

**Report To:** Inverclyde Council

**Date:** 4<sup>th</sup> December 2014

**Report By:** Chief Executive

**Report No:** FIN/71/14/JB/CM

**Contact Officer:** Alan Puckrin

**Contact No:** 01475 712223

**Subject:** Annual Report to Members 2013/14

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise Council that Grant Thornton have issued their Annual Report for 2013/14 (Appendix 1).

## 2.0 SUMMARY

- 2.1 The Annual Report is a summary of the findings arising from audit and other relevant activity undertaken during 2013/14 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 2013/14. The Annual Report also draws on information generated from various national studies undertaken by Audit Scotland and highlights issues for Inverclyde.
- 2.3 In particular the report highlights the strong financial position of the Council, achieved through strong leadership by senior management in delivering the Council's vision and corporate priorities. It reports on the good progress made in delivering savings through efficiency workstreams but also the significant challenges and difficult decisions which lie ahead.
- 2.4 The report also highlights governance arrangements operated by the Council with its 3<sup>rd</sup> party organisations who support in the delivery of services on behalf of the Council and it is reported as generally operating well with the Council operating within the "Basic or Better Practice" category.
- 2.5 Finally, the report advises that the Inverclyde Alliance Annual Report presents mixed relative performance and that 48% of the Council's SOLACE indicators are in the bottom two quartiles. It is however recognised that the Council responds positively to the National Studies and is meeting its Best Value obligations.
- 2.6 The Council has completed the Action Plan in Appendix A which will be monitored via the Audit Committee and CMT.
- 2.7 A representative from Grant Thornton will be in attendance to address any questions Members may have regarding this report.

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### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that Council consider and comment on the Annual Audit Report – 2013/14 and note that progress on delivering the Action Plan will be tracked via the Audit Committee.

John Mundell  
Chief Executive

## 4.0 BACKGROUND

- 4.1 Each year the Council receives an Annual Report to Members from the Council's External Auditors.
- 4.2 The Annual Report is a summary of the findings arising from audit and other relevant activity undertaken during 2013/14 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.
- 4.3 In particular the report highlights the strong financial position of the Council, achieved through strong leadership by senior management in delivering the Council's vision and corporate priorities. It reports on the good progress made in delivering savings through efficiency workstreams but also the significant challenges and difficult decisions which lie ahead.
- 4.4 The report advises that the Inverclyde Alliance Annual Report presents mixed performance and that 48% of the Council's SOLACE indicators are in the bottom two quartiles. This can reflect the policy priorities of the Council. It is however recognised that the Council responds positively to the National Studies and is meeting its Best Value obligations.

## 5.0 FINANCIAL IMPLICATIONS

### 5.1 Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments
N/A					

### 5.2 **Legal**

There are no legal implications arising from this report.

### 5.3 **Human Resources**

There are no HR implications arising from this report.

### 5.4 **Equalities**

There are no equalities implications arising from this report.

### 5.5 **Repopulation**

There are no repopulation implications arising from this report

## **6.0 CONSULTATION**

6.1 The External Auditors have discussed this report with the Corporate Management Team.

## **7.0 BACKGROUND PAPERS**

7.1 None.

# Inverclyde Council

## Annual Report to Members and the Controller of Audit 2013-14

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October 2014



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# 1. Executive Summary

## Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Inverclyde Council (the Council) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the third year of our appointment. This report summarises the findings from our external audit work for the year ended 31 March 2014.

## Overall conclusions

We use the table on page 3 to highlight the key findings emerging from each aspect of our work during 2013-14. Overall, the Council is in good financial health with a strong general fund position. The general fund now stands at £42.9 million, a decrease in funds from the previous year of £2.4 million.

Overall, the Council performs well in delivering services and has good financial management arrangements in place. In particular, the Council has been able to build up significant reserves during a period of financial austerity. This has been achieved through disciplined financial management, strong leadership by the senior management team in delivering the Council's vision and corporate priorities to focus investment and savings decisions. However, as more efficiencies and savings are identified, fewer remain in future years to be exploited and members will have difficult decisions to make on service delivery as efficiency savings alone fall short of meeting the budget gap.

## Meeting future challenges

The positive announcement in the 2014 Budget that the Office of Budget Responsibility (OBR) has revised its forecast for GDP growth from 2.4% to 2.7% in 2014 will not play out evenly across the UK. How growth manifests itself locally, demographically or

otherwise, presents very different opportunities and implications for policy makers and local leaders in fostering growth.

Improving the local economy is a key policy area for the Council as Inverclyde has one of the highest rates of unemployment in Scotland and suffers from lower levels of economic activity. This may in part be causing population decline as people leave the area to seek work. As council funding from government is linked mainly to population levels, this could lead to lower levels of future funding unless addressed. A strategic outcome for the Inverclyde Alliance is repopulation. The Repopulation Delivery Outcome Group has secured £1 million funding from the Council to deliver the actions set out in the Repopulation Outcome Delivery Plan.

The greatest benefit of growth may not be from short-term income from business rates, but from better local skills, housing, jobs and infrastructure and their long term impact on the community.

The Council are currently in the process of setting the 2015-17 budget, it is estimated the budget gap for the period is £7.0 million.

As Councils begin to make decisions on service delivery, and possibly cuts, scrutiny becomes increasingly important. Financial scrutiny is ultimately about testing how councils make choices about resource allocation and how well resources are used to deliver policy objectives.

Through scrutiny, councillors have the opportunity to step back and consider the relationship between costs and performance. The rigors of the annual budgeting round can focus attention on dealing with reduced funding without fully appreciating the impact on delivery of service priorities and performance targets. Cutting costs may achieve a

short term financial target and a balanced budget but impact citizen perception and the achievement of improvement objectives, which end up storing up costs for the future.

The financial austerity seen and forecast in Local Government is happening against a background of rapid social and technological change. It is uncertain whether local government will be able to keep up with technological developments because of a lack of investment in new systems, sector skills and

appreciation of strategic impact. The sector's institutional shape is looking increasingly out of step and the people-based nature of many services makes efficiency gains a challenge, particularly where there are skills gaps. The speed of change will test the sector's ability to adapt their culture and invest in the people skills required to use technology and work in different ways.

### Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> <li>The Council had a general fund balance of £42.9 million at the year end. The General Fund increased more than budgeted in the year as a result of additional workstream savings and Service underspends. The uncommitted portion of the General Fund is £4.8 million, which is £1.0 million higher than the Council's target for reserve balances.</li> <li>The Council has committed reserves of £38.097 million. There are a number of significant committed reserves which have remained for a number of years.</li> <li>Budget revisions during the year reduced committee budgets by £15.3 million.</li> <li>The Council recorded an underspend of £1.3 million against revised service budgets in the year, representing 0.8% of net service expenditure.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>The Council produced an Annual Governance Statement for the first time. Governance arrangements have been strengthened during the year.</li> <li>Our review of internal controls found that they operate effectively, and the internal audit section performs well.</li> <li>Progress has been made within the Alliance Board against identified improvement actions.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>The Inverclyde Alliance Annual Report 2014 presents mixed performance.</li> <li>The Council is meeting its Best Value obligations.</li> <li>The Council has 48% of indicators within the bottom two quartiles of the SOLACE Local Government Benchmarking Framework. Improvement actions have been approved by Committee and now form part of the CDIP updates.</li> <li>Targeted follow up reports show Inverclyde respond positively to National Studies.</li> </ul>



## 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 third 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 2013-14 audit of Inverclyde Council. The scope of our work was set out in our Audit Plan, which was presented to the Audit Committee on 7 January 2014.

The main elements of our audit work in 2013-14 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.
- Certification of grant claims and subsidy returns.
- Review of arrangements for statutory performance indicators.
- A review of the council's response to Audit Scotland's national study reports.

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

### Acknowledgements

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

### 3. Financial Position

The Council has a general fund balance of £42.9m, with £4.8m available for new expenditure or to meet unforeseen costs. The Council recorded an underspend against budget for the year and is making good progress in delivering the efficiency savings required in its Budget Strategy to meet continuing financial challenges.

#### Financial Reporting

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

We reviewed the Chief Finance Officer's Foreword and concluded that it provides a good summary of the Council's financial performance for the 2013-14 financial year, including performance against budget and outcomes against the prudential indicators.

The CIPFA Directors of Finance working group approved a number of financial ratios for use within the annual accounts to enhance comparability across Scottish councils. **Table 1** highlights the Council's performance against the agreed financial ratios.

#### Financial Position

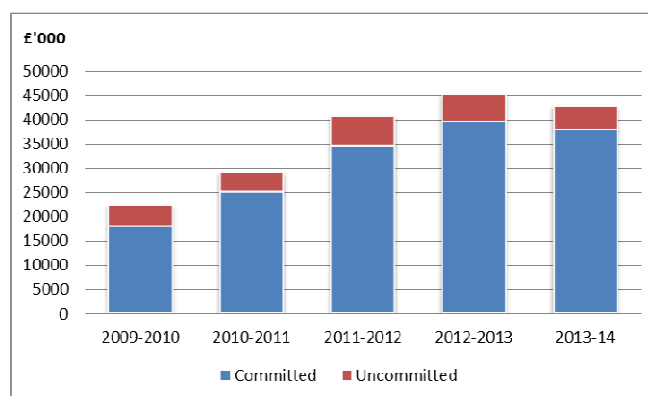
One of the key measures of financial health at a local authority is the level of uncommitted reserves balances. The Council has set a target to maintain reserves at 2% of budget to allow flexibility and the ability to respond to unexpected events.

At 31 March 2014, the Council reported a general fund balance of £42.9 million (2012-13: £45.3m), of which £4.8 million is uncommitted. This is £1.0

million higher than the Council's target level of reserves, of 2% of budget.

Since 2009, and during a period of financial austerity, the Council has contributed almost £25 million to reserves. 2013-14 sees a change in the trend with both committed and uncommitted reserves reducing as can be seen in **Figure 1**. The Council is forecasting a reduction in reserves over the next few years.

**Figure 1: The Council's earmarked reserves have reduced from the prior year however, uncommitted reserves remain above target**



Source: Inverclyde Council Statement of Accounts

Table 1 Financial Ratios

Financial Indicator	2013-14	Commentary
<b>Reserves</b>		
Uncommitted General Fund reserve as a proportion of Annual Budgeted Net Expenditure	2.77%	The Council's target is to maintain uncommitted reserves at 2% of annual budgeted expenditure.
Movement in the uncommitted General Fund Balance	(13.48)%	The uncommitted General Fund has reduced by £0.747 million due to financing of council expenditure. The level of the uncommitted General Funds remains above the Councils target level of 2% of annual gross expenditure.
<b>Council Tax</b>		
In year collection rate	94.51%	The average collection rate in Scotland in 2012-13 was 95.2%. 2013-14 figures are not yet available, however the collection rate in 2013-14 is the highest level recorded for Inverclyde.
Ratio of Council tax Income to Overall Level of funding	13.19%	Overall income has reduced from prior year to reflect the change in funding of Police and Fire and Rescue Service in Scotland. There is a corresponding reduction in expenditure. The Council has frozen Council tax at 2008-09 levels.
<b>Financial Management</b>		
Actual Outturn compared to Budgeted Expenditure	97.06%	The Council's out-turn was an underspend of £1.3 million.
Actual contribution to/from Unallocated General Fund Balance compared to Budget	2.94%	This reflects the underspend position noted above.
<b>Debt/Long-term Borrowing</b>		
Capital Financing Requirement (CFR) for the current year	£304.51m	CFR is the Council's underlying need to borrow for capital expenditure
External Debt Levels for the current year	£291.88m	This is within the Council's prudential borrowing targets, is under the CFR and is at an appropriate level for the Council.
Ratio of financing costs to net revenue stream	12.50%	The Council has significant capacity to fund existing debt levels. The ratio in 2012-13 was 10.93%.
Impact of Capital Investment on Council Tax	£14.96	The Council has, over the past few years, embarked on a significant capital programme the funding of which, in part, is through revenues received from Council Tax. The Council tax per annum for a Band D property is £1,198.

There are a number of significant earmarked reserves which the Council has maintained over a number of years as detailed in [appendix B](#).

There are a number of miscellaneous reserves for the individual committees currently totalling £4.670 million. In addition there are a number of individual capital reserves totalling £16.661 million. The slippage in the capital programme could result in planned usage of reserves not being fully utilised. A number of other reserves have remained constant or increased since 2010 including contribution to Riverside Inverclyde (£1.245 million), renewal of Clune Park Area (£1,590 million) and support for owners (£0.886 million)

### 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 the revaluation of land and buildings.

As **Table 2** highlights, Council spend on services has decreased significantly this year from £224 million to £173 million (23%). Key movements include:

- Police and Fire funding included in 2012-13 £12.8 million.
- Revaluation impact on the 2012-13 cost of services £ 32 million.
- In year underspend of £1.3 million on Service Committee budgets. The Council returned an in year deficit of £2.363 million due to advancing spend on Earmarked Reserves.

The Council reported total net comprehensive income in year of £4.128 million (2012-13: expenditure of £9.123 million).

**Table 2: Financial Results for 2013 (restated) and 2014**

	2014 £'000	2013 £'000
Net Cost of Services	172,891	223,850
Other operating income	(332)	(27)
Financing and investment income and expenditure	19,478	17,072
Taxation and non-specific grant income	(200,755)	(217,516)
<b>(Surplus)/deficit on the provision of services</b>	<b>(8,718)</b>	<b>23,379</b>
(Surplus)/deficit arising on revaluation of non-current assets	(11,093)	(40,677)
Impairment losses on non-current assets charged to the revaluation reserve	3,261	6,883
Actuarial (Gains) / Losses on Pension Assets and Liabilities	12,422	19,538
<b>Other Comprehensive I&amp;E</b>	<b>4,590</b>	<b>(14,256)</b>
<b>Total Comprehensive I&amp;E</b>	<b>(4,128)</b>	<b>9,123</b>

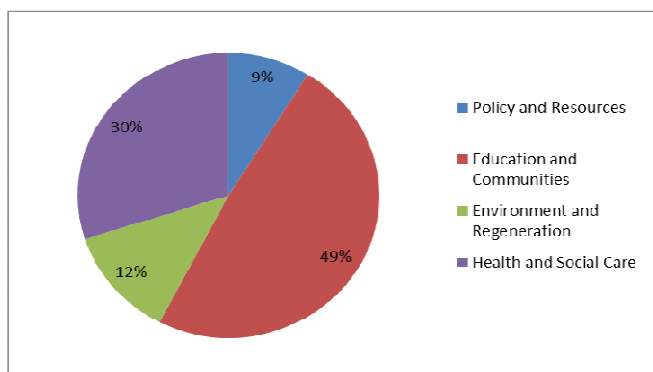
Source: Inverclyde Council Statement of Accounts 2013-14

## Service expenditure

The 2013-14 budget was revised down by £15.237 million during the year due to:

- £3.729 million transferred from Education and Communities budget to SEMP Loans Charges fund.
- £6.459 million transferred from service budgets to earmarked reserves.
- £5.354 million due to the Council Tax Reduction Scheme.
- Offset by an increase of £0.325 million for minor Grant Redeterminations.

**Figure 2: The majority of Council expenditure is directed towards Education and Communities**



Source: Inverclyde Council 2013-14 out-turn budget report

The Council underspent against the revised budget by £1.3 million (0.8% of the revised 2013-14 revenue budget), with all services recording underspends against budget. The largest underspend was recorded in the Policy and Resources committee which recorded an underspend of 4.8% (8.5% in 2012-13).

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

Key elements of the underspend against budget are highlighted below:

- Additional efficiency savings of £0.880 million.
- Early achievement of savings £0.426 million.
- Lighting maintenance contract £0.108 million.
- Taxation and benefit subsidy over recovery £0.179 million.
- Utilities £0.245 million.

## Capital Expenditure

Budgeted capital expenditure for 2013-14 was £38.975 million, the total slippage in the year was £5.081 million representing slippage against the capital programme of 13%. This was a slight reduction in performance from 2012-13 (9.3%), but continues the trend in recent years of slippage against capital budgets.

Economic regeneration remains a priority area for the Council, particularly in the context that the Inverclyde area has relatively high levels of unemployment and economic deprivation, However, underspends against both capital and revenue budgets represent an opportunity cost to the creation of employment opportunities and to the stimulation of expenditure in the local economy. There remains scope for progress in these areas.

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

**Table 3: Capital slippage by committee**

Committee	Slippage £'000	Slippage %
Policy and Resources	(392)	(32.5)
Environment and Regeneration	(4,568)	(32.3)
Education and Communities excl SEMP	(893)	(38.5)
SEMP	930	4.4
Health and Social Care	(158)	(86.3)
Total	(5,081)	(14.45)

Source: Inverclyde Council 2013-14 Capital Programme performance

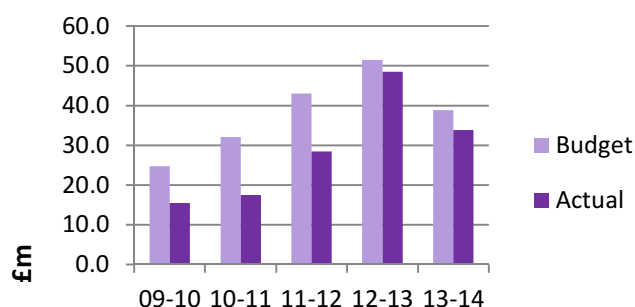
A number of significant projects slipped including the replacement depot (£1.397 million) within which the Civic Amenity site had to be re-tendered and Ardgowan Primary School refurbishment (£1.193 million) which was redesigned, had planning problems and resourcing issues. A number of projects within the SEMP were accelerated to off-set this slippage .

The Council are aware of the need to improve capital slippage and particularly to develop more capacity in the property and development teams and a more flexible system which can bring new capital projects forward more quickly in the event of slippage. The Corporate Management Team have agreed a number of actions to reduce the level of slippage including:

- Early notification of slippage.
- 2014-15 performance targets.

- Identify possible acceleration.
- Anticipate delays due to external factors.

**Figure 3: Actual capital expenditure was £33.894 million, (13%) lower than the budgeted £38.975 million**



Source: Inverclyde Council Capital Budget Monitoring Reports 2013-14/ 2012-13/2011-12/2010-11/2009-10

### Budget Strategy

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

The approved 2013-14 revenue budget included a projected surplus of £4.677 million excluding movements in earmarked reserves which would be transferred to reserves to offset future years' projected shortfalls. The Council generated a further £1.923 million surplus.

In 2013-14, the council set a revised work stream savings target of £2.6 million for the period 2014-16. The total savings generated from workstream programmes in 2014-15 was £0.974 million.

- Procurement £0.173 million.
- Management Restructure £0.1 million.
- Increasing the working week £0.1 million.
- Service Reviews £0.43 million.

In addition, efficiencies of £0.445 million were achieved.

The estimated 2015-18 revenue funding gap is £15.3 million, with £5.4 million of savings identified for 2014-15.

### Current Projections for 2014-15

We have reviewed the Council's revenue projections for 2014-15. The Council continues to seek to achieve efficiencies in 2014-15, using the approved savings and savings workstreams. The 2014-15 budget was set with planned contributions to reserves of £1.777 million. The latest budget monitoring report identifies that an underspend of £1.372 million is forecast as at July 2014 and that General Fund Reserves are projected to be £6.049 million which is £2.249 million over the target of 2% of budgeted revenue expenditure. The use of the surplus reserves will be considered by Members as part of the 2015-18 budget strategy.

### Looking Forward

In order for Councils to meet increasing demands, innovative service delivery methods and change programmes, the senior workforce needs to have capacity and the right skill sets to meet these demands. During the early stages of service redesign and options appraisal, there are increased demands upon finance services.

#### **The Local Authority Accounts (Scotland) Regulations 2014.**

The Local Authority Accounts (Scotland) Regulations 2014 were laid before Scottish Parliament on 7 July 2014 and are due to come in to force for the statutory Annual Accounts for 2014-15. These replace the Local Authority Accounts (Scotland) Regulations 1985.

There are a number of implications arising from the new regulations, the most significant of which are:

- There is a requirement for the Council's accounting records to disclose with reasonable accuracy, at any time, a summary of the financial position of the Council. The Council should be able to disclose summary information on their treasury position and actual expenditures and incomes and a projected year end position for capital and revenue budgets.
- The regulations require the Council to assess the efficiency and effectiveness of the internal auditing activity from time to time in accordance with recognised standards and practices.
- The regulations require the Annual Accounts of the Council to include a Management Commentary in line with the Central Government Financial Reporting Manual (the FReM)
- The regulations now set out the latest dates for the period of public advertisement of the Annual Accounts as follows:
  - Public notices must be advertised not later than 17 June (or next working day); on Council's website and in accordance with section 195 of the Local Government (Scotland) Act 1973. Notices are to remain in place until the end of the inspection period. There is now no requirement to seek prior consent of Audit Scotland to advertise.
  - Unaudited Annual Accounts produced and submitted to the appointed auditor by 30 June; copy of unaudited accounts published on Council's website at same time.
  - Public inspection period will vary based on date the inspection period

commences, but the latest period possible will be 1 July to 21 July (adjusted for non-working days).

- Last date for objections is 21 days after the date the documents are first available for inspection. The latest date will be 22 July (or next working day), the date by which any objections are to be sent to the auditor.

### **Group Accounts**

A significant change in 2014-15 arises from the adoption by the Code of the new group accounts standards. For example, as a result of the adoption of IFRS 10, the definition of control has been revised and now focuses on three key tests:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns.

This means that decisions made under previous standards regarding the classification of entities, particularly leisure trusts, will need to be reviewed to confirm they remain appropriate.

### **Infrastructure Assets**

It is expected that the 2016-17 accounting Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets (the transport code) for transport infrastructure assets, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet at 1

April 2015. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action a project plan as soon as possible in order to achieve successful implementation. A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. Failure by authorities to begin preparations in 2014/15 represents a risk to them having the necessary information in the required timescale.



## 4. Governance

We commend the Council on their approach to the new requirements of an Annual Governance Statement. Good progress has been made against the Inverclyde Alliance Improvement Plan. A permanent solution to Riverside Inverclyde's senior management has not yet been confirmed. The Council are aware and have taken cognisance of the implications of the Public Bodies (Joint Working)(Scotland) Act 2014.

### Annual Governance Statement

2013-14 was the first year that Inverclyde produced an Annual Governance Statement (AGS). The 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.

The Council planned for the requirement of an AGS well in advance to ensure that appropriate systems were established throughout 2013-14 in order that the statement would reflect practices and systems in place. We commend the Council for their whole systems approach to the requirements of the AGS and have embraced the meaning of the AGS rather than viewing as an annual exercise.

The Council has adopted a Local Code of Corporate Governance (the Local Code) consistent with the six principles of CIPFA and the Society of Local Authority of Chief Executives (SOLACE) framework. The Framework urges each local authority to test its approach by:

- Reviewing existing governance arrangements.
- Developing and maintaining an up-to-date local code of governance including

arrangements for ensuring ongoing effectiveness.

- Reporting publicly on compliance with its own code on an annual basis and on how it has monitored the effectiveness of its governance arrangements in the year and on planned changes.

The main features of the Local Code include:

- The overarching strategic vision and objectives of the Council are detailed in the Council's Corporate Statement which sets out the key outcomes the Council is committed to delivering with its partners, as set out in the Community Plan and Single Outcome Agreement.
- Services demonstrate how their own activities link to the Council's vision and priorities through their Corporate Directorate Improvement Plans. Performance management and monitoring of service delivery is reported to committees, the Corporate Management Team and is published regularly as part of its public performance reporting requirements.
- The Council operates within an established procedural framework.
- The Councils approach to risk management is set out in the Risk Management Strategy.

- Arrangements are in place to ensure Members and officers are supported by appropriate training and development.

The Council review the effectiveness of its governance framework annually. During 2013-14, the existing process was developed to cover the wider governance framework. Self –assessment checklists were completed by Heads of Service covering six key areas of the Councils governance framework.

No significant governance issues were identified however a number of areas for development have been incorporated into an action plan to strengthen the current arrangements.

### 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:

- Employee remuneration.
- Operating expenses.
- Housing and Council Tax Benefits.

No significant matters were highlighted during this work.

### Internal Audit

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

The 2013-14 planned resources were 670 days.

The audit plan covers a variety of audit types including, compliance reviews, regularity audits, limited scope financial system reviews and risk-based reviews. The risk-based reviews in 2013-14 were:

- Property Maintenance.
- Ground Maintenance.
- Trading Standards.
- Maintenance of Client Accounts.
- Provision of School Meals.

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

As at the end of August 2014, there were 53 current actions none of which were classified as Red, 16 Amber and 37 Green.

### Fraud

There is currently an on-going investigation into an organised Housing Benefit fraud. Our testing has not identified any fraud during 2013-14. The Council participates in the National Fraud Initiative (NFI) data matching exercise. The next round takes place during 2014-15 with matches to be communicated to the Council early 2015. We will review the Council's participation and progress during 2014-15.

### Community Planning Arrangements

An Improvement Plan was developed in August 2013 from the findings of the Community Planning Partnerships Self-Assessment Review. The key areas of focus were to improve the Alliance Board's approaches to:

- |                     |               |
|---------------------|---------------|
| ■ Communication     | Ownership     |
| ■ Awareness         | Effectiveness |
| ■ Review            | Measurement   |
| ■ Capacity Building | Engagement    |
| ■ Risk              | Performance   |
| ■ Evidence          | Resources     |
| ■ Shared Learning   |               |

It is pleasing to report that the majority of actions are now complete.

## Riverside Inverclyde

In last year's Annual Report we commented on the temporary arrangements that the Council had put in place following the resignation of the Chair and Chief Executive and the changes to the Board.

The Corporate Director of Environment, Regeneration and Resources was seconded to Riverside Inverclyde as interim Chief Executive and has embarked upon developing and implementing an improvement plan to address the areas of concern outlined in the Midterm Review.

Two rounds of interviews have been held to appoint a permanent Chief Executive, however the recruitment has been unsuccessful leading to an extension of the secondment of the Corporate Director of Environment, Regeneration and Resources. A proposal is expected to be considered by members in November when the current secondment is due to end.

## Welfare Reform

Significant changes in the Welfare system came in in April 2013 and have been the subject of regular reports to the Council Committees. Policies have been approved for the Scottish Welfare Fund (SWF) and Discretionary Housing Payments (DHP). Both of these were revised on a number of occasions due to either changes in guidance from the DWP/Scottish Government or increased funding.

## Local Governance Arrangements for Police and Fire

The Council has established a Local Police and Fire Sub-Committee. To date the sub-committee have received performance monitoring reports for both the Scottish Fire and Rescue and Police Scotland and approved the local Fire and Rescue Plan for Inverclyde 2014-17, the Scottish Fire and Rescue

Service 2014-15 Annual Operating Plan and the 2014-17 Local Policing Plan.

## Risk Management

During 2013-14 the Council continued to value the importance of maintaining the momentum on risk management and progress has been made in the following areas:

- On-going review and update of strategic and operational risk registers.
- Ongoing training of members in Corporate Governance arrangements, including risk management.
- Maintaining a risk register for the Financial Strategy which allows management to consider the risks to the overall financial position arising from matters contained within the Financial Strategy.
- Maintaining risk management as a key aspect of the Strategic Planning and Performance Management Framework.
- Continuing the advancement of emergency planning, crisis management and business continuity within the Council and fulfil the Council's legislative requirements under the Civil Contingencies Act 2004 in conjunction with the Joint Civil Contingencies Service.
- Service risk registers were developed for the Inverclyde Community Health and Care Partnership.
- An e-learning module on Risk Management has been developed for employees as part of the Brightwave corporate training platform.
- Insurance awareness sessions for employees across all Directorates.

## Looking forward

The Public Bodies (Joint Working)(Scotland) Act 2014 requires councils (and health board partners) to jointly prepare an integration scheme setting out the integration model to be adopted (i.e. lead agency or Integrated Joint Board). Integration schemes must be submitted to Scottish Ministers for approval by 1 April 2015 and integration arrangements must be in place by 1 April 2016. The Scottish Government envisages that some integration arrangements will be operational earlier than 1 April 2016.

The Accounts Commission for Scotland has confirmed our appointment as auditors to the Integrated Joint Board from 2015-16.

# 5. Performance

Good progress is being made within the Inverclyde Alliance against agreed actions. The Council is meeting its Best Value obligations. SOLACE benchmark data shows mixed performance for Inverclyde with 48% in the lower two quartiles. Inverclyde respond well to National Studies.

## Assurance and Improvement Plan

Inverclyde Council's Assurance and Improvement Plan (AIP), was updated and developed by the Local Area Network (LAN) of external scrutiny bodies, and published in May 2014. 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 2017.

The Council's AIP Update 2014-17 confirms that there are no significant concerns relating to Inverclyde Council and the LAN conclude that no additional scrutiny was required.

There were no risks identified that the Council was not meeting its Best Value obligations.

## Inverclyde Alliance

The Inverclyde Alliance report quarterly on progress against the Single Outcome Agreement. The most recent progress report highlights that out of 54 relevant local outcomes there are no outcomes classified with a 'red' status, where immediate action is required to meet the target. There are 4 Amber actions which are classed as within tolerance.

Last year we reported the following actions had been agreed by the Alliance Board:

- the Alliance Memorandum of Understanding be updated to further clarify what is expected of partners and elected members, particularly in regard to how partners identify the resources

they contribute to the delivery of local outcomes in Inverclyde.

### Current status: complete

- each partner provide the Alliance Board with an outline of how they, as a single agency, are contributing to the delivery of the outcomes, and how the outcomes inform their decision making and governance arrangements.

### Current status: complete

- each partner provide the Alliance Board with information on what resources they are consuming on community engagement and capacity building in Inverclyde and identify ways in which this might be brought together more effectively.

**Current status: Asset based approaches are reflected in the Inverclyde Alliance SOA Annual Report 2013/14 (e.g. the Recovery Café) and further work is being undertaken across a number of services to take asset based approaches to improvement in communities.**

**The Successful Communities Operational Delivery Plan reports on asset based approaches being taken across the partnership.**

The Inverclyde Alliance Single Outcome Agreement Report 2014 reports on the progress made against the eight strategic outcomes. It highlights a range of projects and initiatives that were implemented in

2013/14 through partnership working. The report also provides Case Study examples of the projects including:

- Inverclyde Living a £1 million package of initiatives to promote repopulation.
- Inverclyde Recovery Cafe (IRC) is a partnership of recovery volunteers and services, working to promote and provide opportunities for people affected by alcohol/drug misuse to achieve recovery. The Recovery Cafe is a social hub for people in recovery, led by people in recovery.

Performance indicators included in the report show mixed performance across the eight outcome areas.

## Statutory Performance Indicators

In its 2012 Direction on the Statutory Performance Indicators, published in December 2012, the Accounts Commission confirmed that the 25 specified Statutory Performance Indicators have been removed from the SPI Direction 2012 and will be replaced by the SOLACE Benchmarking indicators from 2014 onwards.

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).

Internal Audit carried out a comprehensive review of the LGBF indicators. The review included a walkthrough to establish data quality and an internal control questionnaire. A report will be provided to the Audit Committee in January 2015 and has highlighted a small number of control weakness including lack of independent review.

## SOLACE Benchmarking 2012-13

SOLACE has established a total of 55 LGBF performance indicators across 7 service areas. Inverclyde Council reports on 50 of these indicators (excluding housing).

Under the new arrangements, Councils are compared against all other Councils in Scotland with highest performance being within quartile 1 and the lowest performance in quartile 4.

48% of indicators (24/50) lie in the third and fourth quartiles. Environmental Services has 8 (57%) of indicators in the bottom two quartiles. Both Corporate Services and Culture and Leisure Services have 5 (63%) of indicators in the bottom quartiles. Children's Services however is performing strongly with 83% of indicators in the top two quartiles.

A number of the lower ranking indicators within Environmental Service relate to roads maintenance.

The Policy & Resources Committee have approved an Improvement Plan for those indicators in the bottom two quartiles and these are now tracked via the relevant CDIPs.

Table 4: 2012-13 SOLACE Benchmark

Indicator Group	Quartile				
	1st	2nd	3rd	4th	Total
Children's Services	5	5	1	1	12
Corporate Services	2	1	4	1	8
Adult Social Care	2	1	1	1	5
Culture & Leisure Services	2	1	4	1	8
Environmental Services	3	3	3	5	14
Corporate Services: Asset Management & Property	-	-	2	-	2
Economic Development	1	-	-	-	1
<b>Total</b>	<b>15</b>	<b>11</b>	<b>15</b>	<b>9</b>	<b>50</b>

## National Studies

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

To promote impact at a local level, one or two national performance reports are subject to more targeted follow up each year. For 2013-14, we have been asked to follow up two reports Arm's-length external organisations: Are you getting it right? Which was published in June 2011 and Major Capital Investment in Councils which was published in March 2013.

### Arm's-length external organisations: Are you getting it right?

Arm's-length external organisations: are you getting it right? was published in June 2011. The report was aimed at Councils considering setting up Arm's-length external organisations (ALEOs) to deliver services as well as those with existing ALEOs.

ALEOs are now an established part of local government in Scotland and play an increasing role in service delivery. Councils across Scotland use ALEOs to deliver a wide range of activities such as leisure services, economic development and property maintenance.

The work conducted by Audit Scotland in 2011 did not highlight widespread problems, but did highlight concerns over the management of ALEOs in specific cases. Some cases were found where poor governance resulted in risks to public money, service performance and the reputation of councils.

The report also noted that there is increasing public interest in ALEOs, particularly the impact on services and council finances where ALEOs fail to deliver.

The report recognised the issues highlighted and set out to promote and encourage good practice in the way ALEOs are set up. Key messages were centred around two main themes:

- Getting it right from the start

## ■ Keeping it right.

We have reviewed the actions taken following the Audit Scotland report against the criteria in the national report. We have concluded that in all instances the Council is meeting basic and better practices using the criteria within Audit Scotland's toolkit in the Are you getting it right? report. Our follow up report was presented to the Audit Committee in August 2014.

## Major Capital Investment in Councils

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

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

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

We were asked to conduct a follow-up review of the Audit Scotland report in 2013-14. This work included a review on the following key areas:

- Does the council have an appropriate investment strategy?
- Does the council provide adequate financial information to support effective decision making and scrutiny?

We will issue our detailed follow up report to Members in December 2014. Overall the Council has robust processes in place, however we have identified that there is scope to improve documentation of procedures in some areas eg

drafting of business cases and benefits realisation reviews.

The Council responded well to the report, producing a robust analysis of the recommendations. The self assessment of their performance was balanced. A small number of action points were drawn up in response, and discussed with members.

There is no single, written, long-term capital investment strategy. Instead, the capital programme acts as a medium-term strategy, and there are detailed, long term strategies in place for the main individual projects eg School Estate Management Plan (SEMP). In these circumstances, there is a risk of working within silos within the Council. To address this risk, the Council use the 3 year capital programme as a holistic tool for planning capital projects.

There is an overall general strategy for the Council's operations as a whole, given at a high level in the Council's Corporate Statement. This does not specifically mention capital projects, but sets out the vision and priorities for Inverclyde. The Capital programme is not specifically linked back to the key visions, outcomes or performance measures of the Council in a document, but it is clear from our review that the projects in the capital programme are aimed at meeting these strategic priorities.

Outline business cases are based on a good model. Full business cases are unique, but based on a sound set of principles. There are no written procedures for the business case management process.

The Council has been proactive at exploring opportunities for joint working with other public sector bodies. From this exploration they have identified a small number of capital projects that would actively benefit from joint working, including:

The Councils, in partnership with Inverclyde CHCP and Greater Glasgow and Clyde Health Board, have completed a feasibility study for development of a replacement health centre in Greenock.

Joint projects - a street lighting joint project with Renfrewshire Council is progressing. There is



potential for further joint working with Renfrewshire and possibly East Renfrewshire Councils relating to nine areas of services for roads and transport which have been reviewed with input and advice from the Improvement Service as part of the shared service agenda.

Joint procurement - in the large education capital projects, the 'West Hub Scotland' has been used. This is a procurement group with private sector partners and project management expertise, providing analysis and procurement capacity.

Risk assessments are completed at appropriate stages of the projects. There is adequate focus on the more complex and unique projects, such as those which have been recently undertaken. Experiences from these projects have fed into the planning and risk assessments of new projects.

Members are provided with good quality, reasonable and timely information about the intended benefits of projects and programmes.

There is less information given about the realised benefits, which makes it harder to measure how well projects have performed and whether they have met their objectives.

## Looking Forward

Audit Scotland has yet to confirm what National Reports will be subject to follow up during 2014-15.

We will be required to return a questionnaire to Audit Scotland on the arrangements in place for collecting and publishing information in relation to SPI 1, 2 and 3.



# Appendix A: Action Plan

Issue Arising	Recommendation	Management Response
The Council has £38 million of Earmarked Reserves	The Council should review the earmarked reserves and ensure a spending plan is in place to meet the objectives of the Council	<p>The phasing of all EMRs have been reviewed at the start of 2014/15 and is reported to CMT and each Committee. This forms part of senior officer appraisals.</p> <p>Reserves will also be reviewed as part of the 2015/17 budget.</p>
The Council has historically underspent against the capital programme. The Policy & Resources Committee have approved an action plan to address capital slippage	The Council should monitor and receive regular updates on the progress against the action plan.	<p>The information included in capital reports on Slippage has been standardised and strengthened, added to which slippage is within Senior Officer appraisal targets.</p> <p>No further action proposed.</p>
The overall budget for the year reduced from £197.742 million to £192.713 million and service budgets have reduced from £180.217 million to £164.988 million. From review of the General Fund Revenue Budget monitoring papers, there is scope to more clearly highlight these movements.	Changes to the Budget should be clearly highlighted within the Budget Monitoring report.	The current presentation of budget movements in Budget Monitoring reports will be reviewed and factored into reports on the 2015/16 budget.



## Appendix B: General Fund Reserves

	March 2014	March 2013	March 2012	March 2011	March 2010
	£000	£000	£000	£000	£000
Modernisation Fund	514	493	501	577	1,015
Strategic Housing Reserve	0	0	1,164	1,164	1,280
School Estate Strategy	0	0	1,609	1,964	3,994
School Estate Management Fund	3,461	3,086	0	0	0
Single Status and Single Status Appeals Back Pay	0	0	0	412	715
Contribution to Riverside Inverclyde	1,245	1,585	1,953	682	1,222
Miscellaneous Social Work Reserves	0	0	282	123	461
Miscellaneous CHCP Reserves	811	558	0	0	0
Fostering & Adoption	1,257	0	0	0	0
Miscellaneous Policy and Resources Committee Reserves	1,084	1,072	912	701	661
Miscellaneous Safe, Sustainable Communities Committee Reserves	0	0	0	191	560
Miscellaneous Environment & Regeneration Committee Reserves	2,131	1,384	835	189	258
Community Investment Fund/Lunderston Bay Toilets	0	0	0	0	203
Greenock Town Centre Parking Strategy	84	300	0	0	0
Renewal of Clune Park Area	1,590	1,281	682	94	90
Telecare/Demonstrators Grant	0	0	114	133	144
Financial Inclusion	0	0	19	42	73
Elections	0	0	116	266	270
Private Sector Housing Grant	0	0	0	0	270
Asset Management Plan	1,603	1,231	1,651	1,007	0
Support for Owners	886	806	1,510	678	749
Fairer Scotland Fund	0	0	0	0	454
Landfill Penalty Scheme	0	0	0	2,280	1,353
Flooding Works	1,249	1,264	0	0	0
Roads Asset Management Plan	5,158	5,900	0	0	0
Early Retiral/Voluntary Severance Reserve	2,427	4,260	5,668	7,294	225
Capital Funded from Current Revenue	4,690	3,987	4,235	550	0
Arts Guild	0	0	0	0	297
Area Renewal Fund	195	211	235	249	280
Play Areas	0	0	0	409	443

Miscellaneous Education & Communities Reserves	664	1,624	93	126	69
Future Jobs Fund	0	0	0	0	285
Vehicle Replacement Programme	311	205	0	0	850
Support for Community Facilities	183	525	946	600	750
Education Equipment Fund	166	142	179	197	203
Aids & Adaptations	0	0	0	300	400
Flooding Strategy	0	0	109	323	500
Equal Pay	2,984	4,076	3,614	1,478	0
Youth Employment	702	810	1,050	0	0
Food Waste Programme	0	0	213	0	0
Change Fund - Older People	294	401	451	0	0
Deferred Income	203	458	697	0	0
Independent Living	451	630	450	0	0
Business Support Initiative	219	462	600	0	0
Roads/Footways & Street Lighting Investment 2012/14	0	0	3,600	0	0
Repopulating/Promoting Inverclyde	886	1,000	0	0	0
Miscellaneous Approvals - Feb 2012	0	0	1,100	2,920	0
Miscellaneous Approvals - Nov 2012	0	1,250	0	0	0
Miscellaneous Approvals - Feb 2013	0	712	0	0	0
Welfare Reforms	949	0	0	0	0
Loans Charges Post 16/17	1,200	0	0	0	0
Roads Defect & Drainage Works	500	0	0	0	0
<b>Total Earmarked Reserves</b>	<b>38,097</b>	<b>39,713</b>	<b>34,588</b>	<b>24,949</b>	<b>18,074</b>
Non-earmarked balance	4,793	5,540	6,124	4,249	4,200
<b>Total General Fund Balance</b>	<b>42,890</b>	<b>45,253</b>	<b>40,712</b>	<b>29,198</b>	<b>22,274</b>





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