

East Renfrewshire Council

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008



East Renfrewshire Council

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Contents

Key Messages	1	Governance	17
Introduction	4	Performance	23
Financial statements	5	Final Remarks	39
Financial position	9	Appendix A: Action Plan	40



Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by 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 from the 2007/08 audit and the outlook for the period ahead.

Financial Statements

We have given an **unqualified** opinion on the financial statements of the East Renfrewshire Council. The Council dealt with the various required changes to the format of the accounts effectively and produced its annual accounts within statutory deadlines.

We have, however, drawn attention to a failure to comply with the statutory requirement that all statutory trading organisations break even on a rolling three year basis. For the three year period to 31 March 2008, the Council's Catering operation failed to achieve this statutory requirement. This deficit was incurred in 2005/06 and as the operation is currently trading profitably, Catering should meet its statutory three year rolling target next year. We have a concern however that the trading outlook for Building Maintenance, another trading operation, is not good with substantial losses incurred in 2007/08. This trading position is currently subject to review within the Council.

Financial Position

Whilst the Council's Income & Expenditure Account recorded a deficit of £1.3 million, following adjustments which are required under local government legislation the Council's general fund reported a surplus for the year of £0.7 million. When this is added to the balance brought forward, the Council has an accumulated general fund balance of £7.7 million, £3.9 million of which has not been ear-marked for a specific purpose. This unallocated element of the general fund equates to 2.2 percent of net annual operating expenditure and is a slight improvement on the position at the end of the last financial year. The effect of inclusion of all the Council's group entities is to reduce net assets by £81.5 million. This is as a result of the significant pension liabilities held by some group entities.



The Council experienced significant slippage in its capital programme during 2007/08, primarily associated with two key projects, the Barrhead Regeneration and the Glasgow Southern Orbital road. In order that these projects do not encounter further delays, steps should be taken to ensure that any further slippage is minimal and that the timing of future capital programmes takes account of likely difficulties.

The Council is scheduled to receive significant sums from developers for the provision of social and affordable housing. In order to address the local need for more affordable housing, the Council needs to develop a strategy on how these sums will be utilised as well as minimising the length of time council houses are left empty.

Governance

The Council had good governance systems in place during the year and we agree with the conclusion of the Council's own internal audit that the internal control environment is sound. Risk management operates well within the Council. The importance of data handling security is recognised and revised policies and procedures are currently being revised. Internal audit arrangements within the Council are effective and are delivered in a professional manner.

The Council continued to participate in the National Fraud Initiative during 2007/08. Overpayments of benefits and other payments totalled £0.133 million and this was in line with the average identified error rate at other local authorities. We believe the Council demonstrated a good level of commitment to the exercise.

Performance

A Best Value and Community Planning audit of the Council was completed in 2005. This concluded that the Council displayed many of the features of a Best Value Council. In particular, the report highlighted that the Council is ambitious and successful and has the ethos of continuous improvement. The actions agreed as part of the Improvement Action Plan have all been taken although recent developments to the main themes for improvement such as the revised structure of the Local Area Forums, the introduction of a Single Outcome Agreement coupled with supporting developments in performance reporting mechanisms will all need careful future assessment to assess their effectiveness.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council needs to manage in delivering its corporate objectives and priorities. These have been grouped into the following themes:

- Financial Management and Performance Assessment.
- Efficient use of resources.
- Supporting Effective Political Governance.
- Partnership Working.



The Council is currently operating within an environment of substantial upward pressures on costs. With rising inflation, particularly in the fuel and utility markets, careful management of budgets is essential to maintain service priorities. The Council has a challenge to manage the increasing costs of equal pay claims while ensuring agreement is reached on new terms and conditions for staff.

The Council will also be required to produce its first annual report against its Single Outcome Agreement during 2009 and it will be crucial that meaningful supporting performance information is generated. Procedures should also be put in place to ensure clear lines of responsibility between the Council and its Community Planning partners where action is required to address indicators falling below target.

Workforce planning is still an issue which requires action by the Council to ensure its key resource is properly and efficiently engaged. The Council's target date for developing a policy has past although it has produced a business case and project plan. The Council should however continue its efforts to develop an appropriate policy and ensure its implementation.

Following the 2007 elections, a substantial number of Members were new. Most councillors have taken advantage of induction training provided by the Council although only half have agreed a personal development plan or have undertaken further training etc. The Council will need to keep the effectiveness of their current support arrangements under review to ensure that Members are supported effectively, including the appropriate provision of personal learning and development.

The co-operation and assistance given to us by East Renfrewshire Council councillors and staff during the year is gratefully acknowledged.



October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of East Renfrewshire Council, the second year of a five year appointment. Findings are set out in four sections: financial statements, financial position, governance and performance. 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 is set out in our Annual Audit Plan (AAP), which was submitted to the Council in March 2008. The AAP summarises the specific governance and other risks that could affect the Council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the Council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the Council and described the work we planned to carry out as part of our annual audit:
 - Financial management and performance assessment.
 - Efficient use of resources.
 - Supporting effective political governance.
 - Partnership working.
4. Overall conclusions about the Council's management of key risks are discussed throughout this report. Appendix A 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.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the Council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. 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.
7. We also review the statement on corporate governance by considering the adequacy of the processes put in place by the Council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of East Renfrewshire Council for 2007/08. We have, however, drawn attention to a 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.
9. 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 earlier in this report, one of the Council's three statutory trading organisations, Catering, made aggregate losses in the three years to 31 March 2008, with the result that the Council failed to meet this statutory requirement for that significant trading operation.
10. 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. The Council's unaudited financial statements were submitted to the Controller of Audit on 26 June. This was prior to the deadline set under the Local Authority Accounts (Scotland) Regulations 1985 of 30 June. The overall standard of accounts preparation was good.
11. Final accounts processes including the preparation of financial statements, supporting year end working papers and audit liaison are largely managed by one key member of staff within the finance



department. In our view, such a concentration of responsibility creates operational risks which the Council should recognise. The Council should establish what steps would be taken should any risk to the timely production of the annual accounts materialise.

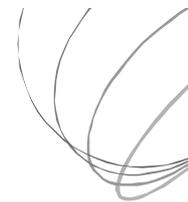
12. The unaudited financial statements were made available for public inspection during July and August. Our audit of the financial statements was completed by the target date of 30 September 2008 and a set of revised accounts incorporating agreed audit adjustments and the audit opinion are now available for presentation to the Council.

Accounting practice

13. 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 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.
14. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP.
15. With one exception, details noted in the paragraph below, the Council has adjusted the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and the Audit Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Impairment of council houses

16. A small number of properties which had been vacant (void) for periods up to ten years were identified as requiring significant repair work before they could be made available for letting. The reason for this period of vacancy has been explained to us as being primarily related to adverse tenancy factors. We are aware that other properties are unoccupied for extended periods and we intend to examine the overall management of housing voids in future audit plans. From an accountancy standpoint, these properties are reflected in the balance sheet at their net valuation of £82,500 in total as the Council believe the averaging nature of the overall valuation compensates for such properties. We do not share this view and are of the opinion that given their state of repair, their value should be impaired.



This case highlights the fact that there are several technical accounting issues associated with the traditional generally accepted method of Council house valuations, the introduction of revaluation reserves and the accounting for impairments which are open to different interpretations. In our opinion, a consistent approach across local authorities would be desirable and we encourage the Council to fully participate in any national discussions which may take place on this matter.

Sums from developers

17. By 31 March 2008, the Council had entered into an agreement to receive £0.125 million from developers following the granting of planning consent for new housing. This sum, known under statute as a commuted sum, is payable to councils for housing developments of a certain nature over a certain size. Sums received are required to be spent on projects associated with social and affordable housing initiatives or on infrastructure and environmental schemes. We understand that at present the Council has engaged one new member of staff on work associated with social and affordable housing activities at a cost of around £32,000 per annum. During 2008/09, the Council has received further contributions associated with other developments of £0.094 million with a further £0.203 million anticipated. We understand that the Council has still to reach a decision on how these sums can be effectively applied for the purposes set out for them under the regulations.

Key Risk Area 5

Audit adjustments

18. A small number of audit adjustments were required to the financial statements which had the net affect of increasing the balance on the General Fund by £0.404 million. The main changes were associated with income received from the developers of the Whitelees Wind Farm (£0.354 million) and planning gains (£0.125 million – see paragraph 17 above). These adjustments and others, which had no impact on balances within the General Fund, decreased the deficit on the Income and Expenditure by £3.472 million, while audit adjustments to the balance sheet increased net assets by £0.356 million.

Legality

19. Each year we request written confirmation from the Director of Finance that the Council's financial transactions accord with relevant legislation and regulations. 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. In particular, he has confirmed that actual and potential claims, in relation to equal pay legislation, have been reviewed and the amount recognised in the 2007/08 accounts (£1.6 million) is the best estimate of the expenditure likely to be required to



settle equal pay compensation claims. This sum represents an additional provision over 2006/07 of £1.350 million in light of the Council's increased exposure for compensation awards.

20. We reported last year that 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, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the Council's financial statements, supplemented by appropriate working papers.
21. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

22. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.



Financial position

Introduction

23. In this section, we summarise key aspects of the Council's reported financial position and performance to 31 March 2008 and provide an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the Council in managing ongoing financial pressures in funding existing service delivery and future improvement.

Operating Performance 2007/08

Council tax and the General Fund

24. The Council's net operating expenditure in 2007/08 was £182.5 million. This was met by government grants and local taxation of £181.2 million, resulting in an income and expenditure account deficit of £1.3 million. This is 0.7 percent of the net operating expenditure for the year.

25. The Council under-spent its budget for the year by £1.1 million. This was off-set by a shortfall in total funding for the year of £0.4 million, to produce an in-year general fund surplus of £0.7 million. All service departments spent within their budgetary limits with the exception of the Community Health and Care Partnership which slightly over-spent (by £70,000 against a budget of £32 million) principally due to cost pressures relating to Care for the Elderly and Foster Care.

Reserves and balances

26. Table 1 shows the balance in the Council's general fund at 31 March 2008 compared to the previous year. At 31 March 2008, the Council had total cash backed funds (after taking account of the reserves shown in table 2 also) of £19.3 million, a decrease of £0.1 million on the previous year.



Table 1: General Fund

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund - not earmarked	3,902	4,148
General Fund – Equalisation Reserve	1,063	1,005
General Fund – Spend to save reserve	433	500
General fund – Unspent grant reserve	1,790	1,346
General Fund – Whitelees Windfarm	354	0
General Fund – Commuted Sums	125	0
Total (excluding HRA)	7,667	6,999
General Fund - HRA	320	750
Total	7,987	7,749

27. The Council achieved a general fund surplus of £0.7 million during the year. Added to the amount brought forward from 2006/07, the Council has a general fund balance (excluding HRA) of £7.7 million. £3.8 million of this balance is ear-marked for specific purposes leaving an unallocated balance of £3.9 million. This unallocated balance equates to 2.2 percent of the Council's net annual operating expenditure and compares favourably to the Council's budget setting papers which projected the balance to be at a 2 percent level. The Council has however stated its aim is to hold unallocated reserves at a 4 percent level of gross expenditure. Consideration should be given to achieving a position on the unallocated element of the general fund in line with the Council's strategy.
28. Earmarked amounts have been identified for equalising future PFI/PPP payments; monies to fund the transformation programme; etc. Sums have also been received from developers of the Whitelees Wind Farm and local housing projects.
29. In addition to an Insurance Fund, funds exist to enable a continuing programme of repairs and renewals to Council properties (Repairs and Renewals Fund) and to make provision for anticipated future capital liabilities (Capital Reserve). Table 2 presents the figures for these other statutory funds held by the Council as at 31 March 2008 against the balances held at end of the previous financial year.



Table 2: Other Statutory Funds

Description	31 March 2008	31 March 2007
	£ Million	£ Million
Repairs and Renewals Fund	2,674	3,504
Capital Reserve	7,874	7,444
Insurance Fund	756	714
Total	11,304	11,662

30. The repairs and renewals fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. During the year £1.4 million was spent from this fund on a mixture of revenue and capital projects, off-set by transfers from the general fund of £0.6 million.
31. The capital reserve has been established to finance capital expenditure. During the year, £0.4 million was added to the reserve with no expenditure being funded from it.
32. The insurance fund has been established as a provision against the excess costs of future claims. During the year no payments were made from this fund, with only a small contribution of £42,000 made to it based on interest earned from investments.

Housing Revenue Account (HRA)

33. The housing revenue account shows a deficit of £0.4 million for 2007/08. This is due to a reallocation of the Building Maintenance Statutory Trading Operation deficit for the year of £0.2 million to HRA to more properly reflect activities as well as a Cabinet decision during the year to spend £0.2 million on repairs to roads, lanes and footpaths within housing areas owned by the Council.

Group balances and going concern

34. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of Councils. The overall effect of inclusion of all of the Council's group entities on the group balance sheet is to reduce net assets by £81.5 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis and any pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
35. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. The combination of these boards (Strathclyde Joint Police Board, Strathclyde



Joint Fire and Rescue Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Committee and the Renfrewshire Joint Valuation Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £3.5 billion, with the Council's group share being £81.9 million.

Spending on assets and long-term borrowing

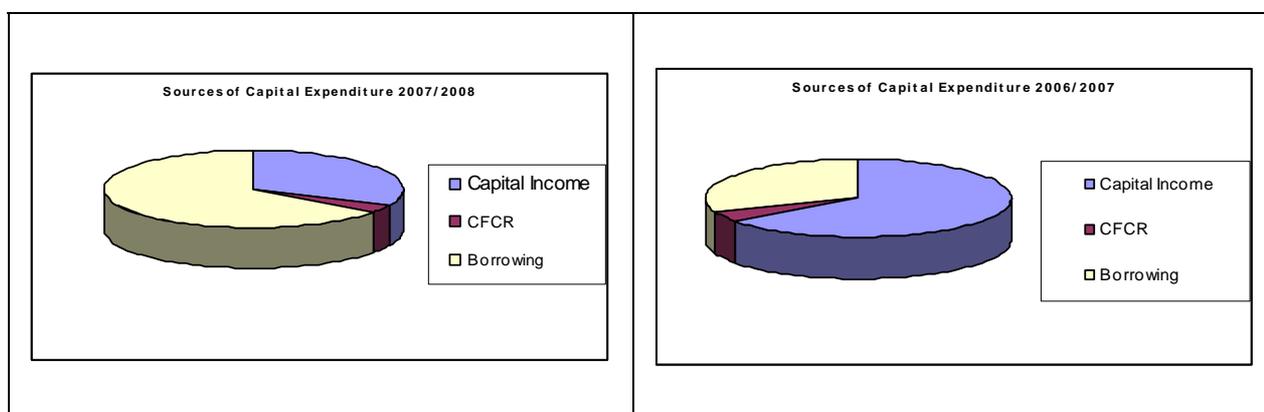
Capital performance 2007/08

36. Since the introduction of the prudential code in April 2004, the Council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The Council has used the code to increase significantly its capital expenditure to improve its asset infrastructure.
37. Capital expenditure in 2007/08 totalled £16.9 million (£17.8 million in 2006/07) representing slippage of £6.6 million excluding demand led land compensation payments in respect of the Glasgow Southern Orbital road project. Reasons for the shortfall were an absence of funding through asset sales which did not materialise and in some cases the reluctance of land owners to sell a property to which the Council had intended using. Slippages in the capital programme create the risk of adverse service delivery and public expectations.

Key Risk Area 9

38. The sources of capital expenditure for the last two financial years are presented in the charts below where it can be seen that the level of expenditure funded through borrowing has increased from 2006/07 (£5.4 million) to £10.9 million currently, slightly up from 2005/06 levels.

Chart 1: Sources of finance for capital expenditure 2007/08 & 2006/07



Borrowing and temporary investments

39. During the year the Council's net borrowing position increased by £7 million, largely as a result of new loans which were taken out as part of a re-structuring exercise which was initially implemented prior to



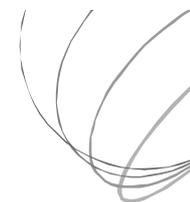
the end of 2006/07 and involved £5.5 million of new loans to replace previously repaid loans.

Furthermore, £1.6 million was borrowed to finance capital expenditure. The Council's net external borrowing position at year-end (after taking account of all outstanding loans, temporary lending and bank accounts) was £84.7 million, which is within the approved prudential indicator for the year (£86.1 million). 85 percent of the Council's outstanding debt is not due to expire within the next decade, which is also in line with the appropriate prudential indicator.

40. The vast majority of the Council's debt is with the Public Works Loan Board (PWLB), an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. All of the Council's PWLB loans have fixed interest rates and as such represent low risk borrowing.
41. The Council also holds four Lender Option Borrower Option loans (known as LOBOs) which exist with two different private sector organisations. Under the arrangements for these loans the lender can opt to change the conditions of the loan at various specified intervals during the lifetime of the loan, whereupon the borrower has the option to agree the new terms and continue with the loan or alternatively pay it back. These loans have a balance sheet value as at 31 March 2008 of £17.4 million.
42. The Council also held £9.3 million of investments at the end of the last financial year. This is a reduction of around £5 million from the end of 2006/07. At the time of writing this report, all councils across the United Kingdom face a financial risk in relation to the current pressures facing the global banking industry. The Council should continue to monitor its exposure in conjunction with its treasury management advisors. The Council has a £1 million deposit due to mature in December 2008 with Heritable Bank, a UK based subsidiary of Landsbanki. In October 2008 that bank went into administration. The Council is liaising closely with the administrators, COSLA and both the Scottish and UK Governments to ensure that every effort is made to effect full recovery of the outstanding deposit. This matter will be followed-up during our 2008/09 audit.

Significant trading operations

43. 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.
44. The Council has three STOs of which one (Catering) has continued to return a cumulative deficit for the three years to 31 March 2008. This was due to the impact of equal pay costs incurred in 2005/06. An explanatory paragraph was added to the audit certificate within the financial statements regarding the Catering STO performance. As this STO is currently trading profitably, this failure to comply with a statutory requirement is likely not to be an issue in 2008/09.



45. During 2007/08, a review of existing STOs was carried out. This resulted in two STOs being reclassified as non-statutory due to them not meeting the appropriate criteria (such as risk of exposure to financial and reputational loss).
46. The Building Maintenance STO achieved its 3 year break-even position but made an in-year deficit of £283,000 due to poor trading performance. Deficits are continuing to accumulate which will threaten the 3 year break-even target in 2008/09.

Key Risk Area 7

Financial outlook

Council tax freeze

47. In line with the concordat between the Scottish Government and Scottish local authorities the 2008/09 budget was set with no increase in council tax (set at £1,126 for a Band D equivalent). This level of tax is below the Scottish average (21 out of 32 Scottish local authorities). The 2008/09 budget also incorporated a 1 percent efficiency saving (equating to £0.9 million). The Council faces a number of cost pressures in this financial year which require to be closely monitored and controlled.
48. The more significant of these pressures includes staff pay settlements. Payments are likely to be in excess of the level budgeted and as a result service departments have been advised to find savings from elsewhere in the budget to fund this. Energy bills (i.e. gas and electricity) are also likely to rise but the full impact of these costs will not be known fully until later in the year.
49. Other pressures include potential increases in expected value of equal pay claims (determined on the basis of employment tribunal results) and costs associated with providing social care services (in particular nursing home and care providers, free personal care for the elderly and foster care). It will be a challenge for the Council to ensure that the level and standard of service delivery is not diminished as a result of any actions taken in light of these increased costs.
50. The Council faces the ongoing challenge of budgeting for no increase in council tax in 2009/10 and 2010/11. Although the relaxation of some ring fencing gives the Council greater flexibility in the allocation of resources, the council tax freeze increases the pressure to identify and deliver efficiency savings. To that end the Council anticipates a further efficiency saving of 1 percent for 2009/10. It will be important for the Council to meet this target saving.

Key Risk Area 2



Equal pay

51. 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 2006/07.
52. The Council has a provision in the 2007/08 accounts in respect of outstanding equal pay claims. Current claims are from a mixture of around 39 individuals who were offered a compensation package but opted to reject and a further 209 who were not part of the compensation package but have now lodged a claim. The value of the provision in the accounts has increased from 2006/07 by around £1.35 million. The level of provision was reviewed during the audit process and was found to be adequate given the available knowledge at the current time. However, it will be important for the Council to recognise that the situation is liable to alter based on completed cases and as such the level of this provision should be continually monitored to ensure it remains appropriate.

Key Risk Area 4

Single status

53. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). 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.
54. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
55. The pay and grading element of single status was implemented in July 2007 backdated to take effect from July 2006. At 25 August 2008, there had been 393 appeals with 34 resulting in salary increases. To date, the terms and conditions element of single status (covering issues such as working hours and flexible working) remains outstanding with an anticipated implementation date set for January 2009. A point was raised regarding this issue in our 2007/08 Strategic Audit Risk Analysis (SARA) to which management responded that it was anticipated that revised terms and conditions would have been implemented by June 2008. Therefore it is imperative for the Council to ensure that this key element to the single status legislation is implemented as promptly and as successfully as possible.

Key Risk Area 4



Future capital programme

56. The most recent capital monitoring report submitted to Cabinet estimated the level of capital expenditure for the current year would be £19.07 million, whilst highlighting a small funding shortfall. £9 million of the programme is funded through borrowing, £3.9 million from grants, £2.9 million from capital receipts, £2.7 million from the capital reserve with a further £0.5 million from developers' contributions. The level of capital receipts represents a reduction of £0.2 million from previous estimates due to external planning objections to the proposed use at the Crossmill Industrial Estate. Future levels of capital receipts may be adversely affected by the current economic climate. This issue requires to be carefully managed by the Council.

Key Risk Area 9

57. The HRA capital programme for 2008/09 is estimated at £5.9 million. This programme is funded by borrowing (£3.5 million), estimated receipts from Council house sales (£1.9 million) and a contribution from revenue of £0.5 million.

Pension liabilities

58. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In 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 annual accounts.

59. The Council's share of the liabilities in the Strathclyde Pension Fund at 31 March 2008 exceeded its estimated pension assets by £0.48 million, a reduction from a net liability position of £29.85 million in the previous year. Recent stock market volatility makes projections of future funding levels very difficult to anticipate and care will be required by fund managers to minimise any potential adverse movement.

60. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009/10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.



Governance

Introduction

61. In this section we comment on key aspects of the Council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

62. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. As such, the system of corporate governance is the mechanism by which councils direct and control their functions and relate to their communities. The Council has a local Code of Corporate Governance based on the principals set out in CIPFA/SOLACE guidance. The local code was updated by the Council during the year.

63. As set out in the Statement on Corporate Governance, the Council has developed a number of key components to its system of corporate governance, including:

- A structured financial planning process coupled with regular reporting on budgets.
- Regular reviews on performance.
- Clear objectives and targets which are linked to resources.
- Clearly defined capital expenditure guidelines.
- Effective internal audit scrutiny.
- A systematic approach to risk management.

Robust scrutiny arrangements from members over the Council's system for corporate governance are also in place.

Political governance and member training

64. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. In East Renfrewshire, a new administration was elected and comprised a Labour/Scottish National Party/Liberal Democrat/Independent coalition with a significant number of new councillors being elected (10 out of 20). The Council's cabinet style of governance was retained although the remits of certain committees were altered to reflect the priorities of the new administration. A new system of local area



forums designed to engage certain forms of decision making at a local level was introduced by the Council in April 2008.

65. The Council recognised the need to provide new members with appropriate induction training following their election. A guide was specially prepared on the roles and responsibilities of councillors and was issued to all elected members soon after the election. This guide also set out details of induction training and other training opportunities of which members should avail themselves. The Council's Training Manager also contacted councillors to invite them individually to design personal development plans. To date, 10 elected members have undertaken a training needs assessment and have agreed a personal development plan. We understand that the Council has plans to further engage with elected members over the next few months to ensure that a higher proportion of completed individual training is achieved, with a record of training undertaken by each member maintained. By 31 March 2008, 90 percent of councillors had attended induction training with 50 percent completing further forms of personal development.

Key Risk Area 1

66. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The Council decided however not to be prescriptive in the way members from any one ward should liaise with each other on constituency matters and to date the Council is not aware of any problems in this regard.

Audit committee

67. 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 scrutiny arrangements are exercised through the Council's cabinet and committee structure. A key committee with special responsibility for scrutiny functions is the Audit Committee. The Audit Committee has met at regular intervals throughout the year and performs its duties in a non party political manner. The chairmanship of the committee has recently changed although his expertise on the committee is being retained.
68. As reported in last years Report to Members, the Audit Committee undertakes its own reviews as well as taking reports from both internal and external auditors. Since last year investigations have been undertaken on various topics including, service standards, risk management and initial arrangements for monitoring performance of the Council's SOA. Future reviews are planned to include waste recycling; aspects of social care provision within the Council and the operation of a troubled statutory trading operation.



69. As part of our normal audit activities, we will in due course examine the degree to which the Audit Committee is successful in achieving its aims and complies with CIPFA's good practice principles for audit committees.

Internal audit

70. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework. In her annual report to the Audit Committee on internal audit activity during 2007/08, the Chief Internal Auditor reported that her department had fallen 100 days (10 percent) short of her planned annual input days due to a staff vacancy. Due to a reprioritisation of lower risk tasks, all key audit assignments were completed. Demanding performance targets were largely satisfied despite recognised resource constraints.

Systems of internal control

71. A Statement on Corporate Governance for the Council was included within the financial statements. Each year the Chief Internal Auditor of the Council provides an opinion on the adequacy and effectiveness of the Council's internal control system as it operated during the year. Her report for 2007/08 confirmed that reasonable assurance could be placed on the systems in place. Our work during the year confirmed that opinion.
72. The Director of Finance did recognise however that in common with all local authorities, the Council recognises the need to exercise close scrutiny of capital spend and that appropriate action will be continued to be taken to strengthen control in these areas.
73. 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:
- Payroll
 - Housing rents
 - Main accounting system
 - Debtors and income
 - Creditors payments
 - Council tax
 - Non-domestic rates



Prevention and detection of fraud and irregularities

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

NFI in Scotland

75. During 2007/08, we continued to monitor the Council's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audits of the participating bodies and spans two financial years due to the extent of the investigation process required. 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. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud. The NFI has generated significant savings for Scottish public bodies, £37 million in total with £9.7 million being achieved from the 2006/07 exercise.
76. East Renfrewshire Council's contribution to the total national figure of £9.7 million in 2006/07, was £133,129. This was made up of £10,040 of Housing/Council tax Benefit overpayments, overpayments from other risk based datasets (such as creditors and blue badges for car parking) of £61,000 with the remaining £62,089 arising out of late savings from the previous NFI exercise. During the process the Council demonstrated a clear, and ongoing, commitment to the NFI process and an established protocol setting out the approach and allocation of responsibility for each match. It will be important for the Council to maintain this level of commitment when the next NFI exercise commences in 2008/09.

Housing benefit

77. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. Current plans are for the Council to be inspected during 2009.

Data handling and security

78. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The Council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to



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

79. The Council recognises the importance of this matter and carried out work to identify its risks, and it is developing a number of policies and procedures, such as a data handling policy. This, in addition to upgrading the current IT security policy to a more encompassing information security policy, should provide the control environment needed to ensure an appropriate level of information awareness and security.
80. The Scottish government has set up a group of privacy and security experts to scrutinize how local government services handle personal data. This group will develop a draft set of guiding principles which should influence future information management and security actions, such as the need for a scheme of data classification.

Payment card standards

81. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The Council has completed a gap analysis based on a PCI/DSS self assessment questionnaire. The analysis resulted in recommendations covering the procedural and technical security elements, which lie within the finance and Information Technology (IT) functions for acceptance and action. Of the IT elements, the Council is investigating the potential for outsourcing the management of credit and debit cards as this would reduce the risk to the Council and is considered to be a more secure option. Once these actions are completed the Council will comply with recommended security standards.

Risk management

82. During 2008, all Council departments were asked to review all operational and strategic risks and update their risk registers. Following this exercise, the Council's Corporate Risk Management Group presented an updated strategic risk register to the Audit Committee for its approval in September 2008. This review identified a number of new risks for the Council including such issues as the impact of rising oil and energy prices on Council services, the impact of free school meals for P1 –P3 pupils and the capacity of the Housing Maintenance Unit to deliver workload demands.
83. The Council recognises that uncertainty over the operation of the Scottish Futures Trust and the current downturn in the economy are likely to impact on the Council's investment plans. These high priority risks should continue to be monitored closely.



84. Members and staff were given a range of training on risk management issues during the year and a specific training exercise on the potential impact of a flu pandemic outbreak was carried out by the Community Health and Care Partnership.

Governance outlook

Single outcome agreements

85. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the Council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.
86. Our understanding is that the Council's experience in developing its SOA was generally positive. The Council's Single Outcome Agreement (SOA) was approved by the Cabinet on 12 June 2008 and by the full Council on 25 June 2008. As the Council was a pilot authority for the SOA process this allowed for a more prepared response than some other councils. Throughout the process, Members were kept informed of progress made in preparing the SOA, which allowed for the document to be speedily approved. Most of the Council's community planning partners were involved in the creation of the current SOA and we are aware that the Council intends on producing a full partnership SOA by April 2009. This full partnership SOA will build on relationships with other partner organisations such as Scottish Enterprise and Skills Development Scotland.

Key Risk Area 10

87. The Council's SOA contains details of several actions required by the Scottish Government and we believe that a high level steering group has been set up by the Government to review these.

Code of Corporate Governance

88. New updated guidance has recently been issued by CIPFA/SOLACE "*Delivering Good Governance in Local Government: Framework*" to ensure the proper governance of the Council's affairs and the stewardship of the resources at its disposal. We understand that the Council intend to update its local code to ensure compliance with it during 2008/09.

Organisational structure

89. In order to gain full advantage from streamlined management and organisational practices within the Council, a need has been recognised to make changes to the Council's organisational structure. Changes to departmental structures were made in 2007/08 and further changes to help better define frontline services and improve the capacity for joined up working are likely to be made in future.



Performance

Introduction

90. In this section we summarise how the Council manages its performance. We comment on the findings of Audit Scotland's national performance studies, relating them to the Council's situation. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

Corporate objectives and priorities

91. The Corporate Statement: East Renfrewshire Council – Working For You (2007-2011) was approved by Cabinet in October 2007 and contained the following eight high level corporate objectives:

- To enable children and young people across East Renfrewshire to achieve their maximum potential in terms of educational attainment, taking up training opportunities and ensuring their overall development and wellbeing (children and young people).
- To improve the health of local people, reduce health inequalities, promote healthy lifestyles and improve access to integrated locally based health and care services (the health of local people).
- To support a caring community where partner organisations work together to provide integrated services that promote independence and meet the care and support needs of residents – in particular vulnerable children and adults (a caring community).
- To ensure people are safe in their own homes and communities by tackling crime and anti-social behaviour (safer communities).
- To improve the condition of the existing road network and encourage the use of other types of more sustainable transport such as public transport, cycling and walking (sustainable transport and better roads).
- To regenerate deprived areas by strengthening the local economy, improving housing conditions and enabling affordable housing, as well as supporting local businesses and increasing opportunities for training and employment (regeneration and a stronger economy).
- To improve East Renfrewshire's natural and built environment, promote awareness of sustainable development, and reduce the Council's carbon emissions (the environment).
- To build upon the position as one of the best councils in Scotland, driving change, efficiency and innovation – transforming services to meet needs now and plan for the future (efficiency).



92. The Council issues a three year Policy and Financial plan every year (the latest for 2007-2011 was issued in March 2008). This plan contains actions with timescales which are mapped to the 8 corporate objectives (covered above).

Overview of performance in 2007/08

Annual Report

93. The Council's 2007/08 Annual Performance Report was produced in October 2008 and listed achievements claimed by the Council against each of the eight corporate objectives. A selection of achievements listed in the report against each of the corporate objectives is presented in table 3 below.

Table 3: 'East Renfrewshire Council 2007/08: Performance Report - extracts

Children and young people

- Education inspectors (HMIE) rated East Renfrewshire Council's education services excellent in seven out of seven quality categories, the only Scottish authority to achieve this.
- The number of pupils achieving five or more A passes at higher level in 2007/08 is up 16 percent from 2006/07.
- 93 percent of school leavers went on to higher or further education, compared with 86 percent nationally.

The health of local people

- By providing intensive care and support to individuals at home, the number of days that hospital beds were occupied by older people fell by nearly 16 percent.
- The Council has implemented a scheme which has resulted in over 90 percent of patients meeting with their GP or nurse on the day they desire.

A caring community

- 81 percent of older people using the Council's home care services received personal care (help with dressing, bathing etc) compared with 79 percent in the previous year.
- The number of cases where households needed to request a homelessness service in 2008 represents a 20 percent reduction on the 2005 levels.

Safer communities

- Joint working between the Council's Community Wardens and the Police has seen the number of alcohol related offending in the main streets and town centres in the area drop by 78 percent.
- A mobile football pitch has seen 50 percent and 44 percent reductions in anti-social behaviour by young people in Neilston and Barrhead respectively.



Sustainable transport and better roads

- The report recognises there is still significant improvement required with 73 percent of people responding to the 2007 citizens' panel voicing dissatisfaction with the condition of roads in the area.
- Repair times for minor road defects reduced from 19 days to 5 days.

Regeneration and a stronger economy

- Income related benefit claimants in East Renfrewshire's priority areas fell from over 300 per 1,000 population in November 2004 to just over 225 per 1,000 population in May 2007.
- The Council's job action team averaged 110 appointments a month compared to 50-60 in 2006/07, however failed to meet the target of providing 30 places on the Training for Work programme. Of the 8 who joined the scheme, 7 moved into employment.
- 87 percent of emergency repairs were responded to within 24 hours compared to a target 98 percent.

Environment

- 35 percent of waste collected was recycled and composted representing an increase of 4 percent from the previous year.
- In 2006/07 the Council produced 19,550 tonnes of carbon dioxide. The Council aims to reduce this by 25 percent by 2013.
- 73.2 percent of householder planning applications were dealt with within 2 months of receiving them compared to a target of 90 percent.

Efficiency

- In 2007/08 £4.3 million of cash releasing savings were made, with a further £0.3 million in non-cashable savings.
- 96 percent of council tax due was collected, whilst 95 percent of business rates due was also collected.

94. The report provides a reasonable balance of information, in some cases highlighting where targets have not been met, and also provides information about steps the Council is taking going forward and what results it hopes to achieve from these. A potential area for improvement in the report format is the wider use of targets to provide more contextual information.



95. More detailed performance information is also produced in the 2007/08 Performance Statements for each of the five service departments of the Council. These are available on the Council website. From these statements the following significant performance highs were noted:

- The Single Outcome Agreement was approved by Cabinet and submitted to the Scottish Government (Chief Executive's Department).
- The exceptionally positive HMIE report on services to protect children (Community Health and Care Partnership).
- The HMIE report on the Education Department awarded 7/7 evaluations of excellent. A first nationally (Education).
- Corporate Address Gazetteer went live in July 2007 (Environment).
- All statutory reports and returns were submitted within required timescales (Finance).

96. Areas where performance was below expectations were also noted:

- Delayed publication of Annual Performance Report (Chief Executive's Department).
- Budgetary pressure as a result of increased costs of placements for looked after children and care home placements for Free Personal and Nursing Care (Community Health and Care Partnership).
- Eastwood Park Leisure Swimming Pool closed for major repairs from August to December.2007 inclusive (Education).
- Benefit changes of circumstances processing times have increased from 12.7 days to 15.2 days (Finance).

Measuring Performance

97. The Council implemented the Covalent performance management system in August 2007. This system was used to produce performance reports in September 2007 and February 2008. However it was felt that in order to more fully benefit from the system it should be expanded to allow for more users (from 45 to 194). It is anticipated that the use of the system by service departments will increase as a result and will allow for more detailed performance information to be produced.

98. The intended reporting timescale during 2008/09 is to have an interim report submitted to the Corporate Management Team (CMT) and Cabinet in November 2008 focusing on outcomes against the Corporate Statement, Single Outcome Agreement (SOA) and also the Community Plan. This will be followed up by a year end position statement (scheduled for June 2009) which will update the



issues identified in the interim report and will also report on efficiencies, the transformation programme, best value and customer satisfaction.

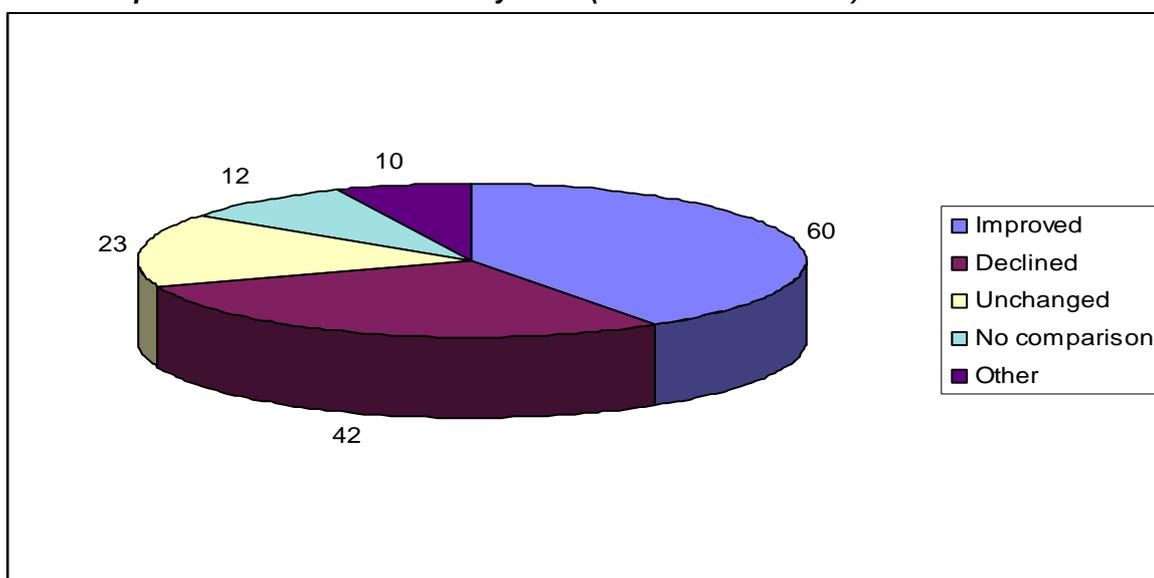
99. The Council intends on using a 'Logic Modelling Tool' which has been developed by West Lothian Council to help assess practical methods of tracking performance against key performance targets. The Covalent system will be key in enabling the Council to monitor its progress against the SOA and also its corporate objectives and the transformation programme. It will be vital for the Council to ensure that the Covalent system is successfully expanded across the services, and that the system users actively use and update the system on a regular basis.

Statutory performance indicators

100. One of the ways of measuring Council performance is through the statutory performance indicators (SPIs). With regard to 2007/08, a total of 57 SPIs were required, most of which were further broken down to provide a total of 147 indicators. The Council's SPIs were submitted by the required timescales and were free of any qualifications.

101. In 2006/07 East Renfrewshire performed well in comparison with other councils, ranking first in nine indicators and achieving a top quartile ranking in 32 percent of all reported service standards. The chart below illustrates the Council's performance in 2007/08, highlighting those where performance has improved or declined or remained the same from 2006/07. In some cases the SPI will be new or substantially different from the prior year, in which case a comparison with the prior year is not possible. It should be noted that in some cases it is not felt to be appropriate to appraise whether an indicator has improved or declined. In these cases the SPIs' performance is shown in the other category.

Chart 2: Improvements demonstrated by SPIs (Total 147 indicators)





102. Overall it can be seen that more indicators improved than declined over the year, representing an overall net improvement in the Council's performance. Amongst those indicators exhibiting improvement are:

- Council tax income collection.
- Number of additions to library stock at year-end both for adults and children.
- Current tenant arrears expressed as a percentage of net rent due.
- Percentage of municipal waste that was recycled.
- Percentage of municipal waste that was sent to landfill.

103. Amongst those indicators exhibiting decline are:

- Time for processing benefits applications from the date of receipt of the application to the day on which the claim is decided.
- Number of attendances at swimming pools per 1,000 population.
- The processing time for all planning applications.
- Percentage of street light repairs completed in 7 days.
- Net cost of refuse disposal per premise.

Key Risk Area 6

104. The Council has identified actions which are required in order to improve the performance of the above indicators.

105. In the 2007/08 SARA we specifically highlighted eight SPIs where the Council had performed badly in 2006/07. The table below highlights the Council's ranking in 2006/07 and compares the current year performance to that of the prior-year. Note that ranking information is not yet available for 2007/08. From the table it can be seen that in all but one case, the indicators have improved with another indicator where no comparative data exists.

Key Risk Area 6



Table 4: 2007/08 SPI performance of previously poor performing indicators

Measures	2006/07 ranking	Change since 2006/07
Adult Social Work Privacy - percentage of residential places occupied by other adults that have en-suite facilities	26	139.6 percent improvement
Adult Social Work Respite care - percentage of daytime respite not in a day centre aged 65+	27	22.6 percent improvement
Benefits Administration Administration costs - the overall gross administration cost (£) per council tax or housing benefit application	28	3.9 percent decline
Education & Children's Services Respite care - percentage of respite nights not in a care home	27	151.8 percent improvement
Corporate Management Sickness absence - the percentage of working days lost through sickness absence for craft employees	31	22.5 percent improvement
Housing Homelessness - percentage of cases reassessed as homeless or potentially homeless within 12 months of previous case being completed	27	65.7 percent improvement
Roads & Lighting Carriageway condition - percentage of network that should be considered for maintenance treatment	31	See comment below*
Waste Management Refuse collection - the net cost per property (£) of refuse collection	29	0.4 percent improvement

* = This SPI changed substantially in 2007/08, therefore not meaningful to compare. However the new indicator showed that 48percent of East Renfrewshire's road network should be considered for maintenance treatment

Best Value audit

106. 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 a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

107. The Best Value audit of East Renfrewshire Council was carried out in 2005 and the findings published in October 2005. The report presented a positive outlook commenting that 'East Renfrewshire is an ambitious and successful Council that has a culture of continuous improvement'. However the report also identified some areas for improvement which were taken forward by the Council via a Best Value Improvement Plan. A progress report against this plan was prepared and audited in April 2007, with the conclusion that actions had now been addressed.



108. With the Best Value Improvement Plan now complete, measurement of the outcomes of the actions taken will be collated as part of the second Best Value review, which will take place within the next three years.

National studies

109. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the Council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

Sustainable waste management

110. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7 percent in 2001/02 to 25 percent in 2005/06. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.

111. In 2007/08 the Council recycled and composted 35 percent of its municipal waste and is on course to meet the Single Outcome Agreement target of 43.3 percent by 2011. The tonnage of waste that the Council sent to landfill decreased by 7 percent from 2006/07 to 2007/08 and the Council expects this trend to continue and to meet its SOA commitment of achieving 245 tonnes of biodegradable municipal waste (BMW) per 1,000 population by 2010.

112. The Council's initiatives include a new waste management contract for October 2009 which will require the new contractor to divert waste from landfill. Glasgow City Council is progressing the business case for a new waste treatment plant at Polmadie and it is East Renfrewshire's intention to utilise this plant to meet landfill diversion needs, provided that it proves to be the best value for money. The targets beyond 2010/11 are onerous and the Council will need to achieve continuing improvements on recycling and landfill diversion against a background of increased growth in the number of households and increased costs of the waste management service.



Free personal and nursing care

113. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland.
- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

114. East Renfrewshire is different to other local authorities in the West of Scotland in that it has a rising population. The demand for personal and nursing care continues to increase. From 2002 to the end of 2007/08, the number of people receiving FPNC increased by 45 percent, and with the population of the over 65s projected to rise by 23 percent, and the over 85s, by 44 percent in the next 10 years, it is clear that the Council faces planning and financial challenges in the years ahead.

115. National guidance and separate rulings have in some cases been left open to a divergence of interpretation and approach across authorities. The issue of Food Preparation was particularly contentious. In summer 2007 the Council ceased charging, taking the view that preparation was a “simple task” and therefore deemed non-chargeable under the guidance. This decision costs the Council £300,000 per annum.

116. The national policy of reducing domestic care services is reflected in the personal care share of the Council’s total caseload being 80 percent in 2008 compared to an almost equal share between domestic support and personal care cases in 2002/03. The Council is monitoring the health and well being consequences of this shift among its care service users. Existing and potential service users can access information about FPNC through the Council’s website and through the Homecare contact line in the general leaflet “Benefits for Senior Citizens”.

Scotland’s school estate

117. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government’s vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has



been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.
- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

118. The Council's School Estate Management Plan of 2003 provided the foundation for the school estate strategy and in February 2008 the Council published its third Annual Progress report covering the period from January 2006 to December 2007. The Progress Report 2008 will be submitted to the Scottish Government in early 2009. These reports record the continuing investment in school improvements and are the focal point for the implementation of the estate strategy. They include checklist information on the state of repair for each existing school property and the timescale for maintenance work.

119. The good reputation of local schools is a factor in the increasing rate of household growth in the area and the sufficiency of pupil places continues to be a priority consideration for the Council. Many buildings require to be modernised to ensure that they are of good condition and suitability. The school estate has a high occupancy rate, little capacity for rationalisation and limited sites for new builds. Priority is given to urgent health and safety work, followed by basic need (sufficient pupil places and physical accessibility to premises) and thirdly curriculum delivery. The pupil rolls for the years ahead are regularly reviewed including source information from the Registrar General.

120. The Council's corporate objective of improving the built environment informs the current capital programme with the quality of design being paramount in any new build plans. The most recent example is the new Isobel Mair School which goes out for tender in July 2009. Green issues are highlighted in the brief including maximisation of natural light and ventilation and optimum energy efficiency.



Overview of sport in Scotland

121. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90percent of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- SportsScotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- Arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

122. The Council's existing strategy for sports, "*Sport for Life*", dates back to 2006 and is currently being revised with planned implementation early in 2009. This new strategy plans to integrate with the Council's existing strategies for health and education and aims to provide a coherent framework for sport and physical activity in East Renfrewshire.

123. The Council's 5 year capital programme plans to address the need to improve facilities and 2009 will see new gyms at both Eastwood Park and in Barrhead. There is a capital funding application underway with SportsScotland to consider the refurbishment of the Sports Hall in Barrhead and the Council believes there is the potential for a new Dance Studio at Eastwood. The "Sports Pitch" facilities are currently being reviewed as part of a new facilities planning model and the Council continues to liaise with SportsScotland on all facilities investment plans.

124. Using the statutory performance indicators, the number of attendances at pools has declined by 7 percent in 2007/08 to return to the same level as 2005/06. The number of attendances at indoor sports facilities excluding pools is at the same level as 2006/07. The Council do not hold information on the use of sports facilities by age and therefore measurement against the age related targets set out by SportsScotland report "Sport 21 - National Strategy for Sport". Looking ahead to 2014 and the Commonwealth Games, the Council is involved in initial planning meetings with the prospect of visiting teams using local facilities as training venues.



Performance outlook – opportunities and risks

Introduction

125. In the course of our audit work we identified some of the strategic risks to East Renfrewshire Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into four risk themes as set out below. The following paragraphs comment on whether action has been taken by the Council on these risks during the year and notes what action is still required to fully address them. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and to have sound processes of risk management, rather than be 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value. The following paragraphs comment on the main risks identified, by theme, during our planning process.

Financial management & performance assessment

Single Outcome Agreements

126. The creation and implementation of the Council's Single Outcome Agreement (SOA), which is designed to link local and national priorities within the context of the concordat set by the Scottish Government, was identified as a key issue for the Council during 2008. Fundamental to the success of the SOA will be the ability of the Council to monitor performance against it. The Council is employing its existing performance management framework to support the monitoring and reporting of SOA priorities. In our view however, it will be essential that a proper concordat exists between the Council and its community planning partners on what actions are taken and by whom, should any of the targets outcomes fall below expectations.

Key Risk Area 3

Longer term financial planning

127. The need to develop longer-term financial planning methodology was also raised in our SARA of East Renfrewshire Council. Steps to take this initiative forward have been taken by the Council over the year but more needs to be done. During 2007/08, the Council has developed a Policy and Financial Plan for the period from 2008-2011 (submitted to and approved by the Cabinet in March 2008). The plan was based on the previous departmental structure but has been reviewed to reflect the new structure. An updated version of the plan will be developed (encompassing the new structure) for the period from 2009-2012.



Progress in achieving the 2015 Housing Quality Standard

128. As at 31 March 2008, 1,595 of the Council's 3,123 houses (representing 51 percent of the total) fully met with the Scottish Housing Quality Standard. This is based on information returns made by the Council to the Scottish Government. This position is an improved one from the 10 year projection provided in 2005. It is important that the Council maintains this rate of progress to ensure that it fully meets the standard by 2015.

Other risks

129. Risks were also identified in areas such as capital expenditure slippage, the costs of equal pay settlements and the potential adverse impact on industrial relations associated with single status negotiations and the financial impact of trading operations. All these matters have been taken forward by the Council during 2007/08 and the financial impact of these topics is discussed elsewhere in this report. All these matters however will be relevant to the Council in 2008/09 and beyond. As such, action to proactively manage these issues will continue to be required.

Efficient use of resources

Efficiencies

130. We believe it is important to demonstrate that claimed efficiencies have not adversely impacted service performance. In August 2008, the Council published its 2007/08 Efficiency Statement. For 2007/08, the Council disclosed total efficiencies of £4.653 million compared to £4.475 million in 2006/07. The Council has continued to develop its threefold approach to verification of efficiencies; financial confirmation; productivity confirmation and quality confirmation. In the case of productivity confirmation, an appropriate productivity measure has been identified for each efficiency saving. This measure is then calculated before and after to demonstrate that an improvement in productivity has been made. With regard to quality confirmation, measures are largely drawn from existing performance arrangements such as from HMIE inspections and customer feedback to avoid the introduction of further monitoring.
131. For 2008/09 and 2009/10 a target of one percent efficiencies was set for all departments. This would represent saving targets of £0.916 million and £1.126 million respectively for each year. Currently work is underway on updating the efficiency register for 2008/09 and it is planned that the monitoring of efficiencies will be done on Covalent (the Council's new performance management software). In this current economic climate, it is essential for the Council to achieve planned efficiencies and identify new ways of delivering quality public services within existing financial constraints. As part of the efficiency agenda, the Council is looking to identify efficiencies in all areas of its activities by establishing the scope for simplifying, standardising, and possibly sharing systems and processes. As part of a nationally funded programme, and working with Renfrewshire Council and Inverclyde



Council, the Council appointed external consultants to carry out a diagnostic assessment of Council services. The results of this review have been reported to the Council and work is ongoing to further develop and cost the key proposals.

Procurement

132. During 2007/08, the Council has developed a Corporate Procurement Strategy for the period from 2008 to 2011. This strategy deals with the main themes of the McLelland Report, which was published in March 2006 and challenged local government to make significant improvements in procurement in a relatively short space of time. Two aspects are key to full compliance with recognised best practice. Firstly, full engagement with Scotland Excel is required to ensure that full benefits are taken from collaborative contracting. Secondly, the Council needs to ensure that all of its various procurement processes are designed in such a way as to ensure best value purchasing is always achieved.

133. The Council has not devised its own Key Performance Indicators for procurement, but will instead use the Government Best Practice Indicators, which are now being reported to the Scottish Government under the Spikes Cavell Observatory initiative. These measures will be collated through the Covalent Corporate Performance Management System. Analysis of the information submitted to the Scottish Government will permit the Council to benchmark its performance against other local authorities.

Asset management

134. Development of a corporate asset management plan has been a corporate objective over a number of years and is currently being taken forward as part of the Council's wider Transformation Programme. The current schedule is for a plan to be introduced from April 2009.

135. The Council has entered into a 4 year contract with SCOTS to work towards producing a full roads asset management plan. Currently relevant officers are attending training seminars which are due to conclude in February 2009, where after preparation work on the plan will commence. The target date for overall completion of the plan is December 2011 (ie 4 years after the contract commenced) with the possibility of some elements of the plan being introduced prior to that date.

Workforce planning

136. During the year we produced a position statement on the current status of workforce planning within the Council. This position statement "*Developing Workforce Planning at East Renfrewshire Council – A Position Statement*" gave the key message that although the Council demonstrates a commitment to workforce planning, it recognises that it has much to do to develop a workforce plan, namely:

- Completing the roll-out of the Northgate Integrated Human Resources System.
- Developing a project plan to include key milestones.



- Actively utilising the available data to inform workforce policy development and planning.
- Ensuring the findings of the value chain analysis are fed into policy development and review as soon as possible.
- Improving management information on vacancy levels, use of temporary staff, corporate and departmental turnover rates, linkages between appraisal and training, effectiveness of recruitment policies, nature of staff contract terms and conditions and staff satisfaction rates.

137. It is important that the Council maintains progress towards achieving the above targets and ultimately is able to prepare a meaningful and informative workforce plan.

Key Risk Area 8

Access to buildings

138. The SARA highlighted as a longer term issue that the Council should aim to improve its compliance with the Disability Discrimination Act in relation to access to its buildings. The public access statutory performance indicator (reporting access to the Council's buildings for disabled people) has shown dramatic improvement from 56.0 percent in 2004/05 to 73.9 percent in 2006/07. East Renfrewshire was ranked 6th of the 32 councils as at 2006/07.

139. Improvement in 2007/08 has slowed, with 77.2 percent of buildings now assessed as being accessible to disabled people. It is important to maintain progress in this area.

Supporting effective political governance

Member training

140. The SARA stated that without adequate levels of training and support, there is a risk that elected members will not be able to exercise their duties effectively. The range of services offered to Members and the uptake of these is discussed more fully in the Governance section of this report (see paragraph 65), with the clear indication that uptake can be improved.

Other matters

141. The SARA also raised risks in respect of governance documents (Code of Officer/Member Relations and Council Standing Orders) in relation to elected members not being updated since the May 2007 elections. The Council Standing Orders have now been updated however a revised Code of Officer/Member Relations remains outstanding. This is an issue for the Council to take forward.



Partnership working

Linking the SOA and Community Plan

142. A concern was raised in our SARA whether the principles as published in the recently approved Community Plan would read across to the indicators and outcomes listed in the SOA. This concern has been addressed by the Council which has ensured a commonality of objectives.

Community engagement

143. Our SARA highlighted the fact that following the Scottish Government's review of community councils, elections for East Renfrewshire Community Council had been postponed although the Council has created three new local area forums which the Council sees as the first tier of community engagement. We understand that a review of community planning and partnership working is due to be reported to members in October 2008. It will be important that this report satisfactorily addresses the issues identified by the national review for a local context as well as ensuring that partners are able to deliver the outcomes contained in the Community Plan and the Single Outcome Agreement.

Responsibility for local economic development

144. From 1 April 2008, responsibility for local economic development transferred to the Council from Scottish Enterprise. We understand that East Renfrewshire Council will operate in partnership with Inverclyde and Renfrewshire councils in order to establish a local Business gateway service. We also understand that Renfrewshire Council will act as lead in this arrangement and that East Renfrewshire will receive no additional funding. We intend to monitor the success of developments in this area.

2006/07 members report action plan

145. In tracking the Council's progress against promised actions we note that:

- Actions agreed as developments in the performance management system, financial planning and financial reporting have all been achieved.
- Work on developing a workforce planning policy scheduled for March 2008 is still in progress.
- Development of asset management planning is now expected to be completed by April 2009.



Final Remarks

146. 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.

147. 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 issues 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.

148. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.

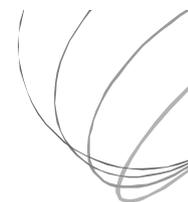
149. The co-operation and assistance given to us by East Renfrewshire Council members and staff is gratefully acknowledged.



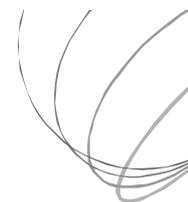
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	65	<p>Member training</p> <p>50 percent of members have still to agree a personal development plan or attend training events beyond the initial induction training supplied by the Council.</p> <p><i>Risk: The absence of an agreed plan of personal development could hinder the effective discharge of elected members' duties.</i></p>	<p>Members will be encouraged to compile a personal development plan. They will also be invited to suggest topics for inclusion in the Members' Training Calendar. All Members regardless of the existence of a personal development plan will be invited to attend training.</p> <p>2007/08 SARA – page 27</p>	Deputy Chief Executive	March 2009
2.	50	<p>Budgetary pressures</p> <p>In common with local authorities across Scotland, the Council is experiencing significant challenges to its costs. Pressures on energy, fuel and social care costs in particular are significant with overspends being recorded against current year budgets. These costs, together with other potential additional costs associated with free school meals, equal pay settlements etc need to be carefully managed.</p> <p><i>Risk: The failure to manage additional costs effectively will endanger the Council's financial position and potentially adversely affect its commitments under the SOA.</i></p>	<p>Budget plans aligned with Policy & Financial Plan and SOA.</p> <p>Inflationary increases are closely monitored during the year and departments instructed to vire funds as appropriate.</p>	<p>Director of Finance</p> <p>Head of Accountancy</p>	<p>February 2009</p> <p>Ongoing</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	126	<p>Achievement of SOA targets</p> <p>A clear mechanism needs to be established to agree what action needs to be taken and by which community planning partners where the impact of SOA performance targets fall below expectations.</p> <p><i>Risk: Without a common understanding of what corrective action is required, performance under the SOA may be adversely affected.</i></p>	<p>Covalent is being used to monitor SOA outcome indicators. Most will be updated annually however those which can be updated more often will be. Plans are currently being made to ensure partner access to Covalent for their areas of responsibility.</p> <p>As part of the recent review of community planning, Performance and Accountability review sessions, with Council Directors and Partners will be held twice yearly to review and account for performance and identify areas for improvement. The first of the Partnership sessions will take place around May 2009.</p> <p>2007/08 SARA – page 20</p>	Deputy Chief Executive	December 2009
4.	52 & 55	<p>Equal pay and single status.</p> <p>The Council remains committed to fully settle all equal pay claims and to implement the terms and conditions element of the single status agreement.</p> <p><i>Risk: The outcome of future litigation cannot be defined exactly. Costs may therefore be in excess of expected levels. The absence of an agreement on terms and conditions has a risk of adversely affecting industrial relations problems in some areas.</i></p>	<p>In relation to equal pay the situation is continually changing as test cases are determined. The tribunal system is overflowing with local government equal pay cases. The situation will be kept under review in relation to developing case law and claims resolved as appropriate.</p> <p>In relation to terms and conditions the Council will engage the trade unions to implement a harmonised scheme. This will be done in a way that will not adversely affect industrial relations.</p> <p>2007/08 SARA – page 21</p>	Deputy Chief Executive Deputy Chief Executive	Ongoing April 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	17	<p>Sums from developers</p> <p>The Council is in the process of receiving significant sums from developers as commuted sums arising from planning consents. These sums should be used for social and affordable housing projects or other approved schemes. The Council do not currently have any policy on how these sums should be applied.</p> <p><i>Risk: Without an agreed policy sums will not be spent for the purposes intended by statute within a reasonable timeframe.</i></p>	<p>It is intended to establish an agreed policy on the use of commuted sums. This policy will draw upon established practice elsewhere, and will take account of legislation and other good practice guidance.</p>	Head of Roads, Planning and Transportation	January 2009
6.	103 & 105	<p>Statutory performance indicators</p> <p>The Council should monitor indicators in those areas of performance which deteriorated during 2007/08.</p> <p><i>Risk: The absence of robust monitoring will prevent improved service to the public.</i></p>	<p>Departments will continue to monitor SPIs throughout the year using the Covalent system and mid-year reports to identify trends and patterns of performance. Directors will be responsible for implementing any mitigating actions appropriate to rectify declining SPIs.</p> <p><i>2007/08 SARA – page 22</i></p>	Deputy Chief Executive	March 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7.	46	<p>Statutory trading operations</p> <p>The 2007/08 trading results and business forecast for the Building Maintenance statutory trading operation indicate that losses will continue in future years without management action.</p> <p><i>Risk: Future losses will lead to a breach of the STO's statutory obligation to breakeven.</i></p>	<p>The reorganisation of the Service is now just about concluded. This reorganisation has redefined roles and responsibilities, with a clear emphasis on the management of absence and overall performance. Action will continue to be taken to ensure the service operates within available budgets, and that benchmarking activity will take place on a regular basis to ensure best value is being achieved. The Service is now operating within a restricted work portfolio and action is being taken to ensure the service is being delivered at cost. An exercise is ongoing with a view to ceasing the existing STO arrangements.</p> <p><i>2007/08 SARA – page 22</i></p>	Head of Housing, Regeneration and Maintenance Services	December 2008
8.	137	<p>Workforce planning</p> <p>The Council do not have a workforce plan in place at present. Work is ongoing to implement supporting HR systems that will provide much of the required management information on a timely basis.</p> <p><i>Risk: In a period where the Council is considering options of service redesign, the absence of a meaningful workforce plan inhibits the Council's ability to effectively plan for and manage its workforce.</i></p>	<p>The Council has developed the business case and is now commencing a project to implement a workforce planning system. This system will be implemented in line with the proposals on service redesign and will be utilised for forecasting changes in the Council's workforce both at departmental and corporate levels. The Deputy Chief Executive serves on the National Group developing the national approach and guidance.</p> <p><i>2007/08 SARA – page 25</i></p>	Deputy Chief Executive	September 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	37	<p>Capital programme slippage</p> <p>Excluding payments associated with the Glasgow Southern Orbital road project, capital expenditure in 2007/08 experienced slippage of £6.6 million.</p> <p><i>Risk: Capital expenditure slippage may result in public expectation of service delivery being adversely affected.</i></p>	<p>Review 5 year Capital Plan including in depth scrutiny of Barrhead Regeneration.</p> <p><i>2007/08 SARA – page 21</i></p>	Corporate Management Team/Director of Finance/ Head of Accountancy	December 2008
10	86	<p>Partnership Single Outcome Agreement</p> <p>The Council is intending to produce a full partnership SOA by April 2009.</p> <p><i>Risk: Failure to implement a full partnership SOA would put at risk jointly agreed outcome targets.</i></p>	<p>Awaiting guidance from Scottish Government (expected end of October) on the requirements for 2009-2010 SOAs. Plans are in place to meet with Partners to secure commitment to a full partnership SOA by May 2009 in line with new requirements from the Scottish Government. It should be noted that the East Renfrewshire SOA 2008-2009 achieved greater partnership commitment than was required at that stage and East Renfrewshire is relatively well advanced in developing partnership SOA arrangements.</p>	Deputy Chief Executive	May 2009