicate potential scope for further improvements in budget setting and spending plan processes.

Key elements of the underspend against budget are highlighted below:

- additional efficiency savings of £760k
- share of police and fire reserves £967k
- the final Net Benefit Subsidy Claim produced an underspend of £152k
- additional internal resource income of £142k due to improved cashflow
- underspend in waste disposal due to decreased tonnage and delay in implementation of food waste collection scheme £233k
- additional charging order income in health and social care £221k.

Figure 3: The majority of Council expenditure is directed towards Education and Social Care



Source: Inverclyde Council 2012-13 out-turn budget report

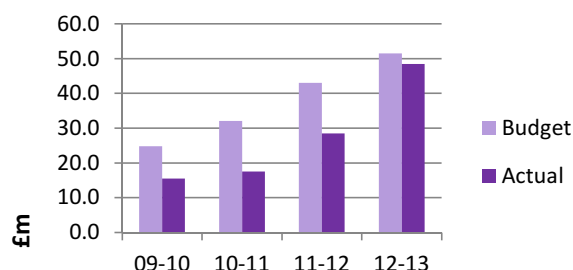
Capital Expenditure

Capital expenditure for 2012/13 was £48.5 million, representing slippage against the capital programme of 5.9%. This was a significant improvement in that experienced in 2011/12 (34%). Officers robustly reviewed phasing on all projects prior to the setting of the 2012/15 Capital Programme this has resulted in the reduced slippage levels at a time when the budget had increased by £9.3 million (22%) from 2011/12).

Slippage in the capital programme has occurred mostly in the Environment & Regeneration Committee. However, levels of slippage are significantly reduced from previous years as set out in **figure 4**.

Each committee receives capital programme monitoring reports for their area of the programme, with the Policy and Resources Committee also receiving an overall capital monitoring report each committee cycle.

Figure 4: Actual capital expenditure was £48.5 million, (5.8%) lower than the budgeted £51.5 million



Source: Inverclyde Council Capital Budget Monitoring Reports 2012-13/2011-12/2010-11/2009-10

Underspends against capital projects represent potential opportunity costs for the Council, particularly during a period of economic recession, where council expenditure on capital projects is able to support local business and employment in the Inverclyde area. It is therefore pleasing to see that the level of slippage in the capital plan has reduced significantly. However, there remains some scope to improve the forecasting and spending of planned capital expenditure even further in future years.

Current Projections for 2013-14

We have reviewed the Council’s revenue projections for 2013-14. The Council continues to seek to achieve efficiencies in 2013-14, using the approved savings and savings workstreams and it is expected that a £4.75 million surplus will be achieved and transferred to reserves.

We are satisfied that the Council is taking appropriate action to manage its financial position in the medium term and has a healthy financial position with strong levels of reserves and borrowing levels within prudential borrowing limits.

Looking Forward

From 2013-14, the Accounts Commission has extended our appointment as auditors of the Council to audit all registered charities where the Council is the sole Trustee. The Council is currently reforming the governance of these charities, working to reduce the number of charities that will be subject to audit in 2013/14.

As at 31 March 2013 the Council administered 4 Trusts and 8 charities. It is expected that there will be at least two charities subject to audit.

We will complete a full audit of the charities in line with International Auditing Standards, performing our work on the charities alongside our work on the Council's financial statements. We will have regard to the small size of the charities and the simplicity of its transactions when planning our work.

The Council's Group Accounts and group financial position in 2013/14 will be significantly different due to the change in structure of Police and Fire and Rescue service. A share of the reserves of these bodies will no longer be included in the Council's Group Accounts in 2013-14, which will significantly reduce the Group's liabilities.

We will work with the Council to ensure the changes to the Group Accounts are compliant with the Code and that the changes are clearly explained in the accompanying narrative.

4. Governance

The Council has put in place arrangements to support an Annual Governance Statement for 2013-14. Governance of Arms Length External Organisations remains a key area of focus. Arrangements for local governance of Police and Fire and Rescue services are in their infancy and will need to be responsive to change as relationships develop.

Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records the governance ethos of the Council, and assurances around the achievement of the vision and strategic objectives of the Council. The AGS summarises the local code of governance, including the internal control framework, arrangements for risk management, financial governance and accountability.

An AGS is best practice, but not yet mandatory for councils in Scotland. We recommended in our Key Issues Memorandum in September 2012, that the Council should consider moving towards an Annual Governance Statement.

The Council have made significant progress in establishing arrangements to ensure that the Annual Governance Statement will be supported by evidence and is embedded in the Council, rather than being seen as an annual paper exercise. We expect the first Annual Governance Statement of Inverclyde to be included in 2013-14 accounts.

Internal Controls

As part of our financial statements audit work, we took assurance from our internal control work on the Council's key financial systems. We assessed the following systems as part of our work throughout the year:

- Budgetary control
- Employee remuneration
- Capital accounting
- Accounts receivable
- Operating expenses
- Treasury management
- Housing and Council Tax Benefits

No significant matters were highlighted during this work.

Internal Audit

Since April 2008, Internal Audit follows a risk assessment approach and operates to an Annual Audit Plan only, with rotational coverage of the top 20-25% of the Audit Universe.

The 2012-13 planned resources were 540 days.

The audit plan covers a variety of audit types including, compliance reviews, regularity audits, limited scope financial system reviews and risk-based reviews. The risk-based reviews in 2012-13 were:

- Business Continuity management
- Performance Management
- Software Licensing
- Supply Teacher Management
- Licensing

In addition there was one Arms Length Organisation review which focused on Inverclyde Leisure Trust.

We have previously identified that a number of Internal Audit recommendations remain outstanding

As at the end of March 2013, there are 72 current actions of which 4 are classified as Red, 31 Amber and 37 Green. 31 actions (13 Amber and 18 Green) have missed the original deadline for completion out of 845 actions agreed (3.6%).

Public Sector Internal Audit Standards

A common set of Public Sector Internal Audit Standards (PSIAS) were adopted by the Relevant Internal Audit Standard Setters, for implementation as from 1 April 2013, with the aim of promoting further improvement in the professionalism, quality,

consistency and effectiveness of internal audit across the public sector.

The new standards, interpreted for the UK public sector, encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework and replace the existing standards. They apply to all internal audit service providers, whether in-house, shared service or outsourced.

Specific requirements of the PSIAS

■ An internal audit charter

The charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if the internal audit provider performs non-audit activities.

■ A quality assurance and improvement programme

The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. This should include:

- on-going internal quality monitoring and self-assessment
- a five-yearly, independent, external assessment of the internal audit function
- effective communication.

In this context effective communication refers to the engagement of the committee's membership – and of the chair, in particular – in discussions with the chief audit executive about:

- the Council's risks and assurance requirements
- the level of assurance provided
- issues of concern raised by audit work undertaken
- the implementation of agreed recommendations and the enhanced assurance arising.

The new standards came into force on 1 April 2013. The Scottish Local Authority Chief Internal Auditors Group has been leading on implementation of the Standards within Scottish Local Authorities. A self-assessment exercise will be undertaken during 2013-14 against the new Standards.

Governance of associates

The Council has interests in a number of organisations and joint committees also referred to as Arms Length External Organisations (ALEO). ALEOs are bodies, often set up as a charity or not-for-profit organisation (for example Inverclyde Leisure and Riverside

Inverclyde) which deliver services on the Council's behalf. ALEOs can represent a best value way to deliver services as they are often less expensive and more effective than in-house teams. However, their arms-length nature does require effective management oversight to exercise proper stewardship over public funds, ensure achievement of best value, and to ensure key policy objectives are being met.

One of the many ways in which the Council was seeking to take forward its economic development agenda was through the creation of Riverside Inverclyde (RI) as a joint venture with Scottish Enterprise.

During the year, Inverclyde Council and Scottish Enterprise commissioned a scheduled independent mid-term review of RI against its stated objectives and the effectiveness of RI as a delivery vehicle.

The mid-term review showed that not all of these objectives had been met or were on target.

The Council and Scottish Enterprise as Company Member Organisations are taking action to address the concerns raised in the consultant's report, and are reviewing its overall strategy for economic development in the process. However, delivering on the Council's economic development priorities remains a key challenge.

Riverside Inverclyde

Aims and objectives:

- Launched in 2006 and operate for 10 years
- To help regenerate economically depressed parts of Inverclyde
- Would create 2,600 jobs
- Would build 2,285 homes
- Attract £300m in private investment
- Secure £93m in public money

What has it done?

- 191 jobs created
- 121 new homes
- £3.6m of private investment secured
- Development of Riverside Business Park,
- Enhancements to James Watt Dock
- Improvements to parts of Greenock and Port Glasgow town centres

Since the report, the Chair and Chief Executive have resigned and a new Board is being put in place. The Corporate Director of Environment, Regeneration and Resources has been seconded to Riverside Inverclyde as interim Chief Executive and has embarked upon developing and implementing an improvement plan to address the areas of concern outlined in the Midterm Review.

The Board of RI, in consultation with the Council and Scottish Enterprise, should establish permanent arrangements as soon as practicable.

Recommendation 1

The Council have taken steps to back fill for the post of the Corporate Director of Environment Regeneration and Resources to minimise the impact on the Council's operational activities.

In addition, a separate report identified that land owned by James Watt Dock LLP, a joint venture of Riverside Inverclyde's, contained abnormalities and the value of the land should therefore be impaired. If the land were to be impaired this would impair the value of RI's investment in associates. There is no going concern risk

identified as a result. The Council have taken a prudent approach in the 2012-13 financial statements and have impaired their share of Riverside Inverclyde's investment in associates. To date, the accounts of James Watt Dock LLP and RI have not been signed.

Governance of External Organisations

The Council agreed a protocol for the Governance of External Organisations in May 2011. The process uses a simple risk matrix to identify those bodies which provide services to the Council where formal monitoring and reporting to Committee is required. In 2012 there were 77 such bodies, 13 of which received over £1 million from the Council. An update report to Policy & Resources Committee in November 2012 identified that whilst the process had bedded down reasonably well there were some areas where meetings and reporting had not taken place as required. A further update report will be presented to the November 2013 Policy & Resources Committee suggesting changes to the matrix and reporting improved adherence to the protocol.

Community Planning Arrangements

Inverclyde Alliance identified a need to build its capacity to review, design and improve itself, and agreed to use the Partnership Checklist for CPPS that has been developed by the Improvement Service, based on the Public Service Improvement Framework (PSIF).

The anticipated benefits of this self assessment of the Alliance Board include:

- Improved partnership working by strengthening the governance, scrutiny and accountability of the CPP
- Development of more outcome focused approaches to business planning and performance management and measurement within the CPP
- Improved collaboration within and across the partnership in building capacity and sharing knowledge, learning and expertise with one another in support of improvement against outcomes.

An Improvement Plan has been developed from the findings of the review. The key areas of focus are to improve the Alliance Board's approaches to:

- Communication
- Ownership

- Awareness Effectiveness
- Review Measurement
- Capacity Building Engagement
- Risk Performance
- Evidence Resources
- Shared Learning

Local Governance Arrangements for Police and Fire

The Council have established a Local Police and Fire Sub-Committee. To date there have been two meetings of the sub-committee which received the Interim Local Police Plan and Interim Local Fire and Rescue Plan.

A collaborative statement has been issued by COSLA, Scottish Government and the Improvement Service to provide guidance on Good Scrutiny and Engagement as a result of the Police and Fire Reform (Scotland) Act 2012.

Key principals of engagement encouraged are:

Five principles for Good Scrutiny and Engagement

The principles are based on good practice and promote the 'four pillars' of public service reform.

- Focus on outcomes
- Understand local conditions and reflect the community voice
- Promote joint working to secure better outcomes and Best Value
- Provide strategic leadership in order to influence service delivery
- Support continuous improvement by providing constructive challenge

Shared Services

The Clyde Valley Shared Support Service business case was published in August 2011. Since then a number of

councils in the original scheme have pulled out of the proposal.

Inverclyde, Renfrewshire and East Renfrewshire have agreed to pursue the opportunity for ICT Collaboration. To make progress quickly, the focus will be on sharing and collaboration rather than formally combining staff into one organisation

East Renfrewshire carried out a tendering exercise on behalf of the 3 Councils and appointed a Transformation Lead to lead and coordinate the sharing of services for a period of up to 2 years.

Over a period of 2 years, a budget of up to £100k per Council will be required. In September 2013 Stage 1 of the Commission was completed and all three Councils are now collaborating on developing detailed mandates as part of Stage 2.

It was agreed in February 2012 the Council would have no further participation in the Clyde Valley Residual Waste Project.

In addition, work on progressing collaboration across the three Councils for Roads and Transportation with a report on the findings expected in 2014.

Risk Management

During 2012/2013 the Council continued to value the importance of maintaining the momentum on risk management and progress has been made in the following areas:

- on-going review and update of strategic and operational risk registers;
- ongoing training of members in Corporate Governance arrangements, including risk management;
- maintaining a risk register for the Financial Strategy which allows management to consider the risks to the overall financial position arising from matters contained within the Financial Strategy;
- implementing risk management as a key aspect of the Strategic Planning and Performance Management Framework;

- continuing the advancement of emergency planning, crisis management and business continuity within the Council and fulfil the Council's legislative requirements under the Civil Contingencies Act 2004 in conjunction with the Joint Civil Contingencies Service; and
- recruiting a Corporate Risk Advisor to support the ongoing development of risk management.

The Council have reviewed the Audit Scotland BV toolkit relating to Risk Management and a number of initiatives will be undertaken in 2013-14 to ensure the Council meets the requirements of the guidance including:

- Raising the Profile of Risk Management
- Embedding Risk Management
- Provide Training
- Manage Residual Risks
- Monitoring Risks and Mitigation Actions
- Working With Our Partners to Manage Risk

Welfare Reform

Regular reports on the significant impacts of, and response to, the Welfare Reform agenda are provided to the Policy & Resources Committee. The Council has a senior officer Welfare Reform Group with representation from the DWP as well as Finance. and the CHCP and this approach has greatly improved collaboration, communication and a corporate response to the agenda.

Scottish Welfare Fund is currently behind budget in line with all other Scottish Councils. Priorities are being reviewed to ensure the funds are fully utilised.

Discretionary Housing Payments Policy made in respect of the Social Size Criteria will be reviewed to reflect the increased resources allocated by the Council and Scottish Government.

Various funding bids for increased Welfare and Money Advice services have been submitted by the Financial Inclusion Partnership.

Further funding pressures arising from cuts in the Benefit Administration grant have been identified.

The Council has a good collaborative approach to this challenging agenda and this will be required as the full effect of the Welfare Reform changes impacts on the local community.

Looking forward

The UK government's Welfare Reform Act received Royal Assent on 8 March 2012. This represents the largest reform of the UK welfare system for 60 years and will have a significant impact on millions of households by creating a new Universal Credit for working age claimants. The government's aim is to deliver savings of £28 billion through welfare reform by 2015-16. The Council has estimated that the impact locally could be a loss of up to £37 million from the local economy by 2015.

The Act signals a number of changes to how local authorities deliver services. Universal Credit means that housing benefit will not be administered locally by Councils. From April 2013, council tax benefit was replaced by a Scottish Council Tax Reduction scheme.

The Council has also had to meet the additional costs associated with the administration of the Scottish Welfare Fund for Community Care Grants and Crisis Grants. This effectively replaces the Social Fund, which was previously administered by the Department for Work and Pensions.

In the future, the role that Councils will play in the delivery of welfare reforms is not yet clear, although there is an expectation that they will provide additional face to face support to benefit claimants.

As we noted during our interim visit, the Council has established a working group to consider and develop strategies to address the impact of these reforms. The group has made good progress in the year to ensure that the Council has appropriate arrangements in place to mitigate against the impact of welfare reform. The Council must continue to monitor the potential impact of welfare reforms on the local population to ensure that financial plans and strategies remain realistic and up to date.

5. Performance

The Council has continued to evolve its Strategic Planning and Performance Management Framework to increase the level of focus on improvement and robust self-evaluation. The Inverclyde Alliance recorded strong performance against the targets within the Single Outcome Agreement. Inverclyde Performs provides a regular summary of Council performance for elected members and the Council's services continue to improve against Statutory Performance Indicators.

Assurance and Improvement Plan

Inverclyde Council's Assurance and Improvement Plan (AIP), was updated and developed by the Local Area Network of external scrutiny bodies, and published in May 2013. The update reflects recent work carried out by local scrutiny partners, and sets out the scrutiny activity proposed for the council for the period up to March 2016.

The Council's AIP Update 2013-16 confirms that there are no significant concerns relating to Inverclyde Council, and the LAN conclude that the Council has the capacity to achieve further service improvements.

Reflecting this conclusion, the AIP does not identify plans for any major scrutiny activity to be carried out and we did not identify any additional areas of work as a result of the Shared Risk Assessment process.

The results of the work reported here will be used to inform the next Shared Risk Assessment. The LAN is scheduled to meet in November 2013 to discuss initial assessments.

Inverclyde Alliance

The Scottish Government published new Single Outcome Agreement (SOA) Guidance in December 2012, requesting that each CPP produce a new SOA to be submitted at the start of April 2013.

Inverclyde Alliance carried out a review of its SOA in 2012 and when this was assessed against the new guidance a number of areas required to be developed.

The SOA has been updated, amended and developed, enhancing a number of areas.

However there is still a gap in information around setting out the CPP's understanding of what partners are collectively doing and spending on prevention across all services including, but not only, particular detail in relation to the six policy priorities.

In March 2013, Audit Scotland published a report on Improving Community Planning in Scotland. The report draws upon findings from initial Community Planning Partnership (CPP) audits at Aberdeen, North Ayrshire and Scottish Borders Councils. Audit Scotland found that CPPs have not yet achieved the ambitious goals set for them, although there are many examples of good joint working and delivering improvements at a local level.

As a result of the SOA Quality Assurance Process carried out by the Scottish Government many examples of good practice have been identified across all CPPs and will now be shared.

The Scottish Government and COSLA Statement of Ambition provides a renewed focus on community planning at a national level. The Statement sets out a challenging improvement agenda for community planning. Audit Scotland's report highlights five key areas for CPPs to work on, to ensure that they achieve their goals in the future:

- creating stronger shared leadership
- improving governance and accountability

- establishing clear priorities for improvement and using resources more effectively
- putting communities at the heart of community planning and public service reform
- supporting CPPs to improve their skills and performance.

A report has been presented to the Inverclyde Alliance Board setting out the key challenges locally. Which includes being able to demonstrate how the significant sums of public money available to partners are influenced by community planning and the outcomes agreed at partnership level. The Alliance Board agreed that:

- the Alliance Memorandum of Understanding be updated to further clarify what is expected of partners and elected members, particularly in regard to how partners identify the resources they contribute to the delivery of local outcomes in Inverclyde.
- each partner provide the Alliance Board with an outline of how they, as a single agency, are contributing to the delivery of the outcomes, and how the outcomes inform their decision making and governance arrangements.
- each partner provide the Alliance Board with information on what resources they are consuming on community engagement and capacity building in Inverclyde and identify ways in which this might be brought together more effectively.

Performance management arrangements

In February 2013, the Council agreed a Corporate Statement 2013-17, to replace the Corporate Plan and set out the vision and key priorities for the period. The Statement is a key phase in the Council's approach to reviewing and revising its Strategic Planning and Performance Management Framework (SPPMF) to streamline plans and ensure that each Directorate has arrangements in place to deliver the local outcomes and wellbeing indicators within the SOA.

The Council aims to be "getting it right for every child, citizen and community." Elected members were

consulted on the development of the Statement, and it was prepared following consultation with communities.

Corporate Directorate Improvement Plans were approved in April 2013 and set out the vision for each Directorate, and improvement actions for the next 3 years both corporately and within each service. The Plans also set out key performance indicators, and an assessment of risk. We have reviewed the Improvement Plans, and concluded that they provide a strong basis for monitoring improvement action across the Council. We would also highlight that in future years there is scope to make the Improvement Plans more focused and prioritised, as some of the corporate actions on self-evaluation and performance reporting are embedded.

Managing Performance

As part of its review of the Strategic Planning and Performance Management Framework, the Council has revised the approach to self-evaluation, based on Education Scotland's 'Journey to Excellence'.

Corporate Directorate Improvement Plans will continue to develop to ensure that improvements are based on a robust self-evaluation. Individual services have responded by developing their programme of self-evaluation, including the use of benchmarking. Good use has been made of SOLACE benchmarking data to identify priority areas for improvement.

The Council have recently reviewed its Strategic Planning and Performance Management Framework as part of the Internal Audit plan. The Internal Audit report concluded that:

- the revised strategic planning and performance management framework provides a solid foundation for developing and implementing improvement actions across Services;
- the degree of co-ordination between the Corporate Policy Team, Finance and Services is rightly emphasised within the performance management framework; and
- the Corporate Policy Team demonstrated a strong overall commitment to promoting and developing the Council's performance management framework.

However, isolated areas of control weakness were identified such as the need to address the managerial

capacity issues associated with implementing the strategic planning and performance management framework and the specific training needs of those managers tasked with implementing the revised performance management framework.

Performance reporting

The Council has adopted PSIF as a model for corporate self-assessment and Services incrementally are progressing with the implementation of the Framework. Each service also reports on performance using **Inverclyde Performs** electronic reporting system.

The Council reports on Corporate and Directorate performance on a quarterly basis. The Inverclyde Alliance also report quarterly on progress against the Single Outcome Agreement. The most recent progress report highlights that out of 74 relevant local outcomes there are no outcomes classified with a 'red' status, where immediate action is required to meet the target. There are 13 Amber actions which are classed as within tolerance.

Procurement Capability Assessment

The work completed on the Strategic Performance Framework (SPF) has contributed to a further significant improvement in the annual Procurement Capability Assessment from Scotland Excel. A score of 53% was achieved in the latest assessment in October 2013 meaning the Council has achieved the target of improved performance status.

Statutory Performance Indicators

In its 2012 Direction on the Statutory Performance Indicators, published in December 2012, the Accounts Commission confirmed that the 25 specified Statutory Performance Indicators have been removed from the SPI Direction 2012 and will be replaced by the SOLACE Benchmarking indicators from 2014 onwards (reporting year 2013/14). The 2011 SPI Direction remained in place for 2012-13. The Council have reported on the SPIs for 2012/13 in the usual manner.

The Accounts Commission direction requires that councils report:

- a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)

- a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

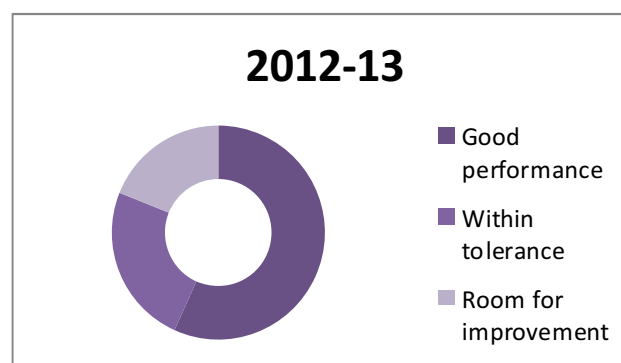
Our review of SPI data submitted to Audit Scotland found that performance was maintained or improved for the majority of the specified indicators.

Areas of improved performance included number of visits to libraries and swimming pools, and the time taken to respond to domestic noise complaints. There has been a 9% improvement in the number of public buildings with disabled access, resulting from adjustments and building work.

The Council also continued to reduce the cost of administering benefits. The total cost of providing housing benefits services fell by £63k, or 4.5%. A particular achievement was the 6.9% increase in the number of homeless people housed into permanent accommodation, reversing a recent negative trend in this risk area.

Areas where performance declined in year include the number of visits to indoor sports and leisure facilities (excluding swimming pools.) This fell by 7.5% during the year, and visits to Council-funded museums fell by 2.4%. The broad picture is that the Council are performing reasonably, and continue to make improvements despite the difficult funding position.

Figure 5: The Council demonstrated 'good' performance in 57% of specified indicators



Source: Inverclyde Council 2012-13 performance report

National Studies

Audit Scotland require us to provide core information on how the Council has responded to national performance reports.

To promote impact at a local level, one or two national performance reports are subject to more targeted follow up each year. For 2012-13, we have been asked to follow up the Scotland's Public Finances: Addressing the Challenges report, which was published in August 2011.

Scotland's Public Finances: Addressing the Challenges

The aim of the follow up work is to assess the progress that the Council has made in developing sustainable financial plans to meet the scale of budget cuts expected to be faced by the Scottish public sector in the period to 2014-15.

Scotland's public finances: Addressing the challenges was published in August 2011. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010-11 to 2014-15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.

Our follow up work has been based on two questions based on the key issues for councils identified within the report:

Does the Council have sustainable financial plans which reflects a strategic approach to cost reduction?

- Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?
- Our work was performed by interviewing officers and reviewing documentation including minutes, plans and performance reports. We also completed a questionnaire provided by Audit Scotland, to ensure consistency of approach across councils.

We conclude that the Council's financial plans, strategy and budgets are well developed. Financial plans are sustainable and there are significant reserves to support the Council in the future. The Council began their cost reduction programme as soon as the funding cuts were suspected. This early planning and a three year budget cycle gave the Council space to develop a medium and longer term strategy.

Senior staff demonstrate clear ownership of financial plans. In addition, the Corporate Management Team proactively involve the Trade Unions in the development of Budgets via the Joint Budget Group. Councillors play a key role in scrutinising the plans of senior staff. A number of Councillors active in Committees demonstrate ownership of the planning process. The Committees are effective at scrutinising the plans and decisions of management, and provide management with good challenge.

Managing Performance: Are you getting it Right

Audit Scotland's, *Managing Performance: are you getting it right?* was published in October 2012. The report stresses the critical role of self-evaluation and good quality performance information in allowing councils to demonstrate that they are delivering efficient and effective services.

The report highlights the role of elected members in setting priorities and ensuring that useful, high-level indicators are in place to help members assess performance at a corporate level.

An assessment of the Council against 7 key themes of the report was presented to the Policy and Resources Committee in March 2013. The areas against which the Council has assessed itself are as follows:

- The role of Councillors in managing performance and driving improvement
- Developing a performance management culture
- Developing an effective performance management framework
- Developing good performance measures
- Using performance information effectively
- Developing self-evaluation and improvement activity
- Partnership working

The review concluded that the Council is in a relatively strong position in regard to the key areas set out in the Audit Scotland report, but will require to continue to develop how it manages performance, particularly in regard to supporting Elected Members in their scrutiny role and developing a performance management culture across all levels of the organisation.

Major Capital Investment in Councils

Councils invest large sums of money every year on property and other assets that they will use over many years to provide public services. Councils spent £27 billion between 2000/01 and 2011/12 on capital projects. Of this figure, £4 billion of investment was procured through the use of Private Finance Initiative and Public Private Partnerships (PPP) contracts.

In March 2013, Audit Scotland published Major Capital Investments in Councils. The report reviewed a number of major capital projects over £5 million each, including the Schools PPP project within Inverclyde, and assessed how well councils direct, manage and deliver capital investments.

The report found that Councils completed only two-fifths of projects within the initial cost estimates, and less than half within the value of contract award. Inverclyde's School Project was one of six which finished at or within the original estimate, and one of only 19% which was completed on time compared to the initial estimate.

Audit Scotland found that many councils do not have established processes for developing and using business cases, which means key performance information on aims, cost, time, scope and risk may not be clearly defined.

While Councils are clear about the broad goals for their investment projects, they rarely specify benefits expected or how these will be measured. Audit Scotland also noted that councils do not often proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes.

The report resulted in a series of recommendations for councils. Inverclyde Council received a report on a self-assessment against the recommendations in August 2013. This identified a number of areas for improvement including an assessment of intended and realised benefits will be reported to Committee as part of post project evaluation, and improvements to procedure notes for developing business cases.

An Overview of Local Government in Scotland 2013

In March 2013, Audit Scotland published the *Local Government Overview Report: Responding to Challenges and Change*, which is an annual report based on the findings from annual audit reports on the 2011/12 accounts, and Best Value and performance audit work. The report highlights that pressures on resources and demands on services mean that councils may now have to consider decisions, which they had previously ruled out, to balance their budgets. Most councils predict substantial funding gaps over the next three years.

Pressures on finances and changes in the workforce give greater impetus for councils to be active and ambitious in considering alternative options for services. The report points to the importance of elected members in identifying priorities and in decision making. However, fully evaluating service options can be complex and councilors therefore need good-quality evidence from officers to support decisions.

The Council received a report on the local impact of the report in May 2013. As a result of the self-assessment, the Corporate Management Team identified two areas for improvement, relating to the use of benchmarking data from Solace, and the need to review the Council's Reserves Policy.

Looking Forward

The SOLACE Benchmarking Project 'Improving Local Government' was developed in order to:

- Support SOLACE to drive improvement in local government benchmarking
- To develop a comparative performance support framework for Scottish local government
- To support councils in targeting transformational change in terms of areas of greatest impact – efficiency, costs, productivity and outcomes
- Focus on the 'big ticket' areas of spend plus corporate services

From 2013-14, the Council will have to report on 149 SPIs and KPIs (50 SOLACE Benchmarking and 99 key performance indicators). A review of the key performance indicators is planned for the autumn with the aim of streamlining this process, removing any duplication with the SOLACE indicators and to ensure

that the KPIs continue to be a meaningful measure of Best Value.

Appendix A: Action Plan

	Issue and risk	Recommendation
1	Following a review of the performance of Riverside Inverclyde (RI), there is a need for further review of the effectiveness of current governance, monitoring and reporting arrangements to ensure this body delivers best value for the public investment it receives going forward.	The Council should, working with RI, Scottish Enterprise, and other partners, revisit and refocus the economic development objectives of Riverside Inverclyde
2	In addition, the Council commissions a range of services through a large number of organisations. There is a need for continued review to ensure these historic arrangements remain fit for purpose, continue to achieve best value outcomes and exercise proper stewardship over public funds.	The Council should continued to develop it's processes undertake a full review of its current arrangements for delivering services through commissioned services, using 'following the public pound' good practice guidelines to ensure current arrangements achieve best value in the use of resources.



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