
Report To:	Inverclyde Council	Date:	20 December 2012
Report By:	Chief Executive	Report No:	FIN/105/12/AP/LM
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Annual Audit Report 2011/12		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Council that Grant Thornton have issued their Annual Audit Report for 2011/12 (Appendix 1).

2.0 SUMMARY

- 2.1 The Annual Audit Report is a summary of the findings arising from audit and other relevant activity undertaken during 2011/12 by Grant Thornton, the Council's External Auditors. 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 External Audit and other scrutiny bodies, the Report comments on the Council's position for 2011/12.
- 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 It is important to highlight the ongoing reduction in the number of action points and the various positive comments contained within this report especially in relation to the Council's Financial Management, Internal Audit and Performance Management approach.
- 2.5 The Council has completed the Action Plan in Appendix A and progress will be monitored via the Audit Committee and CMT.
- 2.6 Representatives from Grant Thornton 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 Audit Report – 2011/12; and
 - 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 Audit Report 2011-12

November 2012

Contents

1. Executive Summary	2
2. Introduction	4
3. Financial Position	5
4. Governance	10
5. Performance	14
Appendix A: Action Plan	18
Appendix B: Financial Ratios	21

1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Inverclyde Council (the Council) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the first year of our appointment. This report summarises the findings from our external audit work for the year ended 31 March 2012.

Overall conclusions

We use the table below to highlight the key findings emerging from each aspect of our work during 2011-12. Overall, the Council is in good financial health with a strong general fund position. The general fund now stands at £40.7 million, an increase in funds from the previous year of £11.5 million.

Overall, the Council performs well in delivering services but faces challenges in embedding its new corporate management structure. The outcome of recent elections in May 2012 provide greater certainty over policy direction across the Council and the level of planning and preparations that are being made for the future. Good progress has been made to deliver savings through the council's programme of efficiency workstreams, but it is becoming increasingly clear that there are significant challenges and difficult decisions ahead.

Meeting future challenges

The Council's Medium Term Financial Planning and Management Framework highlights a number of key challenges in the year ahead. In particular, the impact that welfare reform will have on the financial position of the

Council and in the achievement of key policy outcomes is uncertain as much of the detail on the practical implementation of welfare reform policy remains unclear. There is also continuing pressure on councils' revenue and capital budgets which may present a challenge to continuing with current levels of service provision in some areas. The creation of new national police and fire services means there is a developing role to meet revised local accountability arrangements for these services.

The Council is also impacted by the economic recession through high levels of unemployment in the area which contributes, but not exclusively, to population decline. As future government funding is largely driven by population size, there is a significant risk that the council's future levels of funding will decline further.

Whilst these challenges are well understood, they also present an opportunity for the Council to consider alternative models of service delivery. A revised corporate management and committee structure has been implemented and we will review how the revised structure impacts decision making and scrutiny.

Community planning arrangements as a mechanism to improve economy, efficiency and effectiveness in service delivery remain a point of focus. The Council's Single Outcome Agreement is therefore important to assist in ensuring that resources are directed to meet the priorities of the Council and partner bodies.

Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> • The Council had a general fund balance of £40.7 million at the year end. The General Fund increased more than budgeted in the year as a result of additional workstream savings. The uncommitted portion of the General Fund is £6.1 million, which is £1.9million higher than the Council's target for reserve balances. • The workstream programme delivered savings of £4.5 million in 2011-12, and is on target to exceed the level of savings required to meet agreed levels of service provision by £0.7 million. • The Council recorded a significant underspend of £3.7 million against service budgets in the year, representing 1.8% of net service expenditure.
Governance	<ul style="list-style-type: none"> • The Council's governance arrangements are generally operating well. We note that a new committee structure was introduced following the recent elections. • Our review of internal controls found that they operate effectively, and the internal audit section performs well.
Performance	<ul style="list-style-type: none"> • The Council has worked well with its partners to agree a shared vision for the area, supported by shared priorities for future improvement within the Single Outcome Agreement. • The Council has revised its Strategic Planning and Performance Management Framework during 2011-12, which places a strong emphasis on robust self-evaluation. • The Council has well-developed arrangements to monitor and report on performance through Inverclyde Performs. Our analysis of progress against the Single Outcome Agreement and Statutory Performance Indicators highlights continuing improvement within services.

2. Introduction

Introduction

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

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

Our responsibilities

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

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

Our Annual Report

This report summarises the findings from our 2011-12 audit of Inverclyde Council. The scope of our work was set out in our Audit Approach Memorandum, which was presented to the Audit Committee on 28 February 2012.

The main elements of our audit work in 2011-12 have been:

- the audit of the financial statements, including a review of the Statement of Systems of Internal Control
- a review of corporate governance arrangements, internal financial controls and financial systems

- the audit of statutory performance indicators; and
- a review of the council's response to Audit Scotland's national study reports.

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

Assurance and Improvement Plan

Inverclyde Council's Assurance and Improvement Plan (AIP), was updated and developed by the Local Area Network of external scrutiny bodies, and published in May 2012. The update reflects recent work carried out by local scrutiny partners, and sets out the scrutiny activity proposed for the council for the period up to March 2015.

The Council's AIP Update 2012-15 confirms that there are no significant concerns relating to Inverclyde Council, and the LAN conclude that the Council has the capacity to achieve further service improvements.

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

The LAN highlighted the effectiveness of member engagement as an area of uncertainty. This aspect of performance will be evaluated again in the next financial year following the outcome of the recent elections in May 2012.

The results of the work reported here will be used to inform the next Shared Risk Assessment. The LAN is scheduled to meet in November 2012 to discuss initial assessments.

Acknowledgements

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

3. Financial Position

The Council has a general fund balance of £40.7m, with £6.1m available for new expenditure or to meet unforeseen costs. The Council recorded a significant underspend against budget for the year and is making good progress in delivering the efficiency savings required in its Budget Strategy to meet continuing financial challenges.

Financial Reporting

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

We reviewed the Chief Finance Officer's Foreword and concluded that it provides a good summary of the Council's financial performance for the 2011-12 financial year, including performance against budget, and outcomes against the prudential indicators.

The CIPFA Directors of Finance working group approved a number of financial ratios (**Table 1**), for use within the 2011-12 annual accounts to enhance comparability across Scottish councils. Inverclyde Council has not provided this analysis for 2011-12, but we believe that there is scope to provide this information in future years.

Table 1: CIPFA Director of Finance Agreed Financial Ratios for use in the Explanatory Foreword

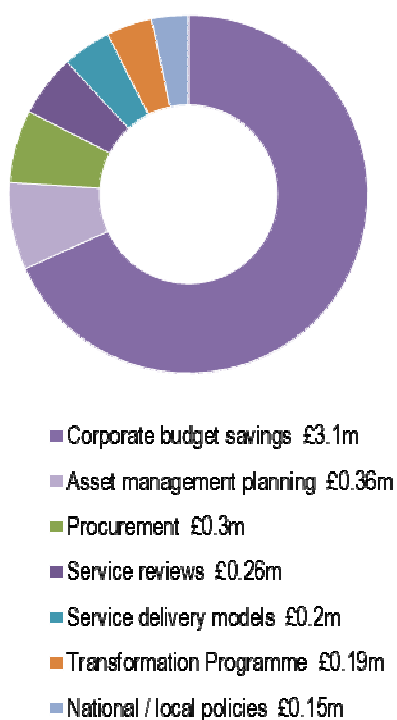
- Uncommitted General Fund as a percentage of Annual Budgeted Net Expenditure
- Movement in the Uncommitted General Fund balance
- In year council tax collection rate (%)
- Council tax income as a percentage of overall funding (%)
- Actual outturn compared to budget
- Actual contribution to / from uncommitted General Fund balance (£)
- Capital financing requirement and External Debt levels (refer to Prudential Indicators)
- Ratio of financing costs to net revenue stream
- The impact of capital investment on council tax

Budget Strategy

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

In 2011-12, the Council set target savings of £4.7 million for the year, representing £1.5 million over that required to deliver a balanced budget, to ease the pressure on budgets in future years. Savings totalling £8.4 million were achieved during the year, including £4.5 million from efficiency workstream savings with the remainder (£3.9m) representing cost cutting reductions.

Figure 1: The Council delivered workstream savings of £4.5 million during 2011-12



Source: Inverclyde Council review of workstream savings report

The Council has outperformed its expectations in delivering savings. It has currently achieved £19.6 million of the £23.2 million workstream savings target to be achieved by the end of 2013-14. As a result, it is expected that extra workstream savings of £0.7million will be generated by 2013-14.

The Council's most recent estimates set out a funding gap for the period 2012-15 of £8.05 million. Additional pressures highlighted within the revised Strategy include the implications of welfare reform, health and care integration, workforce restructure and pension costs.

The Implications of Welfare Reform

Welfare Reform presents a significant, and as yet, unquantifiable financial risk to the Council, although the 2013/16 Revenue Budget Update anticipates additional funding pressures of £1.3 million by 2015-16.

The Welfare Reform Act introduces a universal credit, which is an integrated working age benefit to replace existing in and out of work benefits, including housing benefit. The Act also introduces size criteria into the calculation of housing benefit for working age tenants in the social rented sector. Claimants' eligible rent will therefore be restricted if their current social rented property is larger than they need.

The council has an immediate £0.7 million cost to contribute to the funding to implement the revised council tax benefits scheme. However, indirect costs of welfare reform may be significantly higher. Under the current housing benefits system, the benefit is managed between the council and the DWP on behalf of tenants. In future, in all but exceptional cases, the universal credit will be paid directly to the tenant. This means that some tenants may be expected to pay rent for the first time, and may therefore require support around budgeting and personal financial management.

Financial Position

One of the key measures of financial health at a local authority is the level of uncommitted reserves balances. The Council has set a target to maintain reserves at 2-2.5% of budget to allow flexibility and the ability to respond to unexpected events.

At 31 March 2012, the Council reported a general fund balance of £40.7 million (2010-11: £29.2m), of which £6.1 million is uncommitted. This is higher than the Council's target level of reserves, at around 3% of budget.

Figure 2: The Council's earmarked reserves continue to



increase, and uncommitted reserves remain above target

Source: Inverclyde Council Statement of Accounts

Comprehensive Income and Expenditure Statement

The Council reported significant movement in balances between years in its Comprehensive Income and Expenditure Statement, principally as a result of pension accounting movements. As **Table 2** highlights, the Council reported total net comprehensive expenditure in year of £73.2 million (2010-11: income of £70.1 million).

Table 2: Financial Results for 2011 and 2012

	2012 £'000	2011 £'000
Net Cost of Services	209,818	166,925
Other operating expenditure	(15)	732
Financing and investment income and expenditure	10,427	9,391
Taxation and non-specific grant income	(215,667)	(213,711)
(Surplus)/deficit on the provision of services	4,563	(36,663)
(Surplus)/deficit arising on revaluation of non-current assets	18,287	(6)
Impairment losses on non-current assets charged to the revaluation reserve	5,754	1,403
Actuarial (Gains) / Losses on Pension Assets and Liabilities	44,638	(34,851)
Total Comprehensive (Income) and Expenditure	73,242	(70,117)

Source: Inverclyde Council Statement of Accounts 2011-12

As reported last year, during 2010-11, the index used to measure pension inflation was changed from the Retail Price Index (RPI) to the Consumer Price Index (CPI) in 2010-11. CPI is generally lower than RPI and by switching to CPI for measuring pension inflation the value of pension liabilities is reduced. This effect is offset by the impact of the economic recession in lowering long term investment returns to the fund and by the impact of members of the pension scheme who are living longer which is increasing costs.

Pension costs will be met from higher employer and employee contributions over the long term and we expect to see the share of Council expenditure being required to fund staff pensions increasing over time.

Service expenditure

The Council underspent against budget by £3.7 million (1.8% of the net cost of service), with all services recording underspends against budget.

Performance against service budgets were reported to the Policy and Resources Committee throughout the year. The reported underspend at period 10 was £1.5 million, indicating scope to improve budget monitoring and reporting procedures.

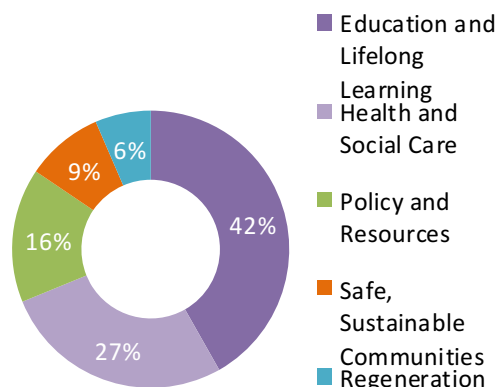
Key elements of the underspend against budget are highlighted below:

- decreased activity across a range of services delivering budget savings of £668,000
- as activity has decreased, there was less call on budget contingencies reducing spend by a further £750,000
- strike deductions across the Council generated savings of £221,000.
- the Council did not make planned social care equipment purchases of £593,000
- higher than expected internal resource balances generate £143,000 more interest than expected increasing income
- the final Net Benefit Subsidy Claim produced an underspend of £252,000.
- lower than expected tonnage sent to landfill reduced waste costs by £229,000.

- there was an underspend on Regeneration Fund of £108,000.
- the council recovered more income from Lets/Waivers than expected reducing net costs by an additional £121,000.

Figure 3 outlines the main areas of service expenditure.

Figure 3: The majority of Council expenditure is directed



towards Education and Social Care

Source: Inverclyde Council Statement of Accounts 2011-12

Significant Trading Organisations

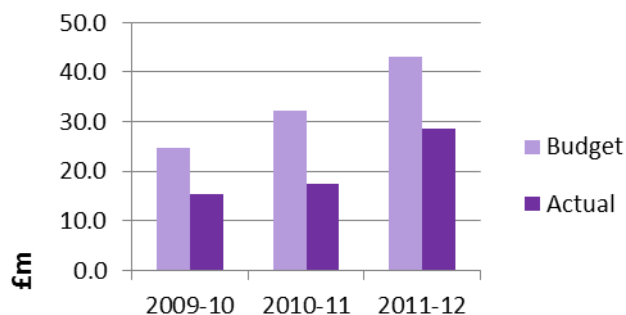
During the financial year 2011-12, the Council maintained one trading account: Building Services. Section 10 of the Local Government in Scotland Act 2003 requires that local authorities' significant trading organisations break even over a three year rolling period. Due to the loss of a significant external contract, the STO reported a deficit of £437,000 in the financial year 2011-12 which resulted in the STO not meeting the three year breakeven requirement. This was appropriately disclosed in the accounts and a matter of emphasis paragraph was included within the audit opinion.

Following a review of the Building Service STO, at its meeting on 18 September 2012, the council agreed with the recommendations of the review that the service no longer be treated as an STO with effect from the 1 April 2012.

Capital Expenditure

Capital expenditure was £28.5 million in 2011-12. The approved budget was £43 million.

Figure 4: Actual capital expenditure was £14.1 million (33%) lower than budgeted



Source: Inverclyde Council Capital Budget Monitoring Reports & Inverclyde Statement of Accounts 2011-12/2010-11/2009-10

Slippage in the capital programme has occurred across all committees. Most significantly there has been slippage of £10.5 million within the Education and Lifelong Learning committee. This is largely due to the Shared Campus and ASN School which came in £4.2 million under budget and there was an initial delay of two months in the tendering process.

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

Significant underspends against capital projects represent a potential opportunity cost for the council, particularly during a period of economic recession, where council expenditure on capital projects is able to support local business and employment in the Inverclyde area more generally.

Recommendation 1

Current Projections for 2012-13

We have reviewed the Council's projections for 2012-13. The Council continues to seek to achieve efficiencies in 2012-13, using the budget workstreams and it is expected that a £2 million surplus will be achieved over and above the budgeted £4.5 million contribution to reserves.

The Council currently estimates a revised base budget gap for the period from 2013-2016 of £8.042 million. The Council's 2013/14 budget is already balanced with a one off surplus of £3.263 million whilst the 2014-15 budget forecast has a remaining funding gap of £2.182 million.

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

4. Governance

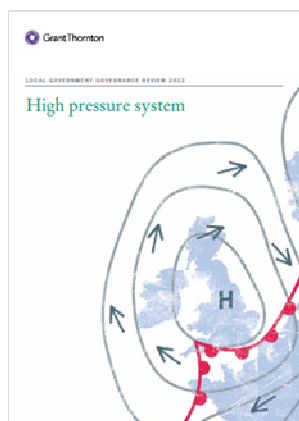
The Council has undertaken a review of the decision making committee structure and aligned the committee and corporate management structure to improve scrutiny and decision making. The Council has not yet adopted an Annual Governance Statement within the Financial Statements. The Council's shared service plans are under review and expected savings are being reassessed.

Annual Governance Statement

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

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

Our annual local government governance review, *High Pressure System*, is based on survey responses from over 100 senior council officers and members, and a desktop review of 200 UK councils' 2010/11 Annual Governance Statements (AGS), evaluates the soundness of existing governance systems for operating in the current high pressure environment.



Scrutiny Arrangements

Effective scrutiny is critical to the success of the Council's governance arrangements. Elected members have a key role to hold officers to account for delivering the vision for the area.

Overall we found that the Council's scrutiny arrangements operated well. Following the elections in May 2012, the new administration has replaced the committee structure following

a review by the corporate management team. The structure has been modeled on a modified thematic committee structure and is aligned with the new Corporate Management Structure. The Strategic Leadership Forum (SLF) was seen as a positive development and has therefore been re-established as part of the revised structure.

We will review how the revised committee structure improves decision making and scrutiny during 2012-13.

Governance of associates

The Council has interests in a number of organisations and joint committees. During 2011-12 governance arrangements were established to formalise the members and officers' governance responsibilities towards external organisations based on a points system. The policy was developed recognising that the Council need to achieve a balance between having a hands off approach for these independent organisations to run their own affairs and the Council's overarching responsibility in following the public pound.

The council has significant interests in Riverside Inverclyde and Inverclyde Leisure. The council has representatives on the Boards of both organisations to ensure that the services are being delivered in line with the Council's objectives.

During the year, Inverclyde Council and Scottish Enterprise commissioned an independent report to review and summarise the governance and operational processes of James Watt Dock LLP, a joint venture between Clydeport (Peel Holdings) and Riverside Inverclyde. A number of recommendations were made in relation to formal appraisal, governance, financial oversight and risk management.

Internal Audit have conducted a review of the Governance arrangements of Riverside Inverclyde as part of the 2011-12 audit plan. Internal Audit have provided a satisfactory rating on the control environment but has made a number recommendations in relation to policies and procedures and their consistent use.

The 2010-11 Report to Members identified a risk in relation to the lack of contractual arrangements with Inverclyde Leisure. An SLA between Inverclyde Leisure and Inverclyde Council was signed during 2011-12. There is scope to improve financial and performance information from Inverclyde Leisure. Internal Audit will be undertaking a review of governance arrangements during 2012-13.

The Council's 2012 review of its management of external organisations highlighted that meetings between the Council and a large number of these organisations had not taken place as frequently as expected. This outcome partly reflects the timing of the review as many liaison meetings had been planned over the November– December 2012 period. The Corporate Management team has taken action to ensure meetings with external organisations occur more frequently and that annual performance reports are presented to the relevant committees.

We plan to carry out a further review of the Council's management of external organisations as part of our 2012-13 audit.

Community Planning Arrangements

Audit Scotland has recently outlined revised arrangements for the scrutiny of Community Planning Partnerships (CPPs), based on the Scottish Government's aim to strengthen the accountability of CPPs, and support the drive for improved outcomes.

Early audits are underway, and are based on four key themes:

- Strategic direction
- Governance and accountability
- Performance management and the use of resources
- Impact and outcomes

Inverclyde Alliance have published the single out come agreement document for 2012-17. This process will allow partner bodies and local communities to work together to agree priorities for the area for the next five years.

Current community planning arrangements are well-developed, with partnerships in place to progress the eight current outcomes. Mechanisms are also in place to engage with local communities through the Inverclyde Alliance community engagement network. The CPP Board carried out a self assessment resulting in an improvement plan to ensure the Board continues to develop itself against a range of key areas including communication, capacity building, performance, resources and shared learning. The key challenge for the partnership going forward will be to deliver demonstrable impact during the period of financial restraint, work is underway to produce a single overarching commissioning strategy, supported by a procurement strategy which will focus resources and help ensure value for money is obtained.

Shared Services

The Clyde Valley Shared Support Service business case was published in August 2011. Since then a number of councils in the original scheme have pulled out of the proposal. Inverclyde wished to continue examining the potential for a shared service with the remaining partners. Savings have been re-forecast and following discussion the remaining four Councils have agreed that the Support Services proposal should not be progressed in its current format. A report covering this and a proposal regarding ICT will be presented to the Council in November 2012.

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

Risk Management

The Council has risk management arrangements in place at corporate, directorate and service level. Risks are reviewed regularly by the Corporate Management Team. The risk register is not presented to members, however the audit committee receives regular reports from Internal Audit on the progress of Risk Management and risk registers are available to Members on request.

Recommendation 2

Internal Audit conducted an annual review of risk management and concluded that progress had been made in a number of areas including rolling out the Risk Management Strategy as part of the ongoing reviews of service risk registers, individual risk registers have been established for key areas of development at the Council, including the Financial Strategy and Property Asset Management Strategy. The Council has also worked with its partners to review the risk register associated with delivery of the Single Outcome Agreement.

Key areas for the Council to focus on in 2012-13 include reviewing corporate, directorate and service risk registers to ensure that strategic and operational risk are aligned and ensuring appropriate reporting mechanisms are in place.

Review of Internal Audit

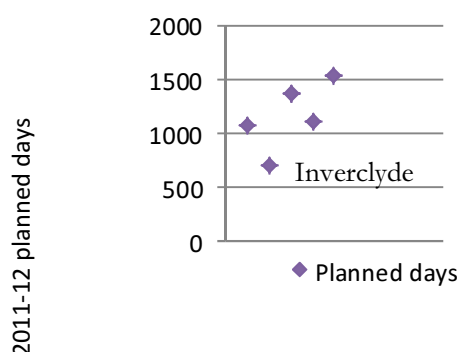
As part of our year one audit procedures, we completed our detailed review of the Council's internal audit function against the good practice within CIPFA's Code of Practice for Local Government Internal Auditors. Due to the nature of the reviews carried out during 2011-12, we did not place formal reliance on the work of Internal Audit, but we reviewed their work to ensure that our work was appropriately focused, and to highlight where there were control weaknesses.

We found that the internal audit section is performing well. The Audit Plans are based on a risk assessment, and the scope and objectives of each review are presented to the Audit Committee to ensure that the work will reflect the needs of the Committee. The reports are clear, concise and constructive, and target timescales are set for their release and agreement.

The audit plan is based on the resources available within the section. The available audit days are significantly lower than

comparative councils. However, the Council's Audit Plan is based on a 'risk assessed' approach which focuses resources on those areas which pose greatest risk. The Plan included limited scope reviews of Finance and control self assessment within Education and Social Care Services, which are also carried out on a risk based approach.

Figure 5: Inverclyde's Internal Audit Section operate on significantly lower resources that comparative councils



Source: 2011-12 Internal Audit plans for Inverclyde and a selection of comparative Councils

Recommendation 3

Monitoring and follow up procedures are well established within Internal Audit, however there remains a high number of agreed actions which have not been implemented by the agreed, and in some cases, revised deadlines.

Recommendation 4

The section would be strengthened by formalising independence and conflict of interest declarations. There is currently no documented time period set for staff to prohibit them from working on an area they have previously held an operational role and auditors are not required to submit annual independence declarations.

Recommendation 5

Internal Audit concluded in their annual report to the Audit Committee that 'in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls'.

Internal Controls

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

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

No significant matters were highlighted during this work.

Looking forward

In June 2012, the Police and Fire Reform (Scotland) Bill passed through Parliament and has now received Royal Assent. Under this Act the eight current police and fire boards will be abolished and a new single National Police Service established.

The public sector, and consequently, Council has entered a transitional period, where elected members have a duty to ensure that the current services deliver value for money, but also to ensure preparations are being made for the new services, including local governance and accountability.

5. Performance

The Council and its partners have a clear vision for the area based on the wellbeing of the community, which is supported by eight strategic local objectives. The Council has continued to evolve its Strategic Planning and Performance Management Framework to increase the level of focus on improvement and robust self-evaluation. The Inverclyde Alliance recorded strong performance against the targets within the Single Outcome Agreement. Inverclyde Performs provides a regular summary of Council performance for elected members and the Council's services continue to improve against Statutory Performance Indicators.

Vision for the Area

The Council and its Inverclyde Alliance partners have agreed that the Single Outcome Agreement, **Inverclyde Together**, acts as the key planning document to deliver the Community Plan 2008-2018. The partners have also agreed an overarching vision for the area:

Getting it right for every child, citizen and community

Eight strategic local outcomes have been planned around the GIRFEC national wellbeing indicators, expanded for the wider community.

GIRFEC Wellbeing Outcomes

- | | |
|-------------|-----------------------------|
| ■ Safe | ■ Active |
| ■ Healthy | ■ Respected and responsible |
| ■ Achieving | ■ Included |
| ■ Nurtured | |

An SOA Programme Board is in place to oversee the delivery of the SOA, and has a role to monitor performance and risks associated with delivering the SOA. The Alliance has also completed a review of community planning partnership arrangements using the Public Sector Improvement Framework (PSIF) Partnership Toolkit. The PSIF framework allows strong self-evaluation, using external facilitation and moderation.

The Alliance has established Outcome Delivery Groups to take forward each of the local outcomes.

Performance management arrangements

The Council has recently revised its Strategic Planning and Performance Management Framework (SPPMF) to ensure that each Directorate has arrangements in place to deliver the strategic outcomes within the SOA.

A Corporate Statement will replace the Corporate Plan, and sets out the local outcome targets for Inverclyde, reflecting the key areas of focus for the Council as part of the Inverclyde Alliance. The draft Statement is currently subject to consultation with communities.

Corporate Directorate Improvement Plans will replace Directorate Plans from April 2013, to ensure that service plans reflect the Finance Strategy following the 2013-14 budget process.

Audit Scotland's recent How Councils Work series, *Managing Performance: are you getting it right?* continues to stress the critical role of self-evaluation and good quality performance information in allowing councils to demonstrate that they are delivering efficient and effective services.

The report highlights the role of elected members in setting priorities and ensuring that useful, high-level indicators



are in place to help members assess performance at a corporate level.

During 2012-13 we will follow up the report to ensure that elected members have access to the information they require through **Inverclyde Performs** to fulfill their role, and that performance management arrangements reflect the priorities of the Council. We have, however, been impressed by the Council's revised SPPMF arrangements, which are supported by key building blocks for improvement, including:

- Corporate strategies for development such as the Customer Service Strategy and Finance Strategy
- Service Statements and Standards to ensure there is clarity and shared expectations between services and their customers
- Clear links between Corporate Directorate Improvement Plans and revenue budgets
- A programme of PSIF assessments and the development of a guide to self-evaluation, supported by training to ensure that Plans are supported by robust self-evaluation.

We also note that revised arrangements for the Inverclyde LAN shared risk assessment mean that the council will have the opportunity to provide self-assessment evidence. The quality and openness of self-evaluation materials may therefore influence the level of external scrutiny applied to the Council.

Performance reporting

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

The Council no longer produces an Annual Report, but reports on Corporate and Directorate performance on a quarterly basis. The Inverclyde Alliance also report annually on progress against the Single Outcome Agreement. The most recent progress report highlights that only one of the 72 relevant local outcomes has a 'red' status, where immediate action is required to meet the target, relating to the development of a resilient approach for communities. We understand that progress has been made by Safer and Inclusive Communities to appoint an individual to take this action forward.

Procurement Capability Assessment

The Procurement Capability Assessment for 2011-12 was carried out in November 2011-12 and determined that the Council had improved from 15% to 34% which translates to Conformance status. We understand that the 2012-13 PCA was completed on 23 November and the score has improved to 47% which is 3% short of Improved Performance status.

The Strategic Performance Framework had been in place since 2010 and the actions from the strategy are now largely complete.

A revised framework has been developed which deals specifically with scores which sit below the conformance level.

Statutory Performance Indicators

One of the key ways that members of the public can measure council performance is through the statutory performance indicators (SPIs). The Accounts Commission direction requires that councils report:

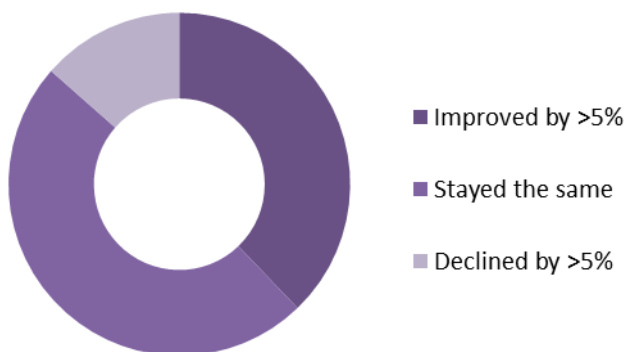
- a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
- a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

Our review of SPI data submitted to Audit Scotland found that performance was maintained or improved for around 86% of the specified indicators.

Areas of improved performance included the time taken to make homelessness decisions, and a reduction in the level of homeless cases requiring to be reassessed. The percentage of household recycling also increased from 31.5% to 41.9%.

The Council also continued to reduce the cost of administering benefits. The cost per case at Inverclyde Council fell from £43.65 to £39.06, compared to a national average of £45.40. The cost of council tax collection also fell by 9.4%.

Figure 6: The Council improved or maintained performance in 86% of specified indicators



Source: Inverclyde Council Statutory Performance Indicators

Areas where performance declined in year include the number of visits to swimming pools, which fell by over 8% during the year, this was mainly due to the closure of the Gourrock pool due to refurbishment for part of the year.

The net cost of refuse collection per premise increased during the year, although the net cost of disposal fell by a similar level. Teaching staff sickness absence continues to exceed the Council's target level. The number of days lost was 8.7 per teacher in 2011-12, against a national average of 6.2, but we note that a managing absence policy is in place to respond.

National Studies

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them and action them accordingly.

Inverclyde Council has a protocol in place to summarise national reports for the relevant thematic Committee. This

allows the Committee members to ask for further work to be done, or for copies of the full reports.

During 2011-12, Audit Scotland asked us to follow up the following reports:

- Maintaining Scotland's Roads
- Modernising the Planning System
- Transport for Health and Social Care

We review whether the council has considered the national report at a Council committee and whether the Council has carried out a self-assessment against the national report and plans to take forward any improvements

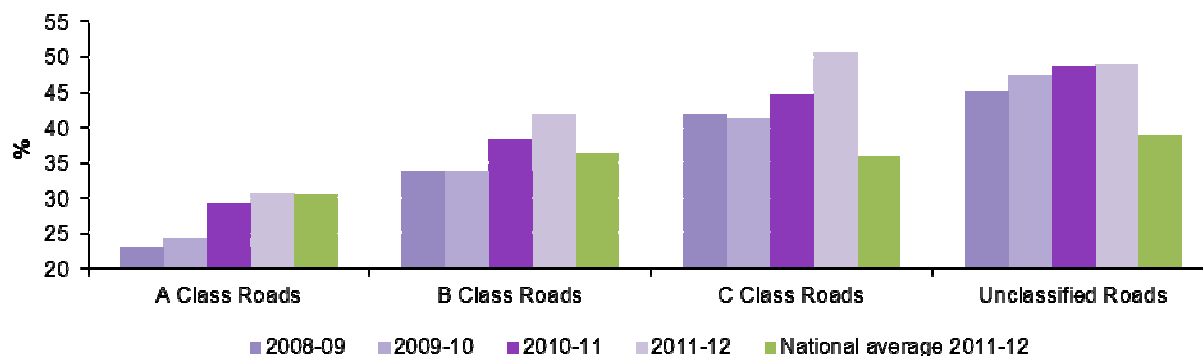
Maintaining Scotland's Roads

Audit Scotland has published two national reports on Maintaining Scotland's Roads, in November 2004 and February 2011. The second, follow-up, report was published after the severe winter of 2009-10 and examined changes in the condition of the roads network across Scotland since the publication of the original report.

The follow-up report found that nationally little progress had been made to improve road maintenance since the first report was published. Less than half of councils reported their backlog maintenance to elected members, and only a third of councils had a Road Asset Management Plan in place. The condition of the roads had also worsened. In March 2012, only 63.6% of Scotland's roads were in an acceptable condition.

The percentage of Inverclyde's road network that should be considered for maintenance treatment is now 47.6%. Figure 7 highlights that the roads condition has continued to decline over recent years, and is lower than the national average in each category.

Figure 7: The condition of Inverclyde's roads is declining, and remains behind the national average



Source: Audit Scotland Statutory Performance Indicators

The Council has recently adopted a Road Asset Investment Strategy, with a clear focus on improving the condition of the roads by prioritising the roads maintenance budget. The Strategy includes a description of the size and value of the roads assets, as well as an analysis of current performance and future demands. We identified one area for further work, relating to the development of a programme of consultation with road users and communities.

Modernising the Planning System

This report aimed to assess whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. Audit Scotland evaluated the overall progress made by public bodies in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications. They found that despite the modernisation and falling numbers of applications, few councils are performing well against timescales set for processing planning applications.

We understand that the Scottish Government and Heads of Planning Scotland are currently working together to develop a new comprehensive framework for measuring, benchmarking and reporting planning performance. Inverclyde Council's Planning service has recently published its Planning Framework. The Service has developed and implemented a comprehensive performance framework for Planning Services comprising a balanced set of indicators covering customer service, processes and resources. Staff training has been developed to ensure that the change in legislation is delivered smoothly, and the Framework demonstrates the Service's focus on continuous improvement and customer satisfaction.

Transport for Health and Social Care

The availability of transport is an essential part of making health and social care services work efficiently. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This includes help with paying for transport or getting to their appointment in transport provided by the ambulance service, councils, NHS boards or the voluntary sector.

Audit Scotland found that nationally transport services for health and social care are fragmented and there is a lack of leadership and monitoring of the services provided. Public services are not working together effectively to deliver transport for health and social care or making best use of available resources. They conclude that improved joint planning could lead to more efficient services, and there is scope to save money by better planning and management of transport for health and social care without affecting quality.

Appendix A: Action Plan

	Issue and risk	Recommendation
1	<p>The council consistently underspend against the capital programme.</p>	<p>The capital programme should be assessed against the council's ability to deliver the programme. The council should review how individual projects are budgeted, phased and monitored to ensure the capital programme is realistic and delivered without significant slippage of projects. There is also scope to simplify and clarify the capital programme monitoring reports.</p> <p>Management Response The CMT has adopted a new corporate programme management structure, which will be considered by the Council in November 2012. This establishes an Asset Management Corporate Improvement Group (CIG), which reviews strategically the implementation of the Council's Capital Programme. The Group reviews how individual projects are budgeted, phased and monitored to ensure the capital programme is realistic and delivered without significant slippage of projects.</p> <p>The Asset Management CIG has established a Capital Programme Delivery Group which regularly monitors the operational delivery of the Programme.</p>
2	<p>The audit committee receive progress reports on risk management, and the corporate risk register is reviewed regularly by the Corporate Management Team. However, the audit committee does not review the corporate risk register periodically throughout the year.</p>	<p>The Council should review how the Corporate risks are communicated to members.</p> <p>Management Response An overview report is normally provided to members on the status of key risks for the Council. To reflect the recent review of the Corporate Structure, a full review of service risk registers is currently underway. It is anticipated that a full overview report will be presented to members in April 2013. Since the Risk Register contains sensitive data, it is not considered appropriate to have this presented to members more frequently than annually.</p>

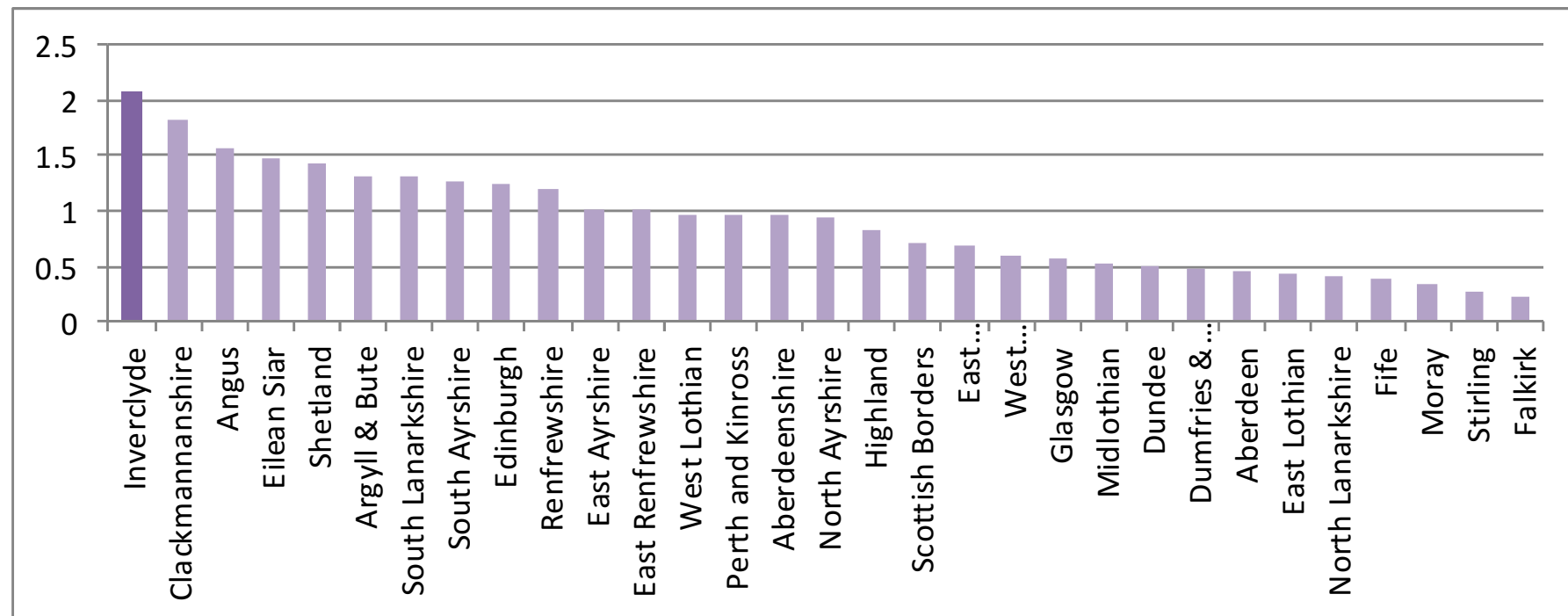
	Issue and risk	Recommendation
3	<p>The available audit days are significantly lower than comparative councils. There is a risk that the audit plan is compromised as a result of limiting the number of projects to the available resources.</p>	<p>The Council should review the current compliment of the audit department to ensure that the available resources are adequate to address the identified risks.</p> <p>Management Response The Audit Plan is risk based and is informed by a number of factors including the work of internal audit and /or other assurance providers. It is also discussed with senior management teams. Therefore, the Audit Plan is focussed on areas which pose the highest risk to the Council. A focussed Audit Plan means that the audit days available are utilised in the most effective and efficient manner. It is nonsensical to make a comparison with other authorities based solely on the number of days available, without taking account of the respective audit approaches. Inverclyde Council believes its approach is the correct approach for Inverclyde and is more effective than the traditional approach.</p> <p>Internal Audit regularly reviews its approach and its Audit Plan to ensure that its resources are adequate and appropriately employed.</p>
4	<p>Despite robust follow up procedures by Internal Audit, there remain a number of recommendations from previous years which have not been fully implemented.</p>	<p>The Council should review the appropriateness of outstanding recommendations and, where there remains a control deficiency, officers should explain the reasons for the lack of implementation and ensure adequate controls are implemented.</p> <p>Management Response The Council, through the Audit Committee and the CMT, are fully committed to implementing audit actions. Follow up reports are routinely discussed at CMT . Attention is currently focussed on addressing older Action Plans.</p>

	Issue and risk	Recommendation
5	<p>There is currently no documented time period set for staff to prohibit them from working on an area they have previously held an operational role and auditors are not required to submit annual independence declarations.</p>	<p>Formalisation of current procedures would strengthen the independence and objectivity of the Internal Audit department.</p> <p>Management Response As a matter of fact and knowledge, none of the current Audit Team have an operational role within any service area which would impair their objectivity. No member of staff has had a relationship with a service in the previous 18 months. In addition, members of the Audit Team are fully conversant with the need to declare conflicts of interest where necessary. Internal Audit fully complies with the CIPFA Code of Practice .</p> <p>The new Public Sector Internal Audit Standards come into force on 1 April 2013. Standard 1130 relates to the above. Internal Audit in Inverclyde is already fully compliant therewith.</p>

Appendix B: Financial Ratios

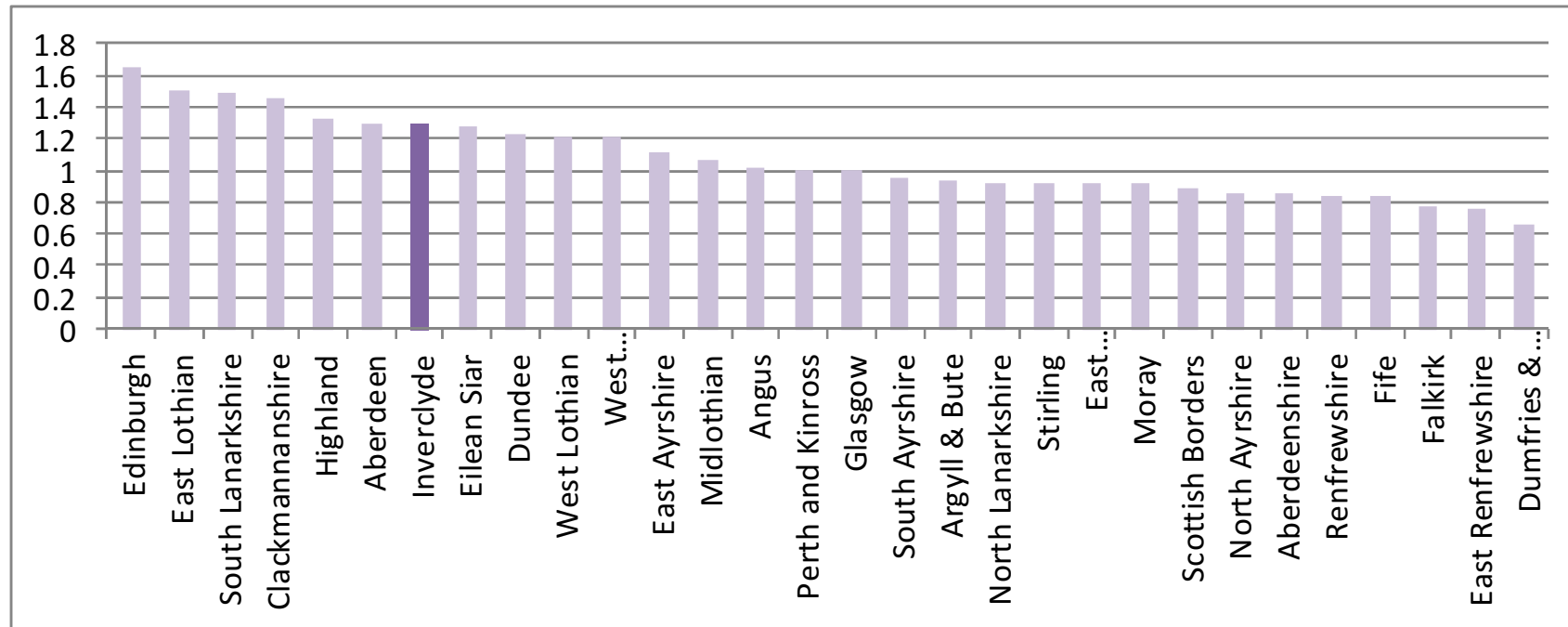
1. Working Capital Ratio

How it is calculated	What it means	Inverclyde Council's position
Current assets / current liabilities	<p>Indicates if a council has enough current assets to cover its current liabilities.</p> <p>A ratio of less than one means that current liabilities exceed current assets.</p> <p>A high working capital ratio is not always a good thing; it would indicate that an authority is not investing their excess cash.</p>	Inverclyde has the highest working capital ratio in Scotland. Cash and cash equivalent balances at 31 March 2012 were £19.6 million. The Council should ensure that cash is managed to maximize returns and the medium term financial strategy takes into account available resources when determining borrowing needs.



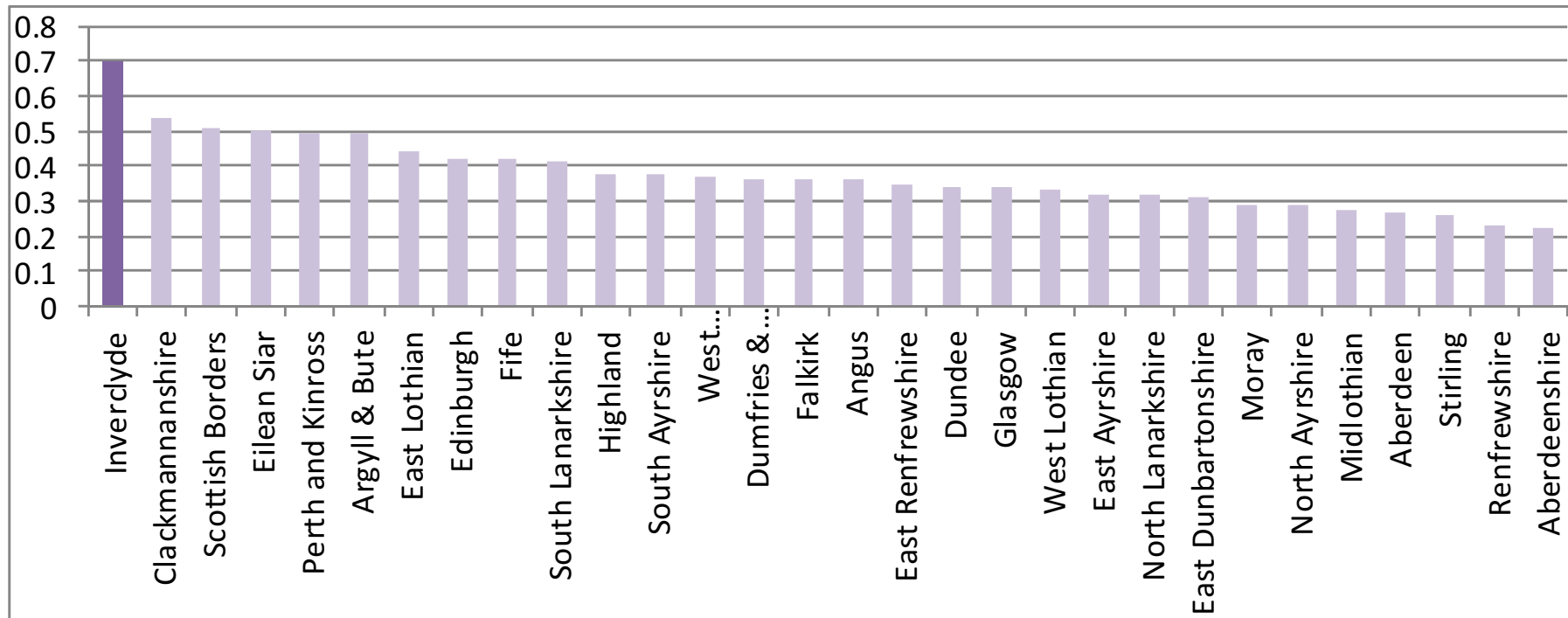
2. Long Term Borrowing: Tax Revenue

How it is calculated	What it means	Inverclyde Council's Position
Long term borrowing / tax revenue	Councils with high levels of long-term borrowing need to ensure that their medium term financial strategies adequately reflect the repayment profile for that borrowing to ensure that any future impact on service delivery is minimised. A ratio of more than one means that long term borrowing exceeds tax revenue.	Inverclyde Council need to ensure that long term borrowing is sustainable and that loan commitments can be met without impinging on resources available to deliver services.



3. Long Term Borrowing: Long Term Assets

How it is calculated	What it means	Inverclyde Council's Position
<p>Long term borrowing / Long term assets</p>	<p>Councils need to understand the historical reasons for high levels of long-term borrowing. The relationship between borrowing and assets should be considered year-on-year, to assess the potential implications of changes in the ratio for the medium-term financial strategy. A ratio of more than one means that long term borrowing exceeds long term assets.</p>	<p>Long term liabilities in relation to PWLB and market loans has stayed consistent with no new borrowing entered into during 2011-12. Financing arrangements for two new schools for £54.5 million have been entered into under PPP arrangements.</p>





© 2012 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement.

The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

www.grant-thornton.co.uk