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<b>Report To:</b>	<b>Inverclyde Council</b>	<b>Date:</b>	<b>1 December 2011</b>
<b>Report By:</b>	<b>Chief Executive</b>	<b>Report No:</b>	<b>FIN/116/11/AP/LM</b>
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<b>Subject:</b>	<b>Annual report to Members and the Controller of Audit 2010/2011</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise Council that Audit Scotland have issued their Annual Report to Members and the Controller of Audit 2010/2011 (Appendix 1).

## 2.0 SUMMARY

- 2.1 The Annual Report to Members and the Controller of Audit is a summary of the findings arising from audit and other relevant activity undertaken during 2010/2011 by Audit Scotland. It focuses on the financial statements and any other significant findings arising from a review of the management of strategic risks.
- 2.2 Using evidence gathered during the audit, and other activity undertaken by Audit Scotland and other scrutiny bodies, the Report comments on the Council's position for 2010/2011.
- 2.3 The Annual Report also draws on information generated from various national studies undertaken by Audit Scotland and highlights issues for Inverclyde.
- 2.4 Members should be aware that Audit Scotland have stated within their report that a Best Value 2 Audit will not now be undertaken at Inverclyde during the current cycle which covers the next two years. This is a demonstration of the confidence how the Council has improved and developed since 2005 and reflects well on the Council.
- 2.5 It is important to highlight the ongoing reduction in the number of action points and the various positive comments contained within this report especially the confirmation in Paragraph 140 that there are no plans for a Best Value review of the Council over the next two years.
- 2.6 The Council is aware of the issues raised and has action plans in place to address these. Appendix B of the report is an action plan setting out the high level risks identified by Audit Scotland. Officers have considered the issues and have agreed to take the specific steps set out under *Planned Management Action*.
- 2.7 Audit Scotland do not expect all risks to be eliminated or even minimised but expect to see that the Council understands its risks and has mechanisms in place to manage them.
- 2.8 Representatives of Audit Scotland will be in attendance to address any questions Members may have regarding this report.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that Council:
- consider and comment on the Annual Report to Members and the Controller of Audit 2010/11;
  - agree that this Report is remitted to Audit Committee for consideration of those issues which fall within its remit.

John Mundell  
Chief Executive

# Inverclyde Council

## Annual report on the 2010/11 audit



Prepared for Members of Inverclyde Council and the Controller of Audit  
October 2011

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

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# Contents

<b>Key messages</b> .....	<b>4</b>
Background .....	4
2010/11 .....	4
Outlook.....	6
<b>Introduction</b> .....	<b>7</b>
<b>Financial statements</b> .....	<b>8</b>
Audit opinion .....	8
Accounting issues .....	9
Outlook.....	14
<b>Financial position</b> .....	<b>15</b>
Financial results .....	15
Capital investment and performance .....	18
Treasury management .....	21
Financial planning to support priority setting and cost reductions .....	21
Outlook.....	25
<b>Governance and accountability</b> .....	<b>27</b>
Corporate governance.....	27
Prevention and detection of fraud and irregularities.....	32
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption .....	33
<b>Best Value, use of resources and performance</b> .....	<b>35</b>
Management arrangements .....	35
Overview of performance in 2010/11 .....	37
National performance reports .....	42
Progress against audit risks identified in the Assurance and Improvement Plan (AIP).....	44
Outlook.....	46
<b>Appendix A: Audit reports</b> .....	<b>47</b>
<b>Appendix B: Action plan</b> .....	<b>48</b>
<b>Appendix C: Glossary of acronyms</b> .....	<b>56</b>

# Key messages

## Background

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

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

## 2010/11

### 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 the Council officers was appreciated.

During 2010/11 we reached agreement with the Council on all the necessary adjustments required to restate the 2009/10 UK Generally Accepted Accounting Practices (UK GAAP) financial statements for the single entity to ensure compliance with International Financial Reporting Standards (IFRS). Our audit of the 2010/11 financial statements also confirmed that the Council successfully implemented IFRS meaning the statements comply with the 2010/11 Code of Practice on Local Authority Accounting.

### Financial position

The general fund recorded a net surplus for 2010/11 of £6.9 million, therefore increasing the balance to £29.2 million as at 31 March 2011. This balance includes earmarked commitments of £25 million and an unallocated general fund balance of £4.2 million.

Capital expenditure in 2010/11 totalled £17.5 million. This is an increase of £2 million on 2009/10 but £14.6 million less than the approved capital programme (45% slippage). Capital slippage has been steadily increasing annually with 13% in 2007/08, 18% in 2008/09 and 37% in 2009/10. The 2010/14 Capital Programme report presented to the Policy & Resources Committee in September 2011 highlighted a shortfall in resources of £1.6 million over the four year period. This is not considered a material amount however the year on year increase in slippage raises concerns and the Council needs to take appropriate action to ensure timely delivery of projects.

The 2011/12 Grant Settlement received in December 2010 left the Council with a £12.9 million revenue funding gap over the two year period 2011/13. Decisions taken by full Council in December 2010, and a review of the Council's Savings Work Streams and phasing reduced this gap to £3.5 million. Decisions taken in February 2011 enabled the Council to approve a balanced two year 2011/13 budget. The 2011/12 budget includes a one off £1.5 million contribution to the general fund reserve.

## **Best value, use of resources and performance**

The Council has extensive self-evaluation arrangements in place including the adoption of the Public Service Improvement Framework as their corporate self-evaluation model, collaboration with Her Majesty's Inspectorate of Education as part of their approach to continuous improvement within the Education and Communities Directorate and implementation of on-going assessment of the Inverclyde Community Health & Care Partnership (ICHCP) through a combination of self assessment and external scrutiny of services. This, combined with the significant progress made by the Council in delivering its improvement agenda, is why it was agreed at the last Shared Risk Assessment process that there would be no requirement for a best value review of the Council over the next two years.

The Council are in the process of drafting a report that outlines the events to date regarding the implementation of the operating model and the next steps required to progress the project. The Council report is due to be presented to full Council in December 2011.

The ICHCP was formally established in October 2010 with budget allocations identified and an agreement reached to manage them on an aligned budget basis. Progress made in the year includes the opening of the Wellpark Centre as a facility for alcohol addiction services and the opening of refurbished premises for drug addiction and learning disability service provision.

In August 2011, the Council, in collaboration with six other councils, issued the Clyde Valley Shared Support Services (CVSSS) business case. This sets out plans to share support services such as finance, payroll, revenue and benefits, human resources and information technology. Glasgow City Council, West Dunbartonshire Council and East Dunbartonshire Council have voted to opt out of the project. North Lanarkshire Council, Renfrewshire Council and East Renfrewshire Council have decided to continue to participate pending consideration of the proposed governance arrangements. The Chief Executive is to submit a report to full Council with revised proposals for sharing support services. The revised proposals will potentially not deliver the same level of savings as the original detailed business case due to the reduction in the number of councils signed up to the proposals and therefore alternative internal savings may need to be identified.

In 2010/11 the Council completed a project that commenced in 2008/09 to examine the title to their heritable properties. This exercise identified £12.3 million of assets that, although owned by the Common Good, are still reflected in the Council's balance sheet as the Council bears the risks and rewards of ownership. The value of assets owned and managed by the Common Good, and thus reflected in the Common Good balance sheet, is £1.5 million.

During the year, 26 staff left the Council under the voluntary severance scheme. This adds to the 94 who left in 2009/10. Further releases have been agreed with 2011/12 departure dates. This level of staff reduction could impact on service delivery and this concern is exacerbated by the lack of a formal workforce plan.

## Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The Scottish spending review and draft Scottish budget 2012/13 that was issued for consultation in September 2011 indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

Continued uncertainty over central funding, and the on-going Council Tax freeze, results in greater uncertainty over the Council's medium term financial planning.

The Council's Financial Strategy 2011/18 (last revised June 2011) estimates that savings of £21 million will be required over the period 2013/15 that will require decisions regarding policy prioritisation to be made following the 2012 Local Government elections. Regular review and updating of the Financial Strategy helps ensure the Council target the available financial resources at achieving corporate objectives.

The Council has refreshed its Corporate Plan, rolling it forward for one year, to bring it back into line with the local government administrative terms, with its term extended to September 2012 to allow for the local government elections in May 2012. The Directorate Plans, which flow from the Corporate Plan, were agreed at the first committees after recess and are also for one year. Strategic plans are scheduled for review after the May 2012 elections.

# Introduction

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



# Financial statements

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

## Audit opinion

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

## Legality

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

## Statement on the systems of internal financial control

12. We are satisfied with the disclosures made in the statement on the systems of internal financial control and the adequacy of the process put in place by the Council to obtain the necessary assurances. In particular we note that the Council has maintained the process of obtaining assurances from group members and assurances over the effectiveness of the Council's own systems of internal financial control that they implemented in 2008/09. We welcome this approach and the role played it in by the Corporate Management Team (CMT).

## Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant Council officers and elected members.

## Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). The introduction of the 2010 Code in 2010/11, including full implementation of IFRS, was very challenging for all Scottish Local Authorities. We are pleased to report that the Council managed this very well and we reached agreement with them on all the necessary adjustments required to restate the 2009/10 financial statements for the single entity and we are satisfied that the 2010/11 financial statements are compliant with the 2010 Code.

## Accounts submission

15. The Council's unaudited financial statements were presented to the Audit Committee on 23 June 2011 and were submitted to the Controller of Audit by the 30 June deadline. We are pleased to report that the quality of the working papers provided to support the 2010/11 financial statements were of a high standard and, throughout the audit, responses to our queries were provided comprehensively. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. They are now available for presentation to members and for publication.

## Presentational and monetary adjustments to the unaudited financial statements

16. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments primarily relate to reallocations of income and expenditure in the comprehensive income and expenditure account and have not had a material impact on the general fund balance of the Council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements. The net effect of all monetary adjustments identified during the audit process was:
  - £11.9 million decrease in the Council's net worth. This will be addressed in 2011/12 when the Council adopt Financial Reporting Standard 30 (Heritage Assets) (refer to paragraph 22 for more details).
  - £1.472 million increase in the surplus on the provision of services mainly as a result of technical changes regarding the presentation of impairment charges and largely offset within the Movement in Reserves Statement.
  - £0.006 million increase in the general fund balance.

17. The key presentational changes made to the draft accounts were:
- The 'Statement on the System of Internal Financial control' was amended to make reference to the need to:
    - Review the effectiveness of the Operating Model to ensure savings are optimised (refer to paragraphs 95-101).
    - Fully implement the main recommendations of Internal Audit's Homelessness audit.
  - The detail provided in the leases note was enhanced to make specific reference to the material assets that are managed by the Council but belong to the Common Good (refer to paragraphs 30-34).

### Prior year adjustments

18. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on IFRS instead of the previous practice of preparing financial statements under UK GAAP. This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the Council as at 31 March 2010 changing from £32.2 million to £49.5 million; however the accounting nature of these adjustments means that there has been no change to the usable reserves of the Council.
19. In addition a prior year adjustment has been required for the consolidation of Strathclyde Police and Strathclyde Fire and Rescue in the group financial statements. In previous years, a number of actuaries for Police and Fire authorities calculated the pensions liability associated with injury benefits on the basis of benefits currently in payment. In 2010/11, they have changed the basis to include an estimate of active scheme members who may be paid benefit in the future. As this is deemed a change in accounting policy it required a prior year adjustment. The Council processed this adjustment appropriately and this is reflected in the audited financial statements.

### Payroll reconciliations

20. Staff costs represent the largest single expenditure item for the Council. These costs are extracted from the payroll system in a data file that 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 the financial ledger and the payroll system. In our 2009/10 Annual Report to Members, issued 31 October 2010, we raised concerns about reconciliations not being performed on a regular basis. During 2010/11 these reconciliations were not performed between April and October 2010. The reconciliation process recommenced in November 2010 and has been performed on a monthly basis since then. These reconciliations did identify errors however we are satisfied that they are not of a material nature.

## Pension costs

21. The Council is a member of the Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the Council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the Council's share of the deficit from £124.7 million last year to £49.9 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI). It is important to note that pension scheme valuations are sensitive to stock market movements and as such represent a snapshot picture as at 31 March 2011.

## Heritage assets

22. In 2011/12 the Council need to adopt Financial Reporting Standard 30 (Heritage Assets). This is an accounting standard for assets that are maintained principally for their contribution to knowledge and culture and are intended to be preserved in trust for future generations. The Council have a collection of rare books and works of art that were revalued, for insurance purposes, by £12 million in 2010/11 and will be classified as heritage assets in 2011/12. This means they will be introduced into the balance sheet and asset register. This revaluation was incorporated in the draft financial statements however agreement reached that it be removed and introduced in the 2011/12 financial statements. This resulted in a £12 million balance sheet adjustment between the draft and final version of the statements. Note that this adjustment had no impact on the Council's revenue account.

## Whole of government accounts

23. The whole of government accounts are the consolidated financial statements for all branches of government in the UK. The deadline for submission of the consolidated pack to the Scottish Government was originally 29 July however the Council applied for, and was granted an extension until 5 August. The Council submitted the consolidated pack prior to the agreed deadline and the audited return was completed by the audit deadline of 30 September. No material errors were identified in the Council's submission.

## Group financial statements

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

25. The Council has interests in a total of seven associates that have been consolidated into the group financial statements in accordance with the 2010 Code. The overall effect of inclusion of these group entities is to reduce net worth by £182.8 million. The associates are:
- Strathclyde Joint Police Board
  - Strathclyde Fire & Rescue Joint Board
  - Strathclyde Partnership for Transport
  - Strathclyde Concessionary Travel Scheme Joint Board
  - Renfrewshire Valuation Joint Board
  - Inverclyde Leisure Limited
  - Riverside Inverclyde Limited
26. We have highlighted 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 have been aligned with the Council's. Where there are differences these have been disclosed in the financial statements.
  - There is still no service level agreement in place for leisure provision supplied by Inverclyde Leisure Limited despite previous assurances that one would be in place by late 2009. We further note that Inverclyde Leisure is still to implement appropriate risk management practices.

**Action plan no. 1**

## Trust funds

27. At the start of 2010/11 the Council administered ten charitable trusts and sixteen other funds. In October 2010 the Council closed twelve of the other funds and distributed their reserves in accordance with the purposes of the trusts. Then, in December 2010, the Council decided to close one of the charitable trusts (R W Robertson Bequest) and distribute the small balance of its reserve to the Gourock Coal and Benevolent Fund. This leaves the Council administering nine charitable trusts and four other funds.
28. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation, allowing the Council to rely on its existing disclosures for trust funds in the Council's financial statements, supplemented with additional working papers. We note however that the Council have entered into a reciprocal agreement with Argyll & Bute Council whereby an appropriately qualified officer in Argyll & Bute Council performed an independent examination of the Council's trust statements in accordance with regulation 11 of the Charities Accounts (Scotland) Regulations 2006. The examination concluded that the statements were fairly stated. Inverclyde Council perform the same function on behalf of Argyll & Bute Council.

29. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (no councils), above average (two councils), average (twenty councils) and below average (eight councils). Inverclyde Council's submission fell into the "average" category.

## Common good fund

30. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. Based on this guidance the Council embarked on a review of the Council's heritable land and property, it being recognised that the heritable estate would represent by far the most significant proportion of both value and income within the common good. The review was completed in 2010/11 and identified:
- £12.3 million of common good assets where the risks and reward of ownership were maintained by the Council
  - £0.1 million of assets that were owned and managed by the common good.
31. In keeping with appropriate accounting treatment the £12.3 million of assets have been retained on the Council's balance sheet whilst the £0.1 million have been transferred on to the common good balance sheet.
32. The review has resulted in the production and on-going maintenance of a common good specific asset register that meets the requirements of the LASAAC guidance. This register will be made available on the Council's website furthering open and transparent stewardship of the common good assets.
33. Further benefits to the Council of producing this register have been recognised as being:
- The Register will be available to officers throughout the Council, facilitating early identification of potential common good issues proposals affecting heritable property.
  - Reference to the Register will ensure that any proceeds, income received or expenses incurred in connection with common good property, are properly accounted to, or from, the common good fund.
  - Reports on title and title deeds are retained on the Physical Asset Management Information System (PAMIS) for the majority of sites.
  - Updating PAMIS to remove entries relating to assets identified as having been disposed of and add entries for Council owned sites previously omitted.
  - Legal and Democratic Services can now more easily, quickly and comprehensively provide advice in response to land ownership, development and other legal enquiries from within the Council and from key partners.
34. We welcome the progress made by the Council on this and note they are one of the first councils in Scotland to complete such an exercise.

## Outlook

### Audit appointment for 2011/12

35. Audit appointments are made by the Accounts Commission, either to Audit Scotland or to private firms of accountants for a five-year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Council's appointed auditor will be Grant Thornton. We will be meeting with Grant Thornton as part of a managed changeover process.

# Financial position

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

## Financial results

39. In 2010/11, the Council spent £239.5 million on the provision of public services, resulting in an accounting surplus of £36.7 million. This represents a £69.6 million reduction in gross expenditure when compared to 2009/10. The predominant reasons for this reduction are:
  - £23 million of impairment charges in 2009/10 for school demolitions. This was a one off expenditure item that was not repeated in 2010/11.
  - £43 million reduction in pension costs due to the change from RPI to CPI as detailed in paragraph 21.
40. The budget for 2010/11 was based on Band D council tax of £1,198. The budget assumed a £0.9 million contribution to the general fund.

## Budgetary control

41. The net service expenditure across the Council was £166.9 million. After adjusting for resources specified by statute the Council reported a net surplus of £6.9 million. The main factors contributing to this surplus were a £1.7 million mid-year savings exercise, £0.6 million reduction in loan charges, £0.5 million in unutilised contingency and £2.7 million contribution to loan charges (principal repayments) from the Capital Fund. Offset against this is an increase in the provision for equal pay claims of £0.4 million.
42. The Council agree their annual revenue budget in February for the following financial year. This approved budget is then revised throughout the year to reflect virements and operational decisions. Budget monitoring reports are reported to the relevant committee as a standard agenda item. These report the projected year end variance by comparing the projected out-turn with the revised budget rather than the approved budget. Exhibit 1 illustrates the



percentage variances against both the revised budget and approved budget as at the end of period 11 in 2010/11.

#### Exhibit 1: Committee Variances Period 11, 2010/11

Committee	Approved Budget	Virements / Adjustments	Revised Budget	Projected Out-turn	% Variance against Revised Budget	% Variance against Approved Budget
Policy & Resources	32,669	-3,026	29,643	28,601	-3.52%	-12.45%
Safe, Sustainable Communities	17,880	-659	17,221	17,182	-0.23%	-3.90%
Regeneration & Resources	15,923	-1,942	13,981	13,642	-2.42%	-14.32%
Education & Lifelong Learning	76,089	-7,476	68,613	68,330	-0.41%	-10.20%
Health & Social Care	49,560	330	49,890	49,678	-0.42%	0.24%
Totals	192,121	-12,773	179,348	177,434	-1.07%	-7.64%

43. The £12.8 million budget adjustments shown in exhibit 1 were planned adjustments designed to address the £12.9 million revenue funding gap highlighted in the key messages section of this report.
44. Our May 2011 review of governance arrangements and main financial systems report highlighted that the Council do not profile all budgets and, as a consequence, are unable to provide in year comparisons of expenditure to date against the budgeted position. We are of the opinion that the Council should consider placing greater focus on zero based budgeting with budgets profiled over the financial year. We recognise that this is an issue where we have not reached agreement with the Council and further note that the Chief Financial Officer is preparing a report on this issue for the Policy & Resources Committee's consideration in February 2012.

**Action plan no. 2**

## Financial position

45. The general fund recorded a net surplus for 2010/11 of £6.9 million, therefore increasing the balance to £29.2 million as at 31 March 2011.
46. Exhibit 2 shows the balances in the Council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund that 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 assets. The Council's funds at 31 March 2011 totalled £36.4 million.

### Exhibit 2: Useable Reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	22.274	29.198
Repair and Renewal Fund	0.703	0.671
Capital Fund	1.751	1.722
Insurance Fund	4.794	4.848
<b>Total</b>	<b>29.522</b>	<b>36.439</b>

Source: Inverclyde Council 2010/11 financial statements

47. The £29.2 million general fund balance includes earmarked commitments of £25 million and an unallocated general fund balance of £4.2 million that adheres to the Council 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 and losses.
48. There are a total of 28 earmarked reserves making up the £25 million with those exceeding £1 million shown in Exhibit 3.

**Exhibit 3: Earmarked Reserves**

Description	31 March 2010 £ million	31 March 2011 £ million
Early Retiral / Voluntary Severance	0.225	7.294
New Earmarked Reserves Approved February 2011	0	2.920
Equal Pay	0	1.478
Landfill Penalty Scheme	1.353	2.280
Asset Management Plan	0	1.007
School Estate Strategy	3.994	1.964
Strategic Housing	1.280	1.164

Source: *Inverclyde Council 2010/11 financial statements*

49. The 'Early Retiral / Voluntary Severance' reserve was approved by the Policy and Resources Committee in August 2009 with the paper submitted setting out the basis upon which the reserve was required and outlining proposals to enable the Council to generate the funds required to create the reserve. We recognise a clear need for funds to be earmarked for this purpose and recommend that it be subject to regular review to ensure level of the funds held in reserve are appropriate.

**Action plan no. 3**

## Capital investment and performance

50. The Council agreed a three-year capital programme 2011/14 in February 2011 with the total programme expenditure being £145.2 million. The Council recognise this exceeds the level of capital grant which will be provided by Central Government and are planning to make up the difference, predominantly, through prudential borrowing. Upon completion of the programme the intention is to limit capital spending to grant receipts and finances raised through capital disposals. The Council recognise there is a concern this will not provide sufficient capital to fund the maintenance of the Council's asset base for the foreseeable future and have included the on-going maintenance/lifecycle costs within the School Estate Management Plan, Offices & Depots Asset Management Plan and ICT Asset Management Plan. The Council is also progressing the preparation of a roads investment plan for consideration in 2012/13.

**Action plan no. 4**

51. The 2010/11 financial statements detail capital expenditure of £17.5 million that includes £4.3 million capital invested on refurbishing the school estate and a further £4.3 million spent on the Vehicle Replacement Programme.
52. Although £17.5 million represents a £2 million increase on capital expenditure in 2009/10 it is £14.6 million less than the approved capital programme of £32.1 million. It is noted that there was considerable improvement in reducing capital slippage in 2007/08 to 13% from 46% in

the previous year, however, as exhibit 4 shows, slippage has increased from 2007/08 and the Council need to take appropriate action to ensure the successful and timely delivery of the 2011/14 programme.

53. We recognise that local authorities across Scotland have faced significant challenges due to reductions in capital funding in 2010/11 and that some slippage was due to the Council responding to this by prudently reprogramming major capital projects and withholding committing to capital contracts to enable grants to be processed. The 2011 Comprehensive Spending Review announced reductions in the local government capital grant between 2011/12 and 2013/14 with it increasing in 2014/15. In light of this the Council will need to continue managing their capital programme carefully.
54. As at September 2011 overall Committees are projecting to stay within budget although capital slippage of 22.5% (£10.6 million) is now being projected for 2011/12. A large element of this (£7.4 million) is due to reduced projected spend on the Shared Campus/ASN project due to a large reduction in the overall project cost and the associated delay in tender acceptance whilst officers clarified the successful tenderer's price. The Council has carried out a review of their capital programme and there is an estimated shortfall in resources of £1.6 million over the 2011/14 period which represents 2.3% of the total programme excluding the Schools Estate.

**Action plan no. 5**

#### Exhibit 4: Capital Slippage 2007-2011

	2007/08	2008/09	2009/10	2010/11
Capital Expenditure (£m)	40.0	24.5	15.5	17.5
Capital Programme (£m)	46.2	30.0	24.7	32.1
Slippage (£m)	6.2	5.5	9.2	14.6
Slippage	13%	18%	37%	45%

Source: Inverclyde Council 2007/08 - 2010/11 financial statements

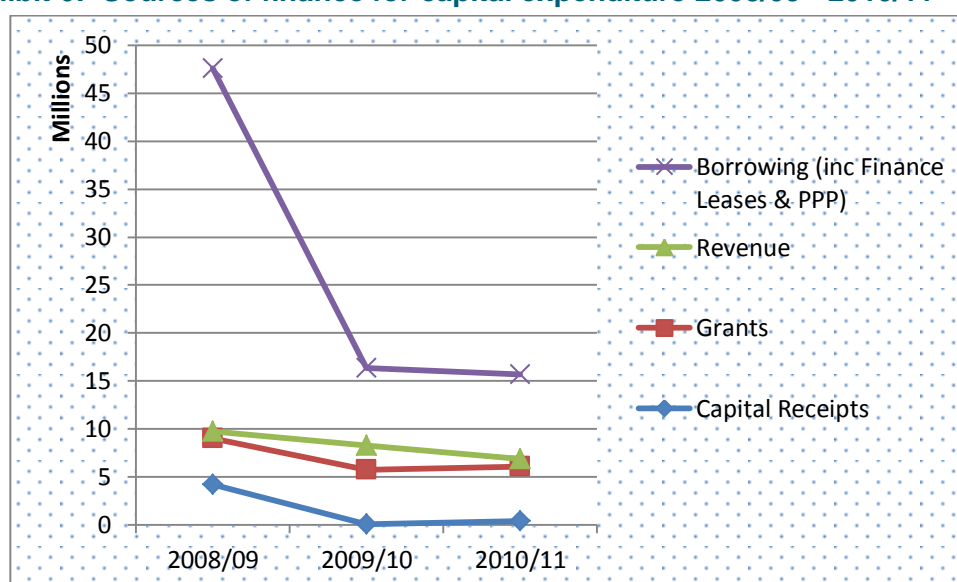
55. Exhibit 5 highlights 2010/11 projects where there was capital slippage in excess of £0.5 million.

**Exhibit 5: Material slippage in 2010/11 (> £0.5 million)**

Committee / Programme	Project	Slippage (£m)
Policy & Resources	Operating Model	0.5
Safe, Sustainable Communities	Vehicles	1.0
Regeneration	Ravenscraig Stadium Refurbishment	1.4
	Parklea Pavilion and Juniors Facility	1.1
	Rankin Park	1.6
	Gourock Pool Refurbishment	0.6
	Arts Guild	1.0
	AMP - FOM Property	1.2
School Estate Management Plan	Overton / Highlanders Refurbishment	1.5
	Port Glasgow Joint Campus	0.6

Source: Inverclyde Council 2010/11 financial statements working papers

56. Exhibit 6 reflects the trend in the Council's principal sources of finance to fund capital expenditure between 2007/08 and 2010/11.

**Exhibit 6: Sources of finance for capital expenditure 2008/09 - 2010/11**

Source: Inverclyde Council 2008/09 - 2010/11 financial statements

57. During 2010/11 the Council disposed of £3.8 million (net book value) of assets. The majority of this (£3.2 million) is accounted for by the disposal of two former school sites (Greenock High and Glenburn). These were sold to the Scottish Prison Service for £2.7 million who will use the land to site a new prison facility. The Council are leasing back the land for continued school use until June 2013 when the pupils will be relocated into the refurbished Gourock High

School. We are satisfied that the Council have accounted for these transactions appropriately and only make reference to it due to the in-year disposal figure.

## Treasury management

58. As at 31 March 2011, the Council held cash and cash equivalents totalling £24.3 million (£35.7 million at 31 March 2010). The Council's borrowing (including accounting adjustments) has increased by £15.1 million to £202.5 million as at 31 March 2011. The Council borrowed a total of £20 million in August 2010 and during our audit we received assurances that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation. It is also worth noting that if this borrowing had been delayed until after the October 2010 Comprehensive Spending Review the available interest rates would have increased by as much as 1%.
59. The current economic climate means that interest rates on investments remain low. The Council received £0.75 million in investment income compared to £1.02 million in 2009/10. Borrowing rates for new borrowing are also low, in particular short-term rates. At the start of 2010/11 the Council's treasury consultants predicted a rise in longer-term Public Works Loan Board rates however it was deemed that moving from long to short term debt would place the Council at greater risk of exposure to taking out further borrowing at increased rates in later years.
60. The Council's 2011/12-2013/14 treasury management strategy prioritises internal borrowing by running down cash balances and foregoing interest earned at these low rates. However it also recognises the need to balance the short-term advantage of internal borrowing against the potential longer term costs which would be incurred if long term loans not taken now were needed at a future date when rates are higher. The Council are also committed to avoiding getting locked into long term investment deals due to historically low interest rates. Exceptions will be made if an opportunity arises to take advantage of favourable rates with a counterparty considered to have particularly high creditworthiness.

## Financial planning to support priority setting and cost reductions

61. The Council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. The Council's Financial Strategy is updated on a six monthly basis and takes account of challenging economic circumstances. The last update was presented to the Policy and Resources Committee in June 2011. Progress made in achieving the savings is regularly reported to the Policy and Resources Committee. Financial Regulations have also been refreshed and were formally approved in October 2011. The Council developed a series of nine savings workstreams to support challenging financial pressures whilst meeting service delivery expectations. The savings programme contains a range of modernisation programmes and corporate led initiatives that are estimated to deliver over £23 million of efficiency savings over the period 2010/11 to 2013/14. Of this sum there remains approximately £5 million to be achieved by 2013/14.

62. Progress in achieving savings targets is monitored and regularly reported to the CMT and Policy and Resources Committee. Targets set in relation to the Council's Operating Model were not achieved and the Council took corrective action and revised the savings programme to achieve the same level of savings through budget reductions in other areas. Savings targets for 2010/11 were subsequently achieved and the Council are on target to achieve the level set for 2011/12. The majority of savings relate to corporate functions, achieving the targets set will present significant challenges to the Council in terms of both service delivery and the way in which it operates.

**Action plan no. 6**

### Schools estate strategy

63. The Council are continuing to progress their School Estate Management Plan with a review of the funding model to be reported to the Education & Lifelong Learning Committee in November 2011. Key progress made during 2010/11 can be summarised as follows:
- Notre Dame High School and Clydeview Academy - Opened to pupils in June 2011.
  - Earnhill for St Andrews Primary School - Refurbishment commenced. Timescales slipped from the original contract completion date of 29 July 2011 with the work certified as complete on 27 October 2011.
  - Overton Primary School - Refurbishment in progress, completion anticipated in July 2012.
  - Port Glasgow Shared Campus - Project is three weeks behind schedule due to delays in the tender evaluation process. Current projected completion date is June 2013.
64. The total budget for the 2011-2015/16 school estate capital programme is £92.4 million and the latest capital report presented to the Education & Lifelong Learning Committee in September 2011 is projecting the programme will be delivered on budget.
65. In September 2011 the local and national media highlighted concerns raised by parents that the newly opened Clydeview Academy, built to accommodate 950 pupils, can not accommodate its current role of approximately 1,200 pupils. The Council, via a statement issued by the Corporate Director Education and Communities, has acknowledged that the school was opened at over-capacity but has stated that the school can work with the current pupil roll and also that the school roll is expected to fall. Education Services are working closely with Legal Services to consider steps to be taken to ensure the school roll falls to the capacity level by 2014. It is anticipated that a paper on roll projections and capping for Clydeview Academy will be prepared for the next meeting of the Education and Lifelong Learning Committee in January 2012.

### Procurement

66. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. In 2010 the Council scored 15% which is classed as

'non conformance' it however demonstrates improvement on the 2009 score of 4%. The Council showed improvement in 8 of the 9 attributes assessed in 2010. Significant weaknesses were however identified in relation to:

- Resources & skills
- Corporate & social responsibilities
- Benchmarking
- Supplier strategy & policy.

67. It was recognised that the existing Strategic Procurement Framework was nearing completion and that a refreshed Framework would be required to drive further improvement. The Council have developed a close working relationship with Scotland Excel to facilitate development in procurement practice within the Council. Officers from Scotland Excel have consulted widely with senior officers within the Council and produced a comprehensive project plan to enable future procurement activities to be more efficient and effective. The project plan focuses on category management and includes e-procurement. The plan was presented to the Council's Procurement Programme Board in September 2011. A new Strategic Procurement Framework is now being developed by the Council and it is intended that this will be completed and presented to the Policy and Resources Committee in November 2011. The Framework will be supported by an action plan and will include issues identified during the 2010 PCA. It is important that the action plan is delivered to support improvement in procurement processes, procedures and practices to meet challenges in the years ahead.

**Action plan no. 7**

68. In recognition of the external pressures, including the current financial climate, the new framework will be aligned to the Council's Financial Strategy to secure cashable savings and other efficiencies. The Council increased their 2014 cash savings target to £1 million which has already been achieved. A new target will be put before members for approval as part of the 2012/13 budget.
69. In May 2011 the Council's tender for a contract to modernise homes was rejected by River Clyde Homes as the Council submitted the tender after the established deadline. The Council explained that the deadline was missed due to the tender period being shorter than the recommended minimum number of days as per industry guidance, technical difficulties experienced when the Council were notified that the tender documents were available for download and further technical difficulties when the Council tried to upload the tender documents to the portal via the electronic submission process. A report is to be presented to the November Policy and Resources Committee with recommended action to minimise the risk of a reoccurrence of these difficulties.

## Workforce reduction

70. The Council have acknowledged that reductions in public sector funding will result in a reduction in staff over the period 2010/14. A voluntary severance scheme was introduced in 2009/10 with key criteria that had to be satisfied prior to approving a severance package. This



included the establishment of a business case that ensured that the costs of releasing the individual employee were recoverable within three years.

71. In the two-year period 2009/2011, 120 employees have been released (94 in 2009/10 and 26 in 2010/11) with associated one off costs of £4.4 million and on-going costs of £0.4 million. Further releases have been agreed with release dates in 2011/12. This level of staff reduction is likely to impact on service delivery; a concern which is exacerbated by the lack of a formal workforce plan. Careful succession planning is required to minimise the risks associated with single person dependency, and the loss of knowledge, skills and expertise.

**Action plan no. 8**

72. The Council are continuing to work toward the completion of appraisals for all employees. By 31 March 2012 all Council employees, with the exception of teachers, graded between A and J, will have received their first employee appraisal whilst employees graded between K and O will have received their second appraisal. Completion and continuance of employee appraisals is required to ensure the Council can measure employee performance and identify training needs.

**Action plan no. 9**

73. The Council had planned to carry out an employee survey in spring 2011 using the existing contract for the Citizens' Panel. Some doubt arose as to whether this contract could be used to carry out the survey and, in order to minimise risk, the CMT decided to carry out a brief tender process for the work required. This caused a delay in the development of the survey. Once the contract was in place a set of survey questions were established and agreed with the intention being to distribute the survey in August 2011. Due to a number of factors including a climate of uncertainty in relation to potential developments associated with shared services it was decided to further postpone the survey until employees had further information and more clarity to base responses on. We understand that, at the time of writing, the survey is ready to be issued and a final decision is required from the CMT.

**Action plan no. 10**

## Partnership working

74. The ICHCP was established in October 2010. The partnership consists of members from both the Council and NHS Greater Glasgow & Clyde. Governance arrangements have been formalised in a Scheme of Establishment.
75. Staff integration has been key in the success of the partnership thus far. A staff partnership forum has been established and office accommodation set up which encourages an inclusive approach for both organisations in delivering services. Jointly funded senior management posts are generating savings for both organisations. It is however recognised that staff terms and conditions differ within the host organisations and the possibility of creating "honorary contracts" is being explored to harmonise working arrangements.
76. During the set up phase the partnership have expanded upon previous services provided and progressed many new initiatives. A significant development in the past year has been the set

up of integrated services for alcohol addiction on a new site. Further integrated services have also been created relating to drug addiction and learning disability.

77. An organisational performance review of the ICHCP was conducted in May 2011 by the Chief Executives of the two host organisations. The review concluded positively on the achievements to date and pace of delivery.
78. Although the partnership is still in the early stages of development progress made to date is encouraging. As the ICHCP is still in its infancy we are unable to assess the full impact of the partnership arrangements. The ICHCP are aware of the significant financial and service delivery challenges ahead.
79. The Council is actively examining the scope for shared service provision with public sector partners in a range of areas such as payroll, procurement, internal audit services and waste treatment and disposal.

## Outlook

### 2011/12 budget

80. The Council, like all public sector organisations, faces a very challenging financial climate.
81. The 2011/12 Grant Settlement received in December 2010 left the Council with a £13.4 million revenue funding gap over the two year period 2011/13. Decisions taken by full Council in December 2010, and a review of the Council's Savings Work Streams and phasing reduced this gap to £3.5 million. Decisions taken in February 2011 enabled the Council to approve a balanced two-year 2011/13 budget. The 2011/12 budget includes a one off £1.5 million contribution to the general fund reserve.
82. Continued uncertainty over central funding, and the on-going Council Tax freeze, results in greater uncertainty over the Council's medium term financial planning.

### 2011/12 budget reporting

83. The 2011/12 budget monitoring report (to 30 September 2011) predicts an annual underspend of £2.3million (1.1%). This is due to a combination of projected savings in loan charges as a result of capital slippage and improved investment returns, a mid-year review of the estimated use of contingencies in 2011/12 and projected service committee underspends.

### Financial forecasts beyond 2011/12

84. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the Council.

85. The Council's Financial Strategy 2011/18 (last revised June 2011) estimates that savings of £21 million will be required over the period 2013/15 that will require decisions regarding policy prioritisation to be made following the 2012 Local Government elections. Continued regular review and updating of the Financial Strategy will help ensure the Council target the available financial resources at achieving corporate objectives.

# Governance and accountability

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

## Corporate governance

### Processes and committees

90. 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 Council's committees allow existing policies and new proposals to be subject to consideration and discussion by members in a timely manner.
91. A key responsibility of the Audit Committee is to undertake a corporate overview of the Council's control environment and to review the adequacy of the policies and practices in operation to ensure compliance with relevant statutes, directions, standards and codes of corporate governance. The Audit Committee is also responsible for evaluating the arrangements in place for securing the economical, efficient and effective management of the Council's resources and for considering internal and external audit reports and ensuring management implement the agreed recommendations.
92. The committees within the Council are generally well attended by elected members and Council officers as and when they are invited to present to a committee or respond to queries.
93. In August 2011, following the election, the Council Leader became the MP for Inverclyde. The former leader of the Council was elected for the second time. The re-election of the previous leader means the Council could progress toward the May 2012 local elections with minimum

disruption. Furthermore the new MP is still a standing Councillor meaning there was no requirement for a bi-election.

94. Consideration is being given to the next phase of the full management restructure with a report by the Chief Executive expected to be presented to full Council in December 2011.

## Operating model

95. The Council are in the process of developing a customer service centre which provides a one stop shop for customers and brings together a number of transactional based processes within the Council. The project will involve new ways of working for staff whilst creating more effective and efficient working practices. The project was expected to save £3.1 million over the period 2010 - 2014. The Council have been supported by PricewaterhouseCoopers in preparing their business model.
96. In December 2010 the Council recognised that savings targets set for the operating model had not been achieved. The Council initiated an investigation into the delivery of the operating model and the projected savings. Four senior officers were subsequently suspended following the investigation.
97. Between mid January 2011 and August 2011 the Council carried out an internal review of the project and the conduct of officers during the project implementation phase. The Director of Regeneration and Environment led the investigation. The Council engaged external legal advice regarding the suspensions and potential disciplinary action. The investigation recommended that disciplinary proceedings be instigated against four officers of the Council.
98. One of the four officers was issued with a final written warning and returned to his previous post. Another officer raised an action of Judicial Review in the Court of Session seeking an interdict preventing the Council taking disciplinary action against him. An out of court agreement was reached between the Council and that officer whereby an independent person was appointed to carry out the role of disciplining officer and the remaining two officers also agreed that this independent person would fulfil the role of disciplining officer in regards to their cases. Following the disciplinary hearings which took place in August 2011, the most senior of the officers was dismissed, one head of service was issued with a final written warning and the other was issued with a final written warning and demoted. All three officers appealed to the Human Resources Appeals Board against the sanctions imposed. Individual hearings were held in respect of two appeals in September 2011. The Human Resources Appeals Board comprises elected members. With regard to the most senior of the officers involved, the Board upheld his appeal in part, to the extent that he was reinstated to a demoted post and issued with a final written warning. With regard to the officer issued with a final written warning, his appeal was fully upheld.
99. At the time of writing this report the third officer's appeal was outstanding and is scheduled to conclude in November 2011.
100. The Chief Executive is preparing a report that outlines the events to date and the next steps required to progress the project. External consultants, Civica, have been commissioned to

assist the Council with producing a model that optimises savings and improvements to Council services. The report is due to be presented to full Council in December 2011. There has been considerable slippage in the implementation of the model during the year due to the on-going investigations.

- 101.** It is critical that the Council develop, implement and monitor an action plan that supports delivery of services. We have highlighted in previous reports the risks associated with such a large scale and complex project. It is essential that the Council develop governance arrangements and robust processes and systems to manage the risks associated with implementation of the operating model.

**Action plan no. 11**

### Internal control

- 102.** While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 103.** As part of our work, we took assurance from key controls within the Council's financial systems, with the work to review controls of key systems being split between internal audit and ourselves. The results of our review of key controls were discussed with officers and reported to the Audit Committee in our review of governance arrangements and main financial systems report issued in May 2011.
- 104.** The key weakness highlighted in our report related to the performance of payroll reconciliations (refer to paragraph 20). Our overall conclusion was that there are adequate governance arrangements and controls operating within the main financial systems.

### Internal audit

- 105.** The Internal Audit Annual Report and Assurance Statement 2010/11 presented to the Audit Committee in August 2011 highlighted that of the 18 planned audit reviews:
- twelve are fully complete with a report issued
  - two have reports at draft stage
  - fieldwork is underway in one
  - three have been deferred (two deferred to the 2011/12 plan with the remainder deferred due to a positive report from Her Majesty's Inspectorate of Education (HMIE)).
- 106.** In addition Internal Audit resource was input to projects such as the operating model and elections process and assisting with the development of information governance and business continuity.
- 107.** The number of staff days in the 2011/12 Annual Internal Audit Plan has reduced to 615 from 760 in the 2010/11 plan. This is due to a reduction in available resource although we note the plan references an additional 85 days in the event that a 0.5 FTE Audit Assistant is recruited.

The impact of this is predominantly a reduction in the number of days planned for Internal Audit input on projects/key change initiatives.

- 108.** In our May 2011 review of governance and main financial systems report we raised a concern about the number of audit recommendations where the implementation date has been missed. The CMT has committed to receiving bi-monthly follow up reports detailing the status of current Internal and External Audit Action Points and ensuring relevant action is taken to address any missed deadlines. We welcome this commitment.

## Risk management

- 109.** The Council have continued to develop their approach to risk management. The Chief Internal Auditor presents a risk management progress report as a standing item on the Audit Committee agenda and an annual review of risk management activity in the year was presented to committee in August 2011.
- 110.** Some of the key activities carried out during 2010/11 were:
- ongoing review and update of Corporate, Service, strategic and operational risk registers
  - development and maintenance of risk registers for the:
    - Financial Strategy
    - Directorate Planning Process
    - Property Asset Management Strategy
    - Single Outcome Agreement
  - roll out of Risk Management Strategy to services
  - continuing to develop arrangements for business continuity (refer to paragraphs 112-114).
- 111.** The Council are currently rolling out a corporate project management framework to assist in the delivery of projects. The framework incorporates risk management as a requirement for all projects.

## Business continuity planning

- 112.** Business continuity planning is working out how to continue operating in unforeseen circumstances or in some cases may be described as a disaster. For example it may result from a power line being damaged or it could be more significant due to a pandemic taking place.
- 113.** The Council's disaster recovery arrangements incorporate the core Information and Communications Technology (ICT) services such as email, internet, network communications including telephony and public and home drives (i.e. the data). However, it does not cover business applications. Current arrangements are that the ICT function aim to re-establish core ICT services within 24 hours of any disaster. Business applications can be rebuilt on the backup site should the Council's data centre continue to be unavailable for a longer period.

114. Service business continuity plans are being addressed by the Civil Contingencies Service. In light of organisational restructure, essential services across all three councils (Inverclyde, Council, East Renfrewshire Council and Renfrewshire Council) are currently undergoing a large scale business continuity update. A total of 35 services have been approached across the three councils as a priority and will undergo an update on all documented business continuity arrangements. In line with British Standard 25999, the services will complete an up to date Business Impact Assessment, outlining their critical functions and minimum resource requirements. The completed assessments will be used to inform the newly standardised business continuity plans across all essential services. These will be standardised documents and assessments across all three councils. All plans are expected to be completed in draft and ready to test prior to sign off before 31 December 2011.

**Action plan no. 12**

### Information and communications technology

115. The Council makes good use of ICT to support and deliver services. The ICT department is pursuing future savings through proposals including:
- reducing Wide Area Network costs by cutting back on maintenance and circuit rentals
  - renegotiating rental costs
  - moving to five year personal computer refresh
  - introducing mobile and flexible working
  - delaying the renewal of their Microsoft Enterprise Agreement
  - examining and using netbooks rather than laptops in schools
  - using server virtualisation to reduce the number of physical servers.
116. There have been no major operational problems in ICT during 2010/11 with network and major systems availability being 100%.
117. In June 2011, John McClelland published a review of ICT in the public sector in Scotland<sup>1</sup> in which he describes a state of fragmentation where organisations have local plans and strategies and the prevalent model is one of “*standalone self-sufficiency*”. McClelland states that a “*standalone and self-sufficient operating model is no longer affordable and organisations should commit to an era of sharing in ICT that will not only offer better value but also still meet the needs of individual organisations and their customers*”.
118. The McClelland report also highlights that “*nearly all organisations have fully and professionally staffed information functions and most also have their own data centres or data processing rooms*”. It further states that this “*approach sacrifices the opportunity to reduce expenses and capital spend of individual organisations through cross organisation sharing of ICT*”. In addition the Council may become involved in shared ICT services that may have an

<sup>1</sup> [Report by John McClelland CBE on his review of ICT Infrastructure in the Public Sector in Scotland](#) (2011) Scottish Government



impact on how the ICT services are delivered to the Council and the operations hosted in the data centre.

119. The potential for shared ICT developments may present further opportunities to achieve cost savings but achieving them will be a major challenge for the Council.

### Data handling and security

120. As highlighted in our 2009/10 Annual Report to Members, data handling and security receives a lot of public and media attention as a result of a number of national and international incidents relating to lost data. The Council shares data with a number of organisations such as the Department for Work and Pensions, HM Revenue and Customs, and other government departments. Information security is now a service delivery issue where a significant failure of controls could have serious consequences for the Council.
121. In June 2009 we issued our Data Handling Overview report and the Council has completed five of the eight actions from this audit. We acknowledge that the Scottish Government did not issue their information and knowledge strategy which may have impacted on the Council's schedule for developing a strategy as the Council considered it prudent to wait for this guidance before considering whether this is appropriate for the Council. We have been advised that the information classification scheme has been drafted and although the Council have a list of "information assets" the information asset register cannot be fully implemented until the information classification scheme has been agreed and approved. In relation to the other two actions the agreed implementation dates have slipped due to conflicting operational priorities at a corporate level. These have been discussed by the CMT and a revised implementation date of 31 December 2012 set for both.

#### Action plan no. 13

122. In our 2009/10 Annual Report to Members we reported that the Council had approved funding for the establishment of a new data centre. Following an internal review by the ICT senior management, it was decided to abandon plans for the new centre. This will reduce the budgetary pressures on the department. To mitigate the risks the Council plan to introduce several improvements to the existing data centre including replacement of four floor mounted cooling system with smaller, more efficient units and upgrading of various internal environmental monitoring and protection measures. In addition to these upgrades the Council have created a disaster recovery site. Refer to paragraph 113 for more details.

### Prevention and detection of fraud and irregularities

123. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
124. 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 whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.

## National Fraud Initiative in Scotland

**125.** 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. As with previous years the Council has demonstrated a strong commitment to the NFI process and, at the time of preparing this report, over 1,000 matches have been investigated. To date the exercise has resulted in seven confirmed frauds and a further 46 errors worth over £33,000. There are a number of on-going investigations and it is therefore likely these figures will increase over the coming months. Once more there will be a national report (expected to be published around May 2012). Although our current audit appointment with the Council ends in October 2011 we will prepare a submission on the Council's performance on NFI to the report writers. As with other submissions we will discuss our findings with officers in advance of any submission.

## Housing benefit inspections

- 126.** In April 2008, the Accounts Commission agreed to a request from the Department for Work and Pensions to take over the Benefit Fraud Inspectorate's responsibility for inspecting housing and council tax benefit (benefits) services in Scotland. Our specialist team assessed the Council in June 2008 which concluded that sound arrangements were in place to minimise the risks in the benefit function. It also identified a number of areas for improvement that the Council consolidated into an action plan. The progress on these actions has been followed up by Internal Audit who confirmed that they have all been implemented.
- 127.** The second inspection of the Council is planned for December 2011.

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

**128.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in the Council are satisfactory and we are not aware of any specific issues that we need to report.

## Roles and relationships

- 129.** The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. To assist in complying with the revised procedures we would recommend consideration be given providing members with relevant training and/or guidance.
- 130.** Complaints alleging breaches of the Councillors' Code of Conduct 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. Alternatively a complainant can raise their

complaint directly with the Standards Commission. In last year's Annual Report to Members we referenced the number of complaints lodged with the Standards Commission between April 2009 and September 2010. In the subsequent 12-month period between October 2010 and September 2011 five complaints were lodged with the Standards Commission against elected members. In all of the cases the Commission deemed there was no evidence of a breach and dismissed the complaints.

## Equality & diversity

131. The Council's Corporate Equalities Group has met on a regular basis during 2010/11. An Equality Champions network has been established in the Council to drive forward the equalities agenda. During the year the group have made good progress in developing the following areas:
- Equality Impact Assessment Toolkit and Template.
  - Updating the Council's website to feature accessibility options.
  - Including Equalities within Directorate planning guidance.
  - Raising awareness of the requirement of the Equality Act 2010.
132. The group are utilising the Best Value Toolkit Equalities Assessment matrix produced by Audit Scotland to self assess against the progress made by the group and determine further development action required. The chair of the group has updated the CMT on developments on a regular basis throughout the year.

# Best Value, use of resources and performance

133. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
134. The Local Government in (Scotland) Act 2003 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
135. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
136. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
137. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
138. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

## Management arrangements

### Best Value

139. The first Best Value report in 2005 highlighted significant weaknesses within the Council. The most recent follow-up report issued in January 2009 concluded that '*the Council has made significant progress in delivering its improvement agenda.*' All of the areas within the report requiring improvement have been progressed with the exception of the development of a comprehensive workforce plan. We have highlighted the need to address this in paragraph 71.
140. The Council's next Best Value audit (BV2) will be determined by a risk assessment performed by the local area network (LAN). In 2010/11 the LAN again noted continuous improvement

being made by the Council and there are currently no plans for a best value review of the Council over the next two years.

## Clyde Valley Shared Support Services

141. Following the November 2009 publication of the Arbutnott report, eight councils agreed to participate in a range of work streams to review options for enhanced joint working and shared services. It was agreed that East Renfrewshire Council, supported by Inverclyde Council, would lead the work stream group to review support services and develop an outline business case for each work stream by the end of November 2010. Following this a decision was taken to prepare a detailed business case including delivery vehicle options. The detailed business case was completed and discussed by the council Leaders in August 2011 and a decision taken to ask all participating councils to consider their participation in CVSSS.
142. In August 2011 members of Glasgow City Council and West Dunbartonshire Council elected not to participate in CVSSS believing that best value for their councils would be better served by adopting in house solutions. East Dunbartonshire also decided not to participate further at the end of September. North Lanarkshire Council, Renfrewshire Council and East Renfrewshire Council have decided to continue to participate pending consideration of the proposed governance arrangements.
143. In September 2011 full Council considered the Chief Executive's report on CVSSS proposals and concluded that it is still appropriate for the Council to work with other Clyde Valley councils who wish to pursue shared service options. However, they recognise that the detailed business case is no longer valid in its present form and a need to review whether there is still a viable case for progressing partnership proposals. The Council further agreed that participation in shared services would only be considered if appropriate governance arrangements were established including a fundamental principle of 'one Council - one vote.'
144. The Chief Executive is to submit a report to a future full Council meeting with revised proposals for sharing support services. The revised proposals may not deliver the same level of savings as the original detailed business case due to the reduction in the number of councils signed up to the proposals. However the investment requirements may also reduce which may mitigate against any potential reductions in savings.

**Action plan no. 14**

## Community/user engagement

145. The Community Engagement Network of the Inverclyde Alliance has continued to raise the importance of Community Engagement. Training is being rolled out to encourage use of national standards for community engagement via the Visioning Outcomes in Community Engagement (VOICE) database (<http://www.voicescotland.org.uk/>).
146. The implementation plan to support the Community Engagement Strategy has been updated following self-assessment against the Audit Scotland Best Value Community Engagement toolkit. Members' training on community engagement took place in August 2011 to develop members' knowledge and leadership.

147. A Citizens' Panel survey (1,000 members) took place in December 2010 which focused on delivery of Inverclyde's Single Outcome Agreement (SOA). Developments along the Waterfront were commented on positively and almost half of the respondents agreed that Inverclyde was a better place to live now than it was ten years ago. Concerns were raised in relation to alcohol misuse in the area. Comments received have been passed to the Alcohol Misuse Outcome Delivery Group for further action. The most important issues highlighted by the Panel were creating employment opportunities and business expansion.
148. A further Citizens' Panel Survey was carried out in March 2011 that focused on the Council's approach to customer service. Feedback received was positive with 82% of respondents who contacted the Council via the Council's web site being either very or fairly satisfied with the service received.
149. The Council established a Young Citizens' Panel in spring 2011 to engage with young people on a wide range of issues. A pilot questionnaire was carried out between March and June 2011 and the Council is now working towards rolling out the Young Citizens' Panel.

## Carbon management

150. In our 'Review of Governance Arrangements and Main Financial Systems' report issued in May 2011 we reported that the Council needed to implement a process to monitor progress toward achieving the targets set out in the Carbon Management Plan 2008/13.
151. Since then, through their participation in the Carbon Trust Revisited Programme, the Council have developed a draft Carbon Management Plan 2011/16. The draft plan was submitted to the Carbon Trust in June 2011 and the Council are awaiting their feedback.
152. The Council appointed a Carbon Reduction Officer on 28 March 2011 and a report is currently being prepared for submission to the CMT proposing the establishment of a cross-service working group to develop, monitor, evaluate and report on the Carbon Management Plan. The report also proposes that one of the working group's tasks will be to provide information to enable progress to be reported to the CMT and the Safe, Sustainable Communities Committee.

## Overview of performance in 2010/11

### Introduction

153. 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 that is embedded throughout the organisation. This section provides a high level overview of performance management in the Council.
154. 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.

## Vision and strategic direction

155. The Council has refreshed its Corporate Plan, rolling it forward for one year, to bring it back into line with the local government administrative terms, with its term extended to September 2012 to allow for the local government elections in May 2012. The refreshed plan for 2011 – 12 was agreed at by full Council prior to recess and the subsequent Directorate Plans, which flow from the Corporate Plan were agreed at the first committees after recess. The Directorate Plans are also for one year, and will be reviewed in light of any new Corporate Plan for the new administrative term after the May 2012 elections.

### Action plan no. 15

156. The Organisational Improvement Plan (OIP) has been refreshed and reviewed using the Best Value 2 toolkits and completed Public Service Improvement Framework (PSIF) reviews to inform this process. Completed actions have been removed and the plan rolled forward for a year. Where gaps were identified improvement actions have been amended or added to ensure there continues to be a focus on Best Value and Continuous Improvement. The actions within the plan continue to be delivered upon by a variety of groups including the Corporate Equality Group and the Strategic Planning and Performance Management Board.
157. Responsibility for the delivery of the workstreams in the OIP lies with the workstream sponsor supported by a reference group of senior officers. The reference groups are supposed to meet every six months to scrutinise progress made on delivery of the actions set out in the OIP however we note this has not consistently occurred since the OIP was revised in November 2010.

### Action plan no. 16

158. The SOA Annual Report is in the process of being drafted. The submission date is still unknown as the Council are waiting on the Scottish Government publishing this year's guidance. The report is on track to be ready to be submitted whatever timescale is given by the Government.

## Performance management

159. Performance continues to be monitored using Directorate Plans which include Key Performance Indicators (KPIs) for each service area. These Directorate Performance reports, which are made quarterly, are then used to populate the Corporate Performance report, which gives a red/green/amber status for each corporate outcome.
160. The Inverclyde Performs system was used to monitor and report the KPIs for the first time in 2011, and is the most developed area on the system. A decision has been made to hold off populating the system with the SOA indicators as this plan is being reviewed and the performance indicators will change.

161. The Strategic Planning and Performance Management Board has been tasked with reviewing the Strategic Planning and Performance Management Framework to streamline it where possible. This review will inform the future development of Inverclyde Performs, but in the interim, the Directorate Plans will be developed on the system, to facilitate the Directorate Performance Reports.
162. The Council's Performance Management System, Inverclyde Performs, continues to be developed, and work is on going to roll it out across the Council and across all areas of performance measurement and management. There has been a delay in the full roll out due to technical issues as a result of the software being hosted externally. ICT and Corporate Policy and Partnership are working to resolve these issues and are in the process of bringing the system in house to resolve compatibility problems.

### Self-evaluation arrangements

163. The Council has extensive self-evaluation arrangements in place. They adopted the PSIF as their corporate self-evaluation model in May 2008 and it was been rolled out incrementally across services between 2008 and 2010. PSIF has been applied to all services with the exception of the ICHCP (refer to paragraphs 166-170). Self-assessment service reviews are carried out by a team from various functions within the service who take responsibility for creating an improvement plan at the end of the review.
164. The Council's Education and Communities Directorate collaborated with HMIE to carry out a validated self-evaluation as part of their approach to continuous improvement, focused on improving outcomes for children, young people and adult learners. The report, developed in partnership with HMIE, was very positive and recognised the Council's key strengths whilst also highlighting areas for future development. Strengths recognised were:
- Strong leadership and commitment to continuous improvement demonstrated by the Chief Executive, CMT and senior staff.
  - Motivating learning environment for children and young people supported by excellent improvements to the school estate.
  - Consistent and sustained levels of attainment for young people with high proportions leaving education to go to positive and sustained destinations. Particular reference was made to high levels of achievement in expressive arts due to the provision of high quality music, arts and sports opportunities.
165. HMIE strongly supported these key areas of development:
- Continuing to develop a more coordinated approach to acknowledging and accrediting the achievements of all learners and ensuring a more collective approach to continuous improvement.
  - Working with partners to develop a consistent approach in taking forward literacy developments for learners of all ages.



- Using the principles of developing a 'Nurturing Inverclyde' to plan key improvements in implementing the principles of 'Getting it Right For Every Child' and the wellbeing outcomes.
166. The ICHCP is subject to assessment on a regular on-going basis. This scrutiny is a combination of self-assessment and external scrutiny of services. This includes:
- Care Inspectorate (formerly Social Care and Social Work Improvement Scotland) inspection of 13 Social Work services.
  - Care Inspectorate Initial Service Level Assessment of Social Work.
  - Self Evaluation Questionnaire for Criminal Justice Social Work for a thematic inspection of Prison Based Social Work.
  - Peer reviewed (by East Renfrewshire Council) thematic self-evaluation of high risk offenders.
  - Follow up HMle inspection of the child protection network.
  - Submission of self-assessment of Homelessness service to the Scottish Housing Regulator.
167. In addition an organisation review process is on going and regular reports are considered at six monthly meetings that are chaired on a rotational basis by the Chief Executives of NHS GG&C and the Council.
168. An Improvement Plan is developed as an output from each inspection or self-assessment and these are monitored by the Care Inspectorate Link Inspector.
169. The ICHCP are also piloting the Care Inspectorate e-tool for self-evaluation. Other self-evaluation tools are used in various team settings that are more bespoke for that particular service area, for example:
- Planning and Performance Team have used the Care Inspectorate self evaluation guide specific to performance management.
  - Throughcare team in Children and Families make reference to How Good is our Throughcare.
  - Other teams in Children and Families have made reference to How Good is our Team framework.
170. The ICHCP are also developing a robust quarterly performance review for each Head of Service, using a bespoke balanced scorecard model to review performance, outputs, improvement actions and outcomes.

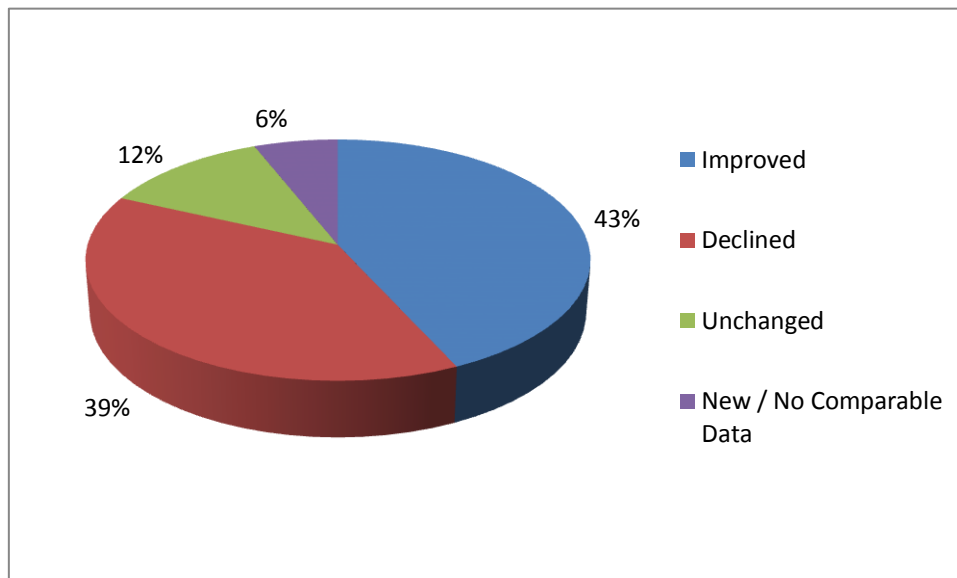
### **Statutory performance indicators (SPI)**

171. In 2010/11, the Council were required to report against 20 of the 25 Audit Scotland SPIs. The five indicators not reported were housing indicators that fall out with the Council's remit. In addition to the SPIs the Council has a defined set of KPIs that they use to measure progress

and demonstrate that the Council are delivering best value across services and functions. A number of the indicators have multiple 'measures.' In total there are 181 measures.

172. The SPIs and KPIs will be submitted to the Policy & Resource Committee in November 2011 and published on the Council's website shortly after.
173. In overall terms exhibit 7 confirms that the Council has made improvements in 43% of their 181 measures whereas performance has declined in 39% of their measures.

#### Exhibit 7: Improvements demonstrated by SPIs



Source: Inverclyde Council performance management system

174. Performance indicators that have shown a significant improvement or indicate very strong performance include:
- 100% of procurement is now notified by electronic contract notice. This is due to the adoption of the public contract (Scotland) web portal.
  - 100% of criminal justice social enquiry reports were submitted to the courts by the due date.
  - 100% of probationers were seen by a supervising officer within one week.
175. Meanwhile areas which have experienced a decline in performance include:
- 0% of operational procurement is managed through e-sourcing or e-tendering. The introduction of a new e-tendering system, scheduled to be trialled in January 2012, is expected to improve this indicator.
  - Failing to meet set homelessness target for securing permanent accommodation. This was due to insufficient housing stock being made available by housing providers.
  - 39% decrease in the provision of daytime respite hours due to a reconfiguration of services to focus on those most in need.

## National performance reports

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

### Exhibit 8: A selection of National performance reports 2010/11

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

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

### Scotland's public finances: responding to challenges

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

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

- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.
178. The Chief Financial Officer has prepared a report for November's Policy and Resources Committee outlining the key messages from the report and what the impact is on the Council.
179. A range of efficiency work streams have been set up to deliver savings in the period from 2011/13. At the time of writing this report the target of £1.5 million set for 2011/12 had already been achieved with further savings planned.
180. The key work stream measures include a 1% top slicing of budgets, procurement savings, reduction in cleaning activity and the impact of introducing the operating model. A voluntary severance scheme continued to operate during 2010/11. Workforce planning arrangements however require to be strengthened to support financial plans and the delivery of services. Overall we can conclude that the Council is aware of the future challenges of the current financial climate and is taking action to manage the constraints ahead.

### Maintaining Scotland's roads: a follow-up report

181. This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:
- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
  - The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25%. Only 63% of roads are now in an acceptable condition.
  - The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.
182. The report was submitted to the Safe, Sustainable Communities Committee in May 2011 along with a copy of the Scottish Road Maintenance Condition Survey (SRMCS) organised by the Chief Officers of Transportation in Scotland. The SRMCS reported deterioration in the condition of Inverclyde's roads with the backlog maintenance costs to bring them to a state of good repair increasing from £9.9 million in 2010 to £11.2 million in 2011 and a further £0.3 million annual investment to maintain that condition. This 14% increase is marginally higher than the Scottish average of £12.3%.
183. In March 2011 the Safe, Sustainable Communities Committee approved capital investment of £1 million for carriageway and footway reconstruction in addition to £0.4 million of revenue funding for cyclic repairs to carriageways and footpaths. The Policy and Resources Committee approved a further £1 million investment in September 2011.

**Action plan no. 17**

## Progress against audit risks identified in the Assurance and Improvement Plan (AIP)

184. In early 2011 the LAN comprising representatives of the major audit and scrutiny bodies met to update the AIP, revise its assessment and reconsider the level of scrutiny required for the Council. The AIP Update 2011-14 issued in May 2011 summarises the changes to the LAN's risk assessment. A number of the areas of significant risk or 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

185. The AIP Update noted that progress was being made by the Council via the establishment of a multi-agency Outcome Delivery Group (ODG) focused on reducing the rate of decline however it was considered to still be an area of major concern.

186. The ODG has three broad areas of activity in their action plan:

- 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.

187. A review of the two progress reports covering the period 4 December 2010 to 13 May 2011 highlighted that the group had not met since August 2010 due to staffing issues. Despite this we have been given assurances that the actions in the action plan have been progressed.

188. A Depopulation Research exercise commenced in January 2011 and was completed in July. It was project managed by the Performance Team within Organisational Development, Human Resources and Performance. All partner organisations and members of the Depopulation ODG were consulted as necessary during the study. The SOA Programme Board received a presentation on the results of the study in August 2011. The issue of depopulation is regularly discussed at the SOA Programme Board and an action plan is currently being developed and will be discussed at the Board's November 2011 meeting.

189. The action to promote Inverclyde has been taken forward by the Council's Corporate Communications Manager and partner organisations have played a key role. The SOA Programme Board received a presentation on the campaign and has been kept up to date with progress made.

190. In May 2011 the Council approved the Inverclyde Economic Regeneration Strategy 2011-2014 that focuses on addressing Inverclyde's socio-economic challenges and maximise the potential offered by Inverclyde's strengths. The strategy recognises the issue of depopulation and patterns of migration as a key challenge for Inverclyde and one of the performance indicators identified focuses on stabilising the local population.

191. A review of the SOA is currently being undertaken and one of the issues being considered is whether it is best to keep depopulation as a local outcome or whether it should be a cross-cutting issue that the Programme Board leads on. Once the review is completed the ODGs will be refreshed as appropriate.

### **Thriving diverse economy**

192. The AIP update upgraded this strategic priority from being an 'area of uncertainty' to an 'area of significant risk' due to:
- The gap between Inverclyde and the Scottish average for employment and being income deprived growing.
  - The impact of depopulation on the provision and maintenance of a thriving economy.
  - The impact on regeneration of a reduction in central funding for Riverside Inverclyde.
193. The ODG focused on tackling issues of employability and skills development have continued to meet and progress activity against their action plan. In January 2011 Inverclyde's claimant count unemployment was at the same level as the Scottish average for the first time in recent decades however it is recognised that the local economy is very vulnerable to public sector cuts.
194. Examples of progress made are:
- European funding awarded to continue the Inverclyde Integrated Employability Programme until 2013.
  - Establishment of the Employee Engagement team to assist local employers seeking assistance with recruitment and staffing issues.
  - Delivery of a Graduate Programme that provided six-month placements for 25 local graduates.

### **Areas of uncertainty**

#### **Waste management**

195. One of the work streams identified by the Clyde Valley Community Planning Partnership was to develop a shared service approach to waste management across the Clyde Valley. South Lanarkshire decided early in the process to go to the market to secure their own contract arrangements for the treatment and disposal of waste.
196. An outline business case was developed for the seven other Clyde Valley councils using 2009/10 management information and was presented at a Clyde Valley level in June 2011. West Dunbartonshire Council's withdrawal from the Clyde Valley Waste Management Service and Glasgow City Council's decision to make alternative arrangements for the treatment and disposal of their municipal waste means that business case is now invalid and requires revision.
197. Further analysis is now required to ascertain whether further progression of a shared service approach to waste management is still viable. The Council are to perform this analysis using

2010/11 waste data to assess whether there are still advantages in further participation in the Clyde Valley Shared Service scheme. A report is to be submitted to full Council in December 2011 with an analysis of the options available to the Council and recommendations for the future treatment and disposal of the Council's municipal waste.

198. The Council are also progressing developments to ensure they comply with the Scottish Government's Zero Waste Plan (published June 2010) and the proposed Zero Waste (Scotland) Regulations 2011. In particular they are entering into discussions with Zero Waste Scotland regarding the introduction of a food waste scheme and a report is to be presented to a future meeting of the Safe Sustainable Communities Committee detailing options and costs for glass recycling and an extension of the Council's existing recycling schemes.

## Outlook

199. There are currently no plans for a best value review of the Council over the next three years. However the AIP update does include scrutiny activity relating to housing benefits and fire and rescue. The housing benefits work is planned for December 2011 and is Inverclyde specific but the Fire and Rescue scrutiny work is a national report.

# Appendix A: Audit reports

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of adequacy of internal audit	15 December 2010	Not presented
Annual Audit Plan	31 January 2011	1 March 2011
Shared Risk Assessment / Assurance and Improvement Plan Update 2011/14	7 February 2011	23 August 2011
Review of governance arrangements and main financial systems	31 May 2011	23 August 2011
Review of purchasing and procurement	24 June 2011	23 August 2011
Report to those charged with governance on the 2010/11 audit	13 September 2011	27 September 2011
Audit opinion on the 2010/11 financial statements	13 September 2011	27 September 2011



# 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	26	<p><b>Inverclyde Leisure Ltd</b></p> <p>There is no service level agreement in place for leisure provision supplied by Inverclyde Leisure Limited. This issue has been outstanding for over two years.</p> <p><i><b>Risk:</b> There is insufficient clarity over issues such as service definition, performance measurement, duties, warranties, liability and termination of agreement.</i></p>	<p>The Service Level Agreement for Community Facilities is now complete and will be signed by Friday 11 November 2011</p>	<p>Head of Safer &amp; Inclusive Communities</p>	<p>November 2011</p>
2	44	<p><b>Budget Profiling</b></p> <p>The Council do not profile budgets and consequently are not able to provide an accurate comparison of expenditure to date, against the budgeted position. Consideration should be given to placing greater focus on zero based budgeting with budgets profiled over the financial year.</p> <p><i><b>Risk:</b> Members and key officers are not fully aware of the Council's actual financial position in relation to its budget during the year.</i></p>	<p>A report on this matter and Zero Based Budgeting will be presented to Policy &amp; Resources Committee in February 2012.</p>	<p>Chief Financial Officer</p>	<p>February 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	49	<p><b>Early Retiral / Voluntary Severance Reserve</b></p> <p>There early retiral / voluntary severance reserve should be subject to regular review to ensure the funds reserved are appropriate.</p> <p><i><b>Risk:</b> The reserve may be insufficient or excessive. If insufficient than any shortfall will need to be met. If excessive then funds could have been made available for alternative means.</i></p>	<p>The Voluntary Severance by its very nature is a high level estimate. The methodology for generating up to £12 million funding was agreed in August 2009.</p> <p>The level of all reserves is reviewed on an ongoing basis. No additional action proposed.</p>	Chief Financial Officer	N/A
4	50	<p><b>Capital Programme</b></p> <p>Upon completion of the current capital programme the Council's intention is to limit capital spending to grant receipts and finance raised through capital disposals.</p> <p><i><b>Risk:</b> There will be insufficient capital investment to maintain the Council's asset base for the foreseeable future.</i></p>	The Council approves a rolling three year Capital Programme and will prepare a 2011/15 programme for consideration in February 2012. This plan will reflect available resources.	Chief Financial Officer	February 2012
5	51-54	<p><b>Capital Slippage</b></p> <p>The level of slippage against the Council's capital programme has been increasing year on year from 13% in 2007/08 to 45% in 2010/11.</p> <p><i><b>Risk:</b> The 2011/14 capital programme may not be delivered in a timely</i></p>	The Asset Management EIG together with its CAM's Officer Sub-Group will regularly review progress and spend across all capital projects and take appropriate action, where possible, to ensure timeous delivery of the Capital Programme.	Corporate Director Regeneration & Environment	Bi-monthly monitoring  Final review March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>manner.</i>			
6	61-62	<p><b>Financial Pressures</b></p> <p>The Council have identified £23 million of efficiency savings over the period 2010/11 to 2013/14 to help meet service delivery expectations whilst managing the financial pressures brought about by reduced local government settlements.</p> <p><i>Risk: The Council may be unable to achieve targeted savings and meet future service costs.</i></p>	<p>The CMT have a monthly review of progress towards savings, including efficiency savings.</p> <p>This allied to the regular review of the Financial Strategy will enable Members to take informed budget decisions.</p> <p>No additional action proposed.</p>	Chief Financial Officer	N/A
7	66-67	<p><b>Strategic Procurement Framework</b></p> <p>The Council need to deliver their Strategic Procurement Framework action plan to support improvement in procurement processes and practices.</p> <p><i>Risk: Procurement decisions across the Council are not made in a consistent fashion and may not achieve best value.</i></p>	Revised Procurement Strategy Action Plan to be implemented over 2012/14. This will be subject to Policy & Resources approval in November 2011.	Chief Financial Officer	March 2014
8	70-71	<p><b>Workforce Reductions and Planning</b></p> <p>In the two-year period 2009/2011, 120 employees have been released under the terms of an early voluntary scheme. Further releases have been agreed for 2011/12.</p>	Advice on Succession Planning to be issued by Organisational Development by end of 2011 for Services to implement from January 2012. New Workforce Development strategy for September 2012 and will	Head of Organisational Development, Human Resources & Performance	September 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>The Council are still to develop a formal workforce plan to facilitate succession planning.</p> <p><b>Risk:</b> <i>The Council are unable to manage and develop their workforce, or have the necessary capacity, to achieve medium to long-term strategic objectives.</i></p>	also include aims in relation to Workforce Planning.		
9	72	<p><b>Employee Appraisal Scheme</b></p> <p>The Council is continuing to roll out employee appraisals to all employees. Currently projection is this will be complete by 31 March 2012.</p> <p><b>Risk:</b> <i>The Council are unable to measure employee performance and identify associated training needs.</i></p>	Corporate Directors continue to support the drive for these to be carried out by previously planned and Workforce.	Head of Organisational Development, Human Resources & Performance	31 March 2012
10	73	<p><b>Employee Survey</b></p> <p>The employee survey scheduled for Spring 2011 was delayed due to contractual concerns and further delayed due to the climate of uncertainty caused by developments relating to potential shared services.</p> <p><b>Risk:</b> <i>By avoiding periods of low staff morale, information obtained through the survey</i></p>	The Council carried out an invitation to quote regarding carrying out an employee survey and have a contractor in place to deliver this. A new baseline employee survey has been drafted and agreed and will be conducted in March 2012.	Head of Organisational Development, Human Resources & Performance	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>might paint a false impression of employee opinion.</i>			
11	95-101	<p><b>Operating Model</b></p> <p>The Council's Chief Executive is in the process of preparing a report that outlines the next steps required to progress the operating model project. It is essential that the Council develop robust processes and systems to manage the risks associated with implementation of the model.</p> <p><i><b>Risk:</b> The Council may not be able to manage the risks, challenges and difficult decisions required to successfully implement the operating model.</i></p>	<p>A report will be submitted in December 2011 to Council for consideration. This report will include recommendations on the proposed way forward for the Council</p>	Chief Executive	December 2011
12	112-114	<p><b>Business Continuity Planning</b></p> <p>Work is on going to develop service business continuity plans on a pan-Renfrewshire basis with all plans expected to be complete and ready for testing prior to sign off before 31 December 2011.</p> <p><i><b>Risk:</b> Until plans are finalised and tested successfully the Council may not be able to restore key services in the event of potential disruptions to</i></p>	<p>Work is continuing with the Joint Civil Contingencies Service to finalise this action. A new team member has been recruited by the JCCS in July 2011 who will have responsibility for delivering the plans and associated rehearsal testing for Inverclyde Council.</p>	Head of Safer & Inclusive Communities	31 December 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>service delivery.</i>			
13	121	<p><b>Data Handling</b></p> <p>The Council are still to finalise an information asset register and an information classification scheme.</p> <p><i><b>Risk:</b> The Council may not be aware of the full range of information they hold, the degree to which certain information is confidential and sensitive, and the appropriate controls to implement to secure this information.</i></p>	<p>The draft information classification scheme will be agreed and approved.</p> <p>The information assets register will be implemented in conjunction with the approval of the information classification scheme.</p>	Corporate Director Community Health & Care Partnership	<p>31 December 2012</p> <p>31 December 2012</p>
14	141-144	<p><b>Clyde Valley Shared Support Services / Alternative Savings</b></p> <p>The Council are to submit revised proposals for sharing support services. These proposals may not deliver the same level of savings as the original CVSSS proposals due to their being less councils involved. Alternative savings will need to be identified.</p> <p><i><b>Risk:</b> The Council cannot identify sufficient savings through the CVSSS proposals and alternative internal savings to meet the demands from the reduction in central grant funding.</i></p>	<p>The four Councils that have agreed to continue to participate in Shared Support Services are currently reviewing the Detailed Business Case to take account of the reductions in the number of partners. The review will identify revised investment requirements and savings and further develop the governance proposals. Proposed savings have not yet been factored into Inverclyde Council's Budget projections from this work.</p>	Chief Executive	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	155	<p><b>Strategic Plans</b></p> <p>The Council have rolled forward their Corporate Plan and supporting Directorate plans to bring them in line with the local government administrative terms. These plans will need to be revised after the May 2012 elections.</p> <p><i>Risk: The Council is currently operating without long term strategic direction.</i></p>	<p>The Outcomes set out in both the Council's Corporate Plan and the partnership Single Outcome Agreement are agreed as long term goals which will continue to inform the strategic direction for the Council. Work is on going through the Strategic Planning and Performance Management Board (SPPMB) regarding the strategic planning framework and how this will develop in the near future.</p>	Head of Organisational Development, Human Resources & Performance	September 2012 (new Corporate Plan and new Directorate Planning guidance)
16	156-157	<p><b>Organisational Improvement Plan (OIP)</b></p> <p>The OIP reference groups are supposed to meet every six months to scrutinise progress made on delivery of the actions set out in the OIP. We note this has not consistently occurred since the OIP was revised in November 2010.</p> <p><i>Risk: The improvement actions may not be achieved within the timescale set which could impact on the overall delivery and effectiveness of the OIP.</i></p>	<p>A progress report on the actions set out in the OIP has identified that the majority of actions have had progress made against them. The Corporate Management Team have committed to holding a meeting of each Reference Group in order to further detail progress made and to set out a way forward for Improvement across the Council in line with the work being undertaken by the SPPMB.</p>	Head of Organisational Development, Human Resources & Performance	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
17	181-183	<p><b>Roads Condition</b></p> <p>The backlog maintenance costs to bring Inverclyde's roads to a state of good repair has increased from £9.9 million in 2010 to £11.2 million in 2011 with a further £0.3 million annual investment required to maintain that condition. This 14% increase is marginally higher than the Scottish average of £12.3%.</p> <p><i><b>Risk:</b> The condition of Inverclyde's roads continues to deteriorate beyond a state of repair and affordability.</i></p>	<p>A report was submitted to Safe and Sustainable Committee on 25th October seeking approval to the proposed programme of projects funded from the additional £1million funding approved at the P&amp;R Committee.</p> <p>The report was agreed by members.</p> <p>The additional funding will be allocated over 2011-12 and 2012-13 financial periods.</p>	Head of Environmental & Commercial Services	August 2012



# Appendix C: Glossary of acronyms

Acronym	Detail
AIP	Assurance Improvement Plan
CMT	Corporate Management Team
CPI	Consumer Prices Index
CVSSS	Clyde Valley Shared Support Services
HMIE	Her Majesty's Inspectorate of Education
ICHCP	Inverclyde Community Health & Care Partnership
ICT	Information Communications Technology
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LAN	Local Area Network
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
NFI	National Fraud Initiative
ODG	Outcome Delivery Group
OIP	Organisational Improvement Plan
OSCR	Office of Scottish Charities Regulator
PAMIS	Property Asset Management Information System
PCA	Procurement Capability Assessment
PSIF	Public Service Improvement Framework
RPI	Retail Prices Index
SOA	Single Outcome Agreement
SPI	Statutory Performance Indicator
SRMCS	Scottish Road Maintenance Condition Survey
UK GAAP	UK Generally Accepted Accounting Practice