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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>11.01.11</b>
<b>Report By:</b>	<b>Corporate Director Regeneration and Environment</b>	<b>Report No:</b>	<b>AC/02/11/AF/APr</b>
<b>Contact Officer:</b>	<b>Andi Priestman</b>	<b>Contact No:</b>	<b>01475 712251</b>
<b>Subject:</b>	<b>EXTERNAL AUDIT PROGRESS REPORT</b>		

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## **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 One report has been finalised by Audit Scotland since the last Audit Committee:-
- Report to Members and the Controller of Audit on the 2009/10 Audit
- 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 this report.

**Aubrey Fawcett  
Corporate Director  
Regeneration and Environment**

## **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

- Report to Members and the Controller of Audit on the 2009/10 Audit (October 2010)

# Inverclyde Council

**Report to Members and the Controller of Audit  
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



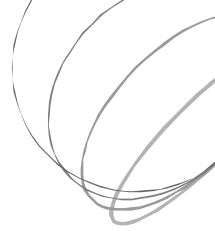
# Inverclyde Council

**Report to Members and the Controller of Audit  
on the 2009/10 Audit**

**October 2010**

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# Key Messages

## Background

During 2009/10 the recession in Scotland continued to impact all aspects of public life forcing councils into tough decisions regarding the need to deliver services and support their local economies whilst seeking to drive out efficiencies and reduce their own costs.

Looking to the future central government measures to reduce the national borrowing deficit has signalled a period of unprecedented financial austerity. These will force all public sector organisations to evaluate every aspect of their business and mean that significant challenges and difficult decisions are ahead. Whilst not immune from the political, economic and financial environment those organisations with a proven track record of delivering Best Value will be better placed to manage austerity measures going forward.

## Financial statements

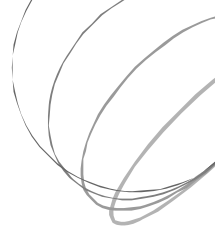
We have given an unqualified opinion on the financial statements of Inverclyde Council (the Council). The Council produced its annual accounts within statutory deadlines and the co-operation received from Council officers was appreciated.

The Council has adopted a phased approach to the introduction of International Financial Reporting Standards (IFRS). They have successfully restated their opening IFRS balance sheet as at 1 April 2009 and have accounted for their public private partnership (PPP) projects in the 2009/10 financial statements on an IFRS basis. The next phase requires the Council to prepare 2009/10 'shadow accounts' which will restate the 2009/10 financial statements on an IFRS basis. Good progress has been made toward achieving this.

## Use of resources

In overall terms, the Council managed its resources well with an increase in the general fund balance of £1.4 million against a budgeted breakeven position. As explained by the Chief Financial Officer (CFO) in the Foreword to the Accounts, the main factors associated with this surplus were a £0.9 million reduction in budgeted loan charges, £1 million in unutilised contingency and £1.3 million in additional income. Offset against this is an increase in the provision for equal pay claims of £2.8 million. At 31 March 2010 the Council has a general fund balance of £22.1 million (£20.66 million at 31 March 2009). This includes an earmarked balance of £17.9 million and an unallocated balance amounting to £4.2 million which is in accordance with the Council's reserves strategy.

The public sector budget reductions announced by the current UK Government in June 2010 could result in the Council's funding gap increasing to a cumulative figure of £30 million for the period 2010/14. The Council has responded to financial pressures and steps have been taken to reduce costs through a



voluntary early release arrangement. Ninety four employees left the Council during 2009/10 and in August 2010 a paper was submitted to the Policy and Resources Committee which highlighted a need to further reduce staff numbers in order to meet future budget pressures. The Council has estimated that the one-off costs associated with this level of staff reduction will be in excess of £12 million over a four year period. The Council has prepared an illustration of how the £12 million can be achieved based on existing and future decisions. Workforce reductions of this scale are likely to impact on service delivery due to erosion of knowledge, single person dependency and an adverse effect on staff morale.

Ten savings work streams have been approved with overall savings targets of £20.6 million over the period 2010/14. Progress against these targets is reported to the Policy and Resources Committee. Achieving the targets set out in the severance / retirement programme and the savings work streams will be challenging and critical for the future sustainability of the Council.

Our national study *Asset Management in Local Government, May 2009*, highlighted that strategic asset management was not well developed in most councils and that the condition and suitability of many council buildings required significant improvement. The Council has continued to improve the condition and suitability of its operational buildings and have progressed their approach to strategic asset management through the completion of an Information Communication & Technology (ICT) asset management plan, and progressing an Open Spaces asset management plan, Roads asset management plan and completing a Vehicles, Plant and Equipment Efficiency review. These plans are in addition to the Corporate Asset Management Strategy: Land, Property & Buildings which was approved in March 2009.

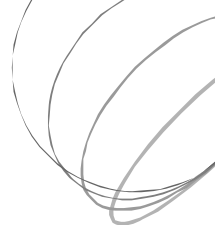
## Partnership working

The Council shows evidence of good partnership working. Community planning structures are well developed through the Inverclyde Alliance which continues to manage the community planning process to deliver more joined-up services and deliver the targets set out in the Single Outcome Agreement (SOA). Furthermore there is clear evidence of the Council's ongoing commitment to Community Engagement which demonstrates the importance placed by the Council on the views of its citizens.

The Council, in conjunction with NHS Greater Glasgow and Clyde (NHSGC&C), are progressing the implementation of the Inverclyde Community Health and Care Partnership (ICHCP). A Scheme of Establishment (SoE) outlining the protocols, structures and governance arrangements between the Council and NHSGC&C has been drafted and submitted to full Council for approval.

## Outlook

The most significant challenge the Council faces is a reduction in funding in the years 2011 to 2014. Although the exact size of the reduction will not be known until late November 2010, the Council has already taken action to anticipate significant cuts in its budget. The likely scale of the reductions means the



Council faces the risk of poor morale and motivation amongst staff as well as dissatisfaction amongst some service users. Never has the case been stronger for sound governance and good financial management.

Depopulation continues to be a significant strategic issue for the Council with the population continuing to fall in line with long term predictions. The Inverclyde Alliance has established a multi-agency outcome delivery group focused on slowing and stabilising the rate of decline in the population of the area.

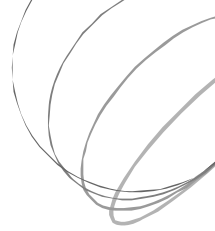
In June 2010, we submitted our final shared risk assessment (SRA) and assurance and improvement plan (AIP) to the Council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. We are proposing a proportionate best value review in 2012/13. The local area network is led by Audit Scotland and we shall keep the Council up-to-date with any changes to the AIP.

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



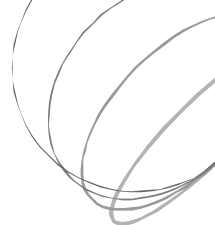
**October 2010**



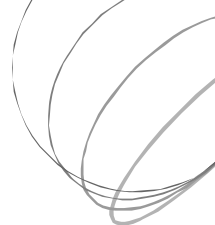


# Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of the Council and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent SRA and AIP [\[http://www.audit-scotland.gov.uk/work/scrutiny/docs/Inverclyde.pdf\]](http://www.audit-scotland.gov.uk/work/scrutiny/docs/Inverclyde.pdf). Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor whilst recognising that the AIP covers the period 2010-13 and all issues may not be followed up in the current year.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
  - Improving public sector efficiency.
  - Overview of local government in Scotland 2009.
  - Protecting and improving Scotland's environment.
  - Scotland's public finances – preparing for the future.
  - Making an impact – overview of best value audits 2004-09.
4. All of these reports have been sent to the Council for consideration and we do not consider them in this report. They are available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the Council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.



6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the Council. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



# Financial statements

## Introduction

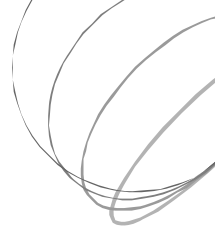
7. In this section we summarise key outcomes from our audit of the Council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

## Audit opinion

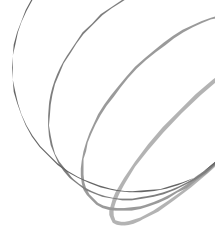
8. We have given an **unqualified** opinion that the financial statements of the Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with the disclosures made in the final version of the Statement on the System of Internal Financial Control (SSIFC) and with the adequacy of the process put in place by the Council to obtain assurances on systems of control. In particular we note that the Council has maintained the process for obtaining assurances from group members and assurances over the effectiveness of the Council's own systems of internal financial control which they implemented in 2008/09.
10. During 2010 the Finance team reduced in size and implemented the new 'hub and spoke' model. Despite the reduction in available resources and acclimatising to a change to working practices the Finance team submitted the unaudited financial statements to the Controller of Audit in advance of the 30 June deadline. They were presented to the Council's Audit Committee on 24 June 2010 and this version fully incorporated both the single entity and group financial statements. Furthermore the Finance team maintained the quality of the working papers provided to support the entries in the financial statements.
11. The accounts were presented to, and certified at, the Audit Committee on 22 September 2010 meeting the 30 September deadline. They are now available for presentation to members and for publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting issues

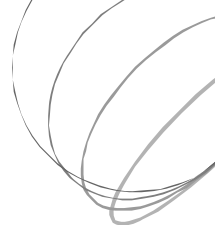
12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to IFRS.



13. The Council has adopted a phased approach to the adoption of IFRS. Phase 1, the preparation of a restated opening IFRS balance sheet at 1 April 2009, was completed in March 2010 and we reached agreement with the Council on all the required adjustments meaning we can provide assurance that the balance sheet as at 31 March 2009 has been brought forward and correctly restated at 1 April 2009.
14. Phase 2 requires the Council to prepare 2009/2010 'shadow accounts' which will restate the 2009/10 transactions on an IFRS basis. The Council has identified the key areas that will require attention in phase 2 and developed an implementation plan and timetable for delivery.
15. We will continue to work closely with the Council to help ensure the delivery of phase 2 within the desired timescales and will factor the audit of the shadow accounts into our 2010/11 audit planning process.
16. The most significant change to the 2009 SORP is in respect of the accounting requirements for PPP projects which means councils must now account for PPP projects on an IFRS basis. The Council successfully managed this in 2009/10 as well as adopting changes in accounting for leases.
17. The other main change to the 2009 SORP of particular relevance to the Council related to accounting for non-domestic rates. The Council adopted the SORP changes successfully and we were satisfied that the Council prepared the accounts in accordance with the 2009 SORP.
18. The Council adjusted the financial statements to reflect our audit findings. There were no unadjusted errors. Significant accounting issues have been reported to the CFO and the Audit Committee in our letter issued in line with the International Standard on Auditing 260 (ISA 260) communication of audit matters with those charged with governance. These are summarised below.
19. **Council's net worth:** The net worth of the Council has decreased by £116.14 million from £148.39 million at 31 March 2009 to £32.25 million at 31 March 2010. It is recognised that £85.1 million of this is due to the increase in the Council's share of the net liability of Strathclyde Pension Fund. The deterioration in the pension fund reflects decreasing yields on high quality corporate bonds which are used as the basis for the present value discount rates in the pension fund valuation process. A material decrease in the Council's net worth can highlight potential going concern issues.
20. **Cost of early retirements / voluntary severance:** The public sector budget reductions announced by the current UK Government could result in the Council's funding gap increasing to a cumulative figure of £30 million for the period 2010/14. The Council has acknowledged that this will result in a reduction in staff over the four year period and have estimated that the one-off costs associated with this level of staff reduction will be in excess of £12 million. The Council has prepared an illustration of how the £12 million can be achieved based on existing and future decisions. Achieving the targets set out in the severance / retirement programme will be challenging and critical for the future sustainability of the Council. The level of staff reduction proposed is likely to impact on services delivered by the Council.



21. **Capital programme delivery:** Capital expenditure in 2009/10 totalled £15.53 million. This is a decrease of £8.96 million from 2008/09 and £9.34 million less than the approved capital programme (37% slippage). We have been informed by the Council that £5.5 million of this slippage was due to delays involving third parties. In particular, £2.3 million for the Gourrock Transport Interchange and £1.3 million for the Vehicle Replacement Programme. When the Council set their 2010/14 Capital Programme in February 2010 they anticipated a £5 million reduction in capital expenditure funding from the Scottish Government. The Council now consider that the anticipated reductions may not be sufficient and officers are developing options to further reduce capital expenditure. These options will be presented to Elected Members as part of the 2011/13 budget setting process.
22. **Equal pay costs and single status costs:** actual and potential claims in relation to equal pay legislation have been reviewed and £3.84 million recognised as a provision. While there remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach. Similarly, a specific earmarked balance of £0.715 million has been set aside to cover backdated costs incurred for single status.
23. **Payroll reconciliations:** Staff costs represent the largest single item of expenditure for the Council. These costs are extracted from the payroll system in a data file which is uploaded manually into the financial ledger. In order to ensure there are no errors in the upload good practice involves a monthly reconciliation between amounts (such as tax, national insurance contributions and net pay) posted in the ledger to totals from the payroll system. During 2009/10 these reconciliations were not carried out due to availability of resources for implementing the integrated human resources / payroll system CHRIS21. A year-end exercise was undertaken to reconcile the values from both systems and these reconciliations have been audited as part of our final accounts process. These reconciliations did identify errors however we are satisfied that they are not of a material nature. We consider the performance of monthly payroll reconciliations to be a fundamental control and we have been assured by officers that they have been reinstated with associated controls including supervisory checks.
24. **Common Good title deeds checks:** the ISA260 letter for 2007/08 identified that the Council was working toward compliance with CIPFA/LASAAC guidance to establish where all of its heritable properties are, who holds title to them and what their values are. During 2008/09 the Council commenced a project to conduct an examination of the title to the Council's heritable property within Inverclyde and this work has continued during 2009/10. The project aims to identify common good property within Inverclyde and produce a register by March 2011. At 31 August 2010 Legal & Democratic Services had completed the review of 326 of the 386 sites, 24 are ongoing and 36 still to be started. It is expected that the result of this project will be taken to the Corporate Management Team (CMT) in late Autumn to agree the process for reclassification of any asset. It is envisaged that any reclassification will be actioned by 31 March 2011.



## Audit testing

25. As part of our work, we took assurance from a number of the Council's main financial systems. With the exception of payroll, we assessed the following systems as having a satisfactory level of control for our purposes:

- Council Tax Billing and Collection
- Debtors and Income
- General Ledger
- Non Domestic Rates Billing and Collection
- Payroll

Weaknesses identified in payroll controls resulted in a need to perform additional substantive testing in our audit of the 2009/10 financial statements.

26. We relied on the work of internal audit in the following areas to support our work:

- Cash and Bank
- Treasury Management
- Creditors Payments

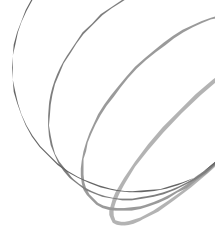
## Prevention and detection of fraud and irregularities

27. At a corporate level, the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

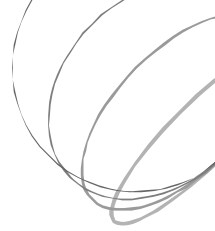
28. Complaints received from the public about members are generally dealt with by the relevant group leader. If this approach is not acceptable to the complainant they can refer the complaint to the Standards Commission. In the period April 2009 to September 2010 two complaints were lodged with the Standards Commission against elected members. One of the complaints was lodged against four members and the other against a single member. In both cases the Chief Investigating Officer took the view that there was no evidence of a breach and the complaints were subsequently dismissed.

## NFI in Scotland

29. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.



30. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010.
31. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The Council has assessed NFI arrangements against the checklist and have concluded that they are well placed to support NFI in 2010/11. The national report commented positively on the action taken by the Council to date in their approach to the NFI process.
32. The Council responded well to the 2008/09 NFI questionnaire submitted to Audit Scotland in February 2010. Procedures within the Council demonstrate positive action has been taken on data matches. The Council are extending data sets being submitted to the Audit Commission in October 2010 to include creditors and insurance details.
33. There was a significant case arising from the 2008/09 data matching process. The case involved a Councillor who was elected in May 2007. The Councillor was in receipt of Council Tax Benefit at the time of election, he however failed to notify the Benefits Office or the Department of Work and Pensions (DWP) that he was in receipt of income in the form of a salary paid for his duties as a Councillor. This resulted in an overpayment of Council Tax Benefit and Pension Credit.
34. The Councillor completed a benefit review form in October 2007, his salary as a Councillor was not declared on the review form. In March 2009 the Councillor completed a change of address form advising that he was moving from owner occupied accommodation (eligible for Council Tax Benefit) to rented accommodation (eligible for both Housing and Council Tax Benefits). The dual benefit claim was registered by the Council but was not processed into payment while evidence was being collected. The NFI data matching exercise that was running at the time identified that the claimant was in receipt of additional income which had not been declared for benefit entitlement purposes.
35. As the claimant was in receipt of Pension Credit a joint investigation commenced between the Council and the DWP. The investigation was extended to cover the validity of Disability Living Allowances received by the Councillor.
36. The benefits claimed for the period from 4 May 2007 to 29 March 2009 amounted to £10,525 and subsequent to this being identified by the investigation, the Councillor repaid the £10,525 in full. Council Tax and Pension Credit Benefits ceased following the investigation and the case was submitted to the Procurator Fiscal in Greenock in October 2009. Disability Living Allowance also ceased following assessment by the DWP as there was deemed to be an improvement in the Councillor's health.



37. The Councillor appealed the decision made by the DWP to cease his Disability Living Allowance. The Council was notified by the DWP in August 2010 that the Councillor's appeal was unsuccessful and the decision to cease Disability Living Allowance stands.
38. Proceedings were raised by way of a summary complaint at Greenock Sheriff Court under the Social Security Administration Act 1992 under section 111A as amended<sup>1</sup>. The Councillor initially pled not guilty to all three charges, however in May 2010 the Councillor pled guilty to charge 1 in respect of the pension credit claim. He pled not guilty to charges 2 and 3 in respect of Council Tax and Disability Living Allowance, these pleas being accepted by the prosecutor. Sentencing took place on 23 June 2010 and the Councillor was fined £600 by Sheriff John Herald at Greenock Sheriff Court.
39. Wider aspects of governance and ethics and ethical risk are included in paragraphs 156 – 170.

## **Housing benefit**

40. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team have carried out a programme of risk assessments of benefits services in all councils over a two year period.
41. The risks to the Council's benefits service were assessed in June 2008 and a detailed report was issued which concluded that sound arrangements were in place to minimise risks in the benefit function. It also identified a number of areas for improvement which the Council consolidated into an action plan. Internal Audit's follow-up process has confirmed that all the actions have now been implemented. We believe these actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in late 2010.

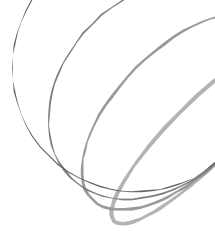
## **Group accounts**

42. Councils use a diverse range of service delivery vehicles and, where material, are required to prepare a full set of financial statements that give a true and fair view of the financial performance and position of the Council's group.
43. The Council has interests in a total of seven associates which have been included in group accounts in accordance with the SORP. Those bodies are:
  - Strathclyde Joint Police Board.
  - Strathclyde Fire & Rescue Joint Board.

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<sup>1</sup> Greenock Sheriff Court Extract Conviction Report SCS/2009-152015





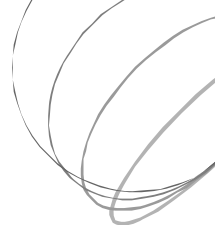
- Strathclyde Partnership for Transport.
- Strathclyde Concessionary Travel Scheme Joint Board.
- Renfrewshire Valuation Joint Board.
- Inverclyde Leisure Limited.
- Riverside Inverclyde Limited.

44. We would like to highlight the following issues:

- all bodies within the group received unqualified audit opinions from their external auditors
- in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets at market value, have been aligned with the Council's.

## **Trust funds**

45. The Council administer 15 charitable trusts and 16 other funds. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. This means a full set of financial statements is required for each trust fund. However the Scottish Charities Regulator (OSCR) has deferred full implementation, allowing the Council to continue with existing disclosures for trust funds in their financial statements supplemented with additional working papers.
46. In April 2010 OSCR provided feedback on 2008/09 submissions from each local authority. This included an expectation that clear progress will be made by authorities either in terms of charity re-organisation or improved reporting in order to bring their charities in line with statutory requirements. The feedback from OSCR recognises that the Council has maintained the good progress they made in 2008/09 as they are named as one of only ten Scottish councils to be classified as above average in meeting the requirements for 2008/09.
47. The Council are currently in the process of reviewing the existing trusts and have identified a number which they are proposing to disburse. The Council met OSCR in August 2010 to discuss the options and restrictions associated with disbursement and to identify what would be required for future submissions to achieve full compliance. It is recognised that disbursement of trust funds requires elected member approval in their role as trustees.
48. We are satisfied that the Council has made, and are continuing to make, good progress towards meeting OSCR requirements.

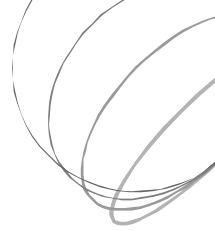


## Common good fund

49. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The Council complies with this guidance as they prepare a separate disclosure in their financial statements and maintain a register of the assets held by the Common Good Fund. However, in common with a number of other councils, there are concerns about whether this register represents a complete record of common good assets.
50. During 2008/09 the Council commenced a project to conduct an examination of the title to the Council's heritable property within Inverclyde and this work has continued during 2009/10. The project aims to identify common good property within Inverclyde and produce a register by March 2011. At 31 August 2010 the legal department had completed the review of 326 of the 386 sites, 24 are ongoing and 36 still to be started. It is expected that the result of this project will be taken to the CMT in late Autumn to agree the process for reclassification of any asset. It is envisaged that any reclassification will be actioned by 31 March 2011.
51. We are satisfied with the current level of progress made by the Council toward the completion of this review and will continue to monitor further progress and compliance with LASAAC guidance during the 2010/11 audit year.
52. During 2009/10 the common good fund incurred a deficit of £0.22 million (income of £0.15 million and expenditure of £0.37 million). The deficit was predominantly due to the release of earmarked reserves to fund the European Pipe Band Championship and restoration of the SV Comet. As at 31 March 2010 the funds had net assets of £1.93 million.

## Pension fund

53. Council employees contribute to the Strathclyde Pension Fund, which entitles them to receive a pension based on their final salary and the number of qualifying years service. The fund is administered by Glasgow City Council and consists of 12 councils originating from Strathclyde Regional Council and almost 200 other smaller bodies.
54. Pensions received on retirement are funded by contributions payable by members and employers. From 1 April 2009, the rates of contributions made by employees and the calculation of benefits payable on retirement changed. Employee contributions are now calculated on a tiered basis, and increase as their salary increases. Employers make a contribution based on an actuarial calculation of funding requirements to meet the overall liability for the future pension provision. Minimum contribution rates, expressed as a percentage of pensionable pay, have been established for each year up to and including the year ending 31 March 2012. For the years ending 31 March 2011 and 2012, the rate will be increasing to 18.2% and 19.3% of pensionable pay. This will impact on available resources at a time when funding is being squeezed. Future rates will be determined following completion of the Triennial funding review by the Fund's actuary, due on 31 March 2011 and reported in 2012.



55. Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975. The latter provides for public service pensions to be up-rated at the same time, and by the same percentage, as the increase in the additional pension provided under the State Earnings Related Pension Scheme, which is based on the September-to-September increase in prices. The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that this increase will be based on the Consumer Price Index measure from April 2011, rather than Retail Price Index as has been done in previous years. Indications are that this change will reduce the value of an average employer's FRS 17 liabilities in the Pension Fund by around 6 – 8%.
56. The Pension Fund Reserve, which represents the Council's share of the net liability of the Strathclyde Pension Fund, has increased by £85.1 million from £39.6 million at 31 March 2009 to £124.7 million at 31 March 2010. This deterioration in the pension fund is predominately due to the economic downturn and reflects the decreasing yields on high quality corporate bonds which are used as the basis for the present value discount rates in the pension fund valuation process.

## Legality

57. Through our planned audit work we consider the legality of the Council's financial transactions. In addition the CFO confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Council's management team, the financial transactions of the Council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

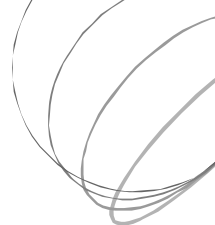
## Financial reporting outlook

### Compliance with International Financial Reporting Standards

58. As mentioned in paragraphs 12-15 the Council need to prepare a shadow set of IFRS-compliant 2009/10 financial statements in preparation for the full implementation of IFRS in the 2010/11 financial statements. The Council has made good progress in this area and we will continue to engage with the IFRS working team as they progress toward full compliance.

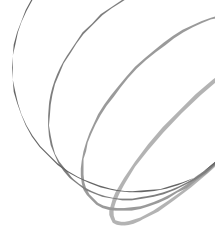
### Carbon trading

59. From April 2010 a new and complex system of charging for carbon emissions was introduced by the European Union. The Council is potentially required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions.
60. The Council has established a Carbon Reduction Commitment Working Group to ensure they respond to the scheme appropriately. A report was submitted to the CMT in October 2009 outlining the



potential impact on the Council of the scheme. A further report was submitted to the Safe, Sustainable Communities Committee in August 2010 advising that, while there are a number of levels of participation in the Scheme, it was anticipated that the Council would only be required to make an information disclosure and report their emissions. However, this was subject to confirmation that street lighting should not be considered in terms of qualification.

61. The Corporate Director Regeneration and Environment submitted a report to the Safe, Sustainable Communities Committee in October 2010 which confirmed that, in 2010/11, the Council are required to make an information disclosure but not required to report any future emissions data or purchase allowances for the remainder of this phase.
62. The information disclosure was made on 15 September 2010, in advance of the 30 September 2010 closing date. Given that there is no fee attached to making an information disclosure, the Council's charge for 2010/11 will be nil.



# Use of resources

## Financial results

63. In 2009/10, the Council spent £309.6 million on the provision of public services and £15.5 million on capital projects. The Council's net operating expenditure in 2009/10 was £238.3 million. This was met by central government and local taxation of £203.1 million, resulting in a deficit of £35.4 million, 14.9% of the net operating expenditure for the year.
64. The budget set for 2009/10 was based on a Band D council tax level of £1,198. After taking account of statutory adjustments, £1.4 million was added to the general fund during the year which increased the general fund balance to £22.1 million. Of this balance £17.9 million has been earmarked for specific purposes. This leaves an unallocated balance of £4.2 million.
65. The main factors contributing to the £1.4 million surplus are a £0.9 million reduction in budgeted loan charges, £1.0 million in unutilised contingency and £1.3 million in additional income. Offset against this is an increase in the provision for equal pay claims of £2.8 million.
66. In 2008/09, the Council took measures to raise the profile of budget monitoring at a corporate management level and introduced revised revenue budget monitoring policies and procedures at an operational level through a monthly finance CMT. These improvements have been maintained in 2009/10.
67. In our 'Review of Governance Arrangements and Main Financial Systems' report issued in May 2010 we re-emphasised our opinion that the Council should place greater focus on zero based budgeting with budgets profiled over the financial year. The Council has given representation that the implementation of zero based budgets would not add real value and could divert limited finance resources away from key tasks. We still consider that adopting zero based budgeting in select areas would help identify key cost drivers and aid in the identification of potential savings however we acknowledge the Council's opinion.
68. We have raised concerns in prior years about the quantity of budget virements and quality of explanations for budget virements in committee reports. In our May 2010 report we noted an improvement in this area however commented that further improvements could be made. A review of revenue budget monitoring reports presented to committee since the 2010 summer recess highlighted that this remains an area for improvement.
69. Exhibit 1 shows, at committee and consolidated Council level, the projected year end under/over spend as at periods 4, 6, 8 and 10. This analysis demonstrates the extent to which the projected year end position fluctuated at individual committee level and for the overall Council. Although it is possible to obtain the 2009/10 out-turn figures to add to exhibit 1, the analysis would not be meaningful. This is

due to the 'in year' figures excluding carried forward 2008/09 earmarked reserves and 2009/10 redetermination funding whilst the out-turn figures include spend on 2008/09 earmarked reserves and redetermination funding. It would be misleading to report under spends against earmarked reserves as these sums are set aside for use over multiple financial years rather than within the current year.

70. The Finance team are to review the presentation of the year end 'How The Money Was Spent' report in 2010/11 which will facilitate the reporting of under/over spends taking account of earmarked reserves.

## Exhibit 1

### Summary of (Under) / Overspend by Committee

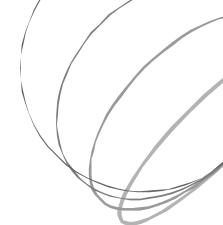
Committee	Approved Budget	2009/10 Financial Period				Period 10 Variance %
	£,000	4 £,000	6 £,000	8 £,000	10 £,000	
Policy & Resources	30,311	(138)	(415)	(740)	(1,041)	-3.43%
Safe, Sustainable Communities	18,229	(40)	71	(90)	(7)	-0.04%
Regeneration and Resources	10,223	(78)	(105)	(69)	(159)	-1.56%
Education and Life Long Learning	76,170	0	(24)	(107)	(167)	-0.22%
Health and Social Care	51,212	(44)	85	(151)	(248)	-0.48%
<b>Committee Sub-Total</b>	<b>186,145</b>	<b>(300)</b>	<b>(388)</b>	<b>(1,157)</b>	<b>(1,622)</b>	<b>-0.87%</b>
Loan Charges	14,680	(700)	(700)	(700)	(700)	-4.77%
Revenue Support grant	-134,349	0	0	0	(227)	0.17%
<b>Total (Under) / Overspend</b>		<b>(1,000)</b>	<b>(1,088)</b>	<b>(1,857)</b>	<b>(2,549)</b>	

71. Exhibit 2 provides information on the Council's financial position.

## Exhibit 2

### Key indicators

Ratio	Description	Value for Inverclyde Council 2008/09	Value for Inverclyde Council 2009/10
Working capital (Current assets as a percentage of current liabilities)	Indication of Council's ability to pay its current liabilities in the short term	120%	159%
Useable reserves as a percentage of net operating expenditure	Proportion of revenue expenditure that could be met from reserves	£28.05m / £214.08m = 13.1%	£29.52m / £238.28m = 12.4%
Long term borrowing as a percentage of tax revenue	Proportion of a Council's tax related income that would be needed to pay off long term debt	£169.7m / £64.16m = 264%	£179.85m / £67.18m = 268%
Long term assets as a percentage of long term borrowing	Indication of the ability to borrow to replace or repair assets	£367.08m / £169.7m = 216%	£359.03m / £179.85m = 200%



72. These ratios indicate the liquidity and financing position of the Council. Appendix C illustrates, for each ratio, where the Council sit in making comparisons between councils, there are a number of factors which affect the indicators. These include the Council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the Council's financial stability to be monitored in the future. The Council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

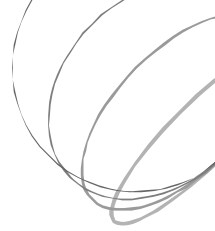
## Reserves and balances

73. Exhibit 3 shows the balance in the Council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2010 the Council had total cash backed funds of £29.52 million, an increase of £1.47 million on the previous year.

### Exhibit 3 Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	22.071	20.656
Insurance Fund	4.794	5.143
Education & Equipment Fund	0.203	0.176
Repair and Renewal Fund	0.703	0.333
Capital Fund	1.751	1.741
	<b>29.522</b>	<b>28.049</b>

74. The general fund increased by £1.4 million during the year to a balance of £22.1 million. Of this balance £17.9 million has been earmarked for specific purposes. This leaves an unallocated balance of £4.2 million, which adheres to the Council's policy to maintain a minimum unallocated General Fund reserve of 2% of turnover. This means the Council is limiting its exposure to financial risk and provides capacity to deal with unforeseen costs or losses.



## Support for owners fund

75. As part of the Housing Stock Transfer Agreement an arrangement was established between the Council, Communities Scotland (now the Scottish Government's Housing Investment Division) and River Clyde Homes (RCH), to establish a fund which would provide financial assistance for owners in communal properties affected by RCHs planned investment programme designed to achieve the Scottish Housing Quality Standards by 2015. This fund is known as Support For Owners (SFO). The SFO fund is created from a Scottish Government grant awarded to the Council which, in turn, is created from RCHs excess right-to-buy receipts. The demand for Support for Owners grants is dependent on RCH having legally committed improvement programmes agreed within the relevant financial year, and agreement of owner occupiers within these projects to participate. Consequently the demand for grant support is not in the Council's control.
76. In 2009/10 £1.24 million of the available resources were not claimed due to there being insufficient demand for grant support from the RCH programmes which was legally committed in 2009/10. The Scottish Government did agree that £0.75 million of the 2009/10 allocation could be carried forward as it related to grants awarded to owner occupiers in 2009/10 which had not yet been disbursed. In 2010/11 the maximum allocation based on the 2009/10 excess right to buy receipts is £0.8 million. On the basis of the draft information provided by RCH to date, the maximum demand from legally committed programmes in 2010/11 is unlikely to exceed £0.65 million.

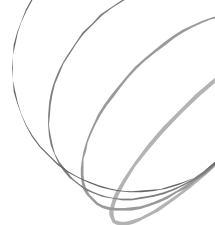
## Group balances and going concern

77. The overall effect of inclusion of all of the Council's associates on the group balance sheet is to reduce net assets by £212.8 million, substantially as a result of pension liabilities. The group accounts have been prepared on a 'going concern' basis as it is considered that funding will continue to provide sufficient resources and there are statutory arrangements in place with the Scottish Government for the funding of the Joint Police Board deficit and with the constituent local authorities for the Joint Valuation Board and Fire and Rescue Board deficits.
78. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Three of these boards (Renfrewshire Valuation, Strathclyde Police and Strathclyde Fire and Rescue) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total the Council's share of these deficits amounted to £220.45 million.

## Capital performance 2009/10

79. Capital expenditure in 2009/10 totalled £15.53 million, a drop of £8.96 million from 2008/09. Capital expenditure for the year represented 62% of the 2009/10 approved capital programme, with slippage amounting to £9.34 million. Exhibit 4 highlights some of the significant areas of capital slippage.





#### Exhibit 4

##### Slippage in the capital programme for 2009/10

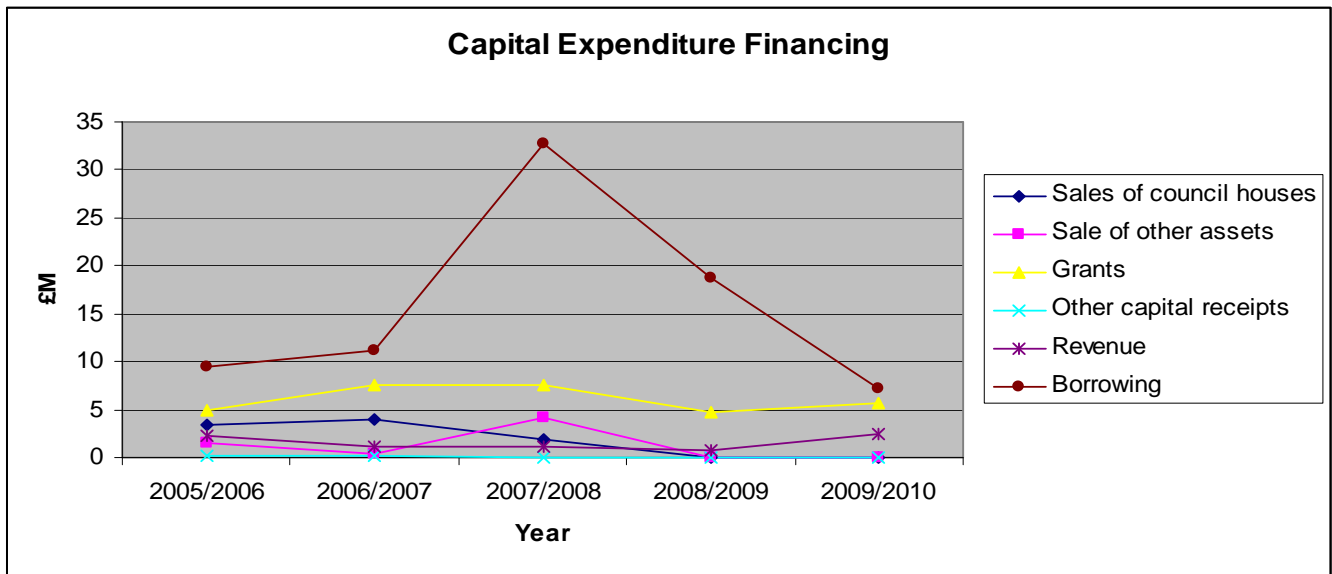
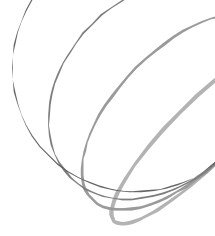
Directorate / Programme	Project	Slippage (£,000)
Improvement and Performance	Operating Model - Non-Property Capital	251
	Operating Model - Property Capital	247
Safe Sustainable Communities	Knocknairshill Cemetery	283
	Vehicles Replacement	1,349
Regeneration	Gourock Transport Interchange	2,300
	Kilmacolm Village Centre	620
	Devol Glen Stabilisation Works	208
	Office Accommodation	250
	Arts Guild	798
Schools Estate Management Plan	Port Glasgow Joint Campus Secondary School	430

80. Exhibit 5 reflects the trend in the Council's principal sources of finance to fund capital expenditure between 2005/06 and 2009/10.

#### Exhibit 5

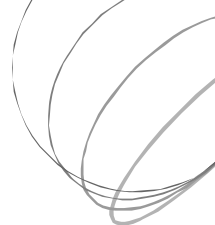
##### Sources of finance for capital expenditure 2005/2010

	2005/06 Actual £,000	2006/07 Actual £,000	2007/08 Actual £,000	2008/09 Actual £,000	2009/10 Actual £,000
<b>Sales of council houses</b>	3,399	3,997	1,898	0	0
<b>Sale of other assets</b>	1,608	373	4,213	49	51
<b>Grants</b>	4,999	7,585	7,569	4,810	5,703
<b>Other capital receipts</b>	129	257	78	51	69
<b>Revenue</b>	2,243	1,208	1,090	756	2,551
<b>Borrowing</b>	9,412	11,185	32,721	18,824	7,156
<b>Total</b>	<b>21,790</b>	<b>24,605</b>	<b>47,569</b>	<b>24,490</b>	<b>15,530</b>



## Treasury management

81. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
82. As at 31 March 2010, the Council held cash and temporary investments totalling £43.7 million (£42.4 million at 31 March 2009). During our audit of the Council's financial statements we obtained assurances that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation. Borrowing decision sheets, authorised by the CFO indicate that any early borrowing undertaken was justified in its own right as representing the best time for borrowing the amounts required and was done so in the interests of prudent cash management.
83. The current economic climate means that interest rates on investments are low – the Council received £1.02 million in investment income this year compared to £2.73 million last year. Borrowing rates are also low, but the Council has a significant proportion (71.7%) of its debt at fixed rates and its loans fund pool rate over the year was 3.81%.
84. In April 2009 the Council undertook a restructuring exercise which involved the repayment of £15 million of PWLB loans with the repayment funded from temporary borrowing. These short term (three month) loans were repaid in July 2009 from maturing investments. This restructuring incurred a premium of £0.35 million however this will be recuperated through ongoing savings relating to the ability to re-borrow in future at reduced interest rates.

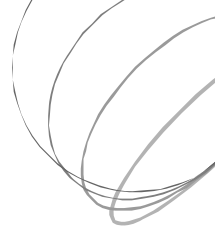


## Financial planning

### Budget pressures and financial strategy

85. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
86. There remains uncertainty about what the financial implications for the Council will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until January 2011. Negotiations are continuing and the Scottish Government is consulting on an end to the council tax freeze.
87. While recognising this uncertainty, all Scottish councils have been working with the Centre for Public Policy and the Regions to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.
88. The Council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. In August 2010, the Council forecast that these reductions could result in their funding gap increasing to £30 million for the four year period 2010/14. This is an increase of £3.7 million on the amount approved by the Council in June 2010.
89. It has been estimated that the Council's share of the public sector cuts announced by the incoming Westminster Government in May 2010 will be approximately £1.9 million in 2010/11 if it is all applied to revenue expenditure. There is an option to defer this grant reduction until 2011/12 however the Council did not pursue this option as it would have resulted in savings of £3.8 million being required in 2011/12. The CMT has developed proposals to achieve the £1.9 million reduction in 2010/11 and this was approved in August 2010. This £1.9 million reduction is in addition to the £3.6 million revenue savings agreed in February 2010.
90. The Council has approved ten savings work streams with the intention being that they contribute to the reduction in the funding gap. The overall savings target for these streams is £20.6 million over the period 2010/14. Progress against these targets is reported to the Policy and Resources Committee with £3.5 million achieved by June 2010.

**Action plan no. 1**



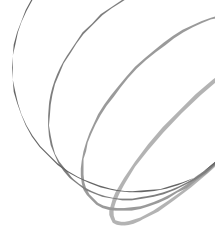
91. The latest 2010/11 general fund revenue budget monitoring report (to 31 July 2010) is projecting a £0.3 million year end underspend however it is noted that this is prior to the application of the £1.9 million mid-year savings mentioned in paragraph 82. These savings are to be incorporated into the next budget monitoring report which will be reported to the Policy and Resources Committee in November 2010. All budget monitoring reports are to be updated to reflect these reductions and budget holder's performance against these reduced budgets will be monitored by the CMT.
92. The Council are to agree a new budget in February 2011 and the intention is to set a two year budget for the period 2011/13.
93. In April 2008, the Council approved its first Financial Strategy designed to provide clear direction on how to manage and structure its financial resources to ensure they are utilised effectively and are clearly directed at achieving the Council's corporate objectives in the medium to long term. The strategy is reviewed on a six monthly basis to identify required amendments to take account of any significant policy or financial developments both at a local, and national, level. It was last reviewed in June 2010, with the impact of the public sector budget reductions on the medium term strategy considered in August 2010. A further review will be performed in December 2010 which will consider the Comprehensive Spending Review which the Westminster Government announced on 20 October 2010.

### **Early severance programme**

94. Steps have been taken to reduce costs through a voluntary early release arrangement. Ninety four employees were released during 2009/10 at a one off cost of £3.8 million with ongoing costs of £0.41 million. The annual savings associated with this are forecast to be £3.09 million meaning the payback period is less than two years. A paper submitted to the Policy and Resources Committee in August 2010 highlighted the need to further reduce staff numbers in order to meet future budget pressures. The Council has estimated that the one-off costs associated with this could exceed £12 million over the period 2010/14. Proposals have been developed which demonstrate how the £12 million can be generated. These proposals rely significantly on future capital receipts which will be subject to market conditions. It is further recognised that the estimated £12 million may not be sufficient as it assumes that approximately 30% of the expenditure reductions required over the 2010/14 period will be achieved through employee reductions whereas employee costs make up approximately 58% of the Council budget.

### **Responding to the economic downturn**

95. In March 2009 an initial report was submitted to the Policy and Resources Committee outlining the potential risks the Council faced at a corporate and service level as a result of the economic downturn. An action plan was developed which focused on maintaining investment programmes and services in the medium term, reviewing governance frameworks, policies and delivery arrangements where



appropriate and ensuring the Council is able to manage through the economic downturn and prepare for the recovery. In addition a set of indicators were developed to assess the impact of the downturn on the Council.

96. The working group responsible for the action plan meet regularly to monitor progress against the plan and review and update the indicators. They last met in August 2010 and concluded that although there appear to have been some positive development in the national economy these have not yet had a tangible impact on the Council or the communities of Inverclyde. The primary concern of the working group remains that any significant reduction in public sector resources will have a material impact on Inverclyde due to its high level of dependence on public sector employment.

### **Financial capacity development plan**

97. In November 2008 the Council appointed the Institute of Public Finance (IPF) to review the Council's financial management and capacity. The review was carried out between January and March 2009 with the results presented to the Policy and Resources Committee in June 2009. In September 2009 the Council's Financial Capacity Development Plan was approved by the Policy and Resources Committee.

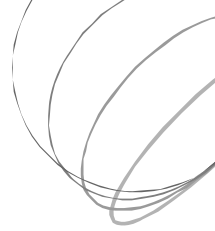
98. The plan identified specific actions designed to address the main issues identified in the IPF report with the actions grouped into eight themes. During 2009/10 progress made against the plan has been monitored through the Organisational Improvement Plan (OIP) with the exception of the e-Procurement theme which has been incorporated into the Strategic Procurement Framework.

99. Key areas of progress noted are:

- Introduction of 'Hub & Spoke Finance Management Model' which has accountants based in the services but still part of Finance Services reporting to the CFO.
- Budget delegation to service manager level being piloted in the Organisational Improvement & Resources Directorate.
- Financial competencies, including achievement of value for money, identified and incorporated in future performance appraisals for all staff down to service manager.

100. Further work is ongoing to:

- Identify financial skill gaps within Finance and Services and develop an appropriate and structured training programme.
- Develop and deliver Financial Management training to all Managers and Heads of Service.
- Extend the budget delegation scheme to all services for the 2011/12 financial year.



101. The delivery of the Financial Capacity Development Plan, and in particular the extension of the budget delegation scheme and provision of appropriate budget training is key to delivering increased financial capacity and accountability across finance and service staff.

## Asset management

102. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.

103. The Council has accepted the need to improve the condition of their properties and figures supplied by the Council indicate that there has been progress, however there remains a need for further development.

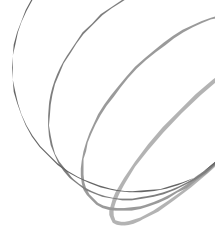
- The number of buildings in which the Council delivers services to the public which have public areas suitable for and accessible to disabled people has risen from 56.5% to 70.5%
- The number of operational buildings which are deemed suitable for their current use has improved from 63.2% to 72.5%.

104. In March 2009 the Council approved the Corporate Asset Management Strategy: Land, Property and Buildings to cover the period from January 2009 – January 2014. This strategy was designed to provide a strategic vision for future property investment and office rationalisation. The Council has now completed an ICT Asset Management Plan and three of the five identified stages required for the Open Spaces Asset Management Plan. The fourth stage should be completed before December 30 2010; however a review of legal titles is unlikely to be completed before 2013.

105. The Council are continuing to work towards the completion of the Roads Asset Management Plan. This is managed by the Society of Chief Officers of Transportation in Scotland who are co-ordinating the plan across all Scottish Local Authorities. The Council has completed the tasks in line with the program timetable to date and are on course to complete the program by March 2012.

106. In June 2009 the Policy and Resources Committee approved the Vehicle, Plant and Equipment Efficiency Review. This review provided a policy which considers fleet procurement, management and maintenance. By December 2010 the Council aim to have implemented a new fleet management system and a vehicle tracking system.

107. In January 2009 the Council installed PAMIS (Property Asset Management Information System). The Estate Management module has since been populated with all lease and property data including relevant statutory duties such as Disability Discrimination Act assessments and asbestos reports. The Planned Maintenance module has yet to be fully populated. Once complete this will interface with the



Works Order Management module. This is necessary to address the Council's strategic objective of reducing reactive maintenance and focusing on future planned maintenance. The Council has yet to develop effective reporting tools which allow them to make best use of the PAMIS system. The expectation is that the system will not be fully operational for Estates Management until September 2012.

108. The Capital Valuation module has been the subject of liaison with Finance Services. This will provide opportunities to develop the Capital Valuation module to take account of IFRS requirements such as finance and operating leases and componentization. The possibility and associated benefits of developing an interface with the Council's Financial Management System will also be investigated.
109. It remains the long term intention for PAMIS to replace Logotech as the Council's asset register however this is not a viable option until PAMIS is fully populated with all assets rather than being restricted to land and property assets.

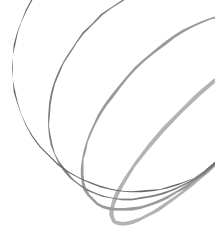
## Schools estate strategy

110. The Council are continuing to progress their Schools Estate Management Plan (SEMP). Since the SEMP was originally submitted in 2004 significant progress has been made modernising the school estate with the position as at the end of September 2010 being:

- *Opened schools* – Inverclyde Academy, Newark Primary School, the two PPP primary schools (Aileyhill Primary and All Saints Primary) and the refurbished and extended Wemyss Bay Primary School.
- *Work in progress* – The two PPP secondary schools (Clydeview Academy and Notre Dame High School) and the refurbishment of Earnhill Primary School and St Gabriel's/Sacred Heart Primary School.
- *Commencing shortly* – Refurbishment of Overton Primary School/Highlanders Academy.

111. By September 2011 it is expected that:

- Clydeview Academy, Notre Dame High School and the refurbished St Gabriel's/Sacred Heart Primary School will be open.
- The refurbished Overton Primary School/Highlanders Academy will be near completion.
- Port Glasgow High School will have moved in with St Stephen's High School in a temporary shared campus.
- Work will have commenced on the site of the new Port Glasgow Shared Campus, the Additional Support Needs (ASN) School and on the refurbishment of Gourrock High School (to become St Columba's High School) and St Laurence's Primary School (to become the Mearns Centre).



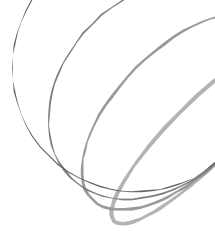
112. In September 2010 the Education and Lifelong Learning Committee considered the annual review of the School Estate Funding Model. This highlighted a concern that the valuation of capital receipts in the funding model might be excessive due to a June 2009 valuation of Wellington Academy by the District Valuer estimating its value at 77% of the value allowed in the 2008 funding model. This concern was furthered by a May 2010 valuation of the site of the former Greenock High School and Glenburn School which was substantially lower than the allowance in the model. As a consequence four further sites were valued and these valuations used to estimate the value of the other sites in the portfolio. This exercise identified that smaller sites (valued at £1 million or less) had generally held their value whilst more valuable sites had seen their values decrease. However it also noted that the value of St Stephen's High School had increased in value by £0.5 million from the 2009 estimate. The conclusion on this exercise was that the reduction in value was not as severe as had been anticipated and this, combined with a reduction in inflation assumptions, has resulted in a reduction in the value of capital receipts from the 2009 model of just under £8 million.
113. The 2009 funding model assumed capital funding would increase by 3% annually from 2010/11. Due to financial pressures the CFO has advised that this is not sustainable and capital allowances have been fixed at the 2010/11 level for the life of the model. This results in an overall reduction in capital allowances of £11.85 million over the life of the model. These reductions in capital are partly offset by the announcement of funding for new schools by the Scottish Government which has resulted in a provisional award of £6.4 million toward the cost of the new ASN school. The net impact of this is a reduction in available funding of £6.61 million over the life of the model. This has been managed by extending the programme by a year but without rephasing any projects.
114. Various options to reduce the deficit on the programme at the time of its completion were considered and approved by the Education and Lifelong Learning Committee in September 2010. This included extending the primary school refurbishment programme so it is completed in 2027 rather than in 2022/2023.

## Action plan no. 2

### Procurement

115. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
116. All councils have been assessed by Scotland Excel and scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December





2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:

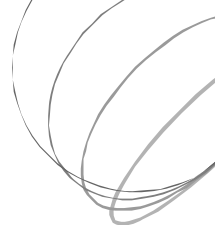
- The role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
- Getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
- Adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
- Embedding new systems and processes.
- Conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.

117. The Council scored 4% which is a very low score. This assessment is classified as non-conformance. This level of score suggests that the organisation is open to risk of legal challenges due to the lack of visibility and control over procurement across the organisation.

118. The management team have recognised that improvements are required across all assessment criteria and that the situation reflects a low level of investment in procurement resources and influence across the organisation. The Council has put an ambitious improvement plan in place to address identified weaknesses.

119. A newly appointed procurement manager aims to achieve conformance by the end of 2011 and is beginning to put the necessary changes in place. The Strategic Procurement Framework implemented by the Council has two distinct stages. The first stage focuses on the structure, processes and data relating to procurement and is due to be delivered by December 2010. The progress report presented to the Policy and Resources Committee in August 2010 indicates that the milestones outlined in stage one are on target to be delivered within the desired timescales. The second stage is dependant on delivery of the first stage and deals with improving the management of procurement across the Council. The target date of completion is December 2011, at this stage the Council aim to achieve conformance status against the criteria outlined in the procurement capability assessment. This level of change will require significant resource as well as active senior management support. We note that there is currently a part time vacancy (0.5 full time equivalent) in the procurement section. The Council's next procurement capability assessment is scheduled to be performed on 23 November 2010.

120. The procurement update report presented to the Policy and Resources Committee in August 2010 also commented on management information within the Council and savings opportunities in relation



to electricity, gas, water, telecoms and mail. Savings of £0.47 million have been identified and applied to budgets in 2010/11 following analysis of procurement information. It is recognised that more comprehensive management information in relation to procurement could lead to further efficiency savings.

121. An assessment of the costs incurred and benefits received through participation in the Scotland Excel procurement arrangements was presented to the Policy and Resources Committee. The Council are aware of the procurement activity required to take place to ensure value for money is achieved by continuing to support Scotland Excel subscriptions. The Council are benefiting from procurement services provided by Procurement Scotland. Utilities contracts provided by Procurement Scotland have generated significant savings to date.

122. We will monitor the situation and the ongoing commitment by the Council to improving the situation.

**Action plan no. 3**

## Managing people

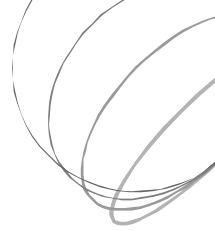
123. In April 2010 the Council implemented a corporate re-structure which resulted in the appointment of two Corporate Directors and a reduction in the number of Heads of Service. This significant change in structure creates an opportunity for Council services to evolve in the current climate of scarce financial resources. It also represents a number of risks associated with loss of expertise and acquired knowledge, including insufficient resource to maintain and improve current service levels, the creation of single person dependencies and a potential impact on staff morale.

124. The re-structure includes a number of posts jointly funded with the NHS including a new Corporate Director post. This joint funding is designed to support the introduction of the ICHCP to integrate the provision of health and social care.

125. The Council has an approved Scheme of Delegation in place which is currently being reviewed along with other key governance documents to ensure they reflect the new corporate management structure. This is scheduled to be completed by March 2011.

126. In tandem with the re-structure above, steps were taken to reduce costs through either voluntary severance or early retirement arrangements. This resulted in 94 employees leaving the Council during 2009/10. Employees applying to leave through either scheme were considered on a case by case basis to ensure a strict criteria of achieving payback within three years was met. In August 2010, a paper was submitted to the Policy and Resources Committee to highlight that there is a need to further reduce staff numbers in order to meet future budget pressures.

**Action plan no. 4**



127. The Council has continued to deliver the Workforce Development Strategy and Action Plan approved by members in May 2009. To date, staff appraisals have been completed for members of staff at team leader level and above. The Council are working towards ensuring processes are in place by March 2011 to enable the completion of staff appraisals for all staff in 2011/12.

#### **Action plan no. 5**

128. In our 2008/09 Annual Report to Members, we highlighted that the timescale for the completion of a review and revision of key Human Resource policies had slipped due to a lack of available resource. The Council has ensured that policies are updated to ensure compliance with current legislation however the program of review and revision has yet to be completed due to ongoing resource restrictions.

129. A staff survey was issued to all employees in March 2009, a briefing on the key issues identified was provided to members in November 2009 after delays in the collation and publishing of the findings from the survey provider. Staff focus groups were held in March and April 2010 to discuss and follow up the key issues identified in the survey. The Council plans to undertake its next staff survey in Spring 2011.

130. As part of the Transformation Programme, the Council implemented a joint HR / Payroll system in 2009/10. The long term objective is for the system to offer self service functionality for management and employees. This will be progressed in line with the Operating Model.

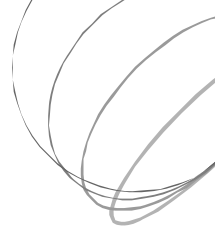
131. The Council had 685 equal pay cases outstanding at the end of March 2010 and has made an increased provision of £3.84 million in the annual accounts.

132. During the year the Council has continued to deliver the Modern Apprenticeship Programme and Future Jobs Fund Programme beyond original expectations. A total of 12 apprentices have been hired through the Modern Apprenticeship Programme and employment for 258 people achieved through the Future Jobs Fund Programme in conjunction with numerous local organisations.

## **ICT**

133. The Council makes good use of ICT to support and deliver services. They continue to work toward providing ICT systems and services that enhance operational efficiency and also monitor developments in technology that could be deployed advantageously. The Customer Service & Business Transformation (CS&BT) service is currently piloting wide area wireless connections to compare the performance/reliability against the existing fibre optic connections.

134. The Council is investing in strengthening the portfolio of corporate business systems that supports the Council achieve its goals for the Operating Model. The new Customer Service Centre (CSC) went live on 19 October 2009. This involved significant organisational and technology changes to implement



the project within five months. The CSC offers a range of Council services and is the foundation for a larger service centre that will be the single point of contact for all Council services. Funding has been agreed for the establishment of a new data centre, in line with the Council's Asset Management Strategy.

135. The performance of the Council's supplier of network services is under continual review. ICT&BT has been successful in driving down costs whilst maintaining service levels and have indicated that supplier performance is improving slowly.

## **Data handling and security**

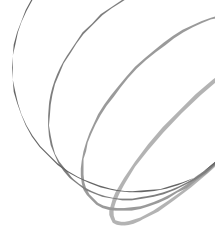
136. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The Council shares data with a number of organisations such as DWP, HM Revenue and Customs, and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to:

- loss of stakeholder confidence and opt out from services
- higher compliance costs due to enforcement action
- withdrawal of third party services such as payment card processing
- legal fees relating to civil and criminal litigation.

137. It should be noted that from April 2010 the Information Commissioner's Office has been able to fine organisations up to £0.5 million for serious data protection breaches.

138. Control self assessments carried out by Education and Social Work for Internal Audit in June and August 2010 highlighted concerns over the use of unencrypted USB storage devices. These devices allow employees to easily store and transfer large quantities of data. There are potentially serious risks associated with using unencrypted USB devices; in particular if they are lost or stolen the data loss can have financial and reputational implications for the Council through fines imposed and/or adverse media publicity. Furthermore USB devices can be used to store malicious software that can be used to hack into the computer network.

139. In February 2009 the Council carried out a review to assess the adequacy and effectiveness of Information Governance and Management across the organisation. The output of the review was presented to CMT in May 2009 and a Corporate lead officer was appointed to oversee the implementation of the improvement plan. A Working Group was set up in December 2009 and a significant amount of progress has been already been delivered by the Working Group to improve the governance, risk management and control procedures for the Council in relation to Information Governance and Management including a revised Acceptable Use of Information Systems Policy, an Employee Survey on awareness of Information Governance and Management issues and the



implementation of a new procedure for using only Corporate, encrypted USB Devices to transfer and store Council data. The Working Group is fully committed to the implementation of the improvement plan which will assist the Council in making its systems, processes and offices more secure and safer places to work.

## Shared services

140. The eight councils (including Inverclyde) forming the Clyde Valley Community Planning Partnership (CVCPP), commissioned Sir John Arbutnott to undertake a review of joint working and shared services. The review identified 10 areas or work streams where it was felt there was scope for joint working and shared services. A phased programme was agreed by Leaders and Chief Executives in January 2010 and this prioritised seven of the work streams.

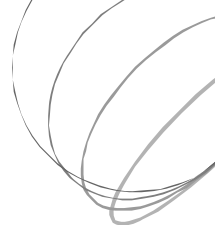
141. The work streams and lead councils are:

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

142. The programme is managed and monitored by Leaders and Chief Executives of the CVCPP and each work stream has an agreed project remit and plan and is supported by a task group from across the constituent authorities. Each project has an outcome with an output target of March 2011, at latest.

143. In addition to supporting East Renfrewshire Council to progress the Shared Support Services work stream the Council are also actively participating in the health and social care, waste management and social transport/fleet management work streams. Three work streams (waste management, social transport/fleet management and shared support services) are preparing outline business cases for submission to the CVCPP on 26 November 2010. An update will also be provided on proposals for health and social care.

144. Agreement has been reached that authorities will contribute to the development of the business cases by making a financial contribution towards costs or seconding an officer to assist with the preparation of the outline business cases.



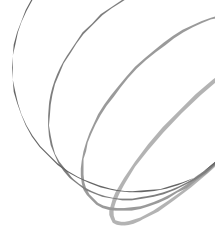
145. As part of the work streams identified to support the delivery of the 2011/2014 Budget the Council also continues to consider potential opportunities for joint working and shared services with other authorities in the Clyde Valley and beyond on a case by case basis.

146. We will monitor progress and outcomes achieved as part of our 2010/11 audit activity.

## **Outlook**

147. The country is in a period of reduced economic growth with significant implications for public finances. This has significant implications for the Council as overall resources are likely to reduce against a backdrop of increasing demand for services.

148. Although the Council's use of resources shows a range of good practice, it still has scope for improvement. In particular, we would suggest that there is scope for greater progress on procurement to deliver best value.



# Governance and accountability

## Introduction

149. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The CMT act as the Council's corporate governance group and the Council has identified an improvement action in their OIP to keep the Council's governance arrangements under review to ensure they exceed the standards set by CIPFA and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) in their guidance: *Delivering Good Governance in Local Government*. The assurance and improvement plan assessed the Council as having no significant risks in this area although we did note that the Council need to review and update their scheme of delegation and other key governance documents in line with the new management structure. The Council are managing this requirement through the OIP and have committed to completing this review by March 2011.

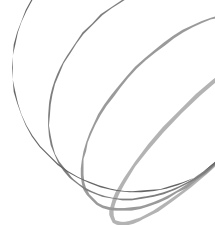
## Scrutiny

150. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Audit Committee's remit includes risk management and anti-fraud reporting. The committee is well attended and in overall terms its remit and working practices are in accordance with the good practice principles. For example, the committee:

- is a formally constituted committee with clear terms of reference which reports directly to Council and usually meets in public
- membership is in line with the political balance of the Council and there is regular attendance by appropriate senior officers of the Council
- considers internal and external audit plans and respective annual reports
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.

151. Over the last year, Council services such as social work and child protection services were inspected by relevant inspection agencies. Clearly the detail of these reports will be addressed by the relevant services and executive committees but good practice suggests audit committees have a role in monitoring implementation to ensure that key risks faced by the Council are being addressed. It is not clear whether the committee has discussed its role with regard to inspection reports.

152. The Accounts Commission issue a range of national study reports and an overview of local government each year. Recommendations are generally directed at all councils so it would be



appropriate for the committee to consider findings and ensure that significant matters are being addressed by the Council.

## Internal audit

153. In the 2008/09 Annual Report to Members we raised a concern about the capacity of Internal Audit to deliver their 2009/10 Annual Audit Plan. An internal audit assistant was recruited in January 2010 to help deliver the 2009/10 plan and we note that the Internal Audit Annual Report and Assurance Statement 2009/10 presented to Audit Committee in August 2010 highlighted that of the 18 planned audit reviews, 16 were completed and two were deferred to the 2010/11 plan. In addition, Internal Audit input was provided to Council Projects/Key Change Initiatives as required during 2009/10. For one project, input was not provided during the project phase however a post-implementation review is scheduled to be carried out as part of the 2010/11 plan.
154. In addition Internal Audit completed 13 ad-hoc assignments, maintained their contribution to the development of risk management practices within the Council and, as at the end of September 2010 have progressed the 2010/11 Annual Audit Plan with two reports finalised, fieldwork complete for one review, fieldwork in progress in four reviews and planning underway for one further review. To facilitate delivery of the 2010/11 audit plan the Chief Internal Auditor is currently seeking to recruit a further resource on a fixed term six month contract.
155. We welcome the progress made by Internal Audit during the year and the good progress already made against the 2010/11 plan.

## Governance and ethical risk

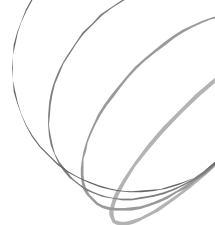
### Background

156. The purpose of this section of the Report is to highlight for Members and the Controller of Audit the need to consider the Governance and Ethical risk that has emerged following the conviction of a councillor under the terms of the Social Security Administration Act 1992. The details of the individual case are reported in paragraphs 29 to 38 of this Report and highlighted as a case study in the National Fraud Initiative in Scotland Report issued in May 2010.<sup>2</sup>
157. The councillor has continued to serve as a member of the Council's Audit Committee and participated in the discussion about the NFI Report, identifying himself as the councillor highlighted in one of the case studies. In our view, the councillor's ongoing membership of the Audit Committee gives rise to

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<sup>2</sup> National Fraud Initiative in Scotland – Making an Impact, May 2010  
[http://www.audit-scotland.gov.uk/docs/central/2010/nr\\_100520\\_national\\_fraud\\_initiative.pdf](http://www.audit-scotland.gov.uk/docs/central/2010/nr_100520_national_fraud_initiative.pdf)





an ethical risk for the Council. Current statutory provisions do not disbar the Councillor from continuing as a member of Inverclyde Council despite his conviction.

## Ethical risk

158. There is broad acceptance that the '*tone at the top*' of a council is vital in developing and maintaining the ethical integrity of the organisation. Without it, the ability to mitigate the risk of something going wrong is significantly impaired. In their leadership role, members must consistently "do as they say" in a way that is aligned and enforces the values and ethical standards of the Council.
159. Audit Scotland's own NFI self appraisal checklist lists as the first question under leadership and commitment: "*Are we committed to NFI? Has the council, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?*"
160. The Council have been very proactive in pursuing benefit fraud and have worked in close partnership with the DWP in support of the NFI as illustrated in paragraph 32 of this report. The benefit fraud in this case was first identified as part of these joint investigations.
161. The risk is that the continued membership of the Audit Committee by the convicted councillor may adversely affect how the ethics of the Council and the Audit Committee are perceived by the staff and local population.

## Statutory provisions

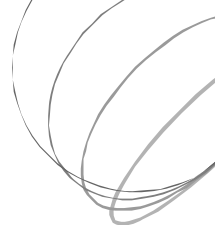
162. The Local Government (Scotland) Act 1973 as amended sets out at Section 31-(1)(c) the condition that will disqualify a person from being a member of a local authority if he has, within five years before the day of nomination, or election or since his election, as the case may be, been convicted in the United Kingdom, the Channel Islands, the Isle of Man or the Irish Republic of any offence and has had passed on him a sentence of imprisonment (whether suspended or not) for, a period of not less than three months without the option of a fine.
163. In the case highlighted at paragraphs 29 to 38 of this Report, the councillor was fined £600 and the existing statutory provision does not apply.

## Ethical standards

164. The Ethical Standards in Public Life etc. (Scotland) Act 2000 introduced a new ethical framework to Scotland, key elements of which are statutory Codes of Conduct<sup>3</sup> and the Standards Commission for

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<sup>3</sup> Code of Conduct for Councillors <http://www.scotland.gov.uk/Resource/Doc/46905/0028864.pdf>



Scotland<sup>4</sup>. As one of the earliest statutes passed by the Scottish Parliament, the Ethical Standards Act underlines the strong commitment to the promotion of high standards in public life by the Scottish Government and the Parliament itself. Ethical standards and probity are at the heart of decision making in Scotland.

165. The Code of Conduct for Councillors came into effect on 1 May 2003 and the Standards Commission have also issued a “Guidance and Dispensations Note to Councillors and Local Authorities in Scotland” dated April 2007<sup>5</sup>. The Code of Conduct sets out nine key principles upon which the code is based, these include:

- **Duty:** You have a duty to uphold the law and act in accordance with the law and the public trust placed in you....
- **Honesty:** You have a duty to act honestly....

166. The ‘Guidance and Dispensations Note’ provides an explanation of the scope of the Code of Conduct and at paragraphs 19 to 21 of the code:

- **19** The key principles are set out in section 2 of the Code and are the principles upon which the rules of conduct in the Code are based.
- **20** These principles should be applied by councillors wherever and whenever they are acting in an official capacity as councillors, whether the business is formal or informal.
- **21** The Code does not apply where councillors are acting in a private capacity and where their actions do not affect their public responsibilities. The Code only applies when councillors are acting in the performance of their functions.

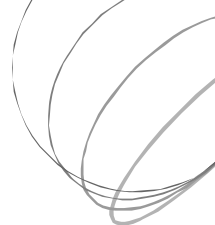
167. Our understanding is that the Code of Conduct does not apply to the convicted councillor’s private actions as outlined in paragraph 21 of the ‘Guidance and Dispensations Note’. This being the case, concerned parties do not have redress via the Ethical Standards in Public Life etc. (Scotland) Act 2000. We conclude that the current legislative framework is not sufficiently comprehensive in these matters.

168. A comparison with the arrangements in England and Wales reveals that the English Code includes a section on ‘Disrepute’ and paragraph 5 of the English Code of Conduct states: “*You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or authority into disrepute.*” We note that there were plans to extend the scope of the English Code of Conduct to

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<sup>4</sup> Standards Commission for Scotland <http://www.standardscommissionscotland.org.uk/index.html>

<sup>5</sup> Guidance and Dispensations Note to Councillors and Local Authorities in Scotland - April 2007  
[http://www.standardscommissionscotland.org.uk/documents/LAGuidanceandDispensationsNote\\_000.pdf](http://www.standardscommissionscotland.org.uk/documents/LAGuidanceandDispensationsNote_000.pdf)



include personal behaviour which has led to a criminal conviction whether or not it is linked to a member's office.

169. We note that the standards regime in England will be subject to further change as the UK Government is axing the English regime and is legislating to make serious misconduct an offence to be dealt with by the criminal courts.<sup>6</sup>

## Mitigating ethical risks

170. Members and the Controller of Audit may wish to consider the need for an ethical risk assessment within the overall arrangements for councils. The Council should consider the residual ethical risks resulting from current statutory provisions and possible responses to mitigate the residual risks. In particular, the Council should consider what conditions might apply for membership of the Audit Committee.

## Roles and relationships

171. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. Personal development plans are in place for all members. Fourteen of the twenty members have recently discussed and refreshed their personal development plans following discussion with the Members' Services Manager. The remaining members were invited to update their personal plan but declined this offer.

172. A programme of training for members re-commenced in August 2010. Training has been provided in the following areas:

Training Topic	Attendance Rate
Civil Contingency Planning	60%
Officer / Member Relations (supported by the Improvement Service)	65%
Housing Benefit / Council Tax legislation	45%

173. Future training sessions are planned on the following areas and are based on the development needs identified during personal development discussions:

- Public speaking

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<sup>6</sup> CLG Press release 20 September 2010 - <http://www.communities.gov.uk/news/newsroom/1719857>

- Audit refresher briefing
- Financial Framework briefing
- Data Protection briefing.

174. The Members' Handbook has recently been updated following the Council management restructure. The draft handbook is due to be finalised and circulated to members' in 2010.

## Partnership working

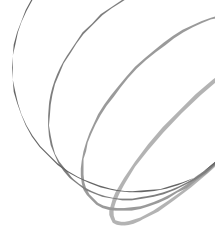
175. The Council shows evidence of good partnership working. Community planning structures are well developed through the Inverclyde Alliance which continues to manage the community planning process to deliver more joined-up services and deliver the targets set out in the SOA.

176. The SOA Programme Board, established to oversee the delivery of the SOA, is chaired by the Council's Chief Executive and comprises the eight lead officers, representing relevant partner agencies, for each of the identified outcomes. The eight outcome delivery groups have developed delivery plans and the lead officer for each group reports on progress against those actions to the Programme Board which, in turn, reports to the Alliance Board. The eight outcomes are:

- Tackling depopulation
- Social regeneration / area renewal
- Economic regeneration
- Employability
- Health inequalities
- Alcohol Misuse and problematic drinking
- Best start in life for young people
- Environment.

177. Actions within the delivery plans are assigned a red, amber or green status depending on whether performance is not expected to meet target and requires immediate action, performance is not in line with expectations and requires close monitoring or performance is on track. The last progress report presented to the Alliance Board in October 2010 highlighted that progress was being made against all eight outcomes. Of the 63 actions, 56 were classified as green, three as amber, three as red and one does not currently have a status as the results of the associated indicator are not available until later in 2010. The three actions with a red status are:

- Depopulation – The development of an Impact Assessment to ensure all partners take full account of the impact on population of strategies and policies.



- Best Start in Life for Young People – Increase the percentage of children that are exclusively breastfed at 6-8 weeks.
- The Environment – Work in partnership with the James Watt College and other further/higher educational partners on a pilot Environmental Sustainability Awareness Training Project.

178. The Communications Framework for the Inverclyde Alliance was drafted in March 2010 and presented to the Alliance Board in June 2010. The objective of the framework is to ensure that all stakeholders including communities and employees of the partnership organisations understand the role of the Alliance and the SOA and the outcomes and progress made against them.

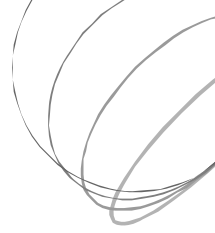
## **Community engagement**

179. Inverclyde Alliance developed the 'Community Engagement Strategy 2008-2018' in June 2008 and an associated Community Engagement Strategy Implementation Plan which was approved by the Alliance Board in December 2009. A review of the implementation plan and the role of the Community Engagement Network was performed in August 2010 and a report is to be prepared and presented to the Alliance Board in December 2010. A further exercise is to be performed to assess the implementation plan against the Best Value 2 Community Engagement toolkit; this will be completed by the end of December 2010.

180. Throughout 2010 the Alliance Community Engagement Network is co-ordinating a range of processes to consult and engage on the SOA Local Outcomes. These processes include a series of events which are open to all members of the public, facilitated dialogue with community groups and public consultation via questionnaires. Adopting a range of methods is seen as key to achieving open dialogue with the local community. The feedback from each event / engagement process is submitted to the SOA Programme Board and the Alliance Board and is used by the Alliance partners to help plan service delivery.

181. A fifth citizens' panel survey (1,000 members) was conducted by the Council in June 2010 and the results were reported to the Policy and Resources Committee in September 2010. The survey was the second one to focus on quality of life issues with the first one being conducted in December 2007. This enabled the Council to analyse the movement in responses over the two and a half year period.

182. The results highlighted a number of positive messages in areas such as quality of neighbourhood, provision of recycling facilities and satisfaction with Council services. They also highlighted challenges to the Council relating to areas such as alcohol consumption, roads and pavement maintenance, experiencing poor customer service from the Council and a high percentage of people who have considered leaving the area for reasons such as employment, crime, anti-social behaviour and poor quality of shops.



183. The Council recognise these as areas of concern and are addressing them through Corporate and Community plans and strategies. The ongoing commitment to community engagement, use of the citizen's panel, and the close correlation between issues identified and the key areas of focus in the Council's plans and strategies, clearly demonstrates the importance placed by the Council on the views of its citizens.

## Public performance reporting

184. The Council presented its 2009/10 annual Public Performance Report (PPR) to the Policy and Resources Committee in September 2010. It is published on the Council's website and hard copies are available in public libraries and council offices. For each of the Council's five strategic outcomes the report focuses on the work carried out in the year, key performance facts and planned activity in 2010/11.

185. Public performance reporting is an essential part of local accountability. Councils need to ensure their public performance reporting is clear and balanced, and presents easily understandable information that meets the needs of diverse communities. In our 'Review of Governance Arrangements and Main Financial Systems' report issued in May 2010 we commented that the 2008/09 PPR rarely highlighted areas where performance could be improved and we recommended that the 2009/10 PPR provide a more balanced reflection of the Council's performance in the year. A review of the 2009/10 report has highlighted the same concerns as those raised about the 2008/09 report.

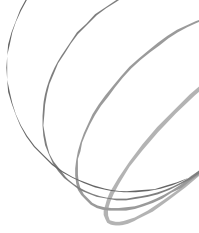
**Action plan no. 6**

## Governance and internal control

186. In May 2010, we published our 'Review of Governance Arrangements and Main Financial Systems Report'. This report detailed identified weaknesses within the Council's governance arrangements and key financial internal controls. The key weaknesses highlighted related to payroll and were a result of the implementation of the new joint HR / Payroll system.

## Outlook

187. As the SOA demonstrates, partnership working is critical to the Council's success. We are developing our approach to the audit of partnerships through the new approach to best value. In future, we shall increasingly be looking at the contribution of partners as well as the Council's own contribution to the delivery of outcomes.



# Performance management and improvement

## Introduction

188. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that the Council did not have any significant weaknesses in this area. This section provides a high level overview of performance management in the Council.

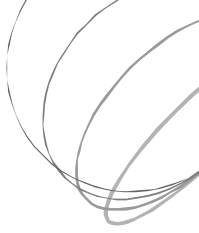
189. The Council's performance management framework is continuing to develop through the implementation of a Corporate Performance Management System, Inverclyde Performs, which is due to be operational from January 2011. The system will facilitate a more focused and effective approach to presenting and utilising performance management information.

190. The Council's approach to performance reporting is an established and integral part of how the Council operates. The Strategic Planning and Performance Management Framework integrates planning and performance management to facilitate the delivery of corporate and service initiatives. The Council are progressing the implementation of the Public Service Improvement Framework (PSIF).

## Vision and strategic direction

191. The Council approved its OIP in February 2009 to support the delivery of the outcomes in the Corporate Plan, Community Plan, SOA and the Best Value improvement plan. The most recent Best Value follow-up report in January 2009 concluded that 'the Council has made significant progress in delivering its improvement agenda.

192. The SOA, Corporate Plan and Inverclyde Alliance Community Plan are at the centre of the Council's strategic planning and performance management framework. The plans are supported by the OIP, directorate plans and the financial strategy. The strategy is reviewed bi annually and work is ongoing to strengthen the link between the strategy and the new directorate plans presented to relevant committees between May and September 2010.



193. Workstreams within the OIP were identified through a PSIF corporate assessment of the Council by the Strategic Leadership Forum and the extended CMT. The workstreams include:

- leadership, governance and management
- organisational transformation and improvement
- workforce development
- strategic planning and performance management
- management of resources.

194. Progress against improvement actions was reported to the September 2010 Policy and Resources Committee. From a total of 43 improvement actions, currently 11 are complete, 23 are on track, two are not due to be started and seven are experiencing slippage. Actions slipping against their targeted timescale include:

- implementation of the electronic performance management system
- developing a customer service centre strategy
- analysing employee survey results
- equality monitoring information for services
- developing and implementing a corporate approach to project and programme management.

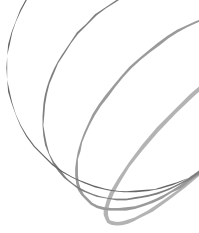
195. The Council will continue to monitor and report on progress of improvement actions within the OIP through the Corporate Performance Report and where slippage occurs corrective action will be identified.

196. A draft SOA Annual Report 2009-10 was submitted to the Scottish Government prior to the deadline of 30 September. The draft report was then presented to, and approved at, the Alliance Board on 4 October 2010.

197. The PSIF has been used for both corporate level and a number of service level assessments. The assessment outcomes have resulted in the production of improvement plans which are directly linked to directorate plans. To date the following areas have been subject to the PSIF process:

- Criminal Justice
- Property Resources & Facilities Management
- Performance Management & Procurement
- Environmental Services





- Corporate Communications and Public Affairs
- Community Learning & Development
- Legal & Administration.

198. Five further PSIF reviews are expected to be complete by December 2010, with improvement plans to be finalised in January 2011. these are:

- Customer Service and Business Transformation
- Organisational Development, Human Resources and Performance
- Planning and Regeneration
- Finance
- Safer and Inclusive Communities.

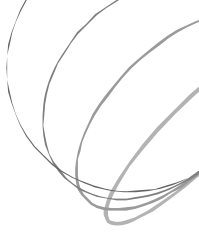
199. Education considered the PSIF and applied it to Community Learning and Development however, with agreement of CMT and Committee, they will utilise Quality Management in Education (QMIE3) to inform their preparations for a validated self-assessment (VASE) scheduled for completion in 2010/11.

200. Detailed consideration is being given to the most appropriate strategic planning, self-assessment (including PSIF) and performance management arrangements for the ICHCP in order to ensure that the specific requirements of the Council and NHSGC&C are met. Interim arrangements will be developed and implemented in the short term. Registered services with the Care Commission all complete annual self-evaluations.

201. The Council's Modernisation and Efficiency Programme was a key element of the OIP. In March 2010, the Policy and Resources Committee approved governance and management arrangements for the Transformation Programme to supersede the Modernisation and Efficiency Programme. These arrangements ensure that the four key strands of the Transformation Programme (Operating Model, Asset Management, Financial Strategy and Organisational Structures) are synchronised. The Operating Model is based on improvement to both corporate and service level efficiency opportunities through modernisation of current working practices.

202. The Council has completed phase one of the Operating Model with the launch of the CSC in October 2009. The centre allows customers to access a range of Council services in a single location and is expected to deliver increasing improvements to customers over the next two to three years as further services are transferred.

203. The Council has continued to progress phase two of the Operating Model which includes designing, building and implementing a Business Support Unit as well as further development of the CSC. A one



year timescale was set to deliver phases two and three of the Operating Model, and these phases will be delivered by April 2011. The full six phase implementation of the Operating Model has been set a revised completion date of 30 April 2013.

204. Further progress within phase two included completing the first live payroll run on the integrated HR/Payroll system in September 2009. All six pay runs were migrated by March 2010. By October 2009 the Council had successfully completed the back scanning of benefits claim files and the integration with the Electronic Document Records Management system.

## **Performance management**

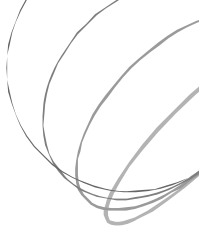
205. During 2009/10 the Council monitored performance through performance indicators across all directorates. These performance indicators were established across services and were reported in line with the committee cycle to their relevant committee up to March 2010. As a result of the Council's restructure on April 1, new Directorate Planning Guidance was prepared and new Directorate Plans produced.

206. In November 2008 the Council agreed to procure a new performance management system, Inverclyde Performs. The Council has ensured that the system is tailored to their specific requirements which will allow performance to be monitored for each of their key measures. Work has been ongoing to populate the system throughout the year and the Council will adopt a phased approach to the live implementation of the system, with the following timescales to be adopted:

- Statutory Performance Indicators (SPIs) – January 2011
- Single Outcome Agreement – March 2011
- Corporate Plan and Community Plan – July 2011
- Service Indicators – January 2012

207. A review of Corporate and Directorate Performance Reporting was undertaken and presented to the Policy and Resources Committee in May 2010. The key changes as a result of this review were that both Corporate and Directorate reporting will move to a quarterly cycle, with reports being presented to alternate committees. Both forms of reporting will also be developed through the implementation of Inverclyde Performs, using a Red / Amber / Green status for each outcome and action. The first of these new reports was submitted to committee in October 2010.

**Action plan no. 6**



## Statutory performance indicators

208. One of the ways of measuring Council performance is through SPIs. In 2009/10, the Council were required to report against 20 of the 25 SPIs to Audit Scotland. The five indicators not reported were Housing indicators which fall out with the Council's remit.

209. For 2009/10 Audit Scotland changed the SPI Direction, requiring the Council to define a new set of Key Performance Indicators (KPI) in addition to the 20 statutory SPIs. These KPIs are used as an internal measure of progress and to demonstrate that the Council are delivering best value across services and functions. In September 2009, the Council approved 55 KPIs. The combined 75 indicators represent a total of 136 measures. Of these, 26 were reported for the first time in 2009/10 and 13 were still to be finalised due to the publication date of the required education information being later in the year.

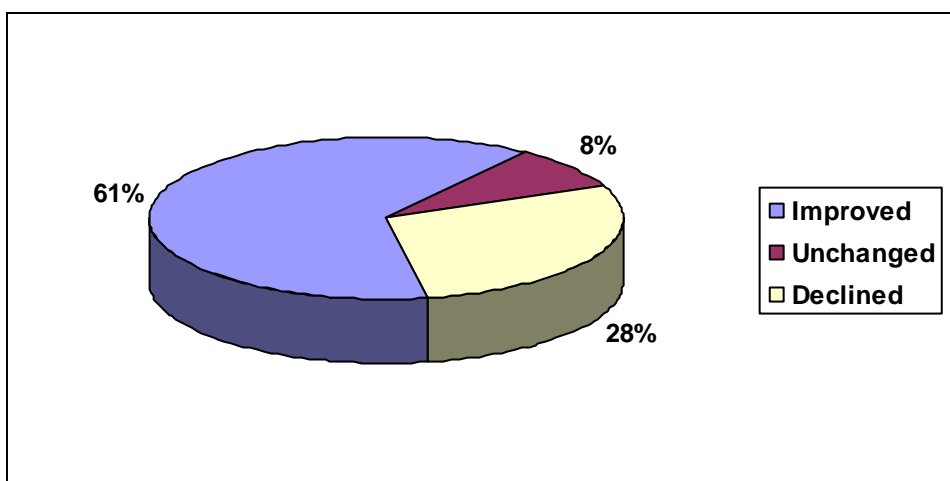
210. The SPIs and KPIs were submitted to the Policy and Resources Committee and published on the Council's website in September 2010. KPIs provide a consistent form of measurement for councils to review their performance over time, while SPIs also allow for comparisons with other councils.

211. In overall terms, Exhibit 6 confirms that the Council has made improvement in over 62% of the 97 measures where year on year comparison is available.

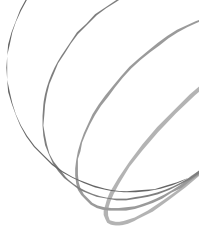
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### Exhibit 6

#### Improvements demonstrated by SPIs and KPIs (Total 97 measures)



212. SPIs that have shown a significant improvement include the number and percentage of women in the highest paid 2 and 5 percent of earners amongst Council employees, trading standards complaints and advice completed within 14 days and the number of attendees per 1,000 population for sport, leisure, libraries and museum facilities. Only one SPI showed a significant decline in performance in



year, the net cost of collection and disposal of refuse. No SPIs were subject to audit qualification due to lack of adequate supporting evidence.

## **Progress against audit risks identified in the AIP**

213. As noted in the introduction this report includes any significant findings that have arisen from our review of the management of strategic risks contained within the AIP which was published in July 2010.

214. The AIP contains audit and scrutiny risk assessments prepared by a local area network with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of the Council.

215. This assessment highlighted two areas of significant risk to the Council and also areas of uncertainty where associated audit and scrutiny activity was identified. In many cases we said that we would monitor the Council's progress through our standard scrutiny process. A number of the key areas of uncertainty have been addressed in other sections of this report. The following paragraphs note the position against the key areas not already discussed.

## **Areas of significant risk**

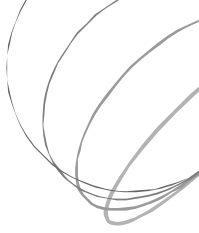
### **Depopulation**

216. The AIP highlighted that depopulation is a significant strategic issue for the Council and threatens the future viability of the area as a local government unit. The AIP also recognises that the Council has identified this as an area of concern and the Inverclyde Alliance has established a multi-agency Outcome Delivery Group (ODG) focused on reducing the rate of population decline. The group has identified three broad areas of activity and developed an action plan against which progress is actively monitored. These areas are:

- Developing a detailed baseline population position statement with regard to population in Inverclyde.
- Developing the concept of a Population Impact Assessment.
- Promoting Inverclyde regionally and nationally.

217. Expressions of interest have been received from three organisations with regard to the development of a baseline population position statement and the procurement process is in progress. Capacity issues have resulted in delays in the action identified to develop the population impact assessment. A discussion paper was agreed by the ODG but plans to pilot the approach on relevant strategies have not been delivered.

**Action plan no. 7**



## Waste management

218. The other significant risk area identified in the AIP relates to the need for the Council to reduce the tonnage of waste sent to landfill. Exhibit 7 shows the progress made by the Council between 2005/06 and 2009/10 toward reducing the tonnage of municipal waste sent to landfill and increasing the tonnage sent for either recycling or composting however note that despite this progress the Council still exceeded their 2009/10 landfill allowance of 19,131 tonnes<sup>7</sup>. The Scottish Environment Protection Agency (SEPA) calculates the level of biodegradable municipal waste as approximately 61% of the total municipal waste landfilled. Inverclyde's level for 2009/10 was calculated by SEPA as 19,767 tonnes<sup>8</sup> meaning the Council missed their target by 636 tonnes.

### Exhibit 7

#### Municipal waste management

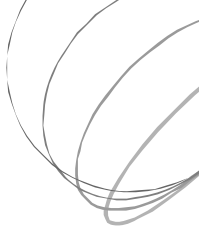
Description	2005/06	2006/07	2007/08	2008/09	2009/10	Improvement since 2005/06
Tonnes of municipal waste	52,354	53,330	49,719	49,348	46,801	N/A
Tonnes of municipal waste landfilled	42,312	42,596	38,372	35,572	32,607	22.9%
% of municipal waste landfilled	80.8%	79.9%	77.2%	72.0%	69.7%	13.7%
Tonnes of municipal waste recycled or composted	10,042	10,734	11,346	13,821	14,194	41.3%
% of municipal waste recycled or composted	19.2%	20.1%	22.8%	28.0%	30.3%	57.8%

219. One of the 10 workstreams identified by the CVCPP commissioned review of joint working and shared services was to develop the shared use of waste treatment facilities and explore joint arrangements for recycling. The Council are part of a multi-authority task force which are developing an outline business case to explore the potential for a joint or collaborative approach to the procurement of a new municipal waste treatment service for the eight authorities within the Clyde Valley. The business case is to be developed by November 2010.

**Action plan no. 8**

<sup>7</sup> <http://www.scotland.gov.uk/Publications/2005/06/08111144/11463>

<sup>8</sup> [http://www.sepa.org.uk/waste/waste\\_data/waste\\_data\\_reports/landfill\\_allowance\\_scheme.aspx](http://www.sepa.org.uk/waste/waste_data/waste_data_reports/landfill_allowance_scheme.aspx)



## Areas of uncertainty

### **Inverclyde Community Health and Care Partnership (ICHCP)**

220. At the time the AIP was issued the Council and NHSGG&C were in the process of creating the new ICHCP. In August 2010 a paper was submitted to the Health & Social Care Committee which outlined the proposed SoE for the implementation of the ICHCP. The SoE outlines the protocols and structures around which the ICHCP will be established and establishes the governance arrangements between the Council and NHSGG&C. The Health & Social Care Committee submitted the paper for approval at the full Council meeting held on 7 October 2010.

**Action plan no. 9**

### **Employment levels**

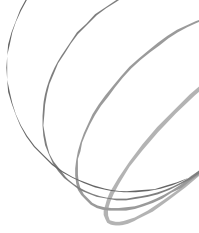
221. Inverclyde suffers from high levels of unemployment and is heavily reliant on large companies and the public sector for employment. Consequently the area is particularly susceptible to changes in the economy and to reductions in public sector funding.

222. In early 2009 the Inverclyde Alliance established a multi-agency ODG focused on tackling issues of employability and skills development. Progress has been made against all of the actions in the group's delivery plan and particular achievements during 2009/10 include:

- Recognition from the DWP that the Council's Future Jobs Fund scheme is the best performing in Scotland and second best in the whole of the UK. As a consequence the DWP have extended the scheme for a further year and in 2010/11 a further 360 jobs are to be secured through the scheme.
- Inverclyde dropped out of the top five local authorities with the highest proportion of working age population on the claimant count. Although Inverclyde's proportion rose by 0.5% this was well below the Scottish average of 1.2% (from January 2009 to January 2010).
- European funding has been secured to support the establishment of an Employer Engagement Unit which will liaise with employers to gain a greater understanding of their skill requirements and enable better matching of unemployed beneficiaries to job opportunities.

### **Education leadership**

223. During 2009/10 there was a change in the Corporate Director with responsibility for Education and a further reduction in capacity and experience due to three senior Education officers accepting severance packages. There was a risk that this might have a detrimental impact on the clear direction set and progress made by the Education service.



224. During the year we monitored the HMIE reports for Inverclyde educational establishments to ascertain whether there was any evidence of deterioration in the quality of service delivery. Ten establishments were subject to HMIE reviews between June 2009 and April 2010 with each one evaluated against five quality indicators with a six-point scale ranging from 'Unsatisfactory' to 'Excellent' awarded against indicator. The indicators are:

- Improvements in performance.
- Children's / learner's experience.
- Meeting learning needs.
- The curriculum.
- Improvement through self-evaluation.

225. Across the ten establishments reviewed there were two 'Excellent', twenty nine 'Very Good', sixteen 'Good' and three 'Satisfactory' grades awarded. This is considered to be a strong performance especially as these results have been achieved during a period of transition both in terms of leadership and during regeneration of the school estate which has resulted in some schools being housed in temporary accommodation.

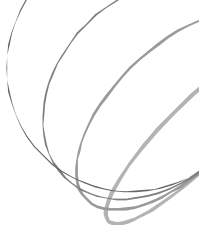
## **Carbon management**

226. The AIP makes reference to the Council having an approved Carbon Management Plan (CMP) which sets out targets to reduce emissions by 15% by 2012/13. The Council intended to appoint a Carbon and Energy Management Officer and interviews were held on 25 August 2010 and 2 September 2010 but a suitable candidate has not yet been identified. It is proposed to re-advertise the vacancy with the revised title of 'Carbon Reduction Officer'. The advertisement, job description and person specification have been refreshed for re-advertising.

227. The Council is addressing many of the actions in its CMP. To complement that activity they have embarked on the Carbon Trust's Carbon Management Revisited Programme which provides support to Local Authorities who, like Inverclyde, participated in their 2007/08 Carbon Management Programme.

228. With specialist support from the Carbon Trust, the Council intend to:

- establish a revised carbon baseline
- review and refresh their current carbon reduction projects list
- identify additional projects that may be required to deliver above the original, or revised, carbon reduction target

- 
- take forward the results of the Carbon Management Assessment Tool document that was recently completed
  - assess the maturity of the carbon management model in the Council and examine how it could be made more effective in any update of the CMP.

229. Priorities for the next year ahead include:

- continuing to progress actions within the CMP
- successfully complete Phases 1 and 2 of the Carbon Trust's Carbon Management Revisited Programme
- submitting the refreshed CMP to the Safe, Sustainable Communities Committee for approval with the request that the Committee receives future updates on progress against the plan.

## **Equality and diversity**

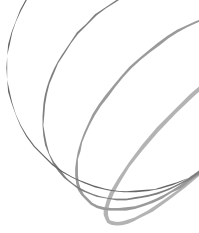
230. The Council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. Following a management restructure responsibility for the corporate equality agenda has been assigned to the Head of Education. The Corporate Equality Group had not met for a considerable time when the Head of Education took on this role. The group has now been re-established and will meet on 4 October 2010 to agree a forward work plan and prepare a response to the national Consultation on Public Sector Equality Duty Draft Regulations and Order. The main priorities for the group include:

- Developing a terms of reference for the group
- Promoting good practice in relation to diversity and equality on a council wide basis
- Adopting consistent policies and practice across the Council
- Implementing arrangements to achieve compliance with public sector duties
- Producing an action plan to deliver improvements in equalities.

231. The Head of Education has assessed the Council's position on diversity and equality against the criteria set out in the Best Value 2 matrix for Equalities which was produced by Audit Scotland. The self assessment evaluation conducted by the Council concluded that basic practice levels were being achieved. The action plan being constructed by the Corporate Equality Group aims to deliver better practice levels across the Council.

**Action plan no. 10**





## Efficiency

232. The Council submitted their fourth Annual Efficiency Statement to the Convention of Scottish Local Authorities in August 2010. This details the efficiency gains achieved in 2009/10 and the budgeted efficiencies in 2010/11. In 2009/10 £1.9 million of efficiencies were achieved with the key measures and savings being:

- £0.59 million through managing the downsizing of the workforce without impacting on service delivery or performance
- £0.40 million through debt restructuring
- £0.34 million through negotiating a new insurance contract which provided the same level of cover as the previous contract.
- £0.22 million through reviewing social care contracts without reducing service delivery
- £0.17 million through amending school timetables which results in a reduction in the required number of teachers.

233. £3.3 million of further efficiencies have been agreed as part of the 2010/11 budget with key areas being :

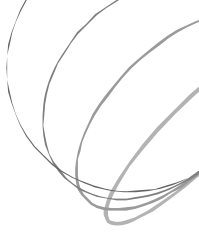
- |   |               |
|---|---------------|
| ▪ 1% service efficiency target (approved in September 2009) | £1.55 million |
| ▪ Senior management restructure                             | £0.95 million |
| ▪ Operating model – employee reductions                     | £0.43 million |
| ▪ Procurement   | £0.31 million |
| ▪ Service reviews   | £0.06 million |

234. In our 2008/09 Annual Report to Members we emphasised the challenges associated with meeting the targeted efficiencies in 2009/10 and the need to maintain good monitoring procedures to highlight material shortfalls at an early stage. We are pleased to report that the 2009/10 targets were exceeded and that appropriate monitoring was, and continues to be, performed.

## Risk management

235. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

236. The Council has continued to improve on its approach to managing risk. Regular reporting to the Audit Committee keeps members informed and ensures progress is sustained. In addition to maintaining



the ongoing review and update of strategic and operational risk registers, specific progress has been made in 2009/10 in the following areas:

- Developing the Risk Assessment and Prioritisation framework
- Updating the Risk Management Strategy
- Developing specific risk registers for the SOA and Financial Strategy
- Developing a corporate framework for project management which incorporates risk management as a key requirement for all projects.

237. The Council's service, directorate and corporate risk registers are currently being refreshed to reflect the new corporate management structure.

238. The Council recognises that key actions required are to embed a regular review and update process within services on their risk registers and to review corporate, directorate and service risk registers to determine the overall approach to risk management and ensure strategic and operational risks are aligned and the risk management process is embedded in the wider strategic planning and performance management framework.

## **Business continuity planning**

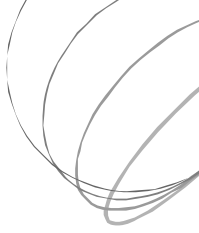
239. Service business continuity plans have been drafted for relevant services and further meetings with the Joint Civil Contingencies Service (Inverclyde Council, East Renfrewshire Council and Renfrewshire Council) continue to take place to revise and finalise these plans to take account of the new Corporate Structure and introduction of the ICHCP. The need to revise the plans has resulted in a delay in the performance of rehearsal testing. Originally scheduled to be completed by 30 June 2010 this testing has been rescheduled and will be completed by 31 March 2011.

240. The Council currently have no back up data centre to support the recovery and restoration of critical systems in the event of a major disaster. Funding has been agreed for the establishment of a new data centre in line with the Council's asset management strategy and arrangements for disaster recovery are currently under discussion with the aim of providing an interim solution for 2011.

**Action plan no. 11**

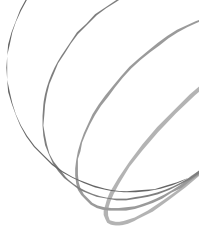
## **Outlook**

241. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at [www.audit-scotland.gov.uk/work/scrutiny/index.php](http://www.audit-scotland.gov.uk/work/scrutiny/index.php). The timing of Inverclyde's Best Value 2 audit will be determined by a risk assessment however, as per the Council's



AIP, we are recommending it is conducted in 2012/13. However, the AIP does include scrutiny activity by other scrutiny bodies over the next three years including:

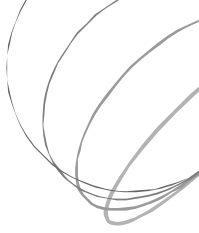
- HMIE – Joint inspection of services to protect children and young people (2010/11)
- HMIE – Educational Psychology Service inspection (2010/11)
- Care Commission – Inspection of adoption and fostering services(2010/11)
- SWIA – Initial Scrutiny Level Assessment (ISLA) review (2010/11)
- SWIA – National inspection of prison based social work services (2010/11)
- SHR – Review of a self assessment by the Council demonstrating its progress in delivering improvements to the Homeless service (2010/11)



# Appendix A

## External audit reports and audit opinions issued for 2009/10

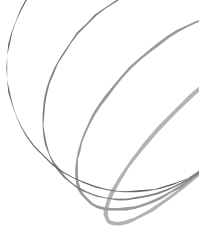
<b>Title of report or opinion</b>	<b>Date of issue</b>	<b>Date presented to Audit Committee / Full Council</b>
Review of Adequacy of Internal Audit	28 January 2010	Not presented
Annual Audit Plan	29 January 2010	2 March 2010
Report on Restated IFRS Opening Balance Sheet and PPP Adjustments	26 May 2010	24 June 2010
Review of Governance Arrangements and Main Financial Systems	31 May 2010	24 August 2010
Shared Risk Assessment / Assurance and Improvement Plan	1 July 2010	10 June 2010 (Draft Version)
Education Maintenance Allowance Grant Claim	29 June 2010	Not presented
Criminal Justice Social Work Services Grant Claim	14 September 2010	Not presented
Report on financial statements to those charged with governance	22 September 2010	22 September 2010
Audit opinion on the 2009/10 financial statements	22 September 2010	22 September 2010



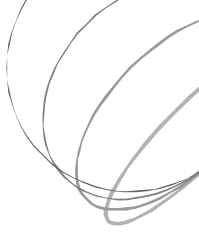
# Appendix B: Action Plan

## Key Risk Areas and Planned Management Action

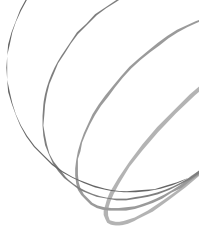
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	85-90	<p><b>Financial Pressures</b></p> <p>In common with all other Scottish local authorities the current economic downturn has increased the financial pressures on the Council. The expected funding constraints over the next few years will further increase these financial pressures with possible adverse impact on services to the public.</p> <p>The Council has estimated a £30 million revenue funding shortfall over the four year period 2010/14.</p> <p><b><i>Risk: without effective financial management the Council may be unable to meet future service costs.</i></b></p>	<p>The Council has agreed to set a 2011/13 Revenue Budget and 2011/14 Capital Budget in February 2011.</p> <p>The Council will continue to receive six monthly revisions to its Financial Strategy</p>	<p>Chief Financial Officer</p> <p>Chief Financial Officer</p>	<p>February 2011</p> <p>Ongoing</p>
2	110-114	<p><b>Schools Estate Strategy</b></p> <p>The September 2010 review of the School Estate Funding Model has highlighted a deficit over the life of the model with the predominant reason being a reduction in funding through capital receipts and funding.</p> <p><b><i>Risk: shortfalls in funding could result in slippage in the key project milestones or a reduction in the scope of the strategy which could have a detrimental impact on the delivery of education services within Inverclyde.</i></b></p>	<p>Funding Model was amended to eliminate the deficit. Model will continue to be reviewed 6 monthly.</p> <p><i>(Refer to 2008/09 Annual Report to Members point 7, 2007/08 Annual Report to Members point 18 and 2007/08 SARA point 4.1)</i></p>	<p>Corporate Director Education &amp; Communities</p>	<p>Ongoing</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	115-122	<p><b>Strategic Procurement Framework</b></p> <p>A Strategic Procurement Framework was compiled and presented to the September 2009 Policy and Resources Committee.</p> <p>Further slippage has arisen in the timescale for delivering the actions within the framework. The Council will need to increase momentum to significantly develop current procurement practices.</p> <p><b>Risk: procurement decisions across the Council are not made in a consistent fashion and may not achieve best value.</b></p>	<p>Updates will continue to be reported every quarter to Committee. Target is for Council to achieve "Conformance" Status by 31.12.11</p> <p><i>(Refer to 2008/09 Annual Report to Members point 8, 2008/09 SARA point 30, 2008/09 Annual Audit Plan page 16, 2007/08 Annual Report to Members point 15, and 2007/08 SARA point 4.9)</i></p>	Chief Financial Officer	December 2011
4	123-126	<p><b>Impact of Workforce Reductions</b></p> <p>In addition to the 94 members of staff who left Council employment in March 2010, the Council has highlighted the need for further reductions in staff numbers to meet future budget pressures.</p> <p>Further staff reductions will require careful succession planning to minimise the risks associated with single person dependency, and the loss of knowledge, skills and expertise.</p> <p><b>Risk: the Council are unable to manage and develop their workforce, or have the necessary capacity, to achieve medium to long term strategic objectives.</b></p>	<p>The Council will ensure, through the budget process, that the reduction in the workforce will be effectively planned and managed to avoid significant issues with regard to knowledge, capacity and experience.</p>	Corporate Director Organisational Improvement and Resources	Ongoing

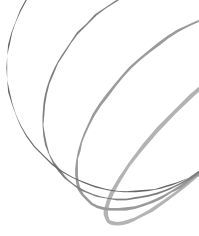


Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	127	<p><b>Employee Appraisal Scheme</b></p> <p>It is recognised that a performance review and appraisal process has been developed for employees at team leader level and above. As yet employee appraisals have not been rolled out to all employees.</p> <p><b>Risk: the Council are unable to measure employee performance and identify associated training needs.</b></p>	<p>Employee Appraisal will be completed to Team Leader Level by March 2011 and for all employees by March 2012.</p> <p><i>(Refer to 2009/10 Annual Report to Members point 19, 2008/09 SARA point 25, 2007/08 Annual Report to Members point 16 and 2007/08 SARA point 2.4)</i></p>	Head of Organisational Development, HR and Performance	March 2012
6	184-185 & 205-207	<p><b>Performance Management</b></p> <p>The new performance management system, Inverclyde Performs, is due for a phased roll out from January 2010. Performance management across the Council is due to be embedded within this system by July 2012.</p> <p>The Council agreed a revised performance reporting approach in May 2010. The final directorate performance reports under the old format were presented to committee in March 2010 and the first of these revised reports was submitted to committee in October 2010.</p> <p>A review of the 2009/10 Public Performance Report highlighted that it did not provide a balanced reflection of the Council's performance in year.</p> <p><b>Risk: comprehensive performance information is not readily available within appropriate timescales to enable informed decisions to be made to support the</b></p>	<p>The Council believes that the SP&amp;PM Framework provides members with a broad range of performance information at a corporate and service level and enables members and management to make an informed judgement on where improvement is required.</p> <p>The Council will take account of the comments made by AS with regard to the PPR in the development of the 2010/2011 PPR.</p> <p><i>(Refer to 2008/09 Annual Report to Members point 19, 2008/09 SARA point 12, 2007/08 Annual Report to Members point 8 and 2007/08 SARA point 2.2)</i></p>	Head of Organisational Development, HR and Performance	<p>July 2012</p> <p>October 2012</p>

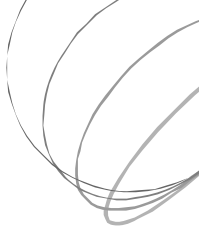


Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<b>Council's plans. There is a further risk that the Council fail to adequately inform stakeholders of the quality of service provision.</b>			
7	216-217	<p><b>Depopulation</b></p> <p>Depopulation is a significant strategic issue for the Council and threatens the future viability of the area as a local government unit.</p> <p>The Inverclyde Alliance has established a multi-agency Outcome Delivery Group focused on reducing the rate of population decline which has identified three broad areas of activity and developed an action plan against which progress is actively monitored.</p> <p>Capacity issues have resulted in delays in the action identified to develop a population impact assessment.</p> <p><b>Risk: this creates a number of risks for the Council including, but not exclusively, issues around:</b></p> <ul style="list-style-type: none"> <li>▪ <b>affordability and provision of key services, in particular social care</b></li> <li>▪ <b>school rolls</b></li> <li>▪ <b>recruitment</b></li> <li>▪ <b>health provision</b></li> <li>▪ <b>income generation.</b></li> </ul>	<p>The Council fully appreciates the issues generated by depopulation and will continue to work closely with partners through the Alliance to effectively address these issues.</p> <p>Progress on actions identified in the outcome delivery plan will continue to be reported on a regular basis to the SOA and Alliance Board.</p> <p><i>(Refer to 2008/09 SARA point 4)</i></p>	Corporate Director Organisational Improvement and Resources	Ongoing
8	218-219	<p><b>Waste Management</b></p> <p>In 2009/10, the Council disposed of 32,607 tonnes of waste in landfill sites with SEPA calculating 19,767 tonnes of this as being biodegradable. Therefore the Council exceeded their 2009/10 landfill allowance of 19,131 tonnes by 636 tonnes.</p> <p>Scottish ministers have discretion to levy penalties due to a breach in the volume of waste disposed.</p>	<p>The Council are currently preparing a tender for the Provision of Waste Management Services</p> <p>This tender is based on an output specification aimed at meeting both Landfill Diversion and Scottish</p>	Corporate Director Regeneration and Environment	April 2011





Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>We note that the Council has made an earmarked reserve for £1.35 million for this in their financial statements.</p> <p>We note that the Council are part of a multi-authority task force which is developing an outline business case to explore the potential for joint or collaborative approach to the procurement of a new municipal waste treatment service for the eight authorities within the Clyde Valley.</p> <p><b>Risk: the Council will incur a substantial penalty due to the amount of waste which is disposed of via landfill.</b></p>	<p>Government Recycling Targets.</p> <p>Tenders will be invited for waste management services contract Nov/Dec 2010 and a new contract will be in place on 1 April 2011 for a maximum period of 5 years</p> <p>Parallel to this, the Council are integral partners in the Clyde Valley Review Waste Management Project Group; this group is looking at longer term waste solutions for the Clyde Valley Area.</p> <p>(Refer to 2008/09 Strategic Audit Risk Analysis risk 2, 2007/08 Strategic Audit Risk Analysis risk 4.11)</p>		
9	220	<p><b>Inverclyde Community Health and Care Partnership</b></p> <p>The Council and NHS GG&amp;C are in the process of creating the new ICHCP to integrate the provision of health and social care. In August 2010 a paper was submitted to the Health &amp; Social Care Committee which outlined the proposed Scheme of Establishment which outlines the protocols and governance arrangements between the Council and NHS GG&amp;C. ICHCP arrangements will need to be in place before the effectiveness of the partnership can be assessed.</p> <p><b>Risk: the partnership may not be able to manage the risks and challenges within the resources available to achieve the desired service delivery improvements.</b></p>	<p>The Council and NHS GG&amp;C have agreed governance and management arrangements for the CHCP including a Scheme of Establishment.</p> <p>Regular updates on progress are given by the Corporate Director to the Chief Executives of the Council and Health Board.</p>	Corporate Director CHCP	Ongoing

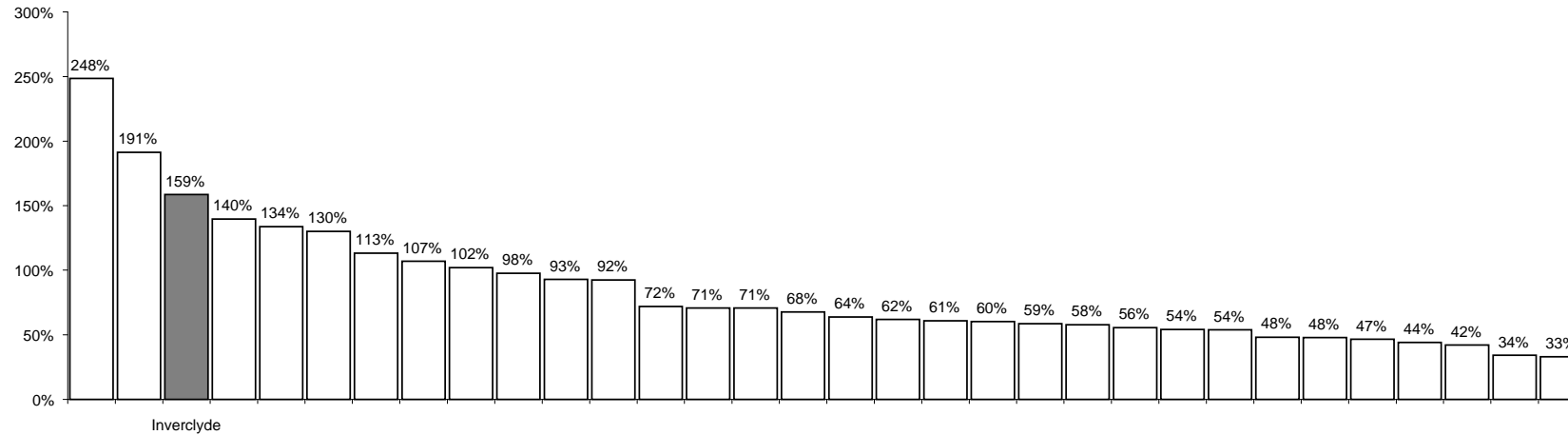


Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10	230-231	<p><b>Equality &amp; Diversity</b></p> <p>An action plan is not currently in place to support delivery of the Council's equality agenda.</p> <p><b>Risk: progress is not made in achieving public sector equalities duty requirements.</b></p>	<p>A review of the current position with regard to equalities is being undertaken by the Corporate Equalities Group.</p> <p>An action plan will be developed to ensure that the Council is meeting relevant statutory requirements.</p>	Corporate Director Education and Communities	April 2011
11	239-240	<p><b>Business Continuity Planning</b></p> <p>Service business continuity plans have been drafted for relevant services however these need to be revised to take account of the new corporate structure and introduction of the ICHCP.</p> <p>The need to revise the plans has resulted in a delay in the performance of rehearsal testing with this now scheduled to be completed by 31 March 2011.</p> <p>The Council has no back up data centre to support the recovery and restoration of critical systems in the event of a major disaster.</p> <p><b>Risk: the Council may not be able to restore key services in the event of potential disruptions to service delivery.</b></p>	<p>Service business continuity plans will be revised in light of the management restructure and the introduction of the CHCP.</p> <p>This will include procedures for rehearsal testing to be rolled out to relevant Services as appropriate.</p> <p>The Council has allocated funding to establish a new data centre as part of wider changes to its asset portfolio by August 2013 – a report on an interim solution will be submitted to CMT by December 2010.</p> <p><i>(Refer to 2008/09 Annual Report to Members point 16 , 2008/09 SARA point 16, 2007/08 Annual Report to Members point 17 and 2007/08 SARA point 3.7)</i></p>	<p>Corporate Director Regeneration and Environment</p> <p>Corporate Director Organisational Improvement and Resources</p>	<p>31 March 2011</p> <p>December 2010</p>

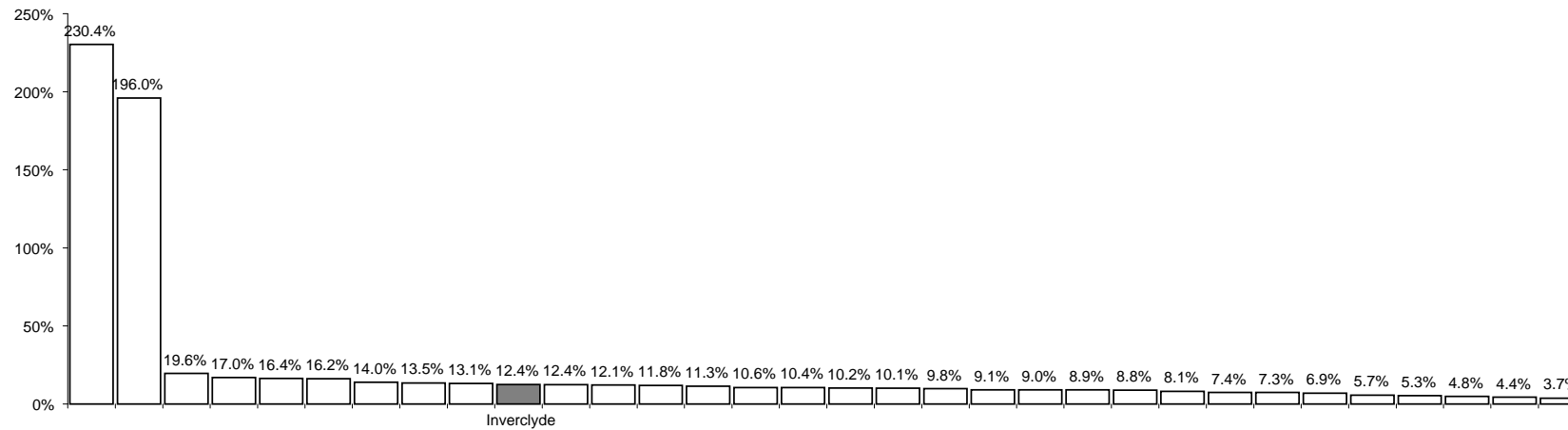
# Appendix C: Accounting Ratios

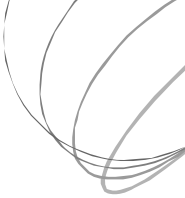
Each chart shows where Inverclyde sit in the range of all 32 Scottish Local Authorities based on their audited 2009/10 financial statements.

## Working capital (Current assets as a percentage of current liabilities)

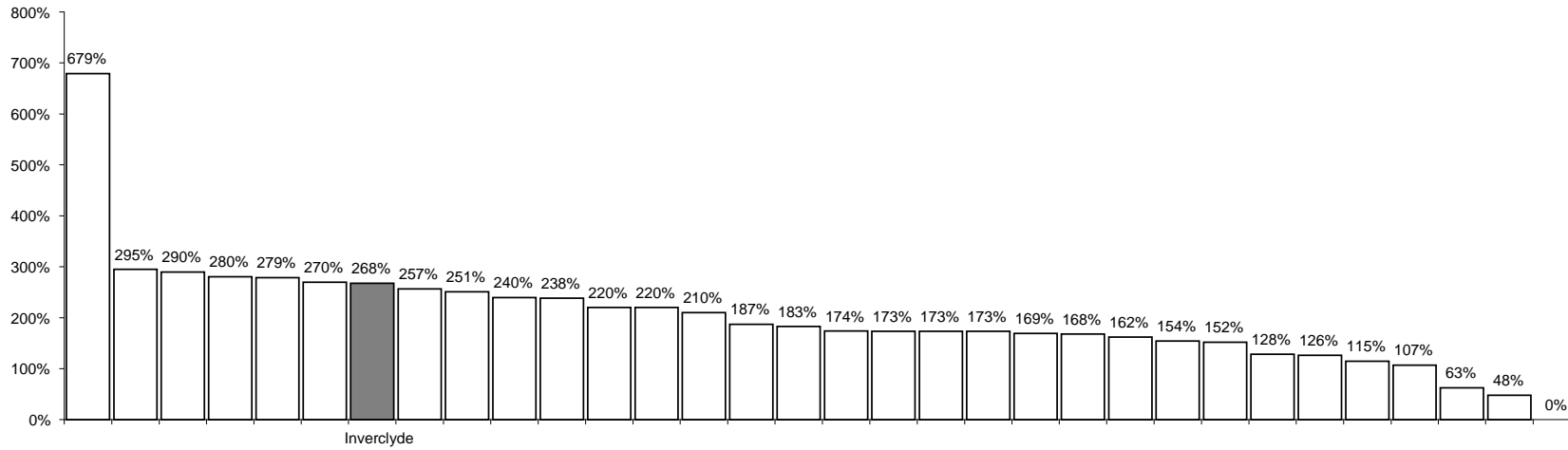


## Useable reserves as a percentage of net operating expenditure

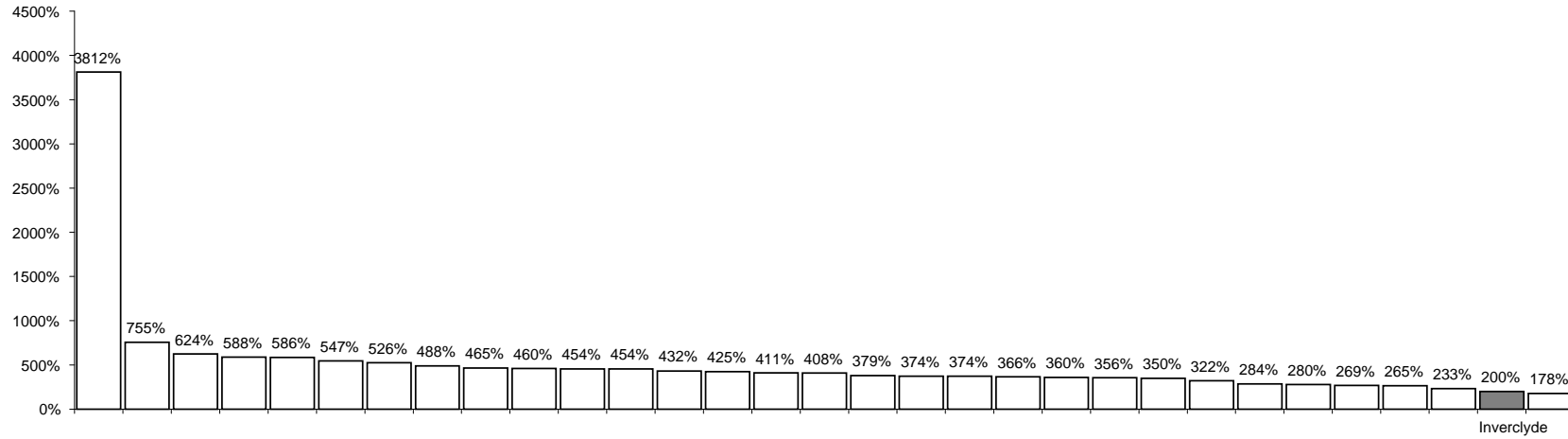




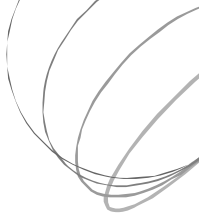
### Long term borrowing as a percentage of Council Tax and NDR income



### Long term assets as a percentage of long term borrowing



# Appendix D: Glossary of Acronyms



AIP	Assurance Improvement Plan
CFO	Chief Financial Officer
CIPFA	Chartered Institute of Public Finance and Accountancy
CMP	Carbon Management Plan
CMT	Corporate Management Team
CSC	Customer Service Centre
CS&BT	Customer Service & Business Transformation
CVCPP	Clyde Valley Community Planning Partnership
DWP	Department of Work and Pensions
HMIE	Her Majesty's Inspectorate of Education
ICHCP	Inverclyde Community Health & Care Partnership
IFRS	International Financial Reporting Standards
IPF	Institute of Public Finance
ISA	International Standard on Auditing
KPI	Key Performance Indicator
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
NFI	National Fraud Initiative
NHSGC&C	National Health Service Greater Glasgow & Clyde
ODG	Outcome Delivery Group
OIP	Organisational Improvement Plan
OSCR	Office of the Scottish Charity Regulator
PAMIS	Property Asset Management Information System
PCA	Procurement Capability Assessment
PPP	Public Private Partnership
PPR	Public Performance Report
PSIF	Public Service Improvement Framework
RCH	River Clyde Homes
SEMP	Schools Estate Management Plan
SFO	Support For Owners
SHR	Scottish Housing Regulator
SOA	Single Outcome Agreement
SoE	Scheme of Establishment
SOLACE	The Society of Local Authority Chief Executives and Senior Managers
SORP	Statement of Recommended Practice
SPI	Statutory Performance Indicator
SRA	Shared Risk Assessment
SSIFC	Statement on the System of Internal Financial Control
SWIA	Social Work Inspection Agency