

# East Renfrewshire Council

Report to Members and the Controller of Audit  
on the 2006/07 Audit



October 2007



# **East Renfrewshire Council**

**Report to Members and the Controller of Audit**

**on the 2006/07 Audit**

# Contents

<b>Key Messages</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
<b>Performance</b>	<b>4</b>
<b>Financial position</b>	<b>14</b>
<b>Governance</b>	<b>22</b>
<b>Financial statements</b>	<b>27</b>
<b>Final Remarks</b>	<b>32</b>
<b>Appendix A: Action Plan</b>	<b>33</b>



# Key Messages

## Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by East Renfrewshire Council (“the Council”). We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

## Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of East Renfrewshire Council for 2006/07. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading operations break even on a rolling three year basis. The catering and building cleaning operations did not achieve this target, due to the impact of equal pay costs in 2005/06.

The Council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. The Council’s Audit Committee has been effective both in terms of its scrutiny investigations and its compliance with good practice, however the Membership has changed in 2007 and we will monitor the working of the new Committee.

Overall the Council has made good progress against its Best Value Improvement Plan and all actions have now been completed .

An assessment of the Council’s achievements in the fourth year of its Corporate Plan 2003 - 07 shows good progress against the objectives of the Plan. The Report on Service Standards shows an overall improvement and the Council’s Statutory Performance Indicators show improvements in a number of areas, with the exception of several such as housing rent arrears, housing repairs and planning applications. Public Performance Reporting is carried out in a variety of ways and is generally balanced and timely.

The Council’s service planning process is well established and the 2007-10 Policy and Financial Plan laid out corporate and service priorities, linking them to budgeted spending. The new political administration has recently published its Corporate Statement, setting out its vision, guiding principles and corporate objectives for the authority, and the rolling 3 year Policy and Financial Plan will be updated for 2008 -11 to reflect these.

The Council’s Efficiency Statement for 2006/07 shows that it has met the target set by the Scottish Executive and has reported efficiencies of £4.5 million for 2006/07. The Council is committed to



continuous improvement as demonstrated by a range of initiatives, past and present, including best value service reviews. A programme of transformation has recently been developed, building on business change pilots carried out in several service areas.

There has been progress on many of the risk areas identified in our Audit Risk and Assurance Plan document issued in March 2007. Induction and training of new Members has taken place, a single status agreement was signed in July 2007 and a Local Outcome Agreement will be implemented from April 2008.

At the end of 2006/07 the Council had a general fund unallocated working balance of £4.1 million. This had been depleted in 2005/06 due to the impact of equal pay claims and it is still below the Council's target level of 4 per cent of Net Operating Expenditure. Budget pressures were generally managed during the year and all services recorded an underspend on their budgets.

## **Outlook for future audits**

The projected financial position in future years is expected to be tight. In addition, it is not yet clear what impact the new Scottish Government will have on local government finance, in particular in relation to the local government settlement and council tax funding. Medium term financial plans will need to be closely monitored to take account of such pressures.

Efficiencies have been included in the approved revenue budget for 2007/08. It will however be challenging for the Council to deliver on its programme of savings while managing the impact on services, service users and the Council's overall objectives.

The Council will be making progress in areas such as asset management planning and workforce planning and future audit work will monitor this.

The co-operation and assistance given to us by East Renfrewshire Council staff in this first year of our audit appointment is gratefully acknowledged.

**Audit Scotland**  
**October 2007**



# Introduction

1. This report summarises the findings from our 2006/07 audit of East Renfrewshire Council, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the Council going forward.
2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Council's Audit Committee in April 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the Council and described the work we planned to carry out:
  - affordability
  - assessing performance
  - workforce planning
  - asset management
  - effective partnership working
  - decision-making and support for members.
3. Overall conclusions about the Council's management of key risks are discussed throughout this report. Appendix A of this report sets out the key risks highlighted in this report, which we wish to draw to the attention of members, and the action planned by management to address them.
4. We also undertook a number of detailed exercises which resulted in separate audit reports, for example, the main accounting system and arrangements for option appraisal. Within this report, we highlight key messages from those separate reports for the consideration of members.
5. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and Members during the course of our audit work.



# Performance

## Introduction

6. In this section we summarise key aspects of the Council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the best value audit and the findings of national performance audit studies.

## Corporate objectives and priorities

7. The Corporate Strategy 2003–2007 set out the key values and commitments for the Council until 2007 and explained how it planned to achieve these. The values set out were:
  - equality
  - openness and accountability
  - honesty and integrity
  - a corporate approach
  - a focus on outcomes.
8. Priorities were established across the five areas of children, young people, families, older people and communities. These priorities included the following commitments by the Council's ruling group:
  - to target the most disadvantaged areas of the Council through education in order to promote genuine social inclusion
  - to improve support for the most vulnerable young people, especially those who have been looked after by the Council
  - to ensure there is a good supply of well-maintained, energy-efficient and affordable housing for rent and purchase within family-friendly neighbourhoods
  - to develop a day centre in Barrhead for older people
  - to improve the level of cleanliness around shops and schools.
9. Following the May 2007 elections, the previous administration of East Renfrewshire Council was replaced by a Labour/Scottish National Party (SNP)/Scottish Liberal Democrat (SLD) /Independent coalition. The Corporate Statement 2007-11, combines local priorities and the broader themes of the new Scottish Government in a new set of guiding principles and corporate priorities.



## Overview of performance in 2006/07

10. A review of performance in 2006/07, the last year of the previous Corporate Strategy, has been approved by the Council's Cabinet and has informed the development of the new Statement. The Council has also published its performance against its own "top 100" service standards and a report on performance against Statutory Performance Indicators (SPI's) went to Cabinet. Each service also has a detailed Annual Performance Statement on the Council's website. The recently published Annual Performance Report 2006/07 takes a selection of Corporate Strategy, Service Standard and SPI measures and includes a joint statement from the Leader of the Council and the Chief Executive highlighting the most significant achievements and developments during the year. These include:
- over 90% of P3-P7 pupils met minimum standards of attainment in reading and mathematics
  - 93% of young people in East Renfrewshire participating in work, education or training in 2006 compared to 85% nationally
  - receiving a Chartermark for libraries, recognising high quality of customer service
  - reducing waiting lists for aids and adaptations, enabling people with disabilities to remain in their own homes
  - launching a 10 year £100 million Masterplan for the regeneration of Barrhead.
11. Two favourable external inspection reports were received covering 2006/07. Her Majesty's Inspectorate of Education and the Social Work Inspection Agency produced reports covering Education and Social Work respectively and the Council's services were generally found to be effective and performing well.

## Measuring Performance

12. The Council's performance management framework links various activities within a single framework. Another element of the framework, new performance management system software ("Covalent"), was introduced recently and will enable all performance data to be recorded in the same place. The need to link performance indicators to Policy and Financial Plan objectives has been recognised, as has the importance of performance indicators to measure outcomes in terms of meeting customers' needs and achieving efficiency for the Council. The format of in-year reporting via "Covalent" to the Corporate Management Team is currently under discussion, as are arrangements for Member involvement. The software's use will also be influenced by the requirements of the new Local Outcome Agreement (LOA) discussed below. There have also been reports to the Audit Committee on service standards, giving it an opportunity to scrutinise aspects of service performance, and the Corporate Management Team has targets on SPI improvement which are discussed regularly.

**Key Risk Area 1**

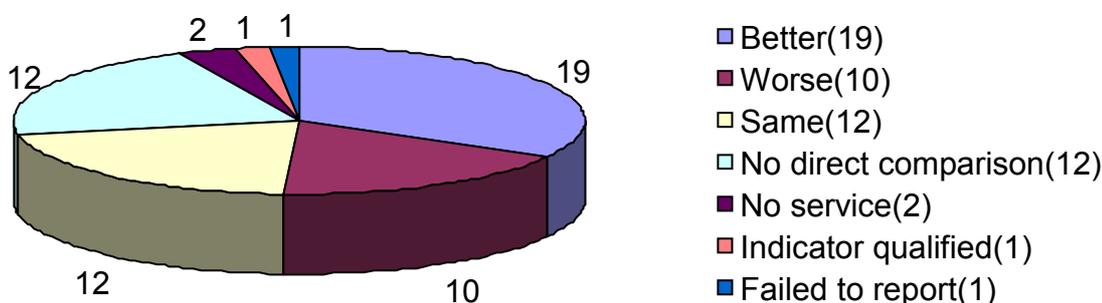


- Public Performance Reporting is promoted via publications such as the review of Service Standards and the Annual Performance Report, but also through the quarterly “er” magazine which is distributed free to all homes in the area and which features various articles on performance in each issue.

### Statutory performance indicators

- One of the ways of measuring Council performance is through Statutory Performance Indicators (SPIs). Within East Renfrewshire Council, key indicators have been selected for inclusion in service standards and other reporting. SPI's are extensively used and also used in Public Performance Reporting. Historically, the Council has been well placed in national comparisons and management has used targets to improve performance in these areas.
- The 2005/06 Council Profiles listing each Council's comparative SPI performance were published on Audit Scotland's website in early 2007. East Renfrewshire has seven where we think the indicator is a measure of performance and the Council was in the bottom quartile, ie ranked 25th-32nd of Scottish Councils. Of these measures several (sickness absence among manual workers, and average number of issues per library borrower) have continued to worsen, while several others (children's social work supervision orders, payment of invoices) have improved.
- In 2006/07, the Council has shown continued improvement and high performance for a substantial proportion of its SPI's, with 19 of 57 generally improving on the previous year compared to 10 getting worse (see chart on next page).

### Statutory Performance Indicators 2006/07





17. For 2006/07, significant (more than 5%) improvements have been made in some key areas, including:
- the proportion of probationers seen by a supervising officer within one week
  - the percentage of children's hearing reports requested by the Reporter which were submitted within the target time
  - cost of council tax collection
  - disabled access to buildings.
18. Performance has also declined significantly in some areas, notably:
- time taken to provide adult community care services
  - sickness absence for manual grades
  - time taken for housing repairs
  - housing rent arrears
  - cost of waste collection and disposal.
19. Each year, working in cooperation with Internal Audit, we review the reliability of the Council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPI's was acceptable, although in several departments, notably housing, it took some time to clarify the compiler and source of the data provided. One indicator was classified as unreliable compared to none in 2005/06 (rent loss due to voids, due to a software problem) and one indicator failed to report (domestic noise complaints, due to issues with data provided by another authority). It is likely that both of these indicators will be reported successfully in 2007/08.

## **Best Value audit**

20. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of Best Value based on an initial full review by a specialist team, with subsequent short follow-up reviews carried out by the local auditor.
21. The Best Value audit of East Renfrewshire Council was carried out in 2005 and the findings published in October 2005. In response, the Council approved a Best Value Improvement Plan setting out ten improvement agenda items from the report together with planned actions and timescales for implementation. A progress report was provided in April 2007 and examined by audit, with the conclusion that all agreed actions have now been addressed. It is however likely that audit will monitor the impact of a number of actions in future years.



## Performance outlook – opportunities and risks

### Introduction

22. As stated in paragraph 2, our ARAP identified some of the strategic risks to East Renfrewshire Council delivering on its stated objectives and priorities in the years ahead. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

### Decision making and support for members

23. A significant change in the local government environment was the introduction of proportional representation and multi-member wards in the 2007 Council elections. There was a risk that the current structures and associated officer support may not be fully effective after this change.
24. The new administration has decided to take a Cabinet approach to governance similar to the previous one, with a larger Cabinet to reflect the two main parties in the coalition. The Council’s scrutiny arrangements are discussed in more detail in paragraphs 86 to 88 below. The main change is the Policy Review function transferring to the remit of the Audit Committee as planned. The Scheme of Administration has been revised to reflect this and minor changes to Standing Orders will also be made shortly.
25. A Labour/SNP/SLD/Independent coalition was formed after the election, and an “Agreement for a Shared Administration” was signed by all four groups. Regarding multimember wards, there have been some proposals for geographical division of ward business. Some Members, however, respond to any queries in the multimember ward area and some constituents are writing to all Members in a ward at once with the same issue. Officers are not aware of any constituent concerns and it may not be possible to have hard and fast rules, although the Council Leader is keen for agreement on a way forward and a paper on protocol went to Council in September.
26. Regarding induction and training of new Members, there were 10 new Members following the retirement of a number of very experienced Members at the last election. Induction training, including content on Code of Conduct, declaration of interests, finance and planning was given to new Members (and some continuing Members) and turnout was high. Training on decision-making was given in response to requests from Members. 13 Members attended the Standards Commission Roadshow in September. There will be further training on planning, due to new legislation which



means that appeals against decisions made by officers will be heard by a panel of Members.

Licensing Board Members all underwent a statutory test and are all able to vote (in some Councils this is an issue where Members refuse to be tested). There have been several approaches to officers for advice regarding declarations of interest and all Members have updated their register of interests.

27. Regarding personal development and training plans for Members, the training section held back from engagement with Members until the initial induction and other training period had ended. However, they are now being written to “strongly encouraging” them to meet with the training section to develop individual plans or at least to consider their development needs themselves. Members will also be encouraged to undergo recruitment training (otherwise they will be in breach of Council policy if they carry out interviews) and media training.
28. In our ARAP we identified a risk associated with the use of a new electronic counting system at the elections themselves. There were problems at the count (East Renfrewshire was one of six Councils where the count was suspended due to problems with the equipment) and the Council recovered £32,000 of penalty clauses from the firm supplying the equipment as a result of this service failure. There were a lot more rejected ballot papers than previous elections but the Council was below the Scottish average in the May 2007 poll.

## **Affordability**

29. In common with other councils across Scotland, East Renfrewshire Council continues to face significant financial pressures. Against the backdrop of a below inflation council tax increase in 2007/08 coupled with the impact of the government’s efficiency agenda, the costs associated with equal pay settlements and single status present East Renfrewshire Council with a real challenge to ensure that sufficient resources are available to maintain and improve the quality and range of services to the public.
30. In 2006/07 the Council claimed efficiencies of £4.5 million. These are discussed in more detail in the financial position section below.
31. The 2006/07 financial statements reflect an increase of £4.6 million on the income and expenditure account, which after required accounting adjustments results in a £2.1 million increase to the General Fund to £7.0 million. All services were underspent on their final outturn budgets for 2006/07. After allowing for specific known commitments, an uncommitted General Fund reserve totalling £4.1 million exists. This represents an increase of £0.8 million over 2005/06. There are no plans to increase this reserve in 2007/08, however this is part of the Council’s longer term financial strategy.

***Key Risk Area 2***



## **Assessing performance**

32. The Council was commended on its corporate systems of performance management in its 2005 Best Value report. Scope for improvement however was identified in placing greater emphasis on outcomes and links to the Efficient Government initiative. This has been progressed via the 2006/07 Efficiency Statement, which evaluates initiatives using financial, productivity and quality criteria. The three pilot projects reviewing business processes using the lean systems model are intended to increase efficiency and customer satisfaction and will be reported on in the near future. The new Scottish Government have decided that Local Outcome Agreements are to be rolled out across all 32 Councils from April 2008. East Renfrewshire Council still has Pathfinder status, which means it is well placed as the initiative goes forward.

## **Effective partnership working**

33. Partnership working at the Council is well advanced, with the Community Health Care Partnership delivering integrated health and social care services under the one umbrella. However the Council have not yet progressed the recommendations highlighted in Audit Scotland's national report on community planning as efforts were focussed on producing a Local Outcome Agreement (LOA) in conjunction with the Scottish Government. It was always the intention of the Council to consider the Audit Scotland report after the development of the updated Community Plan and the further development of the LOA. The Community Plan is currently being finalised and it is expected that the updated plan will be submitted to cabinet towards end of November. A report on Area Forums is expected at cabinet soon and this will incorporate the Audit Scotland toolkit.
34. With regard to community planning, work has begun on scoping the project to incorporate the Audit Scotland report. However it is intended that this project will go much further and will "gauge the health" of the Partnership and develop measures for success. It is expected that a paper on progress and scoping will be submitted to cabinet before the end of November however, it is expected that the project will take several months to complete.

## **Workforce planning**

35. As a major employer, effective workforce planning is a key factor in determining how successful the Council is in delivering services to the public. The Council appear to have successfully tackled the equal pay and single status issues, however ongoing claims related to both issues could still pose some financial risk.
36. Regarding progress on a workforce plan, the Deputy Chief Executive is part of a SOLACE group set up by COSLA to look at national workforce planning, including more links with colleges, national graduate recruitment and shared cooperation rather than authorities competing for scarce staff



groups. A consultant is currently preparing a business plan and it should be finalised by the end of 2007 to roll out across authorities. This should inform the Council's approach, however it may take the form of guidance for future submissions to the Policy and Financial Plan. The Deputy Chief Executive is preparing a report for the Corporate Management Team on a Council policy for workforce planning which will address this issue.

### ***Key Risk Area 3***

## **Asset management**

37. Scottish councils control land, property and equipment valued at around £22 billion. Expenditure on the asset base is the second highest cost incurred by local authorities after staffing. Part 7 of the Local Government in Scotland 2003 Act introduced the Prudential Code which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.
38. The Government's Efficient Government initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:
  - strategies to reduce maintenance costs
  - proactive asset disposal policies
  - long-term capital planning and budgeting
  - robust asset management monitoring information.
39. The Council does not currently have a full Asset Management Plan (AMP) in place. However management information on assets and their usage has improved with the publication of the first annual report on Asset Management earlier in 2007. The 2008 version will include more up to date condition survey information. The development of a corporate AMP is on target for the end of 2008, but service plans in areas such as Community Services are not advanced enough to meet the original deadline of December 2007. Education has a Schools Estate Management Plan and evidence of good asset management techniques being applied exists in individual major projects. As other services and the corporate AMP develop, there should be sufficient evidence on which to base decisions for option appraisals and investments.



40. The issue of asset sharing is being addressed via the development of service and corporate AMP's, with opportunities for sharing of assets an integral theme in the plans. There are several existing and pipeline plans for asset-sharing with other services and authorities.

#### **Key Risk Area 4**

### **National studies**

41. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Further information on these studies and reports can be obtained from Audit Scotland's web pages at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

### **Sustainable waste management**

42. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved overall in Scotland.
43. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
44. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.
45. The key findings from Audit Scotland's national report published in September 2007 highlighted that there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met.
46. The national report highlighted that significant progress has been made in meeting national interim recycling targets with the percentage of municipal waste recycled and composted increasing from a Scottish average of 7% in 2001/02 to 25% in 2005/06. At 31% in 2006/07 the East Renfrewshire Council figure is above this figure, however there was no improvement on the previous year.



## **Dealing with offending by young people**

47. Audit Scotland published reports on Dealing with offending by young people in December 2002 and November 2003. A follow-up study was undertaken to ascertain improvements in performance of agencies in the context of a changing policy landscape. The performance update report was published in August 2007.
48. The key findings from the study are that the Scottish Government has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06 together with practical support and guidance to help youth justice services to improve performance. However, the impact of this on services and outcomes is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.

## **Scotland's School Estate**

49. A national review of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Executive and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and due to be reported by February 2008.



# Financial position

## Introduction

50. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of affordability, our Audit Risk Analysis and Plan recognised the significant challenges being faced by the Council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures. Our findings and key messages are set out in this section.

## Council tax and the general fund

### Operating performance 2006/07

51. The Council's net operating expenditure in 2006/07 was £168.9million. This was met by government grants and local taxation of £173.5 million, resulting in an Income and Expenditure surplus of £4.6 million which, after required accounting adjustments, has increased the Council's general fund working balance to £7.0 million.
52. The budget set for 2006/07 was based on a Band D council tax level of £1,105. No contribution from the unallocated general fund reserve was planned. In his Foreword to the financial statements the Director of Finance highlights, that after allowing for transfers to earmarked balances and funds, no additional balances required to be drawn down.
53. Within the overall outturn all services were underspent. The Community Health and Care Partnership however experienced budget pressures from increased supplementation payments (free personal care) and payments to third parties for care management and residential homes. When combined, increasing needs for services, increasing needs of existing clients and increased costs applied by service providers are causing ongoing budget pressures for the Council.

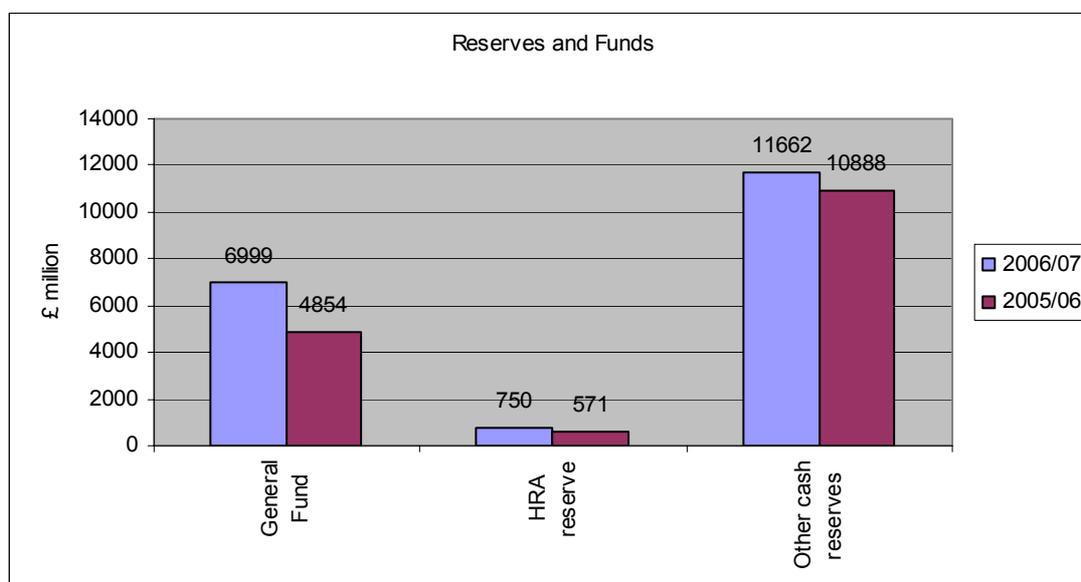
### Reserves and balances

54. At 31 March 2007 the Council had total cash backed reserves and funds of £19.4million, including an insurance fund that underpins the Council's self-insurance arrangements and repair and renewal funds to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.



**Reserves and Funds 2006/07**

Description	2006/07 £ Million	2005/06 £ Million
General Fund (not earmarked)	4.148	3.396
General Fund – Housing revenue account balance	0.750	0.571
General Fund – Equalisation reserve	1.005	0.958
General Fund – Spend to save reserve	0.500	0.500
General Fund – Unspent grant	1.346	0
Capital Reserve	7.444	7.096
Repair and Renewal Funds	3.504	3.111
Insurance Fund	0.714	0.681
	<b>19.411</b>	<b>16.313</b>



55. The Council aims to have an unallocated reserve of 4 per cent of net expenditure, which in 2006/07 would mean £6.8 million. At 31 March 2007, some portions of the general fund were earmarked for



specific purposes and the unallocated working balance had increased to £4.1 million, i.e. below the 4 per cent target. As noted at paragraph 31 above, the Council intends to meet the target in the medium term. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.

56. Significant earmarked amounts include £1.3 million unspent grant for specific purposes and £1.0 million as an equalisation reserve for future payments on the Council's PFI/PPP projects.

## **Group balances and going concern**

57. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Strathclyde Joint Police Board, Strathclyde Joint Fire and Rescue Board, Strathclyde Valuation Joint Board, Strathclyde Partnership for Transport and Renfrewshire Valuation Joint Board) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. The Council's group share of these was £105million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met from government grant and current and future council tax payers as payments fall due.
58. The overall effect of inclusion of the Council's associates on the group balance sheet is to reduce net assets by £100 million as a result of these liabilities. All group bodies' accounts have been prepared on a going concern basis.

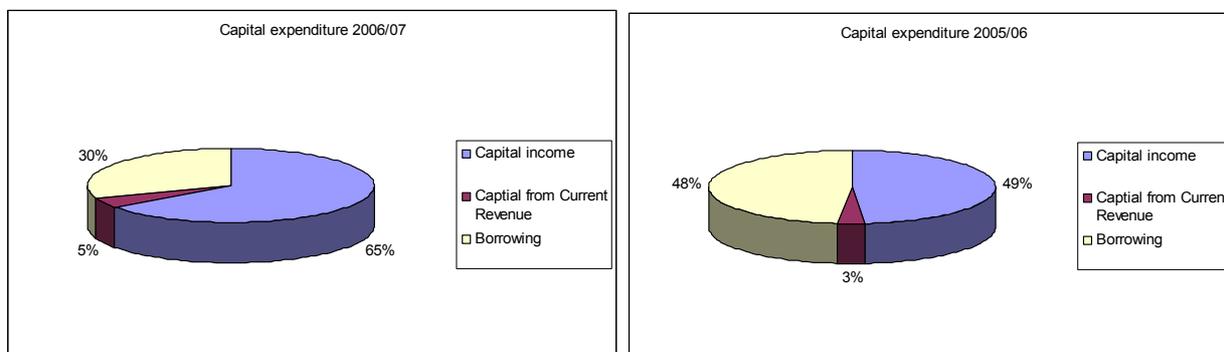
## **Spending on assets and long-term borrowing**

### **Capital performance 2006/07**

59. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2006/07 were set in December 2005 and the net external borrowing limit was set at £91.4 million. The borrowing position at year end was £77.7million, inside the prudential limit.
60. Capital expenditure in 2006/07 totalled £17.8 million, compared to £21.2 million in 2005/06. Capital investment in the last two years was funded as shown below. The proportion funded by borrowing decreased from £10.3 million in 2005/06 to £5.4 million in 2006/07.



### Sources of finance for capital expenditure 2006/07



61. Almost 86% of the Council's long-term borrowing at the year-end matures after more than 10 years, although the Council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk. Overall, the non-housing revenue account capital programme was delivered as planned, although with slippage of £2.8 million, a large part of it due to ongoing land compensation settlements on the Southern Orbital project. Transfers and brought forward projects however led to an overall shortfall of only £0.2 million, less than 2% of the total. The housing revenue account programme experienced slippage of £0.5 million, representing 10% of the planned programme. This arose mainly through the delay of some contracts requiring specialist advice to proceed.

### Forward capital programme

62. General services capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £14.1 million and £18.2 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and borrowing. Housing capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £7.3 million and £4.5 million respectively, again funded by a number of sources including capital receipts, grants and other contributions and borrowing. The larger figure in 2007/08 is mainly due to expenditure of £2.7 million on regeneration at Auchenback. The capital programme is reported to Cabinet at regular intervals throughout the year.

### Debt Restructuring

63. During 2006/07, interest rates continued to be at low levels and opportunities arose for the Council to reschedule some of its outstanding borrowing. In 2006/07 the Council reduced its total Public Works Loans Board (PWL) debt from £76.0 million to £68.5 million, paying off £23.5 million of debt early in a refinancing exercise and replacing it with a further £13.2 million at a lower rate. In addition, principal repayments of £0.2 million were made and a further £3.0 million was borrowed to finance capital expenditure. The Council projects that the refinancing exercise will result in savings totalling £0.8 million over the next 3 years.



## Significant trading operations

64. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06.
65. The Council has five STO's: catering, building cleaning, vehicle services, building maintenance and highways maintenance. In the three years to 31 March 2007, the housing repairs, vehicle maintenance and roads operations STO's met the statutory target. Catering and building cleaning, however, continued to return cumulative deficits of £0.5 million and £0.6 million respectively as a result of the impact of equal pay costs, the previous cumulative 3 year deficits having been £0.6 million and £0.6 million respectively.
66. At least some elements of one STO are managed in accordance with contracts put in place at least 10 years ago, with an annual uplift of rates. Another STO has no Service Level Agreement. Business Plans, prepared annually for the STO's, have attempted to benchmark on a regular basis to confirm that services are performing effectively and a number of service reviews and re-tendering exercises have or are planned to take place in 2007/08.
67. The Council reviewed its trading activities during the year and concluded that statutory trading accounts were still appropriate for the same range of services currently provided.

## Pension liabilities

68. The Council is a member of Strathclyde Pension Fund (SPF), for which Glasgow City Council is the administering authority. The net assets of the two funds that make up the SPF at 31 March 2007 totalled just under £9.8 billion. The funds are administered on behalf of a number of councils and other bodies, whose employees are members of the fund.
69. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescales are long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Accounting for pensions, Financial Reporting Standard 17 (Retirement benefits), is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the financial statements.
70. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six main public sector pension schemes in Scotland



may be as high as £53 billion. There are proposals to reduce the ongoing cost by amending the local government pension scheme, although these have not yet been implemented.

71. The Council's own estimated pension liabilities at 31 March 2007 exceeded its share of assets in the pension fund by £29.8 million, reducing from £52.3 million in the previous year. A full actuarial valuation of the Strathclyde Pension Fund as at March 2005 was reported in early 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 108% at 31 March 2002 to 97% at 31 March 2005. At 31 March 2007 the funding level had improved to reach the 2002 level of 108%. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. This shows that budgeted contributions are expected to rise from 260% of employee contributions in 2006/07 to 270% in 2007/08 and 280% in 2008/09.
72. The Council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Strathclyde Police, Strathclyde Fire and Rescue Board, and the Strathclyde Partnership for Transport. These bodies had an excess of pension liabilities over assets at 31 March 2007, and a share of these liabilities will be paid by the Council as they fall due.

## Financial outlook

### Current budget

73. The 2007/08 budget is £192.8 million of net expenditure based on a Council Tax Band D equivalent figure of £1,126. This is an increase of 1.9% on the previous year and below the Scottish average of £1,149. Sources of funding, including Council Tax, Specific Government Grants and Fees and Charges are anticipated to comprise around the same proportions of total funding compared to 2006/07.
74. Anticipated funding pressures in the short to medium term are likely to include a less favourable 3 year financial settlement, likely to be finalised for 2008/09 onwards in December. The new Scottish Government has proposed a freeze on Council Tax for 2008/09 as a prelude to the introduction of a new local taxation system. Until this is introduced the Council is concerned that adequate compensatory grant is provided by the Scottish government. On the demand side, an increase in pressure on social care services due to an ageing population and a gradually increasing general population in the area is leading to ever increasing demands on all services.



## Equal pay

75. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.
76. As detailed in the 2005/06 accounts, payments of £3.5million were made in the financial statements for the total one-off cost of dealing with the equal pay legislation. The Council reduced its provision by £0.1m as a result of additional settled claims in 2006/07 and another £0.2 million remains to fund outstanding settlements. A number, approximately 400, of staff in other groups not covered by the compensation offers, have also lodged equal pay claims at tribunal.

## Single status

77. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). At a national level there was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
78. A Single Status agreement was signed with the Trade Unions in July 2007, backdated to July 2006. The cost in 2006/07 was approximately £1.9million, which represents around 3 per cent on the relevant employees' pay-bill. Given detriment protection, costs will rise over the next 3 year period, reducing thereafter in future years. There are several hundred re-grading appeals outstanding, however given uncertainty on their outcome there is no provision for them in the accounts

## Efficient government

79. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Executive expect public sector organisations to apply the principles of the Efficient Government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of Councils, efficiency savings have been incorporated into the annual financial settlement provided to Councils by the Executive. The principles of the Efficient Government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
80. During 2006, Councils across Scotland recognised that as part of their partnership arrangement with the Scottish Executive, they had a responsibility to report efficiencies on the Executive's five key



operational themes as set out in “Building a Better Scotland” (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow Councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all Councils in May 2007.

81. East Renfrewshire Council has recognised the importance of delivering efficiency savings as an integral part of service delivery. The council established a Strategy and Action Plan for Delivering Efficient Government and a Central Register of Efficiencies, and the recent Transformation Programme launch is designed to move the Council from its initial plans to a broader programme of change. The Council’s 2006/07 Efficiency Statement, available on its website and elsewhere, reports that the Council achieved total efficiencies of £4.5 million in 2006/07:

***Claimed efficiencies in 2006/07***

<b>Efficient Government Theme</b>	<b>Cashable efficiency £m</b>	<b>Non cashable efficiency £m</b>	<b>Total efficiency £m</b>
Procurement	0.206	0.032	0.238
Asset Management	0.486	0	0.486
Shared Services	0.250	0.024	0.274
Streamlining Bureaucracy	0.529	0.035	0.564
Managing Absence	0.025	0.077	0.102
Other	2.808	0.003	2.811
<b>Total efficiencies</b>	<b>4.304</b>	<b>0.171</b>	<b>4.475</b>

82. The Council sees initiatives such as the Local Outcome Agreement’s aim to give Councils more freedom and reducing bureaucracy and the development of business improvements through lean systems pilots as being key areas for future efficiencies.



# Governance

## Introduction

83. In this section we comment on key aspects of the Council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2006/07

84. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the Council had systems in place that operated well within a sound control environment.
85. A Statement on Corporate Governance is included within the annual financial statements, providing a commentary by the Leader of the Council and the Chief Executive on progress made during the year in taking forward issues to be addressed to comply with the Code of Corporate Governance. There has been significant activity to develop community focus, including Area Forums, and on further developing risk management and awareness. Work continues in the area of developing a corporate approach to business continuity.

## Audit Committee

86. Effective scrutiny is central to good governance, with a significant role for Members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. East Renfrewshire Council's Audit Committee functions effectively and also fulfils a scrutiny function by undertaking investigations in areas of concern.
87. The previous Committee, which existed until the May 2007 elections, was described as "exemplary" in the 2005 Best Value report and evidence suggests that this had not changed during 2006/07. The success of the Committee was in a large part due to the experience of the Chair and Vice-chair and the concentration on the issues rather than party politics. The Committee was well attended and required a quorum of 3 Members to operate. These aspects all demonstrate the high status of the Committee within the Council.
88. After the elections the Committee has a new Chair and 4 of its 7 Members are new Councillors, with 2 of the other 3 having been on the previous Audit Committee. Induction training has been given to all new Members and specific Audit Committee training will be given in due course. After the first couple of meetings it appears that arrangements are operating well, but we will assess arrangements again



during our 2007/08 audit work. The Committee has taken on the previous functions of the now discontinued Policy Review Committee and again this new arrangement will be assessed during 2007/08.

## Internal Audit

89. The environment in which Internal Audit operates has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revised Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards.
90. Such changes to the Code have expanded Internal Audit's role and status within the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.
91. We carry out an annual review of the Council's internal audit arrangements and found that the function operates efficiently and effectively. The Internal Audit section uses a risk approach to identify key systems and has a three-year rolling programme to report on all main systems at least once in that period. The annual plan summarises the programme and in 2006/07 there was little slippage in planned work and reports were generally produced on time. The performance of Internal Audit is reported at regular intervals to the Audit Committee, including the number of reports issued per quarter, the time taken between fieldwork and production of reports, and the productive time percentage of all staff time. Internal Audit reports are not normally specifically considered by the Audit Committee although members are able to request and read them. The issues from our review of Internal Audit were regarding the IT section informing Internal Audit of system changes/upgrades, consideration of internal audit arrangements for partnerships and Internal Audit reviewing its key performance indicators and its manual.
92. All reports issued by Internal Audit are reviewed and considered as part of our work. We were able to place reliance on Internal Audit's work for coverage of a number of specific financial systems in 2006/07.
  - Main accounting
  - Debtors
  - Housing Rents
  - Cash receipting
  - Council tax
  - Non domestic rates



## Risk Management

93. The Council has a Strategic Risk Register which is updated at least annually. A number of new risks have been added, one removed and the likelihood of several updated. Several outstanding actions on the Risk Management Action Plan have been completed and the Corporate Risk Group is fully represented by all departments. The Council offers Members risk training periodically.

## Systems of internal control

94. In her annual report for 2006/07 the Chief Internal Auditor provided her opinion that, based on the internal audit work undertaken during the year, the Council's corporate governance arrangements were adequate and operating effectively, with one exception. She drew attention to a number of areas of non-compliance with the Council's Recruitment Policy.

95. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes in 2006/07:

- Payroll
- Creditors payments
- Housing rents
- Council Tax
- Non domestic rates
- Main accounting system
- Budgetary control
- Debtors
- Housing and Council Tax Benefits

We concluded that although the systems would provide us with the necessary level of audit assurance a number of areas of improvement could be made. These were reported in a letter to the Director of Finance in May 2007.

96. Our work on the main accounting system comprised a full review of controls and several findings resulted in the agreement of an action plan with management, however none of the issues identified affected the opinion on the accounts. The recommendations included having more detail on journal



postings, regular reviews of system users to remove former employees, more regular investigations of differences in reconciliations with a roads costing feeder system and the provision of fuller management information on journal processing by volume and value.

97. Due to some issues raised by the Best Value report and after discussing with officers, we also carried out a review of option appraisal arrangements in the Council. A number of recommendations were made, including criteria for how to rank options, inclusion of more innovative options, and inclusion of standard documentation and support for the outcome agreed on.
98. A Pathfinder Diagnostic Review (PDR) was carried out by our Computer Audit for 2006/07. This was to provide baseline information on the management of financial systems, their controls, updates and security, at the Council. The PDR report contained several recommendations, the most significant of which was that the Council should continue to develop business continuity plans.

## **Prevention and detection of fraud and irregularities**

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

## **NFI in Scotland**

100. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
101. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.
102. The Council have shown a clear, and ongoing, commitment to the NFI process through the creation of a protocol setting out the approach and allocation of responsibility for each match. Furthermore there



is clear evidence of formal, and informal, progress monitoring and the implementation of appropriate safeguards to ensure matches are investigated by appropriate personnel.

103. As at mid September the Council have identified a total of £2,583 in overpayments of which £1,376 is being actively recovered. To date, no cases of fraud have been identified. The work on reviewing and investigating NFI referrals is ongoing and a further 52 cases are still being investigated. These cases may result in further savings. We consider it important that the Council maintains its current momentum in addressing NFI and uses the opportunities presented by NFI on an ongoing basis to assist in the detection of fraud.

## **Governance outlook**

### **Impact of the 2007 elections**

104. Following the May 2007 elections, the former administration of East Renfrewshire Council has been replaced by a Labour/Scottish National Party/Liberal Democrat/Independent coalition. The Council's cabinet style of governance has largely been retained with the full Council dealing only with matters directly reserved to it. There is also a separate Education Committee and a Community Health and Care Partnership Committee for Social Work and certain health issues. There are 2 regulatory Committees for planning and licensing. Finally, there is an Audit Committee which now encompasses the former Policy Review Committee's functions thereby strengthening its scrutiny remit. The new administration includes 10 new members out of 20, with changes to Conveners and other posts, with the exception of the Leader's post. Extensive induction training has been provided and there is ongoing training on specific topics at the request of Members or on the advice of officers.



# Financial statements

## Introduction

105. In this section we summarise key outcomes from our audit of the Council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the Council and its expenditure and income for the year
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

106. We also reviewed the Statement of Assurance on Corporate Governance by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

## Overall conclusion

107. We have given an **unqualified** opinion on the financial statements of East Renfrewshire Council for 2006/07. We have, however, drawn attention to failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

108. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in paragraph 65 of this report, the catering and building cleaning trading organisation made aggregate losses of £0.5 million and £0.5 million respectively over the three years to 31 March 2007, with the result that the Council has failed to meet this statutory requirement. As explained in the authority's financial statements, this is entirely due to the additional liability arising from equal pay compensation payments in 2005/06.

109. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. A meeting will be held with the Chief Accountant to build on this good practice for future years' audits. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Council and publication.



The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting practice

110. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.

111. The 2005/06 figures are restated in the accounts for comparison, ie they have been adjusted to comply with the new SORP format and to be read as a direct comparison to the 2006/07 figures.

112. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. A small number of adjustments were required to be made to the figures included in the unaudited accounts. Details of other significant accounting issues arising in the course of our audit are summarised below:

- Transactions and balances were presented in such a manner that they did not reflect the true position of the transaction or balance. These included:
  - Non-distributed costs were shown as a net figure in the Income and Expenditure account instead of a gross figure.
  - Income and expenditure on internal recharges, which should be netted off, was included gross in the Cashflow statement.
  - Investments were understated by £4.1 million due to the inclusion of a short-term loan to the Council.



- The group accounts included Trust fund balances described as a negative asset. These should have been grossed up.

These errors were adjusted for in the certified accounts.

- The disclosure note on contingent liabilities was expanded to cover several previously undisclosed contingencies. The Council also agreed to strengthen the liaison between the finance and legal sections regarding issues such as insurance excesses and the provisions note and Income and Expenditure account were adjusted for some insurance payments made.
- To move towards consistency in date of annual valuation for all assets of 1 April the Council did not process an annual revaluation of its housing property in 2006/07. Additional information has been added to the accounting policies note to reflect this date of valuation. We will examine this area again as part of our 2007/08 work.
- The Council accounted for police grant income of £5.9 million within the financial statements. The grant is paid to Strathclyde Police, therefore it is our opinion that the Council's contribution should be shown net. The accounts have been adjusted to reflect this view.
- It is desirable that the Council has robust service level agreements with internal and external providers of Council services. Some agreements have never been finalised, some are incomplete and some require to be formalised as agreements. A review of agreements between service departments, significant trading operations and external providers of Council services is currently being undertaken.

## Legality

113. Each year we request written confirmation from the Director of Finance that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Council's Management Team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.
114. There has been continuing press coverage surrounding councils which have charged for the preparation of food which may contravene the terms of the Community Care and Health (Scotland) Act 2002 in relation to free personal care.
115. The Council had previously charged for food preparation but, in the absence of clear guidance becoming available and having regard to legal advice then available decided in February 2007 to cease charging for food preparation. It is estimated that the sums already charged are not material



and no provision for repayment has been included in the accounts. The one food preparation case which was raised against the Council remains sisted at court.

116. Local authorities with registered charitable bodies (ie registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. Clearly, this is an onerous task for local authorities and discussions are ongoing between the CIPFA Directors of Finance Section and the Office of the Scottish charities Regulator to reach an acceptable solution.

117. There are no additional legality issues arising from our audit which require to be brought to Members' attention.

## Financial reporting outlook

118. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.

119. The main change is that the 2007 SORP requires authorities to comply with financial reporting standards (FRS) 25 and 26 in respect of loans, from 2007/08. This will result in large expenditure entries to the income and expenditure account as the SORP requires premiums on loans which have been rescheduled to be written off in line with the FRS. At present, councils are able to write off premiums over the period of the replacement loan, which can be up to 40 to 50 years. Regulations restrict the write off periods for new premiums incurred on LOBO (Lender or Borrower Option) loans from 1 April 2007 to a maximum of 20 years. It is current Council policy to do this in any case. These changes do not impact on council tax levels.

120. Other changes include:

- changes to capital accounting requirements to introduce a revaluation reserve and capital adjustment account
- a requirement for further information to be disclosed in respect of charitable funds.

121. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/09. It was recognised that there would need to be discussions with CIPFA/ LASAAC about the introduction of IFRS-based accounts for local government. Of particular note is that IFRS do not address PFI accounting in the public sector. The Treasury are therefore currently considering the most appropriate



accounting treatment for PFI public sector transactions. If IFRS principles, or similar, were applied in the public sector then many PFI assets are likely be brought onto public sector balance sheets.

***Key Risk Area 5***



# Final Remarks

122. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

123. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks. We will follow up the action plan as part of our 2007/08 audit.

124. The co-operation and assistance given to us by East Renfrewshire Council Members and staff is gratefully acknowledged.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	12	<p><b>Performance Management System</b></p> <p>Unless the Council effectively develops its performance management system there is a risk of unfocused management information that does not tie coherently to objectives set in the LOA</p>	Implement the national LOA performance management framework.	Assistant Chief Executive	September 2008
2.	31	<p><b>Financial Planning</b></p> <p>With uncommitted reserves at current levels there is a risk that the Council has inadequate reserves to deal with unforeseen events and budgetary pressures.</p>	Forward planning as part of long term financial strategy.	Director of Finance	January 2008
3.	36	<p><b>Workforce Planning</b></p> <p>There is a risk the Council cannot demonstrate planning and efficient use of its human resources.</p>	Development of workforce planning policy.	Deputy Chief Executive	March 2008
4.	40	<p><b>Asset Management Planning</b></p> <p>There is a risk that the Council does not have sufficient evidence to demonstrate efficient use of its assets.</p>	Development of corporate asset management plan.	Head of Property and Technical Services	December 2008
5.	121	<p><b>Financial Reporting</b></p> <p>In the event of insufficient preparation, there is a risk that the 2007/08 financial statements may not comply with accounting requirements.</p>	Review the new SORP and train appropriate staff.	Chief Accountant	June 2008