Inverclyde council

Report To:	**Audit Committee**	**Date:**	**28.04.09**
Report By:	**Corporate Director Improvement and Performance**	**Report No:**	**AC/12/09/PW/APr**
Contact Officer:	**Andi Priestman**	**Contact No:**	01475 712251
Subject:	**EXTERNAL AUDIT PROGRESS REPORT**		

1.0 PURPOSE

1.1 The purpose of this report is to present the reports produced by Audit Scotland since the last Audit Committee meeting.

2.0 SUMMARY

2.1 Two reports have been finalised by Audit Scotland since the last Audit Committee:-

- Overview of the Local Authority Audits 2008
- Strategic Audit Risk Analysis 2008/09

2.2 A representative from Audit Scotland will be in attendance at the meeting in order to address any issues arising from these reports.

3.0 RECOMMENDATIONS

3.1 It is recommended that Members consider the matters raised in these reports.

Paul Wallace
Corporate Director
Improvement and Performance

4.0 BACKGROUND

4.1 Members of the Audit Committee are required to monitor progress by Audit Scotland who are responsible for the external audit of the Council to enable them to discharge their scrutiny and performance monitoring roles.

4.2 In practice, audit plans and findings are reported by Audit Scotland to the Council in a series of reports.

4.3 Members are provided with copies of each report to support their understanding and knowledge of the matters raised.

5.0 IMPLICATIONS

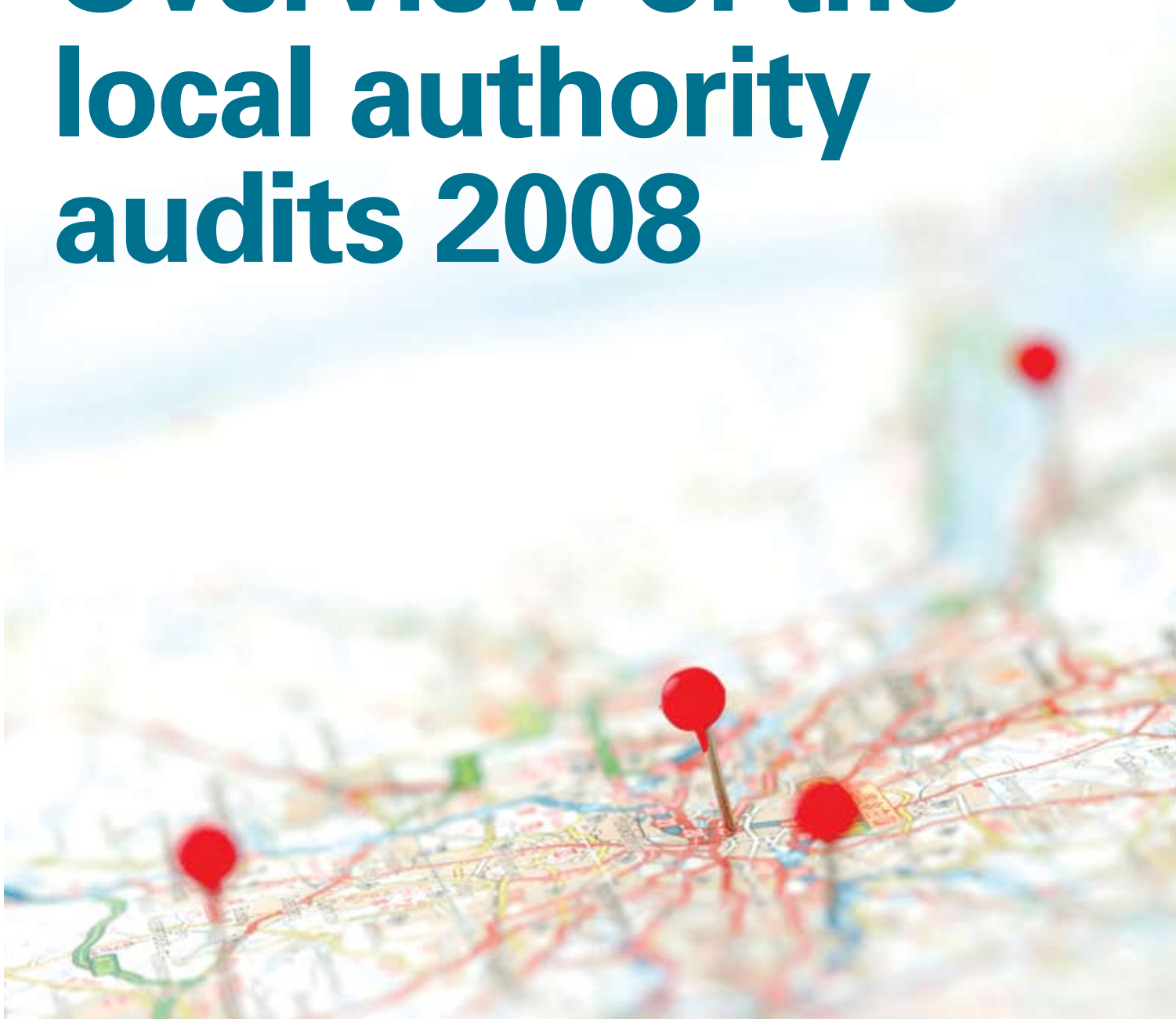5.1 Legal: None
Finance: None
Personnel: None
Equalities: None

6.0 CONSULTATIONS

6.1 Consultations took place with relevant officers throughout the audit process.

7.0 LIST OF BACKGROUND PAPERS

7.1 Audit Scotland's External Audit reports

- Overview of the Local Authority Audits 2008
- Strategic Audit Risk Analysis 2008/09

Overview of the local authority audits 2008

AUDIT SCOTLAND

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning

- following up issues of concern identified through the audit, to ensure satisfactory resolutions

- carrying out national performance studies to improve economy, efficiency and effectiveness in local government

- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £19 billion of public funds a year.

Contents

Commission findings

The Commission acknowledges the progress achieved and considers it crucial that councils now focus on key areas to meet the significant challenges they face.

The Commission welcomes the evidence of improving local authority services across a range of areas. However, this latest report has been produced at a time when councils face significant challenges in dealing with fast changing economic circumstances and financial pressures, and in implementing Single Outcome Agreements with community planning partners.

We acknowledge the progress achieved and consider it crucial that councils now focus on a number of key areas to ensure they are fully equipped to address these challenges. In particular, we urge them to take action on the following matters:

- Performance management and monitoring – the focus on outcomes does not remove the need for good management processes and robust information about the quality, cost, accessibility and value for money of services.

- A culture of continuous improvement – councils should ensure that there is a strong culture of continuous improvement across services, with an even greater emphasis on efficiency and the effective use of resources.

- Competitiveness of key services – it is essential that councils take a more systematic and rigorous approach to demonstrating service competitiveness and value for money, by market testing activities and by making more use of benchmarking and other comparative information.

- Shared services – we are disappointed at the slow progress in securing efficiencies from shared service initiatives and, in light of the continuing financial pressures, all councils should consider this as a high priority.

- Making partnership working real and effective – the development of Single Outcome Agreements is a challenge for councils and their partners and will require further and quicker development of accountability, governance and public performance reporting arrangements.

- Continuous development of elected members – personal development is now established as essential to support elected members in carrying out their demanding and complex roles. All councillors should have a personal development plan which sets out training needs and progress.

Action by local authorities in response to these findings will contribute to improved public services for the people of Scotland. This also depends, however, on corresponding improvements by other public bodies and the Commission hopes that these bodies will address these matters, particularly in relation to partnership working and shared services.

Summary

This report provides an overview of the main issues identified from our local government audit work in 2008.

1. This report provides an overview of the main issues identified from our local government audit work in 2008, which includes:

- annual audits of the 32 councils and 41 other local authority bodies, such as police and fire and rescue authorities

- Best Value audit reports on Aberdeen City, Aberdeenshire, Falkirk, Midlothian, North Lanarkshire, Orkney Islands and Perth & Kinross, and the progress report on Argyll & Bute

- statutory reports on property transactions at Aberdeen City and on audit qualifications at Aberdeen City and Shetland Islands

- Statutory Performance Indicator (SPI) information published in December 2008

- national performance study reports on the schools estate, the national fraud initiative, fire and rescue authorities, the impact of the race equality duty and on energy efficiency.

2. The report also draws on a range of other sources and seeks to highlight issues of general importance for the local government sector in Scotland. It is organised in five parts:

- Part 1. The national context sets the scene.

- Part 2. Supporting continuous improvement looks at the role of elected members and senior managers in leading and directing councils.

- Part 3. Using resources considers how councils manage money, people and property.

- Part 4. Service performance looks at aspects of service delivery.

- Part 5. Looking ahead considers the key issues facing councils and how audit will support public scrutiny.

Key messages

- At a time of increasing demands on services, councils face difficult decisions in allocating resources and providing financially sustainable services. Current economic conditions necessitate even greater emphasis on efficiency and the effective use of resources.

- The outcomes-based approach is developing, and Single Outcome Agreements (SOAs) should now be the main vehicle for councils and their partners to plan and achieve better outcomes for their communities and continuous improvement in their services. The SOAs bring new challenges for councils in governance, public accountability and performance management.

- The effectiveness of governance and accountability has a direct impact on the quality of services. Development is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny. Effective performance management has been a requirement under Best Value for some time, and it is now critical to support SOA implementation and development.

- Councils generally reported a better financial position than predicted for 2007/08, mainly due to underspending in some services and lower than expected financing costs. However, they continue to face significant financial pressures and some councils are experiencing difficulty in maintaining reserves in line with their policies. Those councils

that have yet to implement single status need to do so as a matter of urgency.

- Evidence from sources, including the Statutory Performance Indicators and audit and inspection reports, indicates that services are improving across a range of areas.

- We are committed to developing more risk-based and proportionate scrutiny of local government with our partners in the inspectorates, and this is fundamental to the development of Best Value 2. The annual financial audits are increasingly important in the current economic environment, providing independent assurance on the financial position and on financial governance and management.

Part 1. The national context

The overall context is one of fast changing economic circumstances and challenges in implementing Single Outcome Agreements with community planning partners.

Key messages

- Local government has a key community leadership role and provides a range of vital social and economic services. Increasing costs, demands from service users and the focus on national priorities are leading to increasingly difficult decisions for councils in allocating resources and are necessitating an even greater emphasis on efficiency and the effective use of resources.

- The concordat between the Scottish Government and COSLA provides the basis for a new relationship between central and local government. Single Outcome Agreements (SOAs) are developing and bring new challenges for councils and their partners in governance, public accountability and performance management.

3. Local government has a key role in providing community leadership. It delivers vital public services, including education, social work, housing, roads, refuse collection, leisure, police, fire and rescue, and has the potential to make a significant impact on the quality of life in local communities by working with a range of partners.

4. Services delivered directly or in partnership with others involve substantial resources. Councils spend about £17 billion each year, employ around 257,000 full-time equivalent staff and use assets worth about £26 billion.

5. The move to proportional representation in the May 2007 elections resulted in major changes in the political context, with many councils seeing a shift from single party political control to coalition or minority administrations. Nearly half of the councillors elected in 2007 were new to local government and they have needed to adapt quickly to their complex roles.

6. There are continuing pressures on finances, including the costs of meeting the needs of an ageing population and implementing major changes in staff terms and conditions. New national policy expectations such as free school meals, reducing school class sizes and meeting environmental sustainability targets also have significant financial implications. The current economic situation is likely to mean further demands on social work and housing and will bring pressures on income from council tax and service fees and charges. Capital plans will also be affected as it becomes more difficult to realise income from asset sales to fund new developments.

7. The costs of delivering services are rising, necessitating an even greater emphasis on efficiency and the effective use of resources. Councils face increasingly hard choices in setting budgets that are sustainable and achieve a balance between national objectives and local priorities.

8. The concordat between the Scottish Government and COSLA has redefined the relationship between central and local government. It requires councils to give clear commitments through SOAs to achieving national and local outcomes, sets the funding for local government, including a freeze on council tax levels, and provides more flexibility for councils in how they spend money and deliver services.

9. The national priorities in the concordat are not delivered exclusively by councils. From 2009, SOAs will be agreed through community planning partnerships (CPPs) between councils and other public bodies. This reinforces the need for joint planning and working to deliver effective public services.

10. The focus on outcomes does not remove the need for good management processes and robust information about the quality, cost, accessibility and value for money of services. Statutory duties relating to Best Value, Community Planning and Public Performance Reporting remain in place and councils must also meet their responsibilities for equalities and sustainability in ways that have a positive impact on local communities.

11. The increasing emphasis on CPPs for improving outcomes for local people is one factor driving the Accounts Commission's approach to the next phase of Best Value audits (BV2). Under BV2 there will be a greater emphasis on councils' community leadership role and the effectiveness of partnership working. BV2 will also see an increased use of risk assessment to inform a more proportionate audit approach. These developments are undertaken in the context of the Commission's leading role in streamlining external scrutiny of local government.

12. The annual financial audits are increasingly important in the current challenging economic environment, providing independent assurance on the financial position and on financial governance and management.

Part 2. Supporting continuous improvement

The outcomes-based approach makes it more important than ever that councils and their partners work together to achieve continuous improvement.

Key messages

- The outcomes-based approach, embodied in SOAs, makes it more important than ever that councils and their partners work together to achieve continuous improvement in their services and for their communities. There is still a good deal to be done to make sure SOAs fulfil their potential, in terms of planning and securing improvements on both high-level strategic priorities set out in SOAs and in supporting services provided by councils and their partners. Accountability and governance, performance management, and public performance reporting in particular, will need further development during 2009.

- Effective performance management has been a requirement under Best Value for some time and is now critical to support SOA implementation and development.

- Councils need to be more systematic in consulting communities and could make better use of area committee structures where these are in place. In general, they need better information about the make-up of their communities and their needs.

- Leadership by elected members and senior officers is central to creating a culture that promotes improvements in outcomes for communities. Development is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny.

13. Best value means achieving continuous improvement in outcomes for communities and service delivery. The ability to drive improvement has become ever more important as public expectations continue to rise and the pressure on resources increases, and the concordat between central and local government provides a renewed focus on a shared set of strategic priorities. Our audit work shows the importance of a leadership culture that supports best value; those councils that have effective corporate systems and processes are best placed to deliver high-quality, user-focused services and to make a real difference for their communities.

Vision and strategic direction

14. The concordat and the subsequent development of SOAs constitutes a major change in the context within which councils operate. SOAs represent the strategic statement of what a council and its partners will prioritise over the next three years, reflecting both national and local priorities. All 32 councils agreed SOAs with the Scottish Government by 30 June 2008; half of these involved community planning partners.

15. The agreement of the first set of SOAs marks a real achievement. They are intended to enable the Scottish Government and local government to work together to align public services towards better outcomes for the people of Scotland. The SOAs cover a three-year period, initially from 2008/09 to 2010/11. The 2008/09 SOAs were developed to a tight timescale, and they are expected to evolve in future years. The second set of SOAs, for 2009/10, is due to be agreed by the end of May 2009 between the Scottish Government and the 32 CPPs.

16. SOAs should now be the main vehicle by which councils and their partners plan to achieve continuous improvements against an agreed set of priorities for their communities. There is still a good deal to be done to make sure that SOAs fulfil their potential, particularly in relation to accountability and governance, performance management, and public performance reporting. The most successful councils set clear priorities that ensure that they can maintain focus across the full range of their activities. Priorities need to be set out clearly so that council officers and their partners can focus on delivering them and local people can hold their council and its partners to account for performance.

17. Councils are improving their business planning and, in particular, strengthening links between plans so that there is a clear line from the overarching community plan to the council's corporate and service plans. Strategic resource management, which links resources to strategic objectives, remains underdeveloped in local government and more work is required to link spending plans to the related workforce and asset requirements.

18. Planning is particularly complex where it is cross-cutting, for example, in planning services for children and older people (which cut across education, social work, police and health service boundaries). Delivering improved outcomes for communities requires a different approach from delivering services to individuals, affecting both accountability and performance management. In broad terms, each of the partners to an SOA needs to be clear about:

- what outcomes they want to see for their communities

- what indicators they will use to measure these outcomes

- what the baseline looks like

- what each of them will do to improve these outcomes

- what performance measures they will use to know if their actions are working.

This will enable them to plan what actions each partner will take, track progress, and report to local people

and other stakeholders on how well they are achieving their goals. Evidence from recent audits of Best Value suggests that performance management systems in most councils will need a good deal of development if they are to be effective in this new environment.

19. Councils and their partners can find it difficult to translate ambitious vision into real improvements in outcomes and front-line services in this way. The concordat offers an opportunity for community planning partners to step back from their existing plans and look for new ways to work together to improve the agreed outcomes for their communities. This will be a critical role for elected members, board members and senior managers in each of the partner organisations.

20. Getting performance management right will also help to underpin the governance and accountability of community planning partners for the commitments contained within their SOAs, by spelling out who is responsible for what. This needs to be supported by regular reporting of the agreed performance measures to the partnership, allowing partners to take appropriate action if they are not achieving the results intended, and to the public.

21. Each council will issue a report in September 2009 for the 2008/09 SOAs and annually thereafter for future years. The reports will make available a much greater amount of performance information to stakeholders and the public, at a higher level, and they are likely to generate significant interest. These reports do not replace the requirement on councils to manage and report on the quality, accessibility and value for money of their services, and councils and the Scottish Government will need to work together to agree an approach to reporting that is clear, balanced and meets the needs of citizens.

22. Our evidence suggests that public performance reporting is gradually improving and becoming more balanced, but performance reporting at community planning level is generally not well established. In addition, the outcomes-based approach places a greater emphasis on councils and their partners having effective public reporting arrangements.

23. It is clear that SOAs represent something markedly different from what has gone before, in focusing much more clearly on outcomes for communities and in identifying a limited number of shared objectives. The key strength of SOAs at this stage is in providing a better way of managing the relationship between central and local government, and in clarifying how national objectives will be pursued in each area of Scotland.

Community engagement

24. Best Value requires a systematic approach to establishing the views of local communities and other stakeholders. The results of community engagement consultation should be used to plan, design and improve services. While councils have mechanisms in place, most still have some way to go to establish fully effective consultation.

25. As part of the new relationship between local government and the Scottish Government it is more important than ever that councils are answerable to their local communities. Even councils showing a commitment to consultation acknowledge that they need to improve the way they engage with communities. Where councils have area committee structures that offer a potential focus for engagement with local communities, this is not always realised. Common issues include:

- a lack of corporate coordination

- inconsistency in the way councils engage with different communities

- not bringing the results together to identify common themes

- not having effective ways of informing citizens about what has changed as a result of consultation.

Governance and accountability

26. Elected members are responsible for directing, monitoring and controlling their council's activities at a strategic level. If these corporate governance arrangements are not effective, councils will find it difficult to achieve their objectives and deliver best value. The introduction of SOAs means it is important that effective governance and accountability arrangements operate at a strategic level and at the operational and service delivery level.

27. At Aberdeen City, we identified serious weaknesses in corporate governance that affected key services, including social work, education and housing. We also highlighted concerns about the way that property disposals were managed (Exhibit 1).

Elected member training and development

28. Elected members have a demanding and varied role with many responsibilities, and it is important that they have the necessary skills, knowledge and understanding to undertake it effectively. Nearly half of the councillors elected in May 2007 were new, and many elected members hold positions requiring some degree of specialist expertise, such as membership of the planning committee.

Exhibit 1

The Best Value audit of Aberdeen City

The Best Value audit highlighted a range of concerns in corporate governance and, drawing on the work of inspection agencies, evidence of significant weaknesses in major services. These problems existed in the context of a financial position that the auditors reported as 'precarious'. The report expressed doubt over whether the council leadership would be able to deliver the cultural and behavioural changes necessary for the council to be in a position to achieve Best Value.

A separate report on property sales highlighted serious shortcomings in internal control and monitoring procedures.

In view of the significance of the issues arising, the Accounts Commission decided to hold a public hearing. The Commission wished to hear first-hand from representatives of Aberdeen City to gain a greater understanding of the council's difficulties in implementing its long-held vision for the area and its plans to improve its financial position. In particular the Commission wanted to explore:

• the pace of improvement in achieving the council's vision for the area

• the capacity of the council to secure change

• why staff commitment to the programme of change did not seem to have been achieved

• the council's financial position

• issues arising from the Controller of Audit's statutory report on property sales.

The Commission considered evidence from elected members and senior officers, trades union representatives and the voluntary sector.

The Commission found that while the council accepted the audit findings there was a lack of a full appreciation by the council of the seriousness of the circumstances it faced. The Commission's recommendations following the hearing included:

• The council should ensure the involvement of all political groups and external advisers in recruiting a new and experienced chief executive.

• The council should secure appropriate external assistance from peers to assist it in implementing the findings and recommendations of the Accounts Commission and the Controller of Audit.

• The council should establish an all-party leadership board to take ownership of its improvement plan to tackle the issues raised by the audit process.

• The council should review its organisational structure.

• The council should appoint an independent local government finance expert to ensure proposed savings are deliverable and the council remains on track to deliver them.

• The council should ensure robust and effective governance arrangements are in place and members should attend appropriate training courses.

• Scrutiny arrangements should be chaired by a member of an opposition party to enhance public confidence in scrutiny.

We intend to provide an update report to the Commission in July 2009.

Source: Audit Scotland

29. The Scottish Local Authorities Remuneration Committee (SLARC) emphasised the importance of adequate training for councillors and proposed compulsory role descriptions and mandatory training (Exhibit 2).

30. In the run-up to the elections in May 2007, the Improvement Service (IS) published an induction pack for newly elected councillors. This was supplemented by a training pack on planning. The IS also issued an induction toolkit designed to help officers provide workshops for new and returning councillors.

31. We found that most councillors took part in induction training and in some form of specialist training, typically on specific topics, such as the planning system, licensing or one-off local issues. Councils routinely record councillors' attendance at training courses and other events, but arrangements for assessing the impact of training are less well developed. Information from auditors indicates that only about half of all councillors have agreed personal development plans and more needs to be done to ensure that these are an established element of elected member training and development.

32. COSLA and SOLACE are working together to support elected members in carrying out their roles, and the IS is undertaking a consultation on a draft national elected member development strategy for Scottish local government.[1] We will keep this area under review.

Scrutiny
33. Scrutiny is a key part of the elected member role and involves reviewing council decisions, monitoring the council's success in achieving its strategic aims, and ensuring resources are properly targeted and used to good effect.

Exhibit 2
In 2008, SLARC recommended improvements to councillors' training and development

We supported the long-standing suggestion that all councillors should have a role description and that councils should have the flexibility to devise role descriptions that are fit for purpose in their area, but they should not be optional for any councillor.

We also believe that the public are entitled to have high expectations of their councillors and to feel confident that they are carrying out their role effectively and efficiently. As such, it is important that councillors actively engage with training and development opportunities on an ongoing basis.

We therefore recommended that all councillors – including long-serving councillors being re-elected – should participate in a training needs assessment and agree a personal development plan as soon as possible after election. That plan should be based around the core competencies.

Source: *Review of Implementation of Remuneration Arrangements for Local Authority Councillors* and *Annual Review of Remuneration Levels,* Scottish Local Authorities Remuneration Committee, September 2008

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34. The range, quality and relevance of performance information available to members continues to be a barrier to effective scrutiny. Council officers need to engage with elected members to establish what would be most useful and accessible for them.

35. Committee structures are a matter for councils but, regardless of the form adopted, the lines of accountability between council functions and services and committees need to be clear and transparent. Schemes of delegation need to set out which matters are dealt with by each committee, which committees have the power to make specific decisions and which are responsible for monitoring performance.

36. Councils' audit and scrutiny committees play a key role in governance. Their effectiveness is enhanced by factors such as: access to good quality and timely reports; specialised training to assist members in carrying out their role; chairing by opposition members; and including external people to provide additional challenge.

37. Community planning and other joint work presents a particular challenge. We will explore this in a future national study on community planning and in the next phase of Best Value audits.

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1   *Consultation on Draft National Elected Member Development Strategy for Scottish Local Government,* Improvement Service, 2008.

Part 3. Using resources

Councils continue to face significant financial pressures, particularly from workforce costs and service demands.

Key messages

- Councils generally reported a better financial position than predicted for 2007/08, mainly due to underspending in some services and lower than expected financing costs. However, they continue to face significant financial pressures, particularly from workforce costs and service demands in education, social work and waste management.

- General Fund reserves have increased but around two-thirds of the amounts held are earmarked for future expenditure. Some councils are experiencing difficulty in maintaining reserves in line with their policies.

- There is continuing slippage in capital spending. The current economic position means it is more difficult for councils to generate income from the disposal of property to finance capital and they may have to reassess their capital programmes.

- More work is required to develop a strategic and corporate approach to the management of operational assets linked to financial strategies and plans.

- Councils have been slow to develop workforce management plans because of their focus on single status and dealing with equal pay claims. Those councils that have yet to implement single status need to do so as a matter of urgency.

Financial management

Financial performance 2007/08
38. Councils' total net operating expenditure was £10.9 billion in 2007/08. Government support and council tax totalled £10.3 billion, resulting in an overall income and

Exhibit 3
Working to contain social work spending – Fife Council

In response to the financial pressures in social work, Fife has established a Social Work Challenge Group to oversee the implementation of a number of containment measures, including:

- child placements – return of young people accommodated in residential schools to their homes or foster carers

- adult placements – critical review of eligibility criteria. This included a review of all care packages

- homecare – reduction in contracted delivery hours to budgeted level together with a detailed review of eligibility criteria.

This was part of a change culture within the service, making managers more accountable and responsible for expenditure in their areas. In addition, the Social Work and Health Committee requested financial outturn projection reports at every committee during the year.

The achievement of these measures, combined with lower than anticipated spend in a number of key budgets, resulted in social work reporting a minor overspend of £0.1 million in 2007/08, compared with an overspend of £6.6 million in 2006/07.

Source: Annual audit report on Fife Council, Scott-Moncrieff LLP

expenditure account deficit of £0.6 billion for the year (2006/07: £0.01 billion). After accounting adjustments of £0.7 billion, mainly relating to fixed asset accounting, there was an overall increase in general fund balances of £0.1 billion during the year.

39. Most councils reported a better than anticipated financial position at the year end. This was due to a combination of factors including net underspending on services, lower than anticipated finance charges and higher than expected council tax income.

Expenditure
40. Councils spent £17 billion providing services in 2007/08, an increase of six per cent on 2006/07. Overall spending patterns across services, including police and fire and rescue services, were generally similar to last year. Councils spent most money on education (£5.4 billion); social work (£3.3 billion); and housing (£3.1 billion). Total spending in these areas increased by £0.9 billion (eight per cent) and

together represented 70 per cent of overall spending.

41. Overspending against budget was most common in education and social work in 2007/08, with specific pressures on budgets for special schools, residential care, foster care, adult social care, and provision of care for older people. Auditors identified instances of councils taking action to contain expenditure in response to financial pressures in social work, for example at Fife (Exhibit 3).

Income
42. Income from council tax was shown in the accounts as £2.2 billion in 2007/08 (£2 billion in 2006/07). Council tax collection rates continued to improve, with 94.2 per cent of council tax due in 2007/08 collected during the year, compared with 93.8 per cent last year (Exhibit 4). In three councils the collection rate fell but in all three the in-year collection rate exceeded 96 per cent. Details are available at www.audit-scotland.gov.uk/performance

Exhibit 4
Percentage of council tax collected in-year 1997/98 to 2007/08
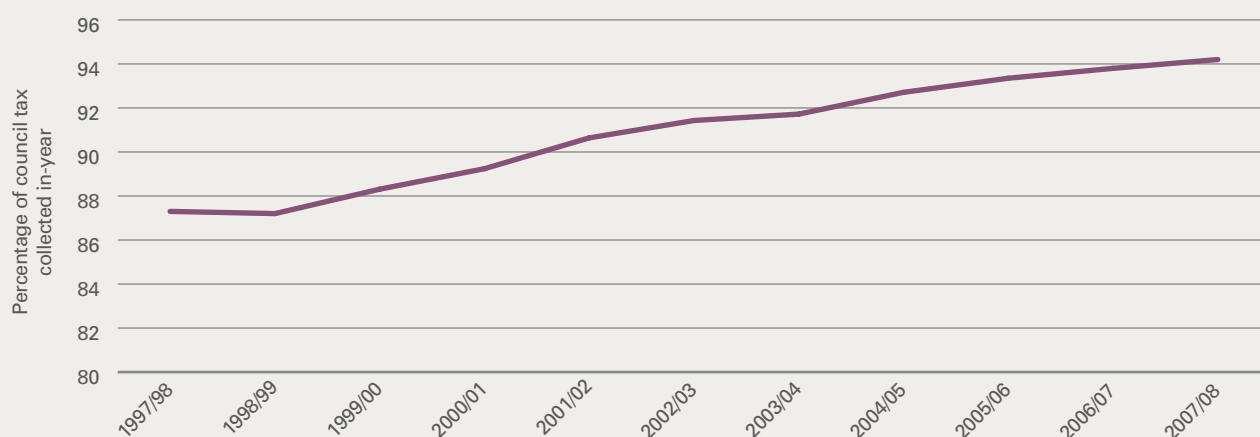
Source: Audit Scotland

43. The most recent local government finance settlement[2] announced overall funding for local government of £11.1 billion in 2008/09 rising by 5.1 per cent to £11.7 billion in 2009/10. This includes £70 million each year to maintain council tax levels. Over this same period, the Scottish Government's total managed expenditure will increase by 3.3 per cent.

44. As a result of the concordat, a number of previously ring-fenced grants are now included in mainstream funding. The level of revenue ring-fencing (where money is provided for a specified purpose) will reduce to £0.3 billion by 2010/11, excluding police grant which will remain ring-fenced. The reduction in ring-fencing gives councils more flexibility in how they allocate and use resources.

Pressures on revenue position
45. Councils' finances are subject to a range of pressures and competing demands.

46. Corporate pressures include:

- equal pay and related legal costs. Councils' 2007/08 accounts show total equal pay costs of £181 million (2006/07: £233 million; 2005/06: £280 million)

- single status implementation, which we estimate adds one to eight per cent to the overall pay bill

- increases in operating costs such as energy. Our recent report[3] noted that the price of electricity and gas doubled between July 2004 and June 2008

- cost of living pay increases. Current indications are that this will be around three per cent

- increasing employers' pension costs. The next triennial valuation is due to be reported early in 2009 and will determine future employer contribution rates.

47. Service pressures include:

- education – national priorities such as reducing class sizes, free school meals and residential school placements

- social care services – including increasing demand from an ageing population. The economic conditions may lead to even higher demand for some services such as housing and social work

- waste management initiatives – including the National Waste Strategy and EC Landfill Directive.

Efficiencies
48. Efficiency is defined as delivering the same services with less money or delivering more or better services with the same money. The government published its *Efficiency outturn report for 2007/08*[4] in October 2008. This set out the level of efficiencies achieved between 2005/06 and 2007/08 against plans published in 2004. The report shows total cash-releasing efficiencies in councils of £468.8 million (against a target of £327 million) and time releasing efficiencies of £53.2 million. In addition, there were

2   Finance Circular No. 5/2008, Scottish Government Public Service Reform Directorate – Local Government Division, December 2008.
3   *Improving energy efficiency,* Audit Scotland, December 2008.
4   *Efficiency outturn report for 2007/08*, Scottish Government, October 2008.

reported efficiencies in police of £15.3 million (target £8 million) and fire and rescue of £0.04 million (target £0.02 million).

49. For 2008/09 to 2010/11, the Scottish Government has indicated that the assumed level of annual efficiency savings for local government will be two per cent. The concordat allows councils to retain these to offset financial pressures and to address local priorities.

50. In many cases, councils are depending on efficiency gains to address financial pressures while maintaining services. There remains scope for improvement in councils' arrangements for managing their efficiency programmes, ensuring that efficiency targets are realistic and achievable, and differentiating between efficiencies and budget cuts. This is linked to the need for improved performance information generally.

Shared services
51. Shared services have the potential to contribute to more efficient and effective public services and councils are participating in a number of national and locally led shared services projects. Glasgow City and City of Edinburgh have been developing models of best practice through pathfinder projects, and a number of councils are now using the toolkits developed from the pathfinder work to identify opportunities for sharing services and making efficiencies. Councils in the north of Scotland have agreed to participate in a shared services initiative for the council tax and non-domestic rates and the administration of benefits.

52. Overall progress with shared services initiatives has been slow so far, and it remains a key challenge for councils to demonstrate that they are securing efficiency gains and service improvements by working together across organisational boundaries.

Reserves and balances
53. Councils hold reserves to deal with the effect of uneven cashflows, to build up funds for known and

predicted costs, and as a contingency for unforeseen expenditure. Total General Fund balances increased by £0.11 billion (around 25 per cent) to £0.53 billion at 31 March 2008 (£0.42 billion at 31 March 2007); balances fell in six councils.

54. £0.34 billion (65 per cent) of the total general fund balance was earmarked to meet known commitments such as future PPP/PFI payments, single status and equal pay claims and to maintain future council

tax levels. Councils recognise that the use of reserves to meet continuing pressures is not sustainable and they are seeking to stabilise reserves and balances at prudent levels, as part of their long-term financial planning.

55. The unallocated general fund balance of £0.19 billion is equivalent to 1.8 per cent of the total net cost of services, broadly the same as last year. The unallocated level at individual councils varies from 0.1 per cent to 5.5 per cent (Exhibit 5).

Exhibit 5
General fund balances as a percentage of net cost of services

Percentage of net cost of services

■ Unallocated balance as percentage of net cost of services

■ Earmarked balance as percentage of net cost of services
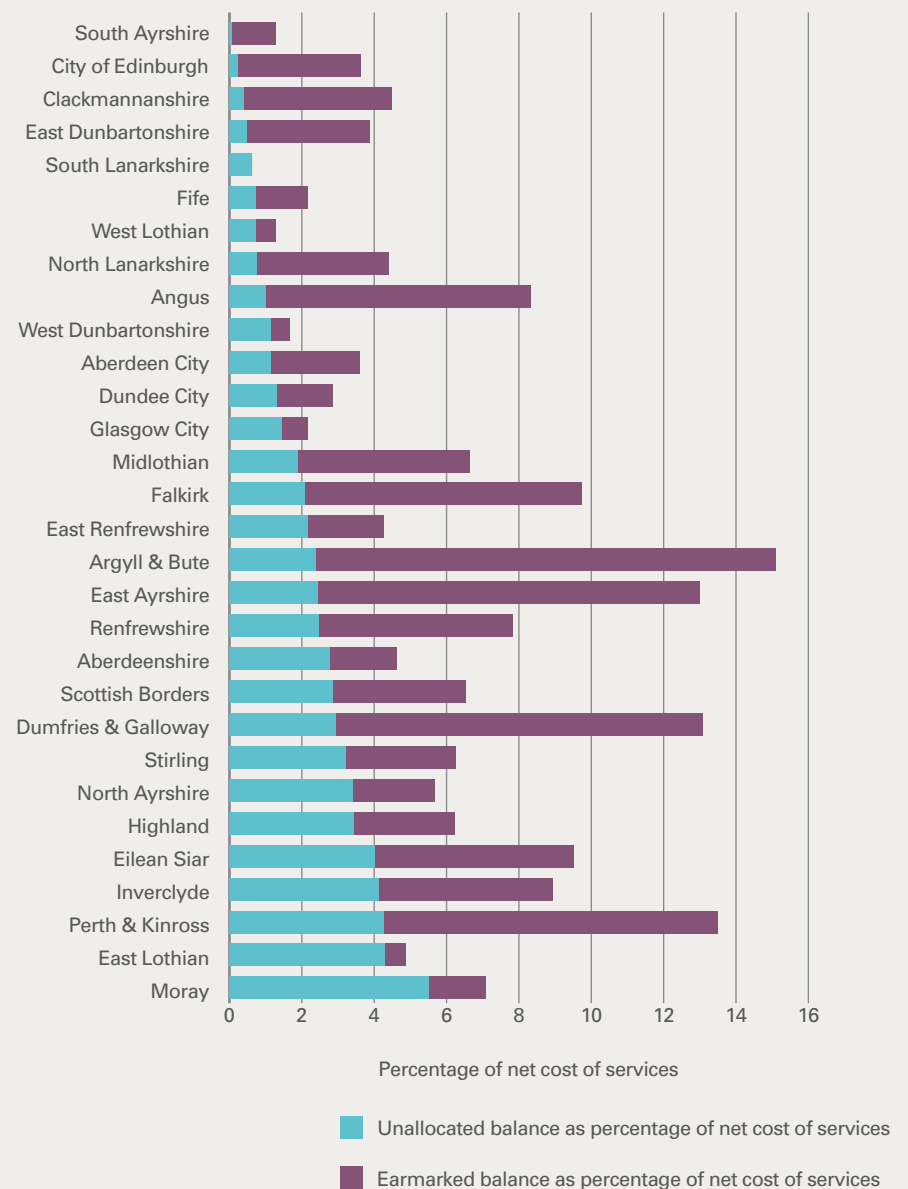
Source: Audit Scotland

56. A number of councils are taking action to restore reserves to their policy levels, but this is difficult because of ongoing financial pressures. Exhibit 6 shows examples from auditors' reports.

57. At 31 March 2008, councils had other cash-backed funds of £0.757 billion, an increase of 4.5 per cent on the previous year (Exhibit 7). These figures exclude the reserves and balances held by Orkney Islands and Shetland Islands, which arise mainly from harbour and other oil-related activities.

58. Some councils are using capital funds to support general fund expenditure (Exhibit 8), which is not sustainable in the long term.

Exhibit 6
Taking action to restore general fund balances

City of Edinburgh ended 2007/08 with some improvement in the unallocated balance on its general fund, which increased from £0.4m to £1.8m. This balance is insufficient to meet future uncertainty, and the council will aim for an unallocated balance of £11 million by 2011.

Fife has earmarked reserves of £10 million, which leaves the council with uncommitted balances of £5 million. The council's approved policy is to restore its uncommitted balances to a minimum level of £9 million over a three-year period commencing April 2007.

South Ayrshire aims to achieve a £2 million uncommitted general fund balance by 31 March 2010 but this is an ambitious target given the current circumstances. The council is running a high-risk strategy that will require achieving further additional savings.

Source: Annual audit reports on City of Edinburgh Council, Audit Scotland; Fife Council, Scott-Moncrieff LLP; and South Ayrshire Council, Audit Scotland

Exhibit 7
Other funds and balances

	31 March 08 £ billion	31 March 07 £ billion
Housing Revenue Account	0.129	0.111
Capital Fund	0.368	0.351
Capital Receipts Reserve	0.086	0.096
Insurance Fund	0.082	0.079
Repair and Renewal Fund	0.085	0.081
Other	0.007	0.006
Total	0.757	0.724

Source: Audit Scotland

Exhibit 8
Capital Funds to support general fund expenditure

Edinburgh – The budget for 2007/08 was based on a Band D council tax level of £1,169 with planned contributions of £4.6 million and £0.3 million from the capital fund and general fund respectively.
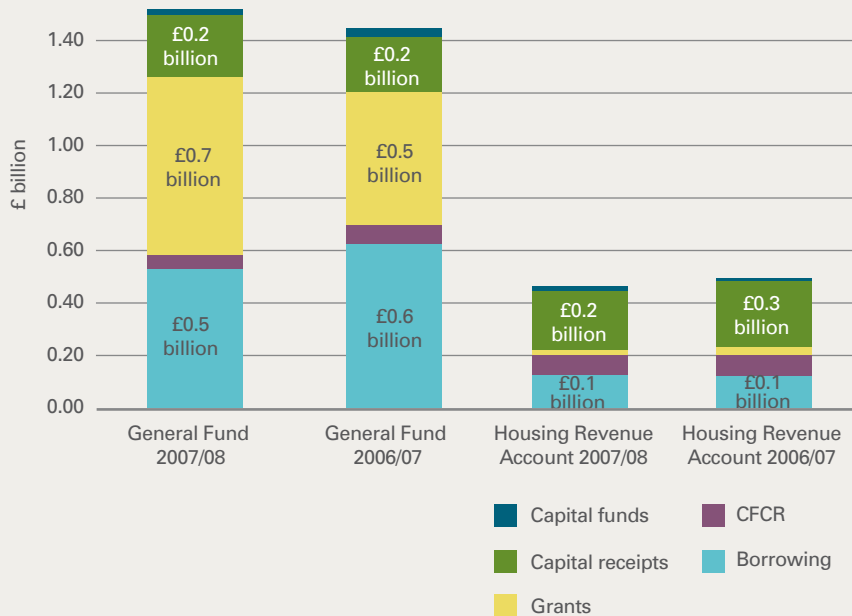
Glasgow – In 2007/08, £74.4 million from capital receipts has been released to the general fund.

Aberdeen City – £10.75 million was transferred from the capital fund to the general fund to cover debt principal repayments. Capital expenditure previously charged directly to the HRA was financed by a contribution from the capital fund, thereby allowing a further transfer of £5.54 million to the general fund. While the capital fund has been able to support both the general fund and the HRA, the remaining balance of £8.72 million will not allow this strategy to continue without further asset disposals.

Source: Annual audit reports on City of Edinburgh Council, Audit Scotland; Glasgow City Council, Audit Scotland; and Aberdeen City Council, Henderson Loggie

Exhibit 9
Capital expenditure and financing 2006/07 and 2007/08

Legend:
- Capital funds
- Capital receipts
- Grants
- CFCR
- Borrowing

Source: Audit Scotland

Exhibit 10
Addressing slippage in capital programmes

East Ayrshire's capital programme has been subject to considerable slippage in previous years. Following a reorganisation of the responsibilities for delivery of the capital programme and the subsequent decision to buy in external professional assistance, the council delivered an enhanced capital programme during 2007/08. Revisions to the 2007/08 capital programme were designed to address the significant slippage of the capital programme in 2006/07. Although total expenditure was £4.762 million less than the final plan, the results for the year represent a significant achievement in recovering the previous year's slippage.

Source: Annual audit report on East Ayrshire Council, Audit Scotland

Exhibit 11
Reassessment of PPP funding

Clackmannanshire contracted for three replacement secondary schools to be built under a PPP agreement during 2007/08. As part of the contract, the council agreed to make a significant capital contribution six months after the schools become operational. The council's expectation was that the capital injection would be funded from capital receipts generated mainly from the sale of surplus land from the replaced school sites. Recent changes in economic conditions have deflated property prices across the UK and, as a result, the council is unlikely to generate the level of capital receipts anticipated. This will create a funding gap and will require the council to re-visit its financial model for the PPP project.

Source: Annual audit report on Clackmannanshire Council, Grant Thornton

Capital expenditure
59. Capital expenditure totalled £2 billion in 2007/08 (£1.9 billion in 2006/07), £0.5 billion of which related to the Housing Revenue Account (HRA) (£0.5 billion in 2006/07). Capital expenditure financed by borrowing and revenue fell by 13 per cent and 11 per cent respectively. Funding from grants and other contributions increased by 30 per cent (Exhibit 9).

60. Most councils reported unplanned slippage in capital programmes during 2007/08 and this is likely to affect future capital programmes and service delivery. The main reasons were asset sales not materialising, problems with land acquisition and project management, and adverse weather. East Ayrshire has taken steps to address slippage (Exhibit 10). In some cases, councils have revised capital programmes to take account of the current economic conditions.

PPP
61. Some councils had planned to part-fund existing schools PPP projects from above-inflation increases in council tax or from asset sales. In the light of the council tax freeze and uncertainties about asset sales in the current financial climate, this needs to be reassessed. Clackmannanshire is among those to have identified risks (Exhibit 11).

Competitiveness and trading
62. Councils need to take a more systematic and rigorous approach to demonstrating service competitiveness and value for money. Our Best Value audits often show that reviews of competitiveness are out of date and in some cases services have not been tested for competitiveness for ten years or more. Councils need to market test commercial activities systematically and demonstrate competitiveness by using benchmarking and other comparative information.

63. Councils are required to maintain and disclose trading accounts for significant trading operations (STOs) that are required to break even over a rolling three-year period. There are currently 108 STOs across 32

councils, a reduction from 117 last year. Six councils reduced the number of STOs in 2007/08 following a review of their trading activities.

64. Twenty-eight STOs did not meet the statutory target and reported a cumulative three-year deficit of £60 million. Twenty-four of the 28 also did not meet the target in 2006/07. In most cases, this was due to equal pay costs and the costs of implementing single status.

Financial governance and planning

Senior officers and elected members
65. Councils are required to appoint a 'proper officer' who is responsible for the administration of their financial affairs. CIPFA's paper on the role of the director of Finance[5] states that the proper officer should be a member of the council's corporate management team to ensure that financial issues are given due consideration in policy and decision-making. Of the 32 councils, the proper officer is a member of the corporate management team in 25 councils. The remaining councils have other arrangements, for example the proper officer may have the right to attend corporate management team meetings.

66. Part 2 of this report refers to elected member training and development. The increasing complexity of the financial issues facing councils and the pressures on resources mean that it is essential that training on their financial responsibilities is available and that all councillors take part.

Internal controls
67. Councils prepared a Statement on the System of Internal Financial Control (SSIFC) or similar statement and identified a range of common areas for improvement:

- review or develop risk management arrangements

- implement the actions contained

in Best Value action plans or improvement plans

- develop business continuity planning

- enhance or develop performance management arrangements

- review or develop asset management plans

- embed good governance and strengthen partnership working

- improve the arrangements for corporate procurement.

68. Internal audit is an important part of councils' internal control environment and scrutiny. Several councils reported difficulty in staffing their internal audit function. In addition to the effect on internal controls, this means that external auditors had to extend their planned audit coverage.

69. Councils often work with other organisations and are required to produce group accounts where they have material interests in companies and other entities. They also need to ensure that those organisations have appropriate governance arrangements in place. Glasgow City, for example, obtains assurance statements from each company involved in its group and includes any issues arising in its SSIFC.

Financial planning
70. Councils are required to set a balanced budget each year, ensuring they have enough income to meet anticipated expenditure. They generally set three-year rolling revenue budgets, but most councils' strategic priorities are longer term and are affected by changing demands and other pressures. The recent shift in economic conditions highlights the need for flexibility in budgeting to enable councils to respond to changing circumstances.

71. There should be clear links between councils' budget-setting processes and their service planning

but this is not always the case. The Best Value audit at Aberdeen City, for example, found that its approach to linking budget setting to capital and service planning was underdeveloped.

Accounts and audit

72. All councils and related local authority bodies submitted their 2007/08 accounts for audit by the statutory deadline of 30 June 2008.

73. Accounts preparation and the quality of working papers were generally good. Councils' accounts are complex and are key to demonstrating councils' financial performance to the public. Clarity and use of the foreword to explain the financial position and the outturn position against the budget is essential.

74. As part of the transition to International Financial Reporting Standards (IFRS) the Accounting Code of Practice[6] (ACOP) required significant changes to 2007/08 accounts. Most councils dealt well with these changes but a few were required by their auditors to make adjustments to their accounts. Full implementation of IFRS in 2010/11 will result in further significant changes. Councils need to put arrangements in place now to ensure a smooth transition to the new IFRS requirements under ACOP.

75. Timely completion of accounts is an important part of public accountability. The Accounts Commission required auditors to complete the audits for 2007/08 by 30 September 2008. All were completed by this date, with the exception of Aberdeen City, which was completed in October.

76. Auditors qualified the accounts of two councils: Shetland Islands and Aberdeen City (Exhibit 12, overleaf). The councils are working to resolve the issues and avoid qualifications in 2008/09. The circumstances leading to the qualifications were the subject of separate reports by the Controller

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5   *Statement on the role of the director of finance in local government*, CIPFA, 2003.
6   *Code of Practice for Local Authority Accounting in the United Kingdom; A Statement of Recommended Practice*, CIPFA.
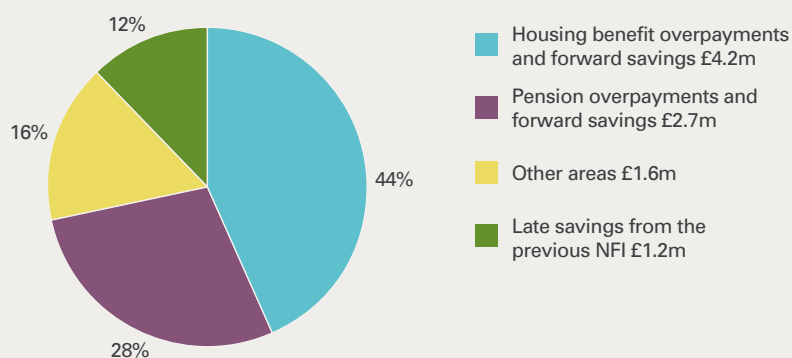
Exhibit 12
Audit qualifications 2007/08

Aberdeen City – extract from audit certificate: "*However, the evidence available to us was limited because the authority was unable to identify the cause of significant unmatched items forming part of the General Bank Account reconciliation at 31 March 2008. We were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions have been properly recorded.*"

Shetland Islands – extract from audit certificate: "*The council's group accounts do not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In my opinion, the substance of the council's relationship with both of these bodies represents a significant interest and their omission results in a material mis-statement of the group accounts.*"

Source: Audit certificates – Aberdeen City Council and Shetland Islands Council

Exhibit 13
NFI 2006/07 identified overpayments and savings

- Housing benefit overpayments and forward savings £4.2m
- Pension overpayments and forward savings £2.7m
- Other areas £1.6m
- Late savings from the previous NFI £1.2m

Source: Audit Scotland

of Audit to the Accounts Commission in December 2008.

77. Auditors produce annual audit reports which summarise the main matters arising from the year's work. Annual audit reports for all local authorities are available at www.audit-scotland.gov.uk

National Fraud Initiative (NFI)
78. The NFI matches data from a wide range of public bodies to help identify fraud and error. The data includes information about benefit applicants, employees, disabled 'blue badge' holders, tenants and public sector pensioners. Other datasets can be submitted if a council considers that the risks merit their inclusion. We coordinate this exercise working with the Audit Commission in England which matches the data on our behalf. During 2007/08, councils, police boards and fire and rescue boards, along with other public bodies, continued to follow up the data matches from the 2006/07 NFI.

79. By November 2008, councils had identified £9.7 million of overpayments and savings from the 2006/07 NFI (Exhibit 13). They are now engaged in data matching for the 2008/09 NFI, which will be reported in May 2010.

Asset management

80. Councils use operational fixed assets worth around £26 billion to deliver services. After employee costs, assets are the highest area of expenditure for public sector bodies. Some councils have made progress in asset management but our Best Value audits show that few have implemented an overarching corporate approach.

81. The 2007/08 SPIs[7] show that the proportion of operational buildings that are suitable for current use has increased from 54.7 per cent to 69.7 per cent and the proportion of operational buildings in a satisfactory condition has increased from 64 per cent to 68 per cent. The SPIs reflect some improvement in the reliability of data submitted but some councils still do not hold up-to-date basic information about the assets they hold.

82. A statutory report on property sales at Aberdeen City[8] identified: evidence of procedural and administrative deficiencies and poor record-keeping; cases where accurate and relevant information was not reported to elected members; a lack of evidence to support the valuation at which properties were sold; and cases where the council may have achieved a better price. It identified a potential loss of capital receipts which may be more than £5 million. We will be assessing progress as part of the Best Value follow-up work.

83. *Improving the schools estate*[9] found that when the schools strategy was launched in 2003, there was no comprehensive and consistent information about the physical condition and fitness for purpose of schools. Since 2003, the government and councils have been working together to develop a robust and consistent way of assessing the condition of school buildings.

84. We are currently undertaking a study on asset management in councils that will provide detail on the national

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7 Statutory performance indications 2007/08, council by council profiles, www.audit-scotland.gov.uk/performance/council
8 *Aberdeen City Council: Property sales investigation*, Controller of Audit, Audit Scotland, March 2008.
9 *Improving the schools estate*, Audit Scotland, March 2008.

picture. It examines councils' overall approach to asset management with the main focus on whether councils have adequate arrangements to ensure that their assets are managed corporately. The study is also looking at whether councils are using performance information and benchmarking with other organisations. The report will be published in spring 2009.

85. A recent framework document published by CIPFA Scottish Directors' of Finance[10] is aimed at assisting councils in collecting information and using systems for asset management.

Common good

86. There continues to be strong public interest in common good funds and assets. Councils administer these funds within their areas and are responsible for the common good assets they hold. Councils controlled common good assets of around £184 million at 31 March 2008 and revenue expenditure in 2007/08 was about £13.3 million.

87. Common good assets should be managed as part of councils' asset management strategies and in accordance with the principles of best value. There are some practical difficulties in identifying common good assets; in many cases these have been held for a long time and have been transferred from predecessor councils through successive local government reorganisations. To promote consistency in accounting and record-keeping, LASAAC[11] published a guidance note on accounting for common good funds in 2007. Auditors will assess councils' progress as part of their 2008/09 audits.

88. The Improvement Service published a report[12] in June 2008 on the management of common good assets and funds. This report provides information and advice for councils on asset registers and the management of common good funds generally and acknowledges that councils may face difficulties in implementing the LASAAC guidance.

People management

89. In June 2008, the number of staff employed in local government was around 257,000 full-time equivalents, a slight reduction from June 2007 (around 258,000 full-time equivalent). Local government (including police and fire and rescue) employs around 54 per cent of the total public sector workforce in Scotland.

Single status and equal pay

90. The single status agreement was signed in 1999, with an intended implementation date of April 2002. It aims to harmonise the terms and conditions of employment of manual and administrative, professional, technical and clerical workers. There have been significant delays in implementation due to ongoing negotiations and appeals processes. A third of councils (Aberdeen City, Clackmannanshire, Dumfries & Galloway, City of Edinburgh, Highland, Midlothian, Scottish Borders, Shetland Islands, South Ayrshire, Stirling, West Dunbartonshire) had yet to implement the agreement fully at 31 October 2008.

91. The delay in implementing single status continues to affect employer/ employee relations and, in turn, service delivery and the achievement of corporate objectives and performance improvements. Councils that have yet to implement single status also face the continuing risk of additional equal pay claims. Implementing the agreement, and resolving appeals, is a matter of urgency.

92. Across Scotland there are significant numbers of equal pay claims going through employment tribunals, which may have financial implications for councils. A survey[13] in October 2008 estimated that cases have cost Scottish councils £1.6 million in legal fees alone.

93. It is vital that councils ensure that pay and reward systems meet legislative requirements under the Equal Pay Act and that any areas of discriminatory practice are addressed. All relevant costs and financial implications should be reflected in budgets.

Workforce planning

94. Councils need to ensure that they have the right number of staff and that staff have the skills and knowledge to deliver corporate objectives. Best Value audits show that strategic workforce planning remains significantly under-developed across local government. There are indications that, as single status and equal pay issues are resolved, HR departments are redirecting their attention to workforce planning.

95. There have been significant changes in senior management in councils over the last two years, including at chief executive level. This has implications for workforce and succession planning. Eilean Siar, for example, has identified succession planning as a specific challenge as several senior officers have retired or will retire soon.

Absence management

96. Absence management is a key element of councils' wider workforce strategies. It is recognised as an area that councils need to address and was identified as one of the priority areas for efficiency savings.

97. SPIs show that council staff and teachers took over 3.1 million days off sick last year, equivalent to 5.4 per cent of working time (2006/07: 5.3 per cent). Sickness absence rates in police fell, from 5.0 per cent to 4.7 per cent for police officers and from 5.9 per cent to 5.3 per cent for support staff. In the fire and rescue service, levels fell from 6.0 per cent to 5.3 per cent for fire fighters and from 5.0 per cent to 4.5 per cent for fire support staff. Details are available at www.audit-scotland.gov.uk/performance

98. The Chartered Institute of Personnel and Development (CIPD) provides guidance on measuring and managing absence; the challenge for councils is to turn this into practice.

10 *A guide to asset management and capital planning in local authorities,* Local Government Directors of Finance section – Scotland, October 2008.
11 *Accounting for the common good: A guidance note for practitioners*, LASAAC, December 2007.
12 *The management of common good assets and funds: Report of sample survey of council practice,* Improvement Service, June 2008.
13 Scottish Trades Union Congress, October 2008.

North Lanarkshire, for example, has introduced a managing attendance policy as part of a range of measures to improve sickness absence levels.

Procurement

99. Local government in Scotland spends around £4 billion annually on goods, works and services. This ranges from construction, consultancy services, social and community care, utilities and information technology to postal services, car hire and stationery. Construction and construction materials are the largest area of spend, at around £1.3 billion.

100. Within councils, there is a general move towards the creation of specialist procurement units, providing practical advice and support in all matters related to the procurement of goods, works and services. Councils acknowledge that better procurement has a critical role to play in achieving efficiencies. More work is needed to realise and demonstrate the efficiencies that can be generated from improved procurement practices.

101. The 2006 McClelland report[14] highlighted areas for improved procurement and the Government introduced a Procurement Reform Programme in 2006. We are currently undertaking a study which will review progress in introducing the reform programme and identify risks to its successful implementation.

102. Councils are expected to participate in a number of changes introduced by the reform programme, including Scotland Excel as a procurement centre of expertise, a new Best Practice Indicator Framework and a programme of staff awareness and learning and development opportunities.

103. Scotland Excel was established in April 2008 and involves 28 of the 32 councils. It will create the opportunity for councils to improve their procurement practices and

Exhibit 14
The establishment of Scotland Excel

A number of steps need to be addressed by Scotland Excel in the short term. Expanding the range of collaborative contracts, developing an overall procurement strategy, finalising its business plan, delivering training on procurement matters and developing a strategy for liaising with suppliers are all current priorities. Work is also required, however, to fully develop and operate those corporate governance requirements expected of a publicly funded organisation.

Challenges also exist for local authorities to ensure that their own procurement strategies permit best value and that best practice indicators are established to manage procurement performance. Crucial to the whole initiative, however, will be the full engagement of councils with Scotland Excel to allow potential financial benefits to be realised.

Source: 2007/08 – A position statement on the establishment of the procurement centre of excellence for local authorities, Audit Scotland

generate savings. It has initially been involved in promoting and establishing membership, negotiating contracts and establishing intelligence, learning and development (Exhibit 14).

Information and Communication Technology

104. Councils make significant investments in Information and Communication Technology (ICT). Modern, reliable ICT systems are critical in supporting accessible, efficient services. Our Best Value audits show that councils are increasingly recognising the need to have ICT strategies that support this.

Data handling and security
105. Information about citizens is a key resource in managing services effectively. The security of this information has received increased public and media attention recently due to a number of data loss incidents across the UK.

106. Councils share data with organisations such as the Department for Work and Pensions and other government departments and they recognise the implications for service users should there be security failures. The Scottish Government has set up a group to look at data handling with a view to establishing a set of guiding principles.

ICT investment
107. There is pressure from government to modernise and integrate service support systems to increase efficiency. In the last few years, local authorities have invested in e-procurement, contact centres and better websites, as well as improved ICT infrastructure. ICT investment carries significant risk of overspend and new technologies and changing working practices present challenges for improving governance and internal control.

Risk management

108. Risk management is about identifying risks to the successful achievement of corporate, strategic and operational objectives. Councils are continuing to improve their risk management arrangements and are increasingly recognising the importance of risk management across the organisation. More needs to be done to systematically embed risk management principles and practices. Risk management needs to be more widely recognised as a mechanism to inform service planning and performance and the strategic allocation of resources.

109. Recent events in the banking sector and the position in relation to investments in Icelandic banks further emphasised the need for robust risk management in councils' treasury functions.

14   *Review of public procurement in Scotland*, Scottish Government, March 2006.

Part 4. Service performance

Evidence indicates good services across a range of areas and councils respond positively to findings from audits and inspections.

Key messages

- Councils are giving more emphasis to the needs of the people who use their services. They are making progress in improving customer care but there needs to be more consistency across service areas.

- Evidence from sources, including the Statutory Performance Indicators and audit and inspection reports, indicates good services across a range of areas.

- Councils generally respond positively to findings from audits and inspections and seek to address areas highlighted as in need of improvement.

User focus

110. Best Value requires councils to ensure that services are responsive to the needs of the people who use them. Councils can demonstrate this through regular monitoring and review of customer service strategies, service standards and targets.

111. Best Value audits in 2008 found that Perth & Kinross has established a customer service strategy and customer service standards. These set out the standards of service people can expect and enable performance to be measured against them. Falkirk showed improvements to customer service in recent years, including establishing a contact centre and increasing the services offered through its network of one-stop shops. Some services had developed a range of service standards and performance targets. In both councils, there was scope to take a more consistent approach across all services.

112. Councils serve a diverse range of communities. However, our report *The impact of the race equality duty on council services*[15] found that

councils lacked information about minority ethnic communities, their needs and experiences. We also found that, while there is some activity, councils cannot systematically demonstrate how consultations with ethnic minority communities have influenced the design or delivery of services and that consultation activity tends to be poorly coordinated between services.

113. Consumer Focus Scotland and the Improvement Service jointly commissioned research[16] into whether local government might benefit from a more collaborative approach to measuring consumer satisfaction and experience. The study found that adopting a common approach was likely to produce significant benefits.

114. Complaints are a valuable source of information about how services can be improved. Best Value audits indicate that most councils value the information they receive from complaints. However, they could do more to improve the way they respond and make better use of the information provided to ensure lessons learned are shared across the organisation. Dissatisfaction with the

way councils respond to complaints is often reflected in complaints referred to the Scottish Public Services Ombudsman. The need to improve complaint handling is a consistent theme in Ombudsman reports.

Service performance

Statutory Performance Indicators
115. Each year the Accounts Commission requires councils to publish a set of Statutory Performance Indicators (SPIs). The SPIs do not represent a comprehensive picture of council performance but they provide useful comparative information across the range of council services. The SPIs are compiled on a common basis and underlying systems are verified by external auditors. SPIs can be used to track service performance over time.

116. Analysis of the SPIs shows that the proportion of measures where councils have recorded an improvement continued to rise in comparison to those where there has been a decline in performance. The overall ratio of improvement to decline for these measures over the past five years shows a continuing trend of improvement (Exhibit 15).

Exhibit 15
SPIs ratio of improvement to decline since 2003/04

This table shows the change in ratio of improvement to decline for those measures that facilitate comparison.
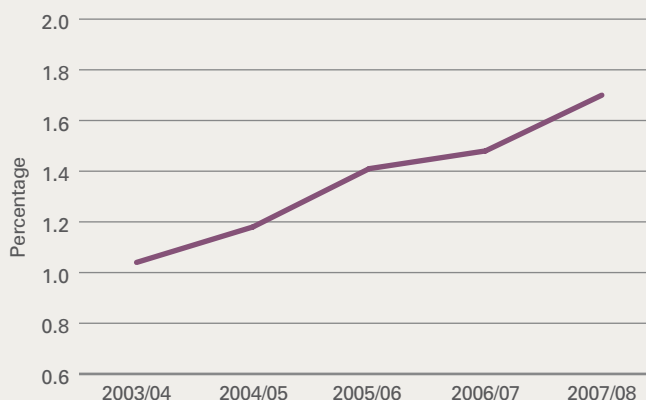
Source: Audit Scotland

15 *The impact of the race equality duty on council services*, Audit Scotland, November 2008.
16 *Improving the understanding of customer satisfaction and experience in Scottish local government: Towards a collaborative and common approach*, Customer Focus Scotland/Improvement Service, October 2008.

117. Highlights from the 2007/08 SPIs include:

- Both in-year council tax collection and invoice payments within 30 days improved. Council tax collection rose to 94.2 per cent while the proportion of invoices paid within 30 days rose to 86.5 per cent.

- The gender balance in more senior posts across Scotland's councils is improving, with the proportion of women in the top two per cent of posts rising to 35.9 per cent from 33.9 per cent the previous year. The proportion of women in the top five per cent now stands at 44 per cent, up from 40.4 per cent the previous year. There is, however, considerable variation among councils in the proportion of women employed at senior levels.

- Processing planning applications within target times set by the Scottish Government continues to cause problems. The proportion of householder applications processed within two months fell to 76.3 per cent (target 90 per cent) from 79.8 per cent in 2006/07 and the overall proportion including non-householder applications processed within two months fell to 58.7 per cent (target 80 per cent) from 61.4 per cent.

- The proportion of buildings assessed as suitable for and accessible to people with disabilities continues to rise and now stands at 56.6 per cent, up from 51.9 per cent in the previous year.

- The index developed by Keep Scotland Beautiful to show the cleanliness of Scotland's roads and other relevant land shows a continuing trend of improvement. The index for Scotland was 73 compared with 71 in the previous year and 70 for the two years before that.

Education and children's services
Key facts:

- Councils spent £5.4 billion providing education services in 2007/08.

- There are 2,720 council-run schools in Scotland.

- Over 692,000 children attend these schools – over 95 per cent of all school age children in Scotland.

- There are nearly 15,000 children and young people looked after by Scottish councils – 700 of these are in local authority residential care homes.

118. SPIs for children's services show that the percentage of children subject to a supervision order that were seen by a supervising officer within 15 days has improved, as has the percentage of qualified care staff in local authority managed residential homes for children. The relative number of respite hours provided is increasing and less of this respite care is being provided in day centres. In contrast, overnight respite care is showing a declining trend in both the amount of service provided and the amount being provided other than in residential settings.

119. Her Majesty's Inspectorate of Education (HMIE) scrutinises the quality of education provided by councils. HMIE also works with other inspection agencies on joint inspections of services to protect children and young people. HMIE's reports are available at www.hmie.gov.uk

120. During 2008, HMIE published inspection reports on the education functions of four councils (Aberdeenshire, Fife, Moray, Shetland Islands). HMIE assesses the quality of the education service against ten quality indicators, using a six-point scale ranging from excellent (level six) to unsatisfactory (level one).

The councils inspected during 2008 all achieved ratings in the range 'very good' (level five) to 'adequate' (level three).

121. HMIE also published reports on the multi-agency inspection of services to protect children and meet their needs in 12 councils. It uses 18 quality indicators to evaluate the overall effectiveness of these services, again using a six-point scale ranging from excellent to unsatisfactory.

122. Clackmannanshire was assessed as weak on eight indicators and unsatisfactory on one. Aberdeen City was assessed as weak on ten indicators and unsatisfactory on a further four. In both councils, inspectors reported that they were not confident that all children at risk of harm, abuse or neglect, and in need of protection, were receiving the help and support they needed.

123. Follow-up reports on services to protect children were published on three councils. Midlothian was found to have responded quickly and positively to the main findings in the initial report, but there was still considerable work to be done. Highland had demonstrated effective performance in taking forward improvements. Inspectors found that progress in Edinburgh had been slow in some areas and a few still needed urgent attention.

124. Demographic change is set to reshape the demand for education and children's services. Across Scotland, the total number of children aged zero-15 is forecast to reduce by seven per cent over the period to 2031. However, the picture varies across councils: in 24 council areas the population aged zero-15 is expected to fall by between three per cent (South Lanarkshire) and 31 per cent (Shetland Islands). Increases of over ten per cent are predicted in East Lothian (15 per cent), Perth & Kinross (14 per cent) and West Lothian (11 per cent).

Improving the schools estate

125. In March 2008, we published a report[17] on the Schools Estate Strategy launched by the Scottish Executive and COSLA in 2003. The Strategy's aim was to raise and maintain the quality of the school estate, leaving no schools in an unsuitable condition for 21st century education.

126. In total, 219 newly built schools opened between 1999 and 2007. It is estimated that at least 160 more will be built through projects already committed to by councils. Expenditure on the school estate has risen significantly in recent years; councils and the government spent, or committed, £3.9 billion on capital improvements to school buildings in the seven years from 2000/01 to 2006/07. This was expected to increase to over £5.2 billion by April 2008.

127. Pupils and staff are generally satisfied with the design of new and refurbished schools. However, when assessed against good practice standards, aspects of design could improve, particularly where schools are being refurbished. The main areas for improvement are heating and ventilation, and the environmental sustainability of buildings.

128. Our study found that planning for demand for future school places varies considerably. Fewer than half of councils estimate the number of pupils they expect in their schools beyond the next ten years, although the planned lifetime of a new school is 50 years.

129. Councils that have completed more than one major schools improvement project learned important lessons that helped them in subsequent projects. However, we found that councils generally do not do enough to share experiences and good practice with each other. There is scope for efficiencies through sharing staff and technical expertise as well as design and procurement experience.

130. The government accepted our report's recommendations in full and committed to developing a new Schools Estate Strategy by spring 2009, which will take forward the report's recommendations. The Scottish Government is funding specialist architecture and design advice to councils over the next three years and a schools design champion has been appointed.

Social work services for adults
Key facts

- Councils spent £3.3 billion providing social work services in 2007/08.

- Around 55,000 people over 65 received care at home.

- Around 31,000 people over 65 received care in a residential setting.

131. The SPIs show the following significant trends:

- The total number of older people reported as receiving a homecare service rose to over 55,250, still considerably below the levels of

five years ago but the first reversal of a declining trend.

- The average number of homecare hours provided per 1,000 older people has declined to 500 compared to 512 hours five years ago.

- The proportions of clients receiving personal care services, evening/ overnight services or services during the weekend have all continued to increase (Exhibit 16). This, together with the decline in the number of homecare hours per thousand older people, reflects a trend for councils to focus resources on providing more intensive services to a smaller number of older people with more complex care needs.

132. The overall quality of social work services is scrutinised by the Social Work Inspection Agency (SWIA). During 2008, SWIA published inspection reports on the performance of social work services in seven councils. SWIA evaluates ten aspects of social work services using a six point scale ranging from excellent (level six) to unsatisfactory (level one). SWIA's reports are available at www.swia.gov.uk

Exhibit 16
Percentage of homecare clients receiving personal care, evening/ overnight or weekend services

Source: Audit Scotland

17   *Improving the schools estate*, Audit Scotland, March 2008.
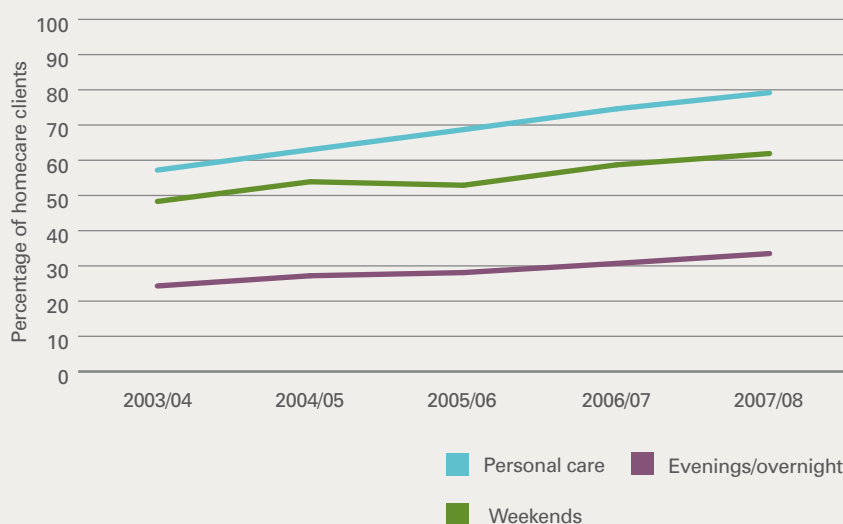
133. Most councils inspected in 2008 were assessed as 'good' (level four) or 'adequate' (level three) in the areas evaluated. The exception was Aberdeen City, which was assessed as 'adequate' in three areas, 'weak' in five and 'unsatisfactory' in two ('resources and capacity building' and 'leadership and direction').

134. During 2008, SWIA also published follow-up reports on eight councils. In the majority of cases councils were making progress on previous recommendations. SWIA expressed concerns about the pace of change in relation to some improvement actions in Eilean Siar and Dumfries & Galloway.

135. Our report[18] on free personal care informed Lord Sutherland's review and was considered by the Parliament's Public Audit Committee during 2008. The committee reported[19] in December 2008 setting out their findings and recommendations, which focused on funding estimates and allocations for the policy; how the financial impact of the policy is monitored; the clarity of legislation and guidance; and the consistency of service provision across Scotland.

136. There will be an increasing demand for social work services as a result of a significant rise in the number of people aged 65 and over. Across Scotland, the total number of people of pensionable age is expected to increase by 31 per cent by 2031. This ranges between three per cent (Glasgow City) and 76 per cent (Aberdeenshire). The number of people aged 75 and over is set to rise between 19 per cent (Glasgow City) and 156 per cent (Aberdeenshire).

Housing services
Key facts

- Councils spent £3.1 billion providing housing services in 2007/08.

- There were around 323,000 council houses in Scotland in September 2008.

- The number of council houses reduced by 290,000 (47 per cent) between 1997 and 2008.

- The average council house rent in 2007/08 was £48.35 per week.

- The number of households assessed as being homeless or potentially homeless in 2007/08 was around 41,000.

137. Councils have a key strategic role in ensuring the provision of suitable housing for people with a wide range of needs, through their role as public landlords and in providing services for people who are homeless. The current economic conditions are likely to lead to an increase in demand for social housing.

138. The number of council houses reduced by 290,000 (47 per cent) between 1997 and 2008, mainly due to the right to buy legislation and the transfer of houses to other landlords under housing stock transfers. Councils have transferred stock in Argyll & Bute, Dumfries & Galloway, Eilean Siar, Glasgow City, Inverclyde and Scottish Borders.

139. Some councils are currently considering innovative ways of providing homes, taking account of the current economic conditions. Others are involved in providing new homes, for example Midlothian is taking action to address a projected shortfall in affordable homes by building 1,000 new homes in a £105 million programme and is

working with registered social landlords and private developers to deliver an additional 800 affordable homes.

140. SPIs for 2007/08 show some positive trends:

- The proportion of rent lost due to empty homes has reduced from 2.29 per cent two years ago to 1.65 per cent.

- Current tenant arrears as a percentage of the net amount of rent due in the financial year has reduced from seven per cent two years ago to six per cent in 2007/08.

- The proportion of tenants with high arrears (13 weeks and over) has reduced from 4.5 per cent two years ago to 4.2 per cent in 2007/08.

- The proportion of former tenant arrears either collected or written off has increased from 28.7 per cent last year to 34.1 per cent in 2007/08.

- The proportion of council house sales undertaken within 26 weeks has increased from 74.6 per cent two years ago to 84.7 per cent in 2007/08.

141. For people assessed as homeless or potentially homeless, the average time between presentation and completion of the council's duty has increased from 16.5 weeks two years ago to 22.6 weeks in 2007/08. However, there has been a reduction in the proportion of cases reassessed as homeless or potentially homeless within 12 months, from 7.8 per cent to six per cent over this period.

142. The Scottish Housing Regulator (SHR) published inspection reports on nine councils in 2007/08 and graded their performance. Performance was assessed as 'excellent', 'good',

18   *A review of free personal and nursing care*, Audit Scotland, February 2008.
19   *Free personal and nursing care – 4th Report – 2008*, Public Audit Committee, Scottish Parliament.

Exhibit 17

The Scottish Housing Regulator assessed nine councils against three criteria

Council	Report published	Housing management	Asset management and repairs	Services for homeless people
Eilean Siar	Nov 08	No service	No service	Fair
East Ayrshire	Apr 08	Good	Good	Fair
East Dunbartonshire	Mar 08	Good	Fair	Good
East Lothian (re-inspection)	Jun 08	Not covered	Not covered	Fair
Falkirk	Feb 08	Fair	Fair	Poor
Inverclyde (re-inspection)	Aug 08	No service	No service	Fair
Midlothian	May 08	Poor	Good	Poor
North Ayrshire	Aug 08	Excellent	Fair	Good
Renfrewshire	Nov 08	Good	Fair	Fair

Source: The Scottish Housing Regulator

'fair', or 'poor' (Exhibit 17). Two of these councils were subject to re-inspection because of 'poor' grades previously and both improved their grades to 'fair' in the relevant areas. SHR reports are available at www.scottishhousingregulator.gov.uk

143. West Dunbartonshire received an interim inspection to assess progress since its original inspection in 2003/04 when its housing management service was assessed as 'poor'. The inspectors found the council's housing service has improved in some areas, eg management of empty houses. However, the inspectors found that the council still had many areas of weakness, some of which are significant, including its performance in rent arrears and its approach to managing applications and its housing list.

144. During the year, we carried out housing and council tax benefit work in 12 councils. This new audit work is planned in two phases: a risk assessment phase that identifies risks to the continuous improvement of benefits services; and a focused audit phase that examines matters in more

detail if a council is unable to reduce the risks it has identified itself.

145. We identified risks to continuous improvement in all 12 councils we looked at and all councils were therefore invited to provide their plans for reducing these risks. All councils responded positively and have provided action plans to address the risks identified within reasonable timescales. Having considered the councils' responses, we advised 11 councils that we would examine progress during the next risk assessment. Highland has been asked to provide an earlier update on progress in view of a significant performance weakness.

Sport and physical recreation

146. Public bodies spend around £558 million a year on sport in Scotland. Councils are responsible for 90 per cent of this expenditure, mostly on providing and maintaining facilities and on programmes to encourage participation and support individual athletes. Our national report[20] found that:

- the provision of sports facilities and other services is fragmented,

with no clear links between the government's national strategy for sport and councils' investment. The development of SOAs is an opportunity to clarify and align the links between national and local strategies

- the level of participation and funding in sport has been declining and participation by younger people falls short of targets

- sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.

147. We will be undertaking a study on local authority physical recreation services as part of our ongoing performance audit work.

Police

148. Scotland has eight police and fire and rescue services. Six of these cover an area involving two or more local authorities while two fall within the area of a single council (Dumfries & Galloway and Fife).

20   *A performance overview of sport in Scotland*, Audit Scotland, April 2008.

149. HM Chief Inspector of Constabulary (HMCICS) issued a report on the 2007/08 results for the Scottish Policing Performance Framework (SPPF) in December 2008. This is the first report based on what is a new and evolving framework, and while there are limits in the early data, it is a good starting point for the new system. It provides a fuller overall report on police performance than has been available before and goes further than a report based only on the previous police SPIs. The Accounts Commission has recently incorporated the SPPF as a single SPI for all police authorities across Scotland.

150. The report highlights three areas where police performance across Scotland is encouraging.

- Overall recorded crimes and offences are down across Scotland as a whole (Exhibit 18). In particular, crimes of violence showed a reduction of nearly nine per cent on last year.

- The number of people killed or injured in road accidents across Scotland has decreased by 7.7 per cent compared with last year (Exhibit 19).

- The percentage of reports submitted to the procurator fiscal and the children's reporter within national targets have increased (Exhibit 20, overleaf).

151. The HMCICS report identifies areas where further improvement in performance information is needed by police forces, including:
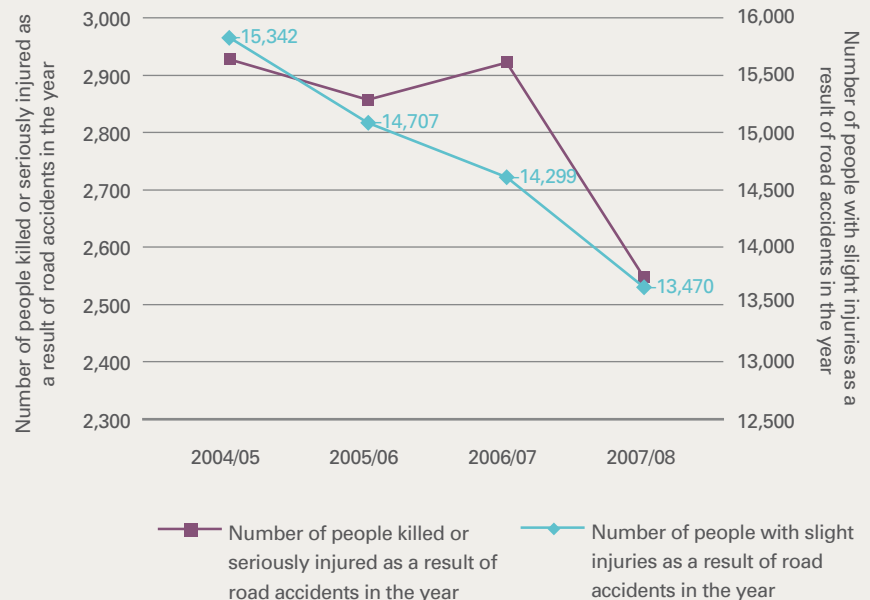
- the availability of data

- the adoption of common recording practices among forces

- the ability of forces to challenge, understand and explain variation in detection rates

- the need for a consistent approach to incident recording.

Exhibit 18
Crime clear-up rates
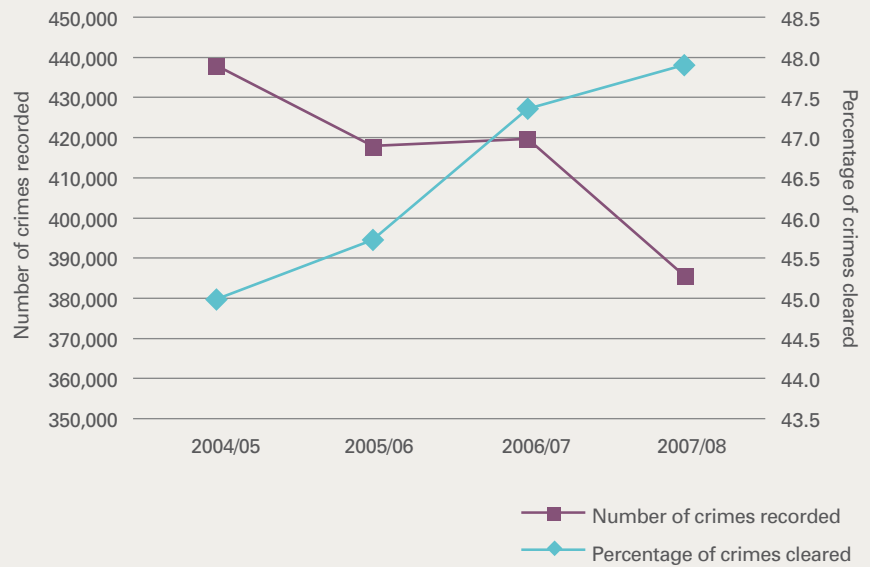
Source: Audit Scotland

Exhibit 19
Road accidents

Source: Audit Scotland

Exhibit 20
Reports to the procurator fiscal and children's reporter

Source: Audit Scotland

152. The chief inspector also highlights the need for police authorities to challenge chief constables about local performance, and this is consistent with views that the Accounts Commission has expressed for some time regarding the need for clarity and improvement on aspects of governance and accountability for police services.

153. The Commission gave evidence to the Parliament's Justice Committee inquiry into the effective use of police resources that reported in January 2008. This was based on evidence from pilot audit work on Best Value in police services, and the findings of the joint Accounts Commission/Auditor General report, *Police call management: an initial review*.[21] The impact of the views expressed by the Commission at that time has continued during 2008. The Justice Committee inquiry has led to a review by HMCICS that will include consideration of governance and accountability issues for the police. The Parliament's Public Audit Committee continued its discussions on the police call management report throughout 2008, exploring a number of issues including the role of police boards in holding chief constables to account. Reports from both inquiries are expected to be published early in 2009 and should help to improve performance management and reporting on police service performance.

154. In August 2008, the chair of the Accounts Commission wrote to all police authorities advising that Best Value audit arrangements for police services would be developed on the same principles as those for councils. This will be joint work with the HMCICS and will be piloted during 2009.

Fire and rescue
155. The main trends in SPIs indicate: a deterioration in the speed at which 999 calls are answered; an improvement in the number of shifts lost due to sickness absence and in sickness absence rates for other directly employed staff. The number of shifts lost, where firefighters are assigned work other than rider duties due to medical reasons, has increased.

156. In July 2008, we published a report[22] on the progress made by fire and rescue authorities against recommendations in our March 2007 report, *A review of service reform in Scottish fire and rescue authorities*.

157. The 2008 report shows some improvements, with progress in areas such as community safety and fire prevention. Home fire safety visits are increasingly targeted to the most vulnerable groups in the community, and there is some evidence that these are making a difference, with a continued reduction in accidental dwelling fires.

158. Councillors are now more aware of their governance and scrutiny responsibilities, and there is a better approach to working with partners. Staff management has also improved with the development of personal appraisal systems and positive steps have been taken to build a more diverse workforce and improve equalities.

159. However, there has been slower progress in other important areas. Fire and rescue authorities need to evaluate the impact and cost-effectiveness of their different approaches to community safety work and performance management generally needs to improve. Further work is also needed to demonstrate that efficiency savings are being delivered.

160. The Best Value responsibilities introduced for councils through the Local Government in Scotland Act 2003 also apply to fire and rescue authorities. The Accounts Commission intends to introduce Best Value audits of fire and rescue authorities and these will examine the progress of individual authorities in demonstrating continuous improvement.

21   *Police call management: an initial review*, Audit Scotland, September 2007.
22   *Scottish fire and rescue authorities 2007/08 – progress report*, Audit Scotland, July 2008.

Part 5. Looking ahead

Delivery of outcomes and best value requires good governance, accountability and performance management and a more strategic approach to resource use.

Priorities and risks

161. The concordat between the Scottish Government and COSLA provides more flexibility in how councils spend money and deliver services. In return, they are required to give clear commitments through SOAs to deliver outcomes that support the Government's national priorities. With continuing demands on resources and services, councils will face difficult choices in deciding which services to provide and at what level. It will be critical for them to take a strategic approach in allocating resources, based on robust information about needs and the costs of services. The current economic situation is likely to bring fresh challenges and opportunities.

162. Our audit work is informed by our Priorities and Risks Framework (PRF).[23] This is used to plan risk-based audits and identifies the key national priorities facing councils and the main risks to their achievement. The following sections draw on the PRF.

Supporting continuous improvement
163. Delivery of outcomes and best value requires good governance, accountability and performance management:

- Vision and strategic direction – the shift in relations between central and local government and the development of SOAs will influence councils' strategic direction. Council leaders and senior managers will need to work more closely with local partners such as the NHS to ensure greater integration of their respective plans and strategies.

- Partnerships – councils will be submitting reports on the delivery of their 2008/09 SOAs in autumn 2009, and from April 2009 SOAs will be agreed between the government, councils and their community planning partners. This places even greater responsibility on partnership working and the question of attribution for performance among partners will be of increased importance.

- Governance and accountability – pressures on budgets are likely to lead to increasingly difficult choices for councils in allocating budgets and making decisions about services. Elected members will continue to require training and development and good quality information from officers to support them in ensuring delivery of SOAs by scrutinising performance and holding officers to account. Maintaining good governance and clear accountabilities in funding external organisations will become increasingly important.

- Performance management and improvement – councils need to ensure robust performance management, to support the SOAs and their statutory responsibilities for best value and public performance reporting.

Using resources
164. With increasing pressure on resources and demands on services, councils will need to adopt a more strategic approach to resource use.

- Financial management and reporting – it is likely that existing pressures on finances will continue and that the current economic climate will have implications for both expenditure and income, including council tax collection. This will mean further emphasis on the efficient and effective use of finances and will require the highest standards of financial planning, control and governance.

- Full implementation of International Financial Reporting Standards (IFRS) in 2010/11 will result in significant changes to local authority accounts. Councils will need to restate their 2009/10 accounts and their closing balance sheet for 2008/09 to ensure that comparative data in the 2010/11 accounts is IFRS compliant. Councils will have to plan ahead to ensure a smooth transition to IFRS reporting. The introduction of separate financial statements for local government pension funds is under consideration, with increased stakeholder attention on the financial reporting and management of pension schemes.

- People management – the implementation of single status will continue to be an issue for a number of councils in 2009 and, more generally, councils will need to deal with ongoing and new equal pay claims. The other main challenge for councils will be to make inroads into strategic workforce planning.

- Asset management – the recent economic downturn and associated decline in property values may result in significant reductions in capital receipts and the need to reassess capital plans.

- Procurement – the main priority for councils is to ensure that their governance arrangements comply with recommended best practice and to demonstrate that new approaches to procurement generate anticipated efficiency gains.

165. Many councils already have elements of good risk management within existing structures and processes. The challenge for most will be to raise the profile of risk management within their organisations and to make risk management an everyday part of policy development and service delivery planning and management.

Delivering services
166. The following summarises key challenges facing services based on information provided by service inspectorates. More detail is contained in the PRF.

- Education – implementation of curriculum for excellence; new inspection models; and inter-disciplinary responses to key

Scottish Government policy initiatives such as 'Getting it Right for Every Child' (GIRFEC), 'More Choices More Chances', Skills Strategy and the Early Years Strategy.

- Social Work – services in these areas are usually delivered in complex partnerships between agencies and are resource-intensive, and it is always impossible to eliminate risk. The important concept here is 'defensible decision-making', ie that the service has done everything reasonably expected of a professional competent body to assess and manage the predicted risks to an individual or family. Strategic commissioning is also of primary importance.

- Housing – councils' capacity to deliver on the 2009 and 2012 homeless targets; the level of corporate prominence given to homelessness services (particularly in the context of SOAs); impact of reducing receipts from land/house sales as a consequence of the slow down in the housing market; quality of information base to support effective housing asset management, particularly planning to achieve the Scottish Housing Quality Standard; and impact of central service recharges to councils' Housing Revenue Accounts on rent setting and resource availability to housing.

Audit approach

167. Our audit work is targeted and based on risk assessment so that we focus better on the issues that matter to stakeholders in local government and to ensure that we meet quality standards.

168. Following the recommendations of the Crerar review of regulation, audit, inspection and complaints handling we have been working with inspection agencies to streamline scrutiny processes. The development of the approach to Best Value audit (BV2) is a central part of this agenda.

169. By spring 2009, we will have completed Best Value audits of all 32 councils. Work is well under way to develop BV2 which is underpinned by a set of core principles:

- A stronger focus on outcomes as well as on corporate performance management processes.

- A greater emphasis on community leadership and the effectiveness of partnership working.

- A stronger focus on the experience of citizens and service users.

- Improved coverage of service performance and the use of resources.

- A more proportionate and risk-based audit approach, founded on self-assessment.

- Improved audit reporting and greater transparency of the audit process.

- Improved support for improvement and sharing of good practice.

170. Fundamental to BV2 will be a move towards more risk-based and proportionate scrutiny across local government. This means that audit work at each council will be tailored in response to local risks and priorities. We are working with other scrutiny bodies to develop a shared risk assessment which will form the starting point for a rolling scrutiny programme. This will set out the detailed scrutiny activity to be undertaken at each council over a set period. The most appropriate model of scrutiny will be selected following discussion among the various agencies. We are also developing a detailed framework for Best Value audits at all police and fire and rescue authorities.

171. Our national studies programme for 2009 to 2010 has now been agreed by the Accounts Commission and the Auditor General (Exhibit 21, overleaf).

172. Every year, we publish SPI information on our website. In keeping with changes in the local government environment, the Commission has proposed a significant shift in the annual direction for the SPIs that will apply from April 2009. The proposals involve a more broadly drawn and flexible direction than in the past, consisting of two elements:

- Information chosen by local authorities about key functions that demonstrates how they meet their Best Value obligations and how they balance their national responsibilities with local priorities relating to local needs.

- A reduced number of specified performance indicators on issues of particular concern.

173. The Accounts Commission has underlined that reporting on SOAs is not in itself sufficient to fulfil the duty on local authorities to demonstrate Best Value. It believes that the new direction is consistent with the Commission's objectives for:

- bringing the SPI direction into line with the Best Value statutory duty

- reducing the dependence on SPIs as the main source of reported performance information in some councils

- placing responsibility for demonstrating Best Value with local authorities where it belongs

- emphasising the need for local authorities to further improve local performance management and public performance reporting

Exhibit 21
Local government performance studies starting in 2009 and 2010

Local government-based studies:

- Physical recreation services in local government
- Managing unit costs
- Management of local government pension funds
- Best Value and resource management series
- Impact of liquor licensing
- Physical planning services in local government

Cross-cutting studies:

- Delivering efficiencies
- Looked after children in residential settings
- Mental health (part of a series)
- Community Health Partnerships
- Community Planning
- Commonwealth Games

Follow-up studies:

- Roads maintenance

Source: Audit Scotland

- encouraging the use of locally determined and robust performance indicators relating to local needs and objectives

- maintaining the role of public reporting of performance information in holding local government to account for its performance.

174. Alongside the developments arising from SOAs, Crerar and BV2, this new approach to SPIs will require councils to take more responsibility and ownership of council performance, with choices being made about how best to monitor and measure service activity throughout the council.

175. Overall, we are committed to continuous improvement in our audit approach and to demonstrating the impact of our work.

Overview of the local authority audits 2008

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Inverclyde Council

Strategic Audit Risk Analysis 2008/09

March 2009

AUDIT SCOTLAND

Inverclyde Council

Strategic Audit Risk Analysis 2008/09

Contents

Key Messages

This report sets out the findings from our review of the strategic risks facing Inverclyde Council. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identify areas for ongoing review in future years.

The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework (PRF) document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs). The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.

Services delivered directly, or in partnership with others, involve substantial resources. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an aging population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.

The overall context for local government, therefore, is continuing change, with increasing pressures on services. Councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

This report includes risks and priorities identified through the use of a national tool (the PRF). This helps to ensure that audit work is properly focused and takes account of local authority national priorities and risks. The key national priorities and risks identified in 2008/09 are:

Vision and strategic direction	Financial management
Partnership working and community leadership/ engagement	People management
Governance and accountability	Asset management
Performance management and improvement	Procurement
Risk management	Information management
	Service priorities and risks

The major priorities and risks identified within our analysis include:

- Reducing the level of waste sent to landfill sites.

- Tackling the impact of depopulation as per the local outcome in the SOA

- Delivering the organisational improvement plan.

- Establishing a partnership management framework.

- Aligning Alliance resources and plans to the outcomes identified in the SOA.

- Embedding the risk assessment framework.

- Developing business continuity arrangements.

- Managing the impact of the economic downturn.

- Finalising a workforce strategy and developing a workforce plan.

- Further developing asset management planning.

- Developing a corporate approach to procurement.

The risks we have identified present significant challenges for the Council, and we have confirmed that the Council has action plans in place to address many of the risks identified. In these areas we will monitor the progress over the coming years and report any significant matters which arise on an exception basis.

Where relevant, any significant findings from our work on the Council's management of key risks will also be summarised in our annual report on the audit.

Introduction

1. This report sets out the findings from our strategic risk assessment for Inverclyde Council. We considered the key risks being faced by the Council and the action underway or planned by the Council in response to these risks. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identified areas for ongoing review in future years.

2. To provide the context for the Council, we briefly outline some of the key challenges currently facing Scottish local government. We then provide an overview of the Council and a summary of our assessment of the key risks facing the Council over the next three years together with the management assurances we have received for each risk area.

3. As many of the risks included in this report are high level and strategic in nature, they will continue to be relevant to the Council for a number of years. Therefore, although our analysis will be updated annually, many risks will remain from year-to-year and the risk analysis will cover a rolling three year period.

4. This report complements the work carried out by us in other areas such as the audit of the financial statements, the approach to which was reported in our Annual Audit Plan.

5. The management of the Council is responsible for implementing appropriate internal control systems including risk management processes. Communication by auditors of matters arising from the audit or of weaknesses does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.

6. The risks outlined are only those which have come to our attention during the course of our normal audit work in accordance with the Code of Audit Practice and are not necessarily, therefore, all of the risks which may exist.

7. Risk exists in all organisations that are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation received during the course of our work is gratefully acknowledged.

Key Issues and Priorities in the Local Government Sector

Overview

9. The local government environment within Scotland has continued to evolve since we issued the last PRF document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of SOAs between all thirty two councils and the Government by June 2008. Half of these first phase SOAs were developed with Community Planning Partnerships (CPPs). The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.

10. Services delivered directly, or in partnership with others, involve substantial resources; councils spend around £18 billion each year, employ around 229,500 full-time equivalent staff and use assets worth about £26 billion. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an aging population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.

11. The overall context for local government, therefore, is continuing change, with increasing pressures on services. The new councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

2008/09 Priorities and Risks Framework

12. The PRF is a national tool used by auditors to plan the risk-based audits of local authorities in Scotland. It identifies the key national priorities facing councils and the main risks to their achievement. This helps to ensure that audit work takes account of sector specific national priorities and risks. It is an integral part of the overall approach to local authority audit.

13. Auditors discuss the risks contained in the PRF with councils and the national view through the application of the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level. This overall assessment of risk informs the auditor's decisions on where to target audit resources. This approach helps meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment.

14. Local discussions on the PRF represent an important annual engagement with the most senior management in councils. They have the potential to make a significant contribution to our intelligence gathering and national reporting and influence our programme of national performance audit studies. The application of the PRF also provides a useful source of early intelligence for the Accounts Commission about the risks facing the local authority sector. Throughout this document most references

are to the issues and risks facing councils, however many of the issues will also apply to joint boards and other bodies.

15. It is important to note that auditors do not carry out detailed audit work on all the matters set out in the PRF. Also, we recognise that even though the steps taken by councils to address issues in the PRF may be weak, it does not necessarily follow that the risks will crystallise. We also acknowledge that risks exist in all organisations committed to continuous improvement.

16. Working with local government and stakeholders, we identify the key issues facing the sector in the coming year and select the priorities for coverage. The key national priorities and risks identified for 2008/09 - 2010/11 are:

Vision and strategic direction	Financial management
Partnership working and community leadership/ engagement	People management
Governance and accountability	Asset management
Performance management and improvement	Procurement
Risk management	Information management
	Service priorities and risks

17. In addition to these headings, there are a number of cross cutting issues that are important elements of the overall audit approach, including equality and diversity and sustainability.

18. The 2008/09 PRF is available from Audit Scotland's website (http://www.audit-scotland.gov.uk/docs/local/2008/prf_0809_localgov.pdf)

Links with the audit of Best Value

19. In November 2008, the Scottish Government announced a series of proposed reforms to the scrutiny landscape in response to the Crerar report. Audit Scotland, on behalf of the Accounts Commission, is developing a shared approach to risk assessment and planning, to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.

20. As part of a more integrated approach to scrutiny we are developing an overarching corporate assessment framework which reflects our theory of improvement, that: Effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes. The corporate assessment framework will be used as a primary component of our revised approach to the audit of best value and will also be reflected in the PRF process and our audit planning.

21. Outputs gathered through the application of the PRF; other intelligence such as Best Value findings and follow-up work; the views and risk assessments of inspectorates; self assessments and other performance analysis are playing a key part in ensuring that the second round of Best Value audits (Best Value 2) is proportionate and reflects the national context and local circumstances. The PRF process is making an important contribution to streamlined scrutiny.

Overview of Inverclyde Council

Background

22. Inverclyde Council is a small local authority, with a population of 81,540 and covers an area of 61 square miles. The main centres of population are the towns of Greenock, Port Glasgow and Gourock and the villages of Kilmacolm, Inverkip and Wemyss Bay. Inverclyde has experienced a steady decline in population over a number of years. In the 1991 census the population was 90,103; by 2024 this is projected to have fallen to 71,191 due to net migration and a falling birth rate which is exceeded by the death rate.

23. Of particular concern is the decline in the number of young people and working age people which is contrasted by a growing elderly population. 17.4% of the entire population are over the age of 65 and this is expected to increase to 24.9% by 2024.

24. Unemployment levels in Inverclyde are relatively high, with overall unemployment at 3.8% compared to 2.6% nationally. Approximately 20% of the working age adults in Inverclyde have no formal qualifications.

25. The health of Inverclyde residents, though slightly improved in recent years, lags behind the rest of Scotland and, in particular, Inverclyde has the third lowest life expectancy in Scotland for both men and women. Key areas for concern within Inverclyde centre around the misuse of alcohol and drugs with hospital admissions far exceeding the national average.

26. The Council has recognised these issues, and others, as key areas of concern and are taking action to address them. In June 2008 the Inverclyde Alliance board approved the Community Plan 2008 - 2018, 'Inspiring Inverclyde'. This sets out the shared partnership vision for Inverclyde and explains how it plans to achieve this vision. The plan identifies five strategic priorities:

   - Health Inequalities.

   - Alcohol Misuse.

   - Employability and Enterprise.

   - Responsible, Active Citizens.

   - Protecting the Environment and Reducing Inverclyde's Carbon Footprint.

27. The delivery of the priorities outlined in the Community Plan is supported by the Council's Corporate Plan for 2007 – 2011 which was approved in October 2007 and directorate plans which were refreshed in May 2008.

28. The Council, in conjunction with their community partners, has produced the Inverclyde Single Outcome Agreement 'Tackling Poverty, Sustaining Growth' 2009 – 2011. The focus of the SOA is to improve the prospects of Inverclyde as an area to live and work and secure a better future for Inverclyde's people. In particular the following strategic outcomes have been identified:

- Inverclyde's population is stable with a good balance of socio-economic groups.

- Communities are stronger, responsible and more able to identify, articulate and take action on their needs and aspirations to bring about an improvement in the quality of community life.

- The area's economic regeneration is secured.

- Economic activity in Inverclyde is higher, and skills development enables both those in work and those furthest from the labour market to realise their full potential.

- The health of local people is improved, combating health inequality and promoting healthy lifestyles.

- A positive culture change will have taken place in Inverclyde in attitudes to alcohol, resulting in fewer associated health problems and reduced crime rates.

- All our young people have the best start in life.

- Inverclyde is a place where people want to live now whilst at the same time safeguarding the environment for future generations.

Best value

29. Since the Council's initial Best Value review in 2005 which highlighted a number of weaknesses, the Council have initiated a comprehensive programme of improvement, initially through the Transformation Programme and then the Organisational Improvement Plan (OIP). A Best Value follow up was concluded in February 2009 and reported positively on the progress achieved by the Council. The overall conclusion of the report stated:

"The Council has made significant progress in delivering its improvement agenda. Many of the building blocks of best value are now in place and provide a solid foundation for further improvement. Since the last progress report, the Council has set a clear strategic direction in new community and corporate plans, improved its medium to long term planning and implemented changes to its political management arrangements and management structures. New systems and processes are starting to become embedded and service performance is improving. "

30. The Accounts Commission have welcomed the progress made by the Council since the initial Best Value report in June 2005 and, in particular, the work on setting a clear strategic direction through community and corporate plans and the changes to political management arrangements and management structures.

Inverclyde Council's Strategic Risk Analysis 2008 – 2011

Structure of the analysis

31. To better align our analysis, as part of a more integrated approach to scrutiny, we have adopted the proposed overarching corporate assessment framework. This reflects our theory of improvement: effective leadership, good governance and sound management as necessary conditions for the delivery of sustainable continuous improvement and effective outcomes.

32. To promote the links between the analysis and other work, we have followed this year's PRF using headings that reflect those we are using to develop the corporate assessment for Best Value 2.

Diversity and equality

33. Equality and diversity are widely recognised as fundamentally important factors in the sound management of a modern, effective organisation – whether in the private or public sector. Equalities legislation has developed piecemeal since the 1970s to the point where there are now nine major pieces of discrimination legislation; around 100 statutory instruments setting out connected rules and regulations; and more than 2,500 pages of guidance and statutory codes of practice. The legislation that may apply in a particular set of circumstances is not always obvious. Certain legislation is specific to a particular equality strand, such as race or gender. Other legislation is more generic and touches on all equality strands.

34. In November 2008 the Accounts Commission published a report titled 'The impact of the race equality duty on Council services'. The report found that while councils have developed policies on race equality they now need to ensure that these have a positive impact on people from minority ethnic communities, through the design and delivery of services. The report concludes that councils need to build a better understanding of the needs of their minority ethnic communities; mainstream their approach to race equality; and give more priority to race equality in delivering services.

Equality schemes

35. The Council has individual equality schemes in place for race, disability and gender. The Council has consulted widely with community groups to establish the schemes developed. The Council is working towards the development of a multi-equality scheme which will include the three statutory duties of race, disability and gender and other diversity strands to provide direction in mainstreaming equalities across the Council. A Corporate Equalities Group has been established to support the Council in implementing equality principles. The group is led by the Corporate Director with responsibility for equality and also comprises senior management, and policy staff from services, as well as a member of the community health partnership and representatives from community groups. In addition an equality and diversity network steering group has been formed which includes policy staff from services, trade union colleagues and representation from a number of local and national community organisations.

36. The Council has outlined their commitment to ensuring equality of opportunity in their 2007-11 Corporate Plan.

37. The 2007/08 public performance report details 2008/09 planned activity which includes:

- Promotion of fairness and equality in the SOA.

- Development of an equalities champions training programme.

- Moving towards a multi-equality scheme for the Council.

Diversity approach

38. The Council has prepared a guide "equality counts in Inverclyde" which highlights the Council's responsibilities for equal and fair treatment of employees and the wider community.

39. All new policies presented to committees include a section titled "equalities". Consideration is given to equality issues and any potential impact noted for action.

40. The Council hold an annual equality awards competition to recognise people who help to make Inverclyde a more equal place to live and work. The competition is open to any group or person who is associated with the Council or one of its partners, and has made a notable contribution in raising awareness of the Council's approach to diversity and equality.

Performance measures and audit

41. The statutory performance indicators indicate the Council is a high performer when compared to other councils in relation to the percentage of its staff who are female high earners. They rank third out of the 32 Scottish councils for the percentage of the highest paid 2% and 5% of earners that are women. This is an area where considerable improvement has been made since 2005/06.

42. The November 2008 Accounts Commission report on the impact of the race equality duty on council services identified that less than 1% of the population in Inverclyde was from a minority ethnic background. Although 2% of the Scottish population is represented by people from a minority ethnic background it was recognised that almost half of the minority ethnic population resided in Glasgow or Edinburgh. Seventeen of the 32 councils in Scotland had less than 1% of council residents from minority ethnic communities.

Equality impact assessments

43. A number of equality impact assessments have been undertaken and reported to committee for new policies developed. During 2008/09 it is intended to carry out further assessments. A programme of equality impact assessments has yet to be developed to ensure coverage across the Council and compliance with statutory duties. The Council should also consider incorporating impact assessments as part of the new project / programme management arrangements which are currently under development.

Identifying new developments

44. The Inverclyde equality champions' network project was set up between partner organisations to actively influence Council policy. The Council has worked with the Scottish Association for Mental Health and the Scottish Trades Union Congress to develop a training programme in equality, diversity and human rights. It is hoped that this model will help to address gaps between policy and practice that involves service users from the outset.

45. The Council has recognised that poverty and income inequality is an area where further work is required to address inequalities within Inverclyde. The Council intend to incorporate this area into their multi-equality scheme.

Immediate priorities and risks

- Develop a programme of equality impact assessments across the Council and include impact assessment in project management procedures.

Sustainability

46. Best Value audit work to date highlights that in relation to sustainability, the primary focus of councils has been on waste management and energy management, where they have been supported in recent years by external funding. There is a real risk that progress towards the government's wider sustainability agenda and proposed targets will be insufficient. At present the majority of local authorities are unable to demonstrate their contribution to sustainability and there remains significant scope to develop performance management systems and introduce quality of life indicators to strengthen this.

47. Local authorities play a pivotal role in helping achieve the Scottish Government's overall purpose to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. Our approach to auditing their contribution to this and their impact on climate change is developing and will be shaped in the near future by the introduction of climate change legislation. In January 2007, the Council signed the Scotland's Climate Change Declaration which commits them to tackling the causes and effects of a changing climate on the Inverclyde area.

48. The Council has launched a 'Green Charter' which aims to 'reduce energy and waste and promote the sustainable use of resources in the Council and across the community.' It identifies the key actions designed to facilitate the delivery of the principles set out in the charter.

49. The Council's level of municipal waste sent to landfill has resulted in the potential for fines to be imposed by the Scottish Government. In 2007/08, 38,372 tonnes of waste were disposed of in landfill sites by the Council. Although this represents an improvement on the 42,596 tonnes disposed of in 2006/07 it still exceeds the Council's 2007/08 allowance of 21,190 tonnes. Scottish ministers have discretion to levy penalties due to a breach in the volume of waste disposed. The Council are currently giving consideration to a medium term waste strategy designed to increase the level of waste converted into energy and thus decrease the tonnage of waste sent to landfill.

50. The Council has drafted a Carbon Management Plan 2008-2013 which outlines how the Council will work toward meeting the strategic objective of reducing carbon emissions and energy costs of the Council's operational activities. The plan sets a target to reduce carbon dioxide emissions from energy and transport by 15% by 2012/13 (from a 2007/08 baseline of 21,992 tonnes) however it is recognised that the availability of funding may prevent the development of energy efficiency measures to achieve this target.

51. The Scottish Government has launched a consultation on a new Renewable Energy Framework, which sets out plans to increase the proportion of Scotland's energy generated by renewable sources to 20% by 2020. Part of this proposal is to increase renewable heat to 11% of all heat energy in Scotland. Although the Council are taking steps toward increasing the level of heat energy produced from renewable sources they recognise that they are unlikely to meet the proposed 11% target by 2020.

52. Inverclyde has one of the fastest declining populations in Scotland and this, and in particular the increase in the rate of migration of people of a working age, is a critical issue for the Council. The decline in the number of younger people is countered by an increase in the number of over 60's in the area with the combination of these factors potentially having serious consequences for the sustainability of Inverclyde. The Council have recognised this risk and made stabilising the population and tackling the impact of depopulation one of the key strategic focuses of the SOA.

Immediate priorities and risks

- Further decrease amount of waste disposed of in landfill sites to avoid incurring financial penalties.

Longer term considerations

- Meet targets for heat from renewable sources and reductions in carbon dioxide emissions.

- Tackle the impact of depopulation on Inverclyde.

Vision and Strategic Direction

53. Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community. Member and officer leadership of a council is responsible for promoting this vision effectively and ensuring its achievement, with support from staff and partners. The overall aims should be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.

54. A council's vision should reflect a clear sense of purpose where a council understands the contexts in which it and its partners are operating; has set out a clear vision of how it will work with partners and is based on the views of local communities, citizens and customers.

55. The council's ambitions should be stretching and challenging, making a real difference for local people. However they must also be realistic and achievable and reflect the scale of the issues and

opportunities based on a mature and accurate assessment of the council's current performance position, and capacity to improve.

56. The strategic direction of a council will be supported through open and inclusive leadership and a culture where the process for prioritising council activity is open, fair and inclusive. Effective communication and engagement should clearly communicate a council's vision and priorities. The Council should demonstrate that it maintains its focus on core priorities and is not distracted by difficulties such as minor operational matters. A clear direction of travel for a council will be achieved through a well aligned system for service and resource planning.

57. The Council has agreed a clear strategic direction and has made good progress in building a business planning framework. A Strategic Planning and Performance Management Framework has been developed which integrates planning and performance management arrangements. The framework has recently been updated to take account of the SOA.

58. The Corporate Plan clearly articulates the Council's vision and is supported by core values and key principles. The Council is in the process of developing performance indicators to monitor progress against the corporate and directorate plans.

Leadership

59. The Leader of the Council and the Chief Executive are working well together and provide effective leadership. The Corporate Management Team (CMT), which includes the Chief Executive and Corporate Directors, is providing improved corporate leadership and direction. An extended Corporate Management Team which consists of the Chief Executive, Corporate Directors and Heads of Service has been formed to increase management capacity and strengthen corporate working.

60. Members and officers have commented on the positive culture and increasing sense of confidence and the significant progress made by the Chief Executive to date. There is heightened optimism within the Council in its ability to modernise services. Officers feel that the changes are being led from the top.

Political governance

61. The Council carried out a follow - up review of the decision-making structures in June 2008, which concluded that the structures were fit for purpose and would support progress towards the outcomes defined in the SOA and the Corporate and Community plans.

62. There are indications that the Council's new political management arrangements are bedding in well with constructive and professional arrangements being formed. The Strategic Leadership Forum encourages debate and wider opportunities for discussion between members and officers to discuss forthcoming issues in advance of formal committee meetings. Members are increasingly providing beneficial challenge at meetings.

63. Elected members and the CMT are benefiting from improved committee reporting arrangements. Reports are more timely and informative, clearly outlining issues in a structured and consistent

manner. Decisions are clearly stated in minutes and the Council is working towards making these readily available to the public and other stakeholders via the internet by March 2009.

Vision and communication

64. The Council's Corporate Plan clearly articulates the Council's vision and is supported by core values and key principles. The plan was prepared following consultation with members, services, community representatives and partner agencies. The Council has distributed a pledge card about the Corporate Plan to all staff to create an awareness of the Council's vision and values. Key messages from the plan are widely communicated and displayed in Council buildings.

65. The Council have recently finalised an Organisational Improvement Plan (OIP) to help deliver the Corporate Plan vision and provide a strategic framework for delivery of the outcomes in the Corporate Plan, Community Plan and SOA. The Council adopted the Public Service Improvement Framework self-assessment tool to support preparation of the plan. Procedures to monitor progress in achieving the plan require to be developed.

66. A key element of the plan is the Modernisation and Efficiency Programme which aims to ensure that the Council is structured effectively, maximises efficiency and modernises services whilst focusing on customers.

67. The Council have a Corporate Communications Framework which was originally approved in November 2007 and subsequently reviewed, updated then approved by the Policy and Resources Committee in November 2008. The framework defines how the Council interacts with communities and other stakeholders, both internal and external, and provides an action plan outlining how the framework will be implemented.

Modernisation and efficiency programme

68. The Council has completed a diagnostic review of the Council processes to identify areas of improvement and efficiencies throughout the Council.

69. Phase two of the Modernisation and Efficiency Programme is being progressed which brings together action from the Customer Service Review and Value Chain Analysis project. Delivery of this phase is expected to have a significant impact on the way the Council conducts its business.

Single outcome agreement - approach and integration

70. Inverclyde's SOA has been developed and agreed in partnership with all the agencies within the Inverclyde Alliance. The Alliance is the Council's CPP made up of representatives of elected Council Members, public agencies, private enterprise, community and voluntary organisations and residents. There is clear evidence that community planning partners share an acceptance of the need to collaborate effectively to meet the significant challenges that exist within Inverclyde.

Member / officer relationships

71. Member / officer relations have improved. Joint working between parties has also been necessary to establish and progress strategic priorities, members have worked well together during the recent budget setting process.

- Deliver the OIP and establish monitoring procedures.

- Implementation of the Modernisation and Efficiency Programme.

Partnership Working and Community Engagement

72. This section focuses on those risks which councils need to manage in relation to their involvement with a wide range of partnerships. More specifically, it concerns councils' duties under the Local Government in Scotland Act 2003, to initiate, facilitate and maintain a community planning process and their role in ensuring effective leadership within local CPPs.

73. Councils work with a range of other agencies and groups, including the community themselves. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues.

74. Audit Scotland's baseline study on community planning, Community Planning: An Initial Review, June 2006, identifies the challenges then facing CPPs. It makes recommendations for action by councils, partner organisations and CPPs themselves. Many of these challenges remain and councils should be utilising the evaluation framework within the report, along with other improvement tools, to improve the effectives of partnerships.

75. The majority of ring-fencing of funding was removed as part of the concordat and councils are now able to retain their efficiency savings for the first time. This, coupled with partner organisations' contributions towards SOA outcomes, means that partnerships are responsible for significant amounts of public money.

Governance and accountability

76. There is a recognition that the Council needs to be more explicit about issues such as responsibilities and objectives when entering into partnerships. Progress has been made in this area in terms of the establishment of new partnerships however there are a number of existing partnerships where clear guidelines and objectives have not been established. Governance arrangements including risk and performance management activity require to be developed to support delivery of effective partnership working. These arrangements should ensure issues such as the partnership's intended benefits, objectives and financial commitments are explicit through the implementation of service level agreements (SLA), funding agreements and lease agreements (where applicable). This should be implemented for all newly established partnerships but also consideration should be given to revisiting existing material partnerships. We note that, in particular, an up to date SLA is not in place for leisure provision supplied by Inverclyde Leisure.

77. The Inverclyde Alliance was established to manage the community planning process in the area to bring key public, private, community and voluntary representatives together with the aim of delivering better, more joined-up public services in Inverclyde. The Council's Community Plan 2008 – 2018 is an overarching plan for Inverclyde that demonstrates the links between local and national

priorities. The Council need to demonstrate that the investment in community and partnership working results in delivery of the outcomes in both the Community Plan and SOA.

78. In February 2009 the Scottish Government issued a letter to chief executives setting out best practice advice in relation to governance and accountability for SOAs. The Council need to review their Memorandum of Understanding, which established a governance framework to support community planning, in light of the issuance of this guidance.

Community Health Partnership

79. The Council has an established community health partnership with NHS Greater Glasgow and Clyde (NHS GGC). Consideration has been given to further develop the partnership into a Community Health and Care Partnership (CHCP) however due to the development of the SOA, the Council along with NHS GGC and CPPs have decided to reconsider this option to meet the needs of the community. Alternative options for joint working are to be considered when implementing and evaluating the strategic objectives in the SOA and Community Plan.

Community Engagement

80. Inverclyde Alliance endorsed a revised Community Engagement Strategy 2008-18 on 25 June 2008. The purpose of the strategy is to provide a strategic framework which all partners within the Alliance, public agencies and community organisations can work together to ensure that the views of communities are taken into account when planning services.

81. The national standards for community engagement have influenced the development of the Community Engagement Strategy. The strategy outlines how national standards will be implemented and ways of improving the quality of community engagement throughout Inverclyde.

82. The Council have recognised that community engagement is integral to achieving outcomes identified in the Community Plan and SOA.

Citizens' Panel

83. A citizens' panel which consists of one thousand Inverclyde residents has been formed to enable the Council to obtain views on a number of issues. Members of the panel are sent two questionnaires per annum. The Council's second citizens' panel survey was issued in July 2008. The survey was based on the priorities and outcomes identified in the SOA to enable information to be gathered to monitor and report on progress made in achieving SOA outcomes. The results from the survey were published in November 2008. The 2007/08 public performance report also contained highlights from the first questionnaire which was issued in December 2007. Actions being taken to address issues raised by the citizens' panel are outlined in the 2007/08 public performance report.

Resources

84. The Council's Financial Strategy was revised in November 2008 and presented to Full Council on 4 December 2008. It sets out how the Council will manage its financial resources in the medium to long term to ensure they support the Council's corporate objectives and, in particular, aims to ensure

resources are allocated and deployed to facilitate the delivery of the outcomes set out in the Corporate Plan, Community Plan and SOA.

85. The extent to which community partners have the necessary financial resources to deliver outcomes, or support the delivery of outcomes in the SOA is an area of concern. The Council need to work with their strategic partners in the Alliance to better align their financial planning, resources and timing of key operational activities, to the outcomes identified in the SOA. The Council's Financial Strategy and a two year revenue budget should provide greater opportunity for effective joint working.

86. Inverclyde's allocation from the ring fenced Fairer Scotland Fund (FSF) for 2008/09 was £6.47 million, with a further £6.12 million available in 2009/10. Potential program providers apply for FSF funding via a formal tender process which is subject to an evaluation process by the FSF monitoring team. Approved program providers submit quarterly monitoring reports to the FSF team who verify these to ensure the provider is meeting the measurable outputs agreed at the outset.

87. Provisionally there is £5.87 million available for FSF funding in 2010/11 however this will no longer be ring fenced and will be consolidated into the Council's Grant Aided Expenditure. All current contracts will expire on 31 March 2010 to coincide with the end of the ring fenced period. Current program providers have a window of opportunity to prove to the Council that their project merits being awarded additional funding beyond 31 March 2010. The Council will assess the performance of projects before determining whether to extend the contracts.

Shared services

88. The Council are working with East Renfrewshire Council and Renfrewshire Council to explore areas where service delivery would benefit from shared services. To date progress has been made developing a joint service model to deliver civil contingency arrangements.

Immediate priorities and risks

- Implement a formal Partnership Management Framework incorporating governance arrangements, performance management and risk management.

- Embed the Community Engagement Strategy.

- Alignment of Alliance resources and planning to the outcomes identified in the SOA and revise Memorandum of Understanding to take account of Scottish Government advice on SOA governance and accountability.

Longer term considerations

- Manage FSF projects beyond ring fenced period ending 31 March 2010.

Governance and Accountability

89. Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local

authorities operate is based on sound decision-making and an effective process to support it. CIPFA/SOLACE's 'Delivering Good Governance in Local Government Framework' and an accompanying guidance note for Scottish authorities were published in 2008.

90.   The guidance includes a self-assessment framework and auditors will be encouraging self-assessment to be used by councils. The guidance also links this form of self-assessment to the concordat and honest self-assessment may be expected to lead to more proportionate audit arrangements.

91.   Increasingly councils are working with companies, trusts and other external organisations to deliver a range of services, such as leisure and other services which provide social benefit. The important principles set out in the 'Code of guidance on funding external bodies and following the public pound' (published jointly by the Accounts Commission and COSLA, in 1996) are therefore of increasing relevance. The Code and the Accounts Commission's 'Following the Public Pound' national performance report (published in March 2004) underlines the need for good governance and clear accountabilities, in relation to both finance and performance. Where councils set up or engage external organisations to deliver services and decide that elected members are to represent the Council on boards of companies or on trusts, councils must ensure that those members are properly supported and that they are clear about their roles and responsibilities.

Political governance

92.   Inverclyde Council has 20 members. Following the resignation of a Council member from the Labour party in December 2008 a coalition was formed involving eight Labour Councillors, an Independent Councillor and a Conservative Councillor. The governance structure includes Full Council, a Policy and Resources Committee and a Policy and Resources (Executive) Sub Committee. The structure also comprises four strategic committees, an Audit Committee and regulatory boards.

The role and development of elected members

93.   The Council has developed an extensive programme of support and training for members, including personal development planning. Members need to make full use of the support on offer.

94.   Job descriptions were issued to members to provide clarity on their roles in May 2007. All Councillors have completed individual training needs assessments and personal development plans.

95.   Attendance levels at training events have varied over the first twelve months of the programme. The Council needs to refresh the programme on an ongoing basis to take account of developments within local government and work with members to consider how it can improve attendance levels.

Support available to elected members

96.   The committee structure appears to be effective in debating and considering key strategic decisions. The level of discussion observed is characterised as improving and focusing on the business issues to hand.

97.   Member support was reviewed by external consultants in December 2006. Since then the Council has implemented a professional development programme for members, developed a comprehensive

member handbook, enhanced administrative arrangements and appointed a members services manager.

98. Information is submitted by officers to members in areas such as performance, outcomes and use of resources. Programme / project management arrangements are under development. Option appraisal information will be enhanced as part of this process.

99. Reports provided to members contain details of the resource implications relevant to the issue being considered. Financial pressures are however likely to lead to increasingly difficult choices in allocating budgets and deciding which services to provide and at what level. Officers agree there will have to be intensive engagement with members on the current budgetary position, on financial reporting and on the reform agenda, given recent environmental conditions.

Working with external organisations

100. Where the Council works in partnership with other organisations or works in partnership to deliver services it is usually the case that elected Members represent the Council on those external committees. The Council has made some progress in terms of developing support and guidance relating to the roles of elected members when they represent the Council however further development is required in this area.

Annual governance statements

101. The Council is encouraged to include an annual governance statement within the financial statements. Historically the Council has included a statement on the system of internal financial control (SSIFC). Discussions with the Chief Internal Auditor have established that the Council are currently reviewing their compliance with the new CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. A comparison between the SSIFC and the CIPFA/SOLACE framework has been completed and is being reviewed by the Chief Financial Officer. If it is concluded that the framework meets the Council's SSIFC requirements then a report will be submitted to the CMT to propose the adoption of the framework.

Immediate priorities and risks

- Further develop guidelines around the role of Members when involved with external organisations.

Performance Management and Improvement

102. Good governance and the achievement of Best Value rely on having good information on which to base decisions about allocating resources to competing demands, improving service delivery and managing performance. Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their Council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

103. The Controller of Audit's 2007 overview of the local authority audits concluded that the lack of consistent and robust performance information limits an in-depth analysis of service performance in councils.

104. The concordat between the Scottish Government and COSLA agreed in November 2007 set out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government for the period 2008-09 to 2010-11. A central proposal was the creation of a National Performance Framework that includes a SOA between each council and the Scottish Government based on 15 key national outcomes.

105. Councils are currently seeking to assess their existing information, identify gaps and review their performance management systems so that the SOA is part of the process rather than a separate or additional reporting mechanism. Good performance management will convert the aspirations for high level outcomes contained in the SOAs into concrete plans and actions. Effective and regular monitoring of progress will ensure that the right direction is being maintained and will identify any corrective action needed. This will increase the likelihood of targets and outcome objectives being achieved.

106. Good quality performance information is essential for informed decision making and allows elected members to scrutinise performance and hold management to account for service delivery. Councils also require accurate performance information to report regularly to the public on all aspects of their activities.

Corporate priorities

107. The Corporate Plan 2007-2011 was approved in October 2007. It contains the Council's vision, core values, key principles and strategic outcomes:

Vision
- An ambitious, confident Council, providing strong community leadership that listens and responds to the needs of local communities, delivers excellent services and creates a better quality of life for the people of Inverclyde.

Core values
- We will be confident and ambitious.

- We will be respectful, caring and trustworthy.

- We will be open, honest and accountable.

- We will listen, engage and respond.

- We will strive for excellence in everything.

Key principles
- Regeneration: Everything we do is geared towards the social, economic and environmental regeneration of Inverclyde.

- Partnership: Working in partnership enables us to more effectively tackle the key issues facing Inverclyde.

- Sustainability: We apply the principle of sustainability to all areas of our work.

- Equality: We are committed to providing equality of opportunity both as an employer and as a service provider.

Strategic outcomes
- Educated, Informed and Responsible Citizens.

- Healthy, Caring Communities.

- Safe, Sustainable Communities.

- A Thriving, Diverse Economy.

- A Modern, Innovative Organisation.

108. Directorate plans are also in place to outline how individual directorates and services will contribute to the achievement of the strategic outcomes identified in the Corporate Plan, Community Plan and SOA.

Performance indicators

109. The Council is developing performance indicators to monitor progress against the Corporate Plan and directorate plans which have been refreshed to align with the new Community Plan and SOA.

110. The format of statutory performance indicators will alter significantly in 2009/10, with authorities now required to identify and report a range of their own indicators in addition to twenty five national ones. All indicators should have an emphasis on:

- A range of corporate issues covering key Best Value concerns such as equalities, resource and asset management affecting overall service delivery.

- Revenue and service cost management.

- Front line services and issues directly relating to service user experience.

Monitoring performance

111. Over the last two years, the Council has developed and implemented a comprehensive strategic planning and performance management framework which integrates strategic planning and performance management to ensure the effective delivery of corporate and service outcomes.

112. Performance reporting is now well established and is an integral part of how the Council now carries out its business.

113. The corporate performance report is a standing item on the Policy and Resources Committee and CMT agendas. The reports are structured to measure performance outcomes contained in the SOA and the corporate and community plans. Outstanding actions identified by the Council's best value audit position statement at 30 June 2008 have also been incorporated in the latest corporate performance report.

114. The reports detail key corporate initiatives. The Council has adopted a 'traffic light system' to highlight whether initiatives and associated performance measures are on target or subject to delays

which require corrective action. Reports are SMART identifying for each initiative the responsible corporate director and senior officer, key milestones, risks, summary status, improvement action and overall analysis. The Council is procuring an electronic corporate performance management system to help measure performance systematically across the Council.

115. Reports equip members and officers with information to scrutinise performance and provide intelligence to inform policy decisions and future action. Directorate performance reporting has also been established. Reports are submitted to the appropriate committees on a regular basis and performance is measured against key performance indicators. The format of reporting adopted across the Council encourages consistency, comparability and accountability. Members have commented positively and indicated that reports had helped them to fulfil their scrutiny role more effectively.

116. The current approach needs to be further developed to provide better information on front line service performance and performance information which links corporate initiatives to service improvement, customer experience and the outcomes identified in the SOA.

Monitoring performance against the Single Outcome Agreement

117. The Council recognise that a key action to support the delivery of the SOA is to implement a framework enabling progress monitoring against the strategic outcomes and local indicators. Part of this framework will be to establish a mechanism which will identify poor performance and implement an action plan to take corrective action. Partners are to identify lead officers who will be responsible for the co-ordination and delivery of the strategic outcomes and reporting of the agreed indicators.

Performance reporting

118. The Council's annual public performance report was published in December 2008 providing information on performance against the five strategic outcomes contained within the Corporate Plan 2007 - 2011. The annual performance report provides a balanced view of the Council's achievements for the period.

Immediate priorities and risks

- Develop new local performance indicators.

- Further develop performance management to provide comprehensive and consistent performance information to better link service performance, corporate initiatives and SOA.

Risk Management

119. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

120. Local authorities in Scotland operate in a dynamic environment and face an increasing demand for diverse and higher quality services, within an overall context of tighter financial settlements. As expectations increase and methods of delivering services become more diverse, local authorities inevitably face more risks. Good risk management is necessary to address these risks, and is important for ensuring public services are delivered effectively and that councils are well run.

121. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.

Policy, strategy and procedures

122. The Council's financial regulations establish risk management as integral to managing the risks within the Council's control to enhance the corporate governance process.

123. The Council has had a Risk Management Strategy in place since February 2003. This was subject to a fundamental update in June 2007 to take account of the management restructure and growing risk awareness within the Council. It is to be further reviewed during 2009. The main aim of the strategy is to deliver a consistent, effective framework and approach for managing risks across the organisation at all levels.

124. The strategy also defines the roles and responsibilities of the Council, Chief Executive, Corporate Directors, CMT, Corporate Risk Management Group, Directorate Management Teams, Heads of Service, Chief Internal Auditor, line managers, Audit Committee, risk co-ordinators and employees.

125. A risk management progress report is a standing item on the Audit Committee agenda and an annual report on risk management is issued to the Audit Committee (last reported August 2008).

Corporate, directorate and service risk management

126. The Council have created a Corporate Risk Management Group (CRMG). It is chaired by the Chief Internal Auditor and each of the four Council directorates are represented on it by a head of service. The CRMG meet on a monthly basis, members act as representatives of their directorates, provide a conduit between the CMT and directorate / service risk management operations and are responsible for the overall development of risk management.

127. Corporate and service risk registers have been compiled (with some service registers consolidated into directorate registers). Service risk registers are reviewed on a quarterly basis with the first review completed in January 2009. They will be subject to a further review in conjunction with the relevant management teams during March/April 2009 with a view to providing an update to the Audit Committee in June 2009. The corporate risk register is reviewed annually with the next review planned for March 2009.

128. Service risk registers are owned by the services with responsibility for them delegated to appropriate officers within the service. The risk registers are stored centrally by the Chief Internal Auditor with copies disseminated to respective Heads of Service, after they are updated, for further dissemination through services as deemed appropriate. The risk registers provide a risk description, impact & likelihood ratings, risk score, red/amber/green status, assigned responsibility, and

mitigating actions. This is a recent development and further work is required to embed it across the Council.

Partnership risk management

129. In February 2009 a risk workshop involving community partners and Council officers was held, focusing on the identification of risks associated with the achievement of the aims set out in the SOA. Mitigating actions have been identified for the risks identified.

130. In relation to the partnership with Riverside Inverclyde the Council are revising the statement on the system of internal financial control 'letter of comfort' to include a section on risk management. The intention is that this will be used for all arms length organisations which have no internal audit function to provide an annual assurance statement. Internal Audit will be reviewing partnership arrangements as part of their 2009/10 annual audit plan.

Project risk management

131. In our 2007/08 annual report to Members we reported that the Council had no overall corporate approach to option appraisal and programme / project management arrangements although we noted that some progress had been made in developing a corporate option appraisal system. Internal Audit carried out a review of project management and issued a report in September 2008 which, whilst recognising that the Council had project management processes in place that have evolved over time to meet individual user needs, highlighted that there was no overall project management framework to provide consistent practice and guidance. The Council have committed to developing a project management framework including option appraisal, risk identification and risk assessment by 31 March 2009.

Officer and member understanding and ownership / Risk management resourcing

132. The Council has carried out risk awareness workshops with separate workshops held for members, service staff and the CMT.

133. There is no dedicated resource with responsibility for the ongoing development of risk management however a proposal to restructure the Internal Audit team has been agreed and it provides for a full time corporate risk adviser.

Integration with other corporate processes

134. A risk assessment framework is being finalised and is to be presented to the Audit Committee in April 2009. The framework will require every report to committee to be assessed to identify any financial, regulatory, reputation or operational/continuity risk implications for the Council. If approved the Council will need to embed the framework to ensure a consistent corporate approach to risk management.

Business continuity planning

135. A co-ordinated approach to business continuity is being developed as part of a tripartite review with East Renfrewshire and Renfrewshire Councils.

136. A Crisis and Resilience Management Team (CRMT) has been established and met for the first time on 21 January 2009. Terms of reference for the group were agreed at a meeting held on 4 March 2009.

137. Facilitated workshops were carried out in October and November 2008 to assist in the preparation of the Council's Incident Management Plan and support the preparation of Service Business Continuity Plans. In addition, civil contingencies training has been provided to the CMT and CRMT.

138. Internal Audit carried out a review of business continuity management and issued a report in December 2008. The report concluded there was a lack of consistency in the arrangements in place for business continuity management. The report was reviewed by the CRMT in January 2009 and CRMT members are to discuss the report within their own directorates and nominate key officers with responsibility for implementing the identified actions. An action plan will be created once actions are agreed and responsible officers nominated.

Immediate priorities and risks

- Finalise and embed a corporate approach to option appraisal and programme and project management arrangements.

- Appoint dedicated risk management resource, further embed risk management throughout the Council and implement the new risk assessment framework.

- Identify, plan and implement the actions required to establish effective business continuity management.

Financial Management

139. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Financial management is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.

140. Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly. The Audit Committee should have a tight grip on the challenge and scrutiny of budgetary control and financial reporting systems.

141. Because of challenging constraints on resources, councils must make increasingly difficult decisions to balance demands for improvements in both the volume of services delivered and in the performance of those services.

142. Councils are reporting significant financial pressures in 2008-09 and beyond, including:

- equal pay (addressing disparity between male and female pay and conditions) and associated legal costs

- single status (the cost implications of merging the pay and working arrangements for APT&C and manual employees)

- waste initiatives (incorporating the National Waste Strategy, working towards meeting the EC Landfill Directive, recycling targets and refuse collection)

- education pressures (including reducing class sizes, free school meals and increasing the quality of school estates)

- increases in costs above inflation in significant areas e.g. energy

- increasing demands and pressures in relation to social care services

- cost of living pay award increases for employees.

143. There have been a number of events in the global economy and banking system in 2008 that are likely to have significant medium and long term implications for the financial pressures and risks faced by councils. In the short term, risks include:

- Councils and other bodies with money invested in collapsed banks

- capital expenditure delayed due to the reduction in capital receipts from a depressed property market

- Public Private Partnership (PPP) projects being delayed or cancelled due to a lack of funding

- sales may not proceed as they are not considered to provide Best Value in current conditions.

144. In the medium to longer term, challenging economic conditions may lead to:

- tighter government funding as the economy slows down

- higher demand for certain services as unemployment rises

- declining revenues from commercial or charging activities as demand falls.

145. Councils themselves may encounter opportunities to acquire assets for development at lower than expected prices and there may be an expectation by central government that capital programmes are accelerated to boost the construction sector in the downturn.

146. Global events may also have far reaching consequences for local authorities' pension funds. The latest triennial revaluation is due in several months' time. Employer contribution rates may come under further pressure as a result of lower pension asset valuations.

Budgets and budgetary control

147. The linkage between the Council's strategic objectives and budgeting is provided through the Financial Strategy 2008/09 – 2017/18 which was last updated in November 2008. This strategy sets out how the Council will manage its financial resources in the medium to long term to ensure they support the delivery of the outcomes set out in the Corporate Plan, Community Plan and SOA. It also details the short, medium and long term issues which will inform the strategy and budget setting in future.

148. The Council base their budgeting predominantly on an incremental process, however they adjust the base budget for specific issues such as pay awards, general inflation, specific inflation where appropriate (i.e. contracts and utilities) and permanent virements that took place in year.

149. Revenue budget monitoring reports are submitted to the relevant committee in accordance with the committee cycle timetable. In addition a consolidated general fund revenue budget monitoring report is submitted to the Policy and Resources Committee which meets bi-monthly. These reports cover all services and, as such, provide members with an authority-wide view of the current financial position. The format of these reports identifies the approved annual budget, revised budget (agreed budget adjusted to take account of in year virements), projected out-turn and the variance between the projected out-turn and the revised budget. Actual expenditure in the year to date is only reported in cases where the outturn is projected to show a variance against budget in excess of £10,000. Explanations are provided for these projected variances. Consideration should be given to developing profiled revenue budgets which would allow for variances between actual expenditure and budgeted expenditure to be identified throughout the year.

Financial position

150. The financial outturn forecast for 2008/09 as at November 2008 (presented to Policy and Resources Committee in February 2009) predicted an under-spend of £1.6 million for the financial year 2008/09. This is largely the result of a reduction in loan charges of £1.7 million caused by a reduction in borrowing due to slippage in 2007/08, gains on interest rates, improved cash flow and reduced principal repayments. A further £0.32 million saving is projected through a combination of reduction in insurance costs and net benefit payments. Offset against this is a projected over-spend of £0.52 million caused by substantial increases in energy costs resulting in higher tariffs for the Council.

151. As at November 2008 the general fund reserve had a projected year end balance of £8.96 million, which is £4.96 million in excess of the recommended minimum level of reserves. The majority of this excess was a direct consequence of income of £3 million from the settlement of a legal case in 2007/08. For 2009/10 the Council have approved the Chief Financial Officer's recommendation of retaining a minimum level of general fund reserve of £4 million (being 2% of net turnover), this is consistent with the level set in 2008/09.

152. The Council's budget report, reviewed by full Council in February 2008, identified a revenue funding gap of £7.2 million over the two year period 2009/10 and 2010/11 with subsequent economic events increasing this gap to £9.5 million. In November 2008 the Policy and Resources Committee agreed to implement a number of identified saving opportunities which reduced this gap to £7.4 million and this was further reduced to £7.18 million in January 2009. The Council's Financial Strategy was amended in November 2008 to reflect this funding gap and it will be further reviewed following the agreement of the 2009/11 revenue budget in February 2009. The Council are carrying out an exercise to identify further sustainable savings which will reduce this funding gap further.

Significant trading operations

153. The vehicle management trading operations did not achieve its statutory financial target to break-even over the three year period to 31 March 2008. The Council are carrying out a review of statutory trading operations with this due for completion in April 2009.

Capital programme

154. Capital receipts in the recent past have provided a lucrative source of finance for capital projects. However the economic downturn has had a significant impact on the property market and this has impacted on the Council's ability to generate income through capital receipts. The Council has factored a strategy for reduced receipts into its three year capital programme and also revised its Financial Strategy in November 2008 to take account of the impact of the economic downturn.

155. The 2007/08 final audit report to members highlighted a considerable improvement in the delivery of the Council's capital programme, with 94% of planned expenditure for the year having been realised. The equivalent figure in 2006/07 was only 54%. The capital programme report submitted to the Policy and Resources Committee on a bi-monthly basis provides an update on the status of the three year capital programme (2008-2011). As at November 2008 there was a projected slippage in the capital programme for 2008/09 of 9.5%.

National influences

156. The Council reduced its council tax in 2006/07 and it has been frozen at this reduced rate since 2007/08. In February 2009 the Council agreed a two year budget (2009/2011), designed to aid financial planning and the delivery of Council priorities, which committed to a further two years of council tax freeze (aside from water charges). The Scottish Government has only announced a one year (2009/10) settlement due to uncertainty with 2010/11 funding levels so the Council's two year budget is set on the basis of an estimated efficiency target supplied by the Chief Financial Officer. This estimate is £1.4m within 2010/11. If it transpires that the Council's share of the overall public sector efficiency target exceeds this estimate then officers will need to bring new proposals to members to enable the gap to be closed.

Training

157. Councils need to ensure there is sufficient financial expertise available to deliver effective financial management. In our 2007/08 annual report to Members we highlighted that limited progress had been made in increasing finance skills within the Council. The Council appointed the Institute of Public Finance (IPF) to review the Council's financial capacity and capability and an associated action plan is scheduled to be provided in April 2009.

Introduction of international financial reporting standards and 2008 SORP

158. The introduction of international financial reporting standards (IFRS) to local government is expected in 2010/11, although elements of this, for example Private Finance Initiatives (PFI) accounting and completion of whole of government accounts, could be introduced earlier. Audit Scotland's recent experience in the central government and NHS sectors indicates that implementation has been problematic with very few bodies meeting their deferred targets for introduction of restated balance sheets by November 2008.

159. The Council has established a project team within corporate accounting with a lead officer for IFRS implementation. The team prepared an initial impact assessment and road map for the transition which identified the six key elements of:

- leases

- accrual of holiday pay

- fixed assets valuation and componentisation

- recognition and measurement of schools PPP

- associates in group accounts

- segmental accounting.

160. Initial scoping work on the impact on services and operations has commenced and has concluded that the risks of transition for the Council are mitigated in certain areas. The Council transferred its housing stock in December 2007 and took the opportunity at the time of the transfer to terminate all its operating leases. The scheduling of construction work on the PPP schools means there will be no PPP assets on the Council's balance sheet at 1 April 2009, and fair values can be calculated as schools come into operation. The new integrated HR/Payroll system, due to be fully operation in time for the 2011 year-end, should be able to capture and maintain a record of annual leave to meet IFRS requirements.

161. The Council is intending to roll out appropriate training to relevant officers including the creation of template accounts. The project team plans to split the project down into manageable components and, for each component, will seek to gain agreement in principle from auditors at an early stage to their approach. It is noted that constructive dialogue between the project team and the audit team has already been established and this will be maintained throughout the process.

162. Further consideration needs to be given to introducing key elements such as establishing a corporate record of unpaid leave and flexitime, examining the impact on lease accounting and increasing general awareness.

163. The 2008 Statement of Recommended Practice (SORP) provides clarification on a number of accounting changes made over recent years. The Council will need to take account of these changes to ensure proper presentation of the 2008/09 financial statements.

Immediate priorities and risks

- Manage pressures on revenue and capital budgets and service provision caused by current economic downturn.

- Achieve statutory three year break even requirement for trading operations.

- Address findings highlighted by IPF review.

- Prepare systems and develop staff to manage the introduction of the international financial reporting standards and the requirements introduced by the 2008 SORP.

Longer term considerations

- Develop revenue budgets which are profiled to facilitate budget monitoring reports which report actual against budget variances.

People Management

164. The successful achievement of Council objectives and the delivery of high quality services, whether directly by Council staff or by others who are monitored by Council staff, depends on the capacity, capability, competency and motivation of the workforce.

165. Workforce related issues are currently at the forefront of local government business, as councils continue to deal with outstanding equal pay claims including those at industrial tribunal. In addition, a number of councils have yet to implement the single status agreement. Councils also need to implement the age discrimination legislation that was introduced in October 2006 and consider the proposed changes to the local government pension scheme. The financial implications of all these matters are significant and will affect employer/employee relationships.

Single status and equal pay

166. The Council implemented the pay and grading element to single status in August 2008, backdated to take effect from April 2007. The terms and conditions element of single status was agreed and came into force from 18 August 2008.

167. There are currently 286 equal pay claims lodged at employment tribunals, no tribunal cases have been settled to date. The total amount of equal pay compensation payments that the Council expects to pay is £4.62 million, this includes a provision of £0.944 million which was included within the 2007/08 financial accounts for likely additional costs associated with equal pay settlements.

Workforce management

168. The Council is currently developing a workforce management strategy which is scheduled to be presented to the Policy and Resources Committee for approval in May 2009. Upon receiving approval the Council will work towards completing a workforce plan.

169. The Council issued a staff survey in February 2009 and expect to collate and report findings in June 2009. The Council have taken steps to address the low response levels in the previous staff survey in 2006 and aim to gain fuller responses through higher participation. Upon collecting the results the Council will benchmark their findings against two similar sized councils.

170. Although a staff appraisal scheme is in place for senior officers and some services, a Council wide appraisal scheme has yet to be implemented.

171. Human Resources (HR) policies are in place to provide guidance and governance over recruitment and employment issues. It is noted that some of these policies have not been updated for a number of years. The Council have completed an exercise to identify and prioritise those policies requiring update with prioritised policies scheduled for review during 2009. In particular we noted that the

Employee Code of Conduct has not been reviewed since June 2006 and is currently scheduled to be updated in January 2010.

Efficient use of resources

172. The Council will shortly be finalising the implementation of an integrated HR/Payroll system. The Council aims to have uploaded all HR data by the end of March 2009, which will be followed by the upload of payroll data ahead of full systems testing. It is intended that the system will be fully operational by the end of the calendar year. Once implemented, the new system will be able to provide the Council with a more efficient and integrated approach to HR and payroll.

Absence management

173. The Council's absence statistics for 2007/08 vary between the different staff groups. Absence management statistics show that whilst there has been an improvement in all three staff categories over the three year period 2005/06 – 2007/08, in 2007/08 there has been an increase in the percentage of working days lost through sickness absence in respect of craft employees and teachers.

	Percentage of days lost due to sickness		
	2005/06	2006/07	2007/08
Chief Officers and LG Employees	6.0%	5.8%	5.7%
Craft Employees	10.2%	7.7%	8.6%
Teachers	3.9%	3.5%	3.7%

In relation to craft employees, the Council remains within the lower quartile nationally for sickness absence.

Immediate priorities and risks

- Monitor number of cases and potential costs relating to outstanding equal pay claims.

- Finalise and implement the workforce strategy and develop a comprehensive workforce plan.

- Update HR policies, in particular, the Employee Code of Conduct.

Longer term considerations

- Roll out a Council wide staff appraisal scheme.

Asset Management

174. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery. There can be a

considerable opportunity cost in holding assets, such as tying up resources in retaining property not in use or not fully utilising assets.

175. Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as vehicle fleets, stock, IT and other equipment.

Strategic planning

176. In April 2007 the Council established a strategic Capital Programme Investment Group (CPIG) and a Capital and Asset Management sub group (CAMS). The CPIG meets bi-monthly and has responsibility for the preparation of the capital investment strategy and overseeing capital investment and the management of the Council's assets. CAMS meet monthly and was established to monitor and manage the capital programme and the generation of capital receipts.

177. In January 2008 the Council established the Physical Investment Team to implement the Council's asset management proposals and provide overall management of the Council's property portfolio.

178. The Council have drafted a Corporate Asset Management Strategy which was presented to the Regeneration Committee on 15 January 2009. The strategy focuses on the Council's property, land and buildings. Education properties are not incorporated in this strategy as they are already included in the school estates management plan. The Council are working toward the creation of asset management plans for the outstanding asset types with the following timescales set for completion of these plans:

- Open Spaces – March 2010

- Vehicles & Fleet Management – March 2010

- Information Communications Technology – March 2010

- Roads – March 2012

179. In 2007, the Council joined an initiative led by SCOTS (Society of Chief Officers of Transportation in Scotland) to jointly procure a common asset management framework for all 32 Scottish Local Authorities. This framework will facilitate the development of road asset management plans. Inverclyde Council are participating in this initiative. Consultants have been appointed to develop the framework with Inverclyde Council's contribution amounting to £15,000 per annum. This is to be met from the council's revenue budget. A draft framework is to be delivered in 2009 with a further three years of work proposed to develop the plans.

180. The Council, through use of consultants, had identified a number of assets deemed as surplus with the recommendation being to consider disposing of them. The downturn in the property market, brought about by current economic conditions, has meant that it has become very difficult to sell property assets. A further report to the Council, provided by property consultants in November 2008, has recommended that the Council '*defer any disposals until there is an improvement in property market conditions.*' It further suggests that '*the Council review the situation in 18 months time.*' The

Council has factored a strategy for reduced receipts into its three year capital programme however there is a risk that an ongoing inability to generate income through capital receipts will impact on the delivery of the school estate management plan and general capital programme.

Information management

181. In January 2009 the Council installed asset management software called PAMIS (Property Asset Management Information System). PAMIS has been populated with master plan drawings and property condition survey data which has been collected to facilitate the creation of a five year costed program for maintenance expenditure and a ten year forecast for future maintenance. This data will also be used to report against relevant performance indicators on property condition and suitability.

182. PAMIS needs to be formally embedded in conjunction with the development of a corporate approach to asset management in order to fully utilise the functionality of the system and maximise the efficiencies it can facilitate in the asset management process.

Common good

183. We have previously recommended that the Council should consider completing an exercise to establish where all of its heritable properties are, who holds title to them and what the value is. CIPFA/LASAAC guidance recommends that councils review asset title deeds to ensure that common good assets are correctly classified. The Council is working towards implementing this exercise by 31 March 2010 with funding of £78,000 (split over 2009/10 and 2010/11) to resource the coordination and completion of this exercise, approved by Policy and Resources Committee in November 2008.

Impairment

184. The 2008 SORP states that a review for impairment of a fixed asset should be carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Examples of such events or changes in circumstances include a significant decline in a fixed asset's market value during the period. The impact of the economic downturn may have resulted in impairment of the Council's property assets and therefore an impairment review will need to be performed prior to the drafting of the 2008/09 financial statements to ensure the balance sheet is correctly stated.

Immediate priorities and risks

- Manage the impact of reduced income from capital receipts on the capital programme.

- Progress toward compliance with CIPFA/LASAAC guidance on identifying and classifying common good assets.

- Assess the level of impairment to property assets caused by downturn in property market.

- Embed the new asset management strategy and finalise the asset management plans for outstanding asset groups.

Procurement

185. In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

186. This challenged local authorities to make significant improvements in procurement in a relatively short time frame. The complexity and scale of rising to this challenge demand the initiation and management of a co-ordinated programme of work. In most local authorities a programme of work has commenced and includes initiatives at all levels and across all organisations within local government, including:

- changes to policy

- delivery of cross-sector collaboration and structures to support it including the establishment of a centre of expertise (Scotland Excel)

- improving procurement management information

- enhancing skills and practices

- improving procurement efficiency (e-procurement)

- improving supplier relations.

187. The Council employed a firm of external consultants to perform a comprehensive review of the Council's procurement practices and a report was issued in January 2007. The Council took a series of actions in response to this report including appointing a corporate procurement manager and establishing a corporate procurement function and a procurement steering group. A corporate procurement strategy was drafted however it was never finalised and limited progress has been made toward agreeing and implementing a corporate approach to procurement. The Council are now reconsidering their approach to tendering and procurement practices.

188. In recent years both internal and external audit have highlighted weaknesses in relation to tendering arrangements in the Council. There has been slippage implementing some of the key recommendations made by Internal Audit in their report 'Contracts – Compliance with EU Regulations' issued in April 2008.

Immediate priorities and risks

- Develop and implement a procurement strategy including an open and transparent tendering process.

Information Management

189. Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency. ICT investment carries a significant risk of over-spend with new technologies and transforming working practices presenting challenges for improving governance and internal control. In the last few years, local authorities have invested in e-procurement, contact centres and better web-sites, as well as improved ICT infrastructure. In many cases, these services are operational and should now be achieving their objectives.

190. The Data Protection Act 1998 (DPA), Freedom of Information (Scotland Act) 2002 (FOISA) and other pieces of legislation increase the requirements for effective information management across all aspects of local government. The public and other stakeholders have a need for easy access to information. They also have a higher awareness of data protection and information issues.

Data handling & security

191. In 2007/08 we assessed the general governance arrangements in place with regard to the controls relating to data handling. This was in response to the Scottish Government's concerns regarding data leakage in the public sector.

192. The Council, in conjunction with Pricewaterhouse Coopers, have carried out an information governance review to assess the extent to which the Council provides adequate information security. The review focused on both tangible factors such as technology and processes but also intangible ones such as culture and people. A series of cross directorate and cross grade workshops were held to identify how well staff thought the Council were managing information and also how well they thought the Council should be performing. This provided the basis upon which a gap analysis could be performed.

193. The review also identified the Council's key data sets and provided an assessment of the extent to which the data held in them is currently secure. This took account of factors such as volume, data sensitivity, current controls in place and the extent to which hard copies of electronic data are created.

194. The Chief Internal Auditor is in the process of analysing the review's key messages and identified areas for development and will be drafting an action plan. The output from the workshops and action plan will be submitted to the CMT in March 2009, the Policy and Resources Committee in May and the Audit Committee in June.

195. Internal Audit intend to revisit this area in twelve months time to assess the progress made against the action plan and, through a further series of workshops, examine the overall progress the Council has made toward reaching the desired level of information governance.

Citizen information

196. The Council obtains a large volume of information from local residents for a variety of reasons. The Council, via their Modernisation and Efficiency programme, have agreed to consolidate their

customer service activities as part of the design mandate for their new operating model. Information sharing is a key part of this programme as the Council are moving toward a customer service model in which customer enquiries will be initially dealt with by general staff and then passed to specialist staff where deemed necessary.

197. The Council use the National Entitlement Card for areas such as free bus travel for older and disabled people, cashless catering in schools, travel concessionary card and proof of age. Consideration is being given to extending its use for leisure and library membership. National guidance is available for the usage of this card, and the Council take cognisance of this guidance.

ICT investment

198. Capital investment of £0.5 million per year in ICT infrastructure has been approved over the two year period 2009/10 – 2010/11. The main capital works over this two year period are PC and server refresh programmes, implementation of a corporate backup solution and an uninterruptible power supply upgrade within the data centre.

199. Projects are managed using a methodology predominantly based on PRINCE2 to help ensure projects are brought in on time and within costs.

Legislative environment

200. The Council have an Information Security Policy in place which was initially developed by Information Communication Technology and Business Transformation (ICT&BT) for the purpose of their own department. A decision has been taken to expand the scope of the policy to incorporate the whole Council and the development of this is underway.

Government initiatives

201. The Council are aware of the OneScotland Portal initiative being developed by the Scottish Government as part of the Customer First Programme to provide convenient access to public services and information in Scotland. There has been slippage at a central government level in the implementation of the supporting infrastructure for this project and, as such, the Council are currently monitoring developments.

202. The Council recognise the importance of the Green ICT, which is being promoted by the Scottish Government, and are actively taking steps to reduce the Council's carbon footprint. In particular:

- energy efficiency is a key consideration when procuring equipment for the data centre

- nightwatch software is employed which can be used to switch off network connected computers after hours

- thin clients are in use which use less electrical power than a standard desktop PC

- consideration is being given to virtualisation of servers which will result in a need for less servers.

- Develop and implement a corporate framework for information governance.

Service Inspectorate Reports

203. The Scottish Government emphasis on streamlined, better co-ordinated scrutiny means that it is important that audit and inspection agencies understand each others' businesses, be aware of the risks in each others' sectors, and share intelligence to avoid overlap and duplication of scrutiny activity.

204. Key to this agenda is the Scottish Government's request to the Accounts Commission (in response to Crerar recommendation 38), to put in place arrangements to streamline and reduce the burden of scrutiny for local authorities by gate-keeping corporate scrutiny activity and co-ordinating service inspection.

205. As part of developing this role we have taken account the work of other inspectorates and include a summary below. These do not give a comprehensive picture of performance across all services, but they allow some comparisons to be made between councils and over time.

206. The **education service** continues to perform strongly, education attainment levels are improving and a number of positive school reports have been published in 2007 by Her Majesty's Inspectorate of Education (HMIE). In addition the Council is progressing a recently agreed School Estate Management Plan to further improve pupils experience, education and environment.

207. The **Social Work** Inspection Agency (SWIA) carried out a follow up inspection in November 2007 following a full performance inspection in 2006 . The follow-up visit in November 2007 found that nine of the sixteen recommendations had been fully implemented and progress noted in the remaining seven.

    The report recommended further improvement in the following areas:

- managing and monitoring the performance of services
- developing a commissioning strategy
- developing a risk register specific to social work
- performance in relation to direct payments
- carers' assessments
- the educational attainment of looked after children.

    Social work services have devised an action plan to respond to the inspection recommendations.

208. Audit Scotland's report on **Housing and Council Tax Benefit Services** in Inverclyde Council highlights good practice in a number of areas. The Council has subsequently prepared an action plan to address the risks identified.

209. In 2007 the Council transferred ownership of its entire **housing** stock to River Clyde Homes and Cloch Housing Association. The Council no longer has responsibility for direct housing management but does retain responsibility for some areas such as homelessness services. The housing

regulator's inspection of the homelessness service, issued in August 2008, graded Inverclyde "C-Fair". While an improvement from the previous inspection was noted, further improvement is required. The Council is preparing an action plan to address the weaknesses identified.

210. HMIE reported on the joint inspection of services to protect children and young people in the Inverclyde Council area in February 2009. The positive report highlighted strong service performance and a number of areas and examples of good practice. The quality indicators awarded to evaluate the overall effectiveness of services to protect children and their needs were positive with major strengths being identified in a number of areas and sector leading practice in others.

Strategic Risk Plan

211. This report summarises the key risks facing the Council and sets out the audit work that we propose to undertake in 2008/09 and future years on these risk areas. As the risks included in this report are high level and strategic in nature, they will continue to be relevant to the Council for a number of years. Therefore, although our risk analysis will be updated annually, many risks will remain from year to year and the risk analysis will cover a rolling three year period.

212. Our plan reflects:

- the Council's local risks and priorities

- current national risks relevant to the Council's circumstances

- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission (our annual audit plan 2008/09 sets out more detailed information on our responsibilities, approach, quality control and fees)

- issues brought forward from last year's audit.

213. The strategic risk themes mirror the topics identified in the PRF. In many cases actions are either planned or already underway within the Council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in the plan.

214. Where risks have a possible impact on the financial statements of the Council they may have already been reported in our Annual Audit Plan.

215. It is in the nature of risk that the likelihood of occurrence and potential impact are variable – the absence of assurance arrangements does not necessarily mean that identified risks are statements of fact. Councils may also choose to accept, or be unable to mitigate, certain risks.

Monitoring and reporting arrangements

216. Our risk assessment work has confirmed that the Council has action plans in place to address many of the risks identified. In these areas we will monitor the progress of the management assurances we have received as specified in the strategic risk plan. Any significant matters which arise from our monitoring activity will be reported on an exception basis and may be included in our annual report on the audit.

Inverclyde Council – strategic risk plan

Strategic risk plan - *In this section we identify a wide range of strategic risks facing the Council, the related management assurances received and the audit work we propose to undertake in the coming years to secure additional assurance. The management of risk is the responsibility of the Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks. In some instances planned audit work will include ongoing monitoring of risks throughout our audit appointment.*

Diversity, equality and sustainability

Equality and diversity are widely recognised as fundamentally important factors in the sound management of a modern, effective organisation. In relation to sustainability the primary focus of Council efforts have been on waste and energy management. Progress towards the government's wider sustainability agenda may be insufficient.

No	Risk	Management assurances	Planned audit action
1.	**Equality Impact Assessments** The Council have conducted equality impact assessments to critically assess the impact of new policies on equality groups however this process still needs to be fully embedded. Consideration needs to be given to assessing existing policies as well as new ones. There is a risk that: • the Council's reputation is compromised if they implement policies, or maintain existing policies, which are not compliant with relevant equalities legislation.	The Council has recently embarked with SAMH and STUC on the training of equality and diversity champions. Following three 2-day training sessions, 45 different people have been trained. As part of this training, and complimentary to it, there has been further training by SAMH on equality impact assessments. This four hour training programme has involved fourteen people at key levels in the Council. The identification of equality implications on all Council policy papers and reports to Committees is now embedded. The Budget Report for 2009-2011 included an equality impact assessment. Plans are in place to re-evaluate and impact assess existing policies. There will be further impact assessment training delivered by the Council.	Monitor progress in delivering equality impact assessments.

No	Risk	Management assurances	Planned audit action
2.	**Waste Management** In 2007/08, the Council disposed of 38,372 tonnes of waste in landfill sites by the Council. Whilst this represents a 9.8% improvement on the level disposed of in 2006/07 it still exceeds the Directive targets (or allowances) set for the Council. Scottish ministers have discretion to levy penalties due to a breach in the volume of waste disposed. We note that the Council have made a provision for this in their financial statements. There is still a risk that: • the Council will incur a substantial penalty due to the amount of waste which is disposed of via landfill.	The Council has just launched its Green Charter and part of this included a relaunch of our Recycling Initiative. The Green Charter Officer/Member Working Group will oversee our Waste Management arrangements and continue to press for a reduction in the tonnage going to landfill. The Council has made further provision for potential Landfill Penalties in the 2009/2011 Budget. We are in discussions with other Councils about sharing landfill allowances which would help reduce any penalty imposed. *(Refer to 2007/08 Strategic Audit Risk Analysis risk 4.11)*	Monitor developments.
3.	**Renewable Heat Energy & Carbon Emissions** The Council have set themselves a target of reducing carbon dioxide emissions from energy and transport by 15% by 2012/13 (from a 2007/08 baseline) and a carbon management plan has been drafted which outlines how the Council plan to meet this target. In addition the Council are working toward the proposal to increase renewable heat to 11% of all heat energy in Scotland. The development of the initiatives designed to achieve these targets is dependant on the identification of adequate funding. There is a risk that: • the Council fail to achieve outcomes in the Community Plan which relate to reducing the Council's carbon footprint.	The Council has just submitted its Carbon Management Action Plan to the Carbon Trust. The Council is about to appoint a full-time Carbon Management Officer with a remit to achieve our targets. This officer will be part of a new team (along with a seconded Energy Manager) being set up to deliver the Green Charter, in line with the outcomes identified in the Community Plan and Single Outcome Agreement.	Monitor developments through review of Safe Sustainable Communities Committee activity.

No	Risk	Management assurances	Planned audit action
4.	**Population Decline** Inverclyde has one of the fastest declining populations in Scotland and this, and in particular the increase in the rate of migration of people of a working age, is a critical issue for the Council with potentially serious consequences for the area's sustainability. This creates a number of risks for the Council including, but not exclusively, issues around: • affordability and provision of key services, in particular social care • school rolls • recruitment • transport services • health provision • income generation • multiple deprivation.	The Council and its partners in the Inverclyde Alliance have recognised depopulation as one of the most significant challenges that will face the area over the next ten years. That is why depopulation has been identified in the SOA as one of the eight outcomes that partners will take action collectively to address. Although it is recognised that stabilising and rebalancing the population of Inverclyde will take many years, progress against key indicators will be monitored by the SOA Programme Board and reported to the Alliance.	Track management assurances.

Vision and strategic direction

Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community.

No	Risk	Management assurances	Planned audit action
5.	**Organisational Improvement Plan (OIP)** The OIP has been formally approved however the actions identified in it need to be embraced and procedures need to be established to monitor progress toward achieving its targets and periodically refreshing it. There is a risk that: • the improvement actions identified in the OIP may not be achieved.	The OIP was approved in February 2009 and incorporates the key outputs of both the PSIF Corporate Assessment and the latest Progress Report on the Audit of Best Value and Community Planning. Implementation of the OIP will be prioritised over the next 3 years and overseen by the Strategic Planning and Performance Management Board. Regular reports on progress will be submitted to CMT and P&R Committee as part of the Corporate Performance Report. The first report will be submitted to the CMT and P&R Committee in March 2009. *(Refer to 2007/08 Annual Report to Members point 9 and 2007/08 Strategic Audit Risk Analysis risk 2.1)*	Review progress via Policy and Resources Committee reports.
6.	**Modernisation and Efficiency Programme** Delivery of the programme will involve significant change to the way the Council conducts its business. There is a risk that: • the Council is unable to manage the risks, challenges and difficult decisions that come with implementing such a large scale project.	The Council has robust programme management arrangements in place for managing the M&E Programme including a Programme Board and Member Reference Group. Regular progress reports are submitted to CMT and P&R Committee which address any significant issues. *(Refer to 2007/08 Annual Report to Members point 12 and 2007/08 Strategic Audit Risk Analysis risk 6.1)*	Review progress via Policy and Resources Committee reports.

Councils work with a range of other agencies and groups, including the community themselves. Many Council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues such as inequality.

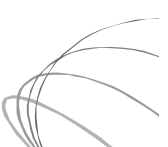| No	Risk	Management assurances	Planned audit action
7.	**Partnership Management Framework** The Council are members of a number of partnerships designed to work toward the achievement of the strategic objectives detailed in the Community Plan and SOA. Partnerships need to be supported by robust arrangements which establish the roles and responsibilities of all parties, and provide a framework for adequate governance, performance management and risk management. Such a framework needs to be established for all newly formed partnerships and consideration should be given to revisiting key partnerships already established. Without appropriate agreements in place there is a risk that there is no clarity over key elements such as: • partnership objectives • roles and responsibilities • resource commitment • accountability • performance expectations and monitoring • risk management.	The current Memorandum of Understanding for the Inverclyde Alliance will be reviewed in the context of the letter from the Scottish Government setting out good practice in relation to guidance on governance and accountability for Single Outcome Agreements. There is an agreed action within the OIP to develop a systematic approach to partnership working by 31 March 2011 that supports the delivery of the outcomes identified in the SOA, Community Plan and Corporate Plan. Further discussions will take place with core partners as part of the development of this approach.	Review progress via Policy and Resources Committee reports.

No	Risk	Management assurances	Planned audit action
8.	**Single Outcome Agreement** The extent to which community partners have the necessary financial resources to deliver outcomes, or support the delivery of outcomes in the SOA is an area of concern. The council need to work toward better aligning their financial planning, budgets and timing of key operational activities with that of their key partners and to the outcomes identified in the SOA The Council have a Memorandum of Understanding in place which underlines the responsibilities of all of the Inverclyde Alliance partners. In February 2009 the Scottish Government issued a letter setting out good practice in relation to governance and accountability for SOAs. The Council need to consider whether the Memorandum of Understanding requires revision to reflect the guidance provided. There are risks that: • Alliance resources and planning are not aligned to the outcomes identified in the SOA • the Council's Alliance partners do not have the resources to contribute to the delivery of the SOA outcomes • the Council do not implement a governance framework which supports the delivery of the outcomes identified in the SOA.	The Council has, through the Directorate Planning Process for 2009/10, made significant efforts to align its own Directorate Plans with the SOA. In turn, this will influence resource deployment in both financial and non-financial terms. The Council has initiated discussions with key partners operating within Inverclyde to undertake a similar exercise across the Alliance. A specific workstream is included in Organisational Improvement Plan to link outcomes identified in the SOA to both the Community Plan and Corporate Plan in order to demonstrate progress that is being made by both the Council and our partners. The Memorandum of Understanding will be reviewed and modified to take account of the SOA. The review will take cognisance of the letter from the Scottish Government setting out good practice in relation to guidance on governance and accountability for Single Outcome Agreements. *(Refer to 2008/9 Annual Audit Plan page 16 and to 2007/08 Annual Report to Members point 7)*	Track management assurances.

No	Risk	Management assurances	Planned audit action
9.	**Community Engagement Strategy** Inverclyde Alliance have endorsed a revised Community Engagement Strategy to provide a strategic framework within which all Alliance partners, public agencies and community organisations can work together to ensure that the views of communities are taken into account when planning services. The strategy needs to be successfully embedded to ensure the Alliance deliver a range of public services designed around the needs of the people of Inverclyde. There is a risk that: • the Council fail to embed the strategy resulting in the development of services which are not aligned to local needs.	The Community Engagement Strategy has been approved by the Inverclyde Alliance Board. The resultant action plan will be in place for 1 April 2009 and thereafter implemented. The action plan has been subject to extensive consultation both internally and externally. The action plan will be monitored on a monthly basis by the Community Development Sub Group through a report produced by Economic and Social Regeneration, which will then be collated and presented to the Community Learning Development Strategy Group on a quarterly basis. A report will be prepared on an annual basis to Committee/Alliance Board.	Monitor achievement of action plan.
10.	**Fairer Scotland Fund (FSF)** The Council currently operate a number of programmes being funded via the ring fenced FSF. FSF is ring fenced up until 31 March 2010. There is a provision of £5.87 million identified for FSF funding in 2010/11 however this will be consolidated into the Council's Grant Aided Expenditure. There is a risk that: • projects currently funded via FSF are discontinued due to financial pressures rather than on the basis of an assessment of the quality and necessity of the services they deliver.	The FSF outputs will be monitored by the FSF team and reported to the Alliance Board on a 6 monthly basis. The consolidation of FSF into the Council's core Budget has been identified as a key project by the CMT which is to be progressed during 2009/10. Exit strategies will be developed where appropriate for existing Council FSF projects. *(Refer to 2008/9 Annual Audit Plan page 15)*	Monitor progress through review of CMT minutes.

Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective process to support it.

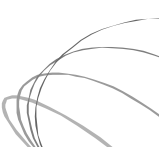| No	Risk	Management assurances	Planned audit action
11.	**Member Involvement on External Organisations** The Council has made some progress in terms of developing support and guidance relating to the roles of elected members when they represent the Council on external committees however further development is required in this area. There is a risk that: • Members are not fully aware of their role and responsibilities on external bodies such as joint boards and committees.	Training has been provided in this area, including an intensive training session provided by an external expert. More training will be made available to members where they indicate that they wish or require such training. Detailed briefing notes are provided to members for meetings of external bodies on request.	Monitor provision of training to members.

Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their Council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

No	Risk	Management assurances	Planned audit action
12.	**Performance Management Framework** The current approach to performance management needs to be further developed to provide better information on front line service performance and performance information which links corporate initiatives to service improvement, customer experience and the outcomes identified in the SOA. This development will need to be carried out taking cognisance of the functionality of the new corporate performance management system. There are risks that: • the performance management framework may not deliver the intended service delivery improvements over an extended timeframe • the new corporate performance management system does not provide the required functionality to support the developing performance management framework.	Links have been established between the SOA, Community Plan and Corporate Plan via the Directorate Planning Guidance. Revised Directorate Planning Guidance will be issued by the end of March 2009 which will further develop the link between the SOA, other key strategic plans and service delivery. The Council has conducted a procurement exercise for a performance management system and has selected a preferred supplier. A report recommending the procurement of this system will be submitted to an appropriate committee by 31 May 2009. *(Refer to 2007/08 Annual Report to Members point 8 and 2007/08 Strategic Audit Risk Analysis risk 2.2)*	Monitor progress through Committee minute review and discussion with officers.

No	Risk	Management assurances	Planned audit action
13.	**2009/10 Statutory Performance Indicators (SPI)** The new SPI process (for 2009/10) requires authorities to develop and report a range of measures (in addition to 25 standard indicators) in order to demonstrate Best Value. There is a risk that: • the Council does not adequately prepare for these new arrangements and consequently cannot demonstrate Best Value.	Appropriate arrangements for the implementation of the new directive are in place. Meetings have been held by the Performance Group to discuss this issue. The proposed approach to new SPIs has been communicated to CMT, ECMT and relevant officers within services. Performance Management and Procurement is currently working on this area with a view to preparing a schedule of the indicators to be used during the period 2009/10. New PIs will be incorporated into the Directorate Plans which will be submitted to Committees for approval in May/June 2009 and monitored through Directorate Performance Reports.	Monitor developments through attendance at Performance Group meetings.

Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

No	Risk	Management assurances	Planned audit action
14.	**Project Management Framework** The Council has no overall corporate approach to option appraisal and programme/project management arrangements. However we recognise that the Council have committed to developing a project management framework including option appraisal, risk identification and assessment by 31 March 2009. Until the framework is successfully developed and embedded there is a risk that: • there are inconsistencies across the Council in the way projects are managed.	The Corporate Director, Regeneration and Resources has been appointed Corporate Lead in ensuring recommendations arising from the Internal Audit Review of Project Management are implemented. This will include option appraisal as a key stage of the project management lifecycle. This will be reported to CMT and P&R Committee for approval in May 2009. *(Refer to 2007/08 Annual Report to Members point 11 and 2007/08 Strategic Audit Risk Analysis risk 4.7)*	Monitor progress via Internal Audit progress reports to Audit Committee.
15.	**Risk Management** A risk assessment framework is being finalised and is to be presented to the Audit Committee in April 2009. The framework will require every report to committee to be assessed to identify any financial, regulatory, reputation or operational/continuity risk implications for the Council. If approved the Council will need to embed the framework to ensure a consistent corporate approach to risk management. There is a risk that: • risk management is not fully embedded in the corporate process or supported by an appropriate level of resource.	A risk assessment and prioritisation framework will be reported to CMT and Audit Committee for approval in April 2009. The framework will inform the revision of the Council's overall risk management strategy. It is therefore proposed to review the current risk management strategy in light of the proposed framework by October 2009. Progress will be monitored and reported through CMT and the Audit Committee.	Monitor progress via attendance at Audit Committee and review of Risk Management progress reports.

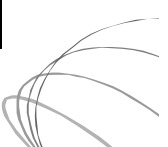| No	Risk	Management assurances	Planned audit action
16.	**Civil Contingencies** Internal Audit carried out a review of business continuity management and issued a report in December 2008. The report concluded there was a lack of consistency in the arrangements in place for business continuity management. The report was reviewed by the CRMT in January 2009 and an action plan will be created once actions are agreed and responsible officers nominated. There is a risk that: • the Council may not be able to restore key services in the event of potential disruptions in service delivery.	Recommendations arising from the Internal Audit Review of Business Continuity Management were agreed by CMT for implementation by the Crisis and Resilience Management Team. The Corporate Director, Environment and Community Protection has been appointed Corporate Lead in ensuring that Business Continuity Plans will be implemented for key services by 31 March 2009 and for all other services by 31 March 2010. *(Refer to 2007/08 Annual Report to Members point 17 and 2007/08 Strategic Audit Risk Analysis risk 3.7)*	Monitor progress via Internal Audit progress reports to Audit Committee.

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Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly.

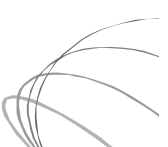| No	Risk	Management assurances	Planned audit action
17.	**Financial Pressures** The downturn in the country's economic performance has increased the financial pressure on the Council who have identified a revenue funding gap of £7.3m over the two year period 2009/10 and 2010/11. There are risks that: • measures taken to reduce this gap may have a detrimental impact on service provision and/or result in the erosion of the Council's reserves • this may impact on the Council's ability to meet the targets in the Council's strategic plans, including the outcomes in the SOA.	The Council agreed a balanced 2009/11 Revenue Budget on 12 February 2009. Council's Financial Strategy reviewed 6 monthly (last review November 2008). Revised Financial Strategy will be submitted to P&R Committee in May 2009. *(Refer to 2008/9 Annual Audit Plan page 16 and to 2007/08 Annual Report to Members point 5)*	Review of Council's financial position via general Fund Revenue Budget report presented to the Policy and Resources Committee.
18.	**Statutory Trading Operations (STO)** The vehicle management trading operation did not achieve its statutory financial target to break-even over the three year period to 31 March 2008. The Council are carrying out a review of statutory trading operations with this due for completion in April 2009. There is a risk that: • the Council may not be able to demonstrate best value from current arrangements for services provided by STO's.	A review of STOs has commenced and is due for completion in April 2009 and will then be reported to Committee. A report on designation of STOs for 2009/10 will be considered by P&R Committee on 31 March 2009. Vehicle Efficiency Review due to report to Committee April 2009 which will include amended charging framework. *(Refer to 2008/9 Annual Audit Plan page 16 and to 2007/08 Annual Report to Members point 4)*	Review during audit of Council's 2008/09 Financial Statements.

No	Risk	Management assurances	Planned audit action
19.	**Finance Skills** In prior reports we highlighted that limited progress had been made in increasing finance skills within the Council. The Council appointed IPF to provide a financial capacity review and an associated action plan is scheduled to be provided in April 2009. There is a risk that: • financial expertise within the Council is not sufficient to support effective financial management.	IPF have undertaken a Financial capacity review and an action plan will be developed and approved by plan. 31 May 2009. *(Refer to 2007/08 Annual Report to Members point 10 and 2007/08 Strategic Audit Risk Analysis risk 2.5)*	Review report when available and monitor progress against action plan.
20.	**IFRS and 2008 SORP** The introduction of international financial reporting standards to local government is expected in 2010/11, although elements of this, for example PFI accounting, could be introduced earlier. Audit Scotland's recent experience in the central government and NHS sectors indicates that implementation has been problematic with very few bodies meeting their deferred targets for introduction of restated balance sheets by November 2008. The 2008 Statement of Recommended Practice (SORP) provides clarification on a number of accounting changes made over recent years. The Council will need to take account of these changes to ensure proper presentation of the 2008/09 financial statements. There is a risk that: • the Council do not prepare systems and develop staff to manage the introduction of the international financial reporting standards and the requirements introduced by the 2008 SORP.	Detailed Final Accounts action plan prepared & reviewed monthly by Finance Manager. Regular contact with other internal services, councils and CIPFA on developments/best practice. *(Refer to 2008/9 Annual Audit Plan page 17)*	Compliance with 2008 SORP will be assessed as part of the audit of the Council's 2008/09 Financial Statements. Communication with Council officers to support implementation of IFRS will be ongoing.

No	Risk	Management assurances	Planned audit action
21.	**Budgeting Profiling & Budget Monitoring** Revenue budget monitoring reports identify the approved annual budget, revised budget (agreed budget adjusted to take account of in year virements), projected out-turn and the variance between the projected out-turn and the revised budget. Actual expenditure in the year to date is only reported in cases where the outturn is projected to show a variance against budget in excess of £10,000. As the Council's revenue budget is not profiled it is not possible to accurately identify actual against budget variances throughout the year. Consideration should be given to profiling the revenue budget to enable actual against budget variances to be identified throughout the year. There is a risk that: • Members and key officers are not fully aware of the Council's actual financial position in relation to its budget during the year.	Projections are prepared by services and Accountancy on the basis of expenditure and prior year expenditure profiles and utilising the considerable officer experience. Allied with the reporting of all variances over £10,000 this is viewed as sufficient action against this perceived risk. *(Refer to 2007/08 Strategic Audit Risk Analysis risk 3.2)*	Note Council's response.

The successful achievement of Council objectives and the delivery of high quality services, whether directly by Council staff or by others who are monitored by Council staff, depends on the capacity, capability, competency and motivation of the workforce
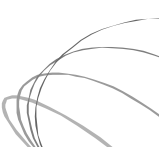
No	Risk	Management assurances	Planned audit action
22.	**Equal Pay** The Council currently has 286 equal pay claims lodged at employment tribunals. It is acknowledged that there is an ear-marked reserve for this purpose, however it remains unclear how appropriate the level of reserve held may be. There is a risk that: • the reserve is inadequate, which may result in additional financial pressures that have not been planned for or • the reserve is excessive thus tying up funds that could be released to other areas.	The number of cases and potential costs will be monitored on an ongoing basis and formally reviewed as part of the preparation of the Final Accounts. *(Refer to 2008/9 Annual Audit Plan page 16, 2007/08 Annual Report to Members point 3 and 2007/08 Strategic Audit Risk Analysis risk 4.4)*	Monitor developments and report conclusions in report to members.

No	Risk	Management assurances	Planned audit action
23.	**Workforce Strategy and Plan** In order for Council to meet its corporate objectives, it is essential that it has the right people in the right jobs at the right time. It is noted that the Council has experienced difficulties in recruiting and retaining staff in professional positions across a range of services. The Council is currently in the process of completing a workforce management strategy which will be the main driver to the workforce plan. The development of a workforce plan should enable the Council to identify current and future skills and resource gaps. The workforce plan should be clearly linked to the other strategic plans of the Council (corporate, community and service). There is a risk that: • in future years the Council could have skill gaps which have significant impact on its ability to deliver quality services.	The development of the Workforce Plan commenced in late 2008 and it is intended to commence implementation in 2009. It is planned that a report will be submitted to the Policy and Resources Committee in May 2009. *(Refer to 2007/08 Annual Report to Members point 16 and 2007/08 Strategic Audit Risk Analysis risk 1.1)*	Review reports submitted to the Policy and Resources Committee.
24.	**HR Policies** The Council have HR policies and procedures in place to cover the guidance and governance of recruitment and employment issues however we noted that a number of policies are out of date and in need of review. In particular we noted that the Employee of Conduct has not been updated since June 2006. There is a risk that: • the Council are not able to provide appropriate governance over the recruitment and management of employees.	A plan has been put in place to update policies according to priority and whether any changes require Committee approval or can be amended through the scheme of delegation.	Monitor progress in achieving plan.

No	Risk	Management assurances	Planned audit action
25.	**Staff Appraisal Scheme** It is recognised that a performance review and appraisal process has been developed for senior officers and some departments within the Council, however as yet this has not been rolled out to all employees. There is a risk that: • the Council are unable to measure staff performance and identify associated training needs.	A key component of the workforce plan will be the roll out of the Corporate Appraisal Scheme to all staff. This will be incorporated in the report to the Policy and Resources Committee in May 2009. Objectives set for all employees by 31 March 2010. *(Refer to 2007/08 Annual Report to Members point 16 and 2007/08 Strategic Audit Risk Analysis risk 2.4)*	Track development through monitoring committee reports.

Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery.

No	Risk	Management assurances	Planned audit action
26.	**Capital Programme** The downturn in the property market brought about by current economic conditions has resulted in the Council deciding to defer asset disposals for a period of at least 18 months. The Council has factored a strategy for reduced receipts into its three year Capital Programme however there is a risk that:	Financial Strategy reviewed 6 monthly (last review Nov08). Reduced investment returns factored into the 2009/11 budget.	Monitor achievement of capital programme and report in annual members report.
	• an ongoing inability to generate income through capital receipts will impact on the long term delivery of the school estate management plan and general capital programme.	The Council has factored a strategy for reduced receipts into 3 year Capital Programme. *(Refer to 2008/9 Annual Audit Plan page 15)*	
27.	**Common Good Assets** The Council needs to prepare a common good asset register supported by title deeds to ensure the Council account for these assets appropriately and ensure they comply with LASAAC guidance. A post within legal services has been approved by the Policy and Resources Committee to lead on this however it is still to be filled. There is a risk that:	The Council has committed to reviewing all titles to create a common good register by March 2010. Additional funding has been made available to recruit another member of staff to undertake this task more speedily. A recruitment exercise is underway and it is anticipated that an appointment will be made by the end of April 2009.	Monitor progress via Audit Committee progress reports.
	• common good fixed assets are not identified and recorded within an asset register. Furthermore the Council may fail to comply with LASAAC guidance.	*(Refer to 2008/9 Annual Audit Plan page 17 and to 2007/08 Annual Report to Members point 2)*	

No	Risk	Management assurances	Planned audit action
28.	**Impairment Review** The impact of the economic downturn may have resulted in impairment of the Council's property assets. This will need to be assessed prior to the drafting of the 2008/09 financial statements to ensure the balance sheet is fairly stated. There is a risk that: • asset values carried in the financial statements do not represent current valuations.	A draft Impairment protocol has been developed and circulated within relevant services with a view to approval April 2009. All land and properties on Council's approved disposals programme have been subject to external, independent re-valuation for impairment to take account of the economic downturn and a summary thereof informs the Final Accounts for 2008/09. All other assets have been reviewed internally at service level and any material alterations (new build, demolition, reconfiguration) have been noted for valuation effect. With the exception of land, properties and buildings, the assets are generally valued outwith an open market value basis and have not been assessed as requiring immediate impairment review. *(Refer to 2007/08 Annual Report to Members point 14)*	Review as part of the audit of the Council's 2008/09 Financial Statements.

| No	Risk	Management assurances	Planned audit action
29.	**Asset Management** The Council has drafted a Corporate Asset Management Strategy which focuses on the Council's property, land and buildings. The Education properties are already included in the School Estates Management Plan as the first phase of asset management and the land, property and buildings forms the second phase. The Council is working toward the creation of asset management plans for the outstanding asset types. These are scheduled to be completed by March 2010 with the exception of the Roads Asset Management Plan which is scheduled for March 2012. In January 2009 the Council completed user testing of asset management software called PAMIS. PAMIS needs to be formally embedded and resourced in conjunction with the development of a corporate approach to asset management in order to fully utilise the functionality of the system and maximise the efficiencies it can facilitate in the asset management process. There is a risk that: • the Council fails to achieve best value in its utilisation of assets.	The Council approved on 12 March 2009 its Corporate Asset Management Strategy: Land, Property and Buildings and this establishes the strategic vision for future property investment and rationalisation and sets out the Council's target operating model for the future delivery of services. Explicitly, the Council has approved this document as its overarching strategy together with its plan for land and buildings as the format for the remaining asset plans which will be complementary and completed within the timescales set out in the Action Plan. PAMIS is receiving focused attention from Council services and data proving and uploading is continuing and is utilising key resources in ensuring quality of data input. These tasks require continuing attention. There is close working with the Physical Investment team with Property Services and ICT and Business Transformation in these tasks and with project management. The present focus is on Planned Maintenance and the interface with works ordering and on Statutory Duties (water, electrical testing etc). Through joint working with Finance there is an additional focus on capital accounting and the new standards for building valuation. *(Refer to 2007/08 Annual Report to Members point 13 and 2007/08 Strategic Audit Risk Analysis risk 4.5)*	Monitor progress toward provision of a comprehensive asset management plan.

In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

| No	Risk	Management assurances	Planned audit action
30.	**Procurement Strategy** A Corporate Procurement Strategy was drafted in 2008 however it was never finalised and limited progress has been made toward agreeing and implementing a corporate approach to procurement. In recent years both internal and external audit have highlighted weaknesses in relation to tendering arrangements in the Council. There are risks that: • purchasing decisions across the Council are not made in a consistent fashion and may not achieve best value • the Council may be unable to demonstrate that contracts are awarded in an open and transparent manner • the Council may be open to possible legal action.	The Corporate Management Team has discussed the need to review the Council's approach to procurement given the significant changes which have taken place in the national and local environment. A Strategic Procurement Framework will be reported to the Council's Policy and Resources Committee for consideration and approval in May 2009. *(Refer to 2008/9 Annual Audit Plan page 16, 2007/08 Annual Report to Members point 15 and 2007/08 Strategic Audit Risk Analysis risk 4.9)*	Monitor developments via review of reports to Policy and Resources Committee.
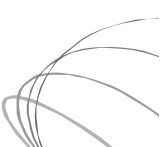
Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency.

No	Risk	Management assurances	Planned audit action
31.	**Information Governance**		
	The Council, in conjunction with Pricewaterhouse Coopers, carried out an Information Governance review to assess the extent to which the Council provided adequate information security. The review focused on both tangible factors such as technology and processes but also intangible ones such as culture and people. The Chief Internal Auditor is in the process of analysing the review's key messages and identified areas for development and will be drafting an action plan. There is a risk that: • the Council do not provide adequate security over sensitive data.	The output from the Information Governance and Management Review will be reported to CMT in April 2009 and P&R in May 2009. A Corporate Lead will be appointed to ensure that an appropriate improvement plan is developed and implemented over the short, medium and longer-term. Progress will be monitored and reported through CMT and the Policy and Resources Committee.	Monitor progress via review of reports presented to the Policy and Resources Committee.
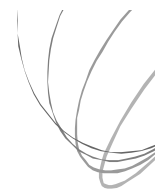
Appendix B – Glossary of Acronyms

APT&C	Administrative, Professional, Technical and Clerical
CAMS	Capital and Asset Management Sub Group
CHCP	Community Health & Care Partnership
CIPFA	Chartered Institute of Public Finance and Accountancy
CMT	Corporate Management Team
COSLA	Convention of Scottish Local Authorities
CPIG	Capital Programme Investment Group
CPP	Community Planning Partnership
CRMG	Corporate Risk Management Group
CRMT	Crisis Resilience Management Team
DPA	Data Protection Act
EC	European Commission
EU	European Union
FOISA	Freedom of Information (Scotland Act) 2002
FSF	Fairer Scotland Fund
HMIE	Her Majesty's Inspectorate of Education
HR	Human Resources
ICT	Information Communication Technology
ICT&BT	Information Communication Technology & Business Transformation
IFRS	International Financial Reporting Standards
IPF	Institute of Public Finance
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LG	Local Government
NHS	National Health Service
NHS GGC	National Health Service Greater Glasgow & Clyde
OIP	Organisational Improvement Plan
PAMIS	Property Asset Management Information System
PC	Personal Computer
PFI	Private Finance Initiative
PPP	Public Private Partnership
PRF	Priorities & Risk Framework
SLA	Service Level Agreement
SOA	Single Outcome Agreement
SOLACE	The Society of Local Authority Chief Executives and Senior Managers
SORP	Statement of Recommended Practice
SMART	Specific, Measurable, Attainable, Relevant, Time-bound
SPI	Statutory Performance Indicator
SSIFC	Statement on the System of Internal Financial Control
STO	Statutory Trading Operation
SWIA	Social Work Inspection Agency