Inverclyde Council

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

Audit Scotland

October 2008

Inverclyde Council

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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 Inverclyde Council. The council dealt well with significant changes to the format of the accounts.

We have, however, drawn attention to a failure to comply with the requirement that all statutory trading operations break even on a rolling three year basis. For the three year period to 31 March 2008, one trading operation, Vehicle Management, failed to achieve this statutory requirement. A review of all trading activities has recently commenced and is due for completion by April 2009.

Financial Position

The council ended 2007/08 with a general fund balance of £18.033 million, a rise of £0.557 million from the balance at the end of 2006/07. This includes an earmarked balance of £9.684 million and an unallocated balance amounting to £8.349 million.

There was £6.2 million of slippage against the approved capital programme for the general fund whilst capital expenditure on the housing revenue account exceeded the approved programme by £2.7 million. Slippage against the capital plan has been an area of concern for the council in recent years. The recently formed Capital Programme Investment Group, charged with overseeing the capital programme, has resulted in improved performance in delivery of the capital programme with the net level of slippage in 2007/08 (£3.5 million against a planned spend of £52 million) representing considerable progress on the equivalent 2006/07 figure where there was a £20.9 million slippage against a planned spend of £45.5 million.

Governance

The council had generally good governance systems in place that operated well within a sound control environment. Risk management is developing with most services becoming increasingly risk aware and an internal audit service continues to be provided.

The housing benefits team received overall positive comments when it became one of the first councils in Scotland to receive an Audit Scotland risk-based inspection during 2008. An action plan is in place to address where required improvements were identified by January 2009.

The council's response in dealing with the 2006/07 National Fraud Initiative has been satisfactory and it has resulted in the identification and ongoing recovery of overpayments of approximately £0.09 million. Furthermore it has identified some weaknesses in the control environment around other paid employment for employees and appropriate action is being taken to remedy these weaknesses.

Performance

During 2007/08 the council published its corporate plan 2007/11 "An Ambitious, Confident Council". This clearly outlines the council's strategic vision and objectives. The council has made good progress in developing its strategic planning and performance management framework. In addition to the corporate plan, a community plan, medium term financial strategy and corporate communications framework have been introduced during the year.

In common with other local authorities the council has agreed its Single Outcome Agreement (SOA) with the Scottish Government. The council need to ensure they have effective programme management arrangements in place to facilitate delivery of the SOA. Robust performance management arrangements also need to be developed in conjunction with partners to establish progress against the outcomes identified in the SOA.

The report on the Audit of Best Value and Community Planning undertaken at the council was published in June 2005. The Accounts Commission have requested further formal statutory reports. The latest report requested an update at 30 June 2008. Audit work is nearing completion on this update and the report is due to be considered by the Accounts Commission in December 2008.

Further improvements in performance were reported by the council during 2007/08, with around 50% of statutory performance indicators reporting improved performance whilst around 25% reported a decline. We note that the council are developing policies and procedures, including the introduction of the Public Service Improvement Framework (PSIF), to facilitate further improvements and address poorer performing areas.

The council carried out a full review of its school estate strategy. A revised school estate management plan (SEMP) and funding model was approved by the council in June 2008 to modernise the entire school estate.

In 2007 the council transferred ownership of its entire housing stock to River Clyde Homes and Cloch Housing Association. The transfer was originally scheduled for 1 October 2007 however extended discussions resulted in a delay in finalisation of the terms and conditions with the transfer being concluded on 3 December 2007.

The council no longer has responsibility for direct housing management following the stock transfer in December 2007 however it does retain responsibility for some areas such as homelessness services. The housing regulator's inspection of the homelessness service, issued in August 2008, graded Inverclyde "C-Fair". An improvement from the previous inspection was noted however further improvement is required. The council is preparing an action plan to address the weaknesses identified.

Outlook for Future Audits

As at September 2008 the council is projecting an overspend of £0.634 million for 2008/09 with the main pressures being single status ongoing costs, pay awards, utility costs, pensions, inflation, and landfill taxes. The council have also identified additional service cost pressures including residential schools and additional support needs placements.

The council's £80 million public private partnership (PPP) project to build four new schools achieved financial close on 23 October 2008. The process was slightly delayed due to the availability of funding due to the effect of the current credit crunch and pressures facing the global banking industry. Financing costs have increased during this time and will add to the cost pressures faced by the council. The signed off Unitary Charge figure is still within the affordability target approved by the Government.

Cost pressures have recently increased and this is likely to continue, with the council tax freeze leading to a very tight budgetary situation in the coming years. The council is actively controlling costs using a number of measures and faces serious challenges in managing its spending within available resources. This will require difficult decisions to be taken in the period ahead.

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 and where necessary should consult treasury management advisors with a view to minimising risk to these pressures. This issue will be considered in more detail during the 2008/09 audit.

The council has recently completed a diagnostic review (Value Chain Analysis Project) to identify opportunities to improve the operational effectiveness of processes at both corporate and service level. The council is now ready to move onto Phase 2 of the modernisation and efficiency programme which when implemented is expected to have a significant impact on the way that the council does its business. The council will need to manage the risks, challenges and difficult decisions presented by such a large scale project.

Good progress has been made by the council in developing its strategic planning and performance management framework. The council is now in the process of procuring an electronic performance management system to consolidate information corporately and link all strands of the performance framework including the SOA. The council is considering ways of producing performance information that clearly defines service improvement and customer experience.

The co-operation and assistance given to us by Councillors and staff during the year is gratefully acknowledged.

AUDIT SCOTLAND

October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of Inverclyde 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.

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 the annual audit:

   - strategic management
   - performance management and improvement
   - corporate governance and risk management
   - affordability and sustainability
   - partnership working
   - modernisation and efficiency.

4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks 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 the system of internal financial control by considering the adequacy of the process 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 Inverclyde Council for 2007/08. We have, however, drawn attention to a failure to comply with a statutory requirement (see paragraph 49-51 below on Significant Trading Operations). This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

9. 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 prior to the deadline of 30 June and audited accounts were finalised prior to the target date of 30 September 2008. The final accounts working papers package provided had improved considerably from the previous year although further improvement opportunities have been identified and will be discussed with officers. During the course of the audit we experienced some delays in receiving responses to audit queries due to dependency on individual officers and periods of unavailability of officers caused by illness and annual leave. Project management arrangements, which identify the required capacity and skills to manage the final accounts process, should be developed and implemented.

Key Risk Area 1

Accounting Practice

10. 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 FRS 25, FRS 26 and FRS 29
    - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
    - provision for penalties under the Landfill Allowance Schemes.

11. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP.

12. The council adjusted the financial statements to reflect our audit findings. There were no unadjusted errors. Significant accounting issues have been reported to the Chief Financial Officer 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. These are summarised below.

13. **Greenock Cut**: a change of accounting treatment was agreed. A sum of £0.370 million had previously been awarded to the council (included in the overall creditors balance) by Scottish Water to maintain infrastructure. It was agreed that these monies should be recognised as an earmarked balance held by the council in its general fund. It is likely that a statutory repairs and renewals reserve will be proposed for approval in 2008/09 for this and other future similar arrangements.

14. **Clyde Muirshiel Park assets:** there was discussion regarding the correct accounting treatment of a number of assets managed by the Park Joint Committee but whose title is owned by the council or neighbouring councils. It was agreed that while there was a need for consistency in the treatment between the three councils involved and the Committee, the council had two assets on its balance sheet which were not physically located in Inverclyde and subsequently the accounts have been adjusted to remove them. The assets removed related to the Clyde Muirshiel Park Visitor Centre and Castle Semple (asset register total £0.720 million). Officers will discuss general principles on consistent accounting treatment across the three authorities and the joint committee in advance of preparing the 2008/09 financial statements.

15. **Creditors Records:** there were several issues identified which the council has agreed to review for next year:

- There was a difference of £0.033 million between the creditors balance on the ledger and the aged creditors breakdown of balances. It appears that the aged creditors balance was not produced from the financial systems at the same time as the year end ledger print. We were advised that it is not possible to create these reports retrospectively.
- At the end of the financial year a process was undertaken to match invoices registered but not allocated to services. The balance at 31 March 2008 was £1.201 million. The majority of the outstanding batches have since been matched, however as at September 2008 there is a difference of £0.041 million. Further work is being undertaken to reconcile this difference. Although this did not lead to any adjustments to the financial ledger the matching exercise needs to be performed on a regular basis throughout the financial year.

Council officers have agreed to review processes for producing backup from the creditors system and for the matching of creditor invoices to services.

16. **Council Tax and Non-domestic Rates Credit Balances:** there were several issues identified which the council has agreed to review for next year:

- Working papers were requested to outline creditor balances in the council tax and non-domestic rates accounts. These were not provided and auditors subsequently obtained schedules directly from systems development staff which showed year-end credits totalling £0.673 million and £0.118 million respectively. These balances were netted off against the gross year-end debtors balances as part of the year-end debtors figure, however this is not considered to be the most appropriate accounting treatment. A satisfactory explanation for these credit balances could not be obtained and as a consequence the balance sheet has not been adjusted. The balances need to be examined to determine the most appropriate accounting treatment in future years.
- The council currently calculates its bad debt provision as a percentage of the debtor figure in the balance sheet. Consequently, the off-setting of the credit balances means the bad debt provisions for council tax and non-domestic rates are calculated on the net instead of gross debtor balances. The impact is that both provisions are likely to be understated, however quantification of this will not be possible until the balances are reviewed.

Council officers will review processes for managing and controlling the credit balances and reconsider the arrangements for bad debt provision.

Identification and Valuation of Common Good Assets

17. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers, supported by title deeds. The ISA260 letter for 2006/07 identified that the council should consider completing an exercise to establish where all of its heritable properties are, who holds title to them and what the value is. A further update was included in the ISA260 letter for 2007/08.

Key Risk Area 2

Legality

18. Each year we request written confirmation from the Chief Financial Officer that the council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The Chief Financial Officer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's Corporate Management Team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

19. We reported last year that local authorities with registered charitable bodies (i.e. 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. The council have expanded the level of disclosure in the annual accounts, with all Trusts with funds greater than £0.05 million being named along with its OSCR number. There are plans to rationalise some of the smaller or dormant Trusts into a combined Inverclyde fund for future years.

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

Financial Reporting Outlook

IFRS Adoption

21. 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 private finance projects.

22. The council is preparing for IFRS with discussions within finance, training events at the planning stage and lead roles assigned to accountancy staff. Another useful development in which Inverclyde officers have played a key role is the setting up of a West of Scotland financial accounting group. This meets regularly, includes a number of neighbouring councils and is discussing common approaches and solutions to IFRS and other related issues.

Financial Position

Introduction

23. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing 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.

Council Tax and the General Fund

Operating Performance 2007/08

24. The council's net operating expenditure in 2007/08 was £301.238 million. After adjustments to take account of the housing stock transfer transactions the council achieved an end of year surplus of £0.557 million. The budget set for 2007/08 was based on a Band D council tax level of £1,198 with no contribution from the general fund.

25. The overall outturn did not include significant overspends, however the outlook for future years indicates that significant financial pressures will arise. Pressure points identified include single status ongoing costs, pay awards, pensions, utilities costs, landfill taxes, residential schools and additional support needs placements.

Housing Revenue Account (HRA)

26. In 2007 the council, acting on a majority 'yes' vote by housing tenants, transferred ownership of its entire housing stock of 7,388 houses with 7,135 transferred to River Clyde Homes and the remaining 253 transferred to Cloch Housing Association. The transfer was originally scheduled for 1 October 2007 however extended discussions resulted in a delay in finalisation of the terms and conditions with the transfer being concluded on 3 December 2007. All stock was transferred at nil value.

27. As part of the transfer process the council provided an assurance statement to the Scottish Government on which was detailed the level of breakage costs the council had incurred due to early repayment of Public Works Loan Board (PWLB) loans. These breakage costs were subsequently met by the Scottish Government.

28. The council issued a pre-stock transfer assurance statement on 31 August 2007 and a revised one was drafted in December 2007. The revised one showed a significant increase in the breakage costs with the figure claimed rising by £9.5 million from £8.3 million to £17.8 million. £7.15 million of this

increase was caused by the council embarking on a program of debt restructuring in November 2007 (with the remainder due to changes to PWLB rates for new loans and the rates for early repayment of loans). This restructuring involved the repayment of eight PWLB loans with a total value of £49.5m and interest rates rate ranging from 4.05% to 5.0%. The PWLB loans maintained had higher interest rates and thus incurred greater breakage costs. This restructuring was not part of the council's treasury management strategy in 2007/08.

29. It is noted that the council did not consult with the Scottish Government prior to this debt restructuring and whilst the exercise was financially beneficial to the council, and all transactions complied with accounting rules and legislation, a closer and more consultative working relationship with the Scottish Government should have been established.

30. As a consequence of the housing stock transfer the HRA financial statements show the financial results for the period 1 April 2007 to 3 December 2007 rather than a full financial year. In addition to the standard HRA transactions the financial statements reflect the material transactions relating to the stock transfer.

31. The HRA shows a deficit of £98.887 million for 2007/08 with the vast majority of this deficit caused by the £88.368 million loss on disposal on the HRA fixed assets. After removing the transactions which are excluded from the 'Statement of Movement on the HRA Balance' the HRA balance shows a deficit of £0.325 million in 2007/08. This deficit has been offset against the £0.842 million surplus brought forward from 2006/07 leaving a balance of £0.517 million held as an earmarked reserve.

32. During the audit we encountered occasions where the council could not provide copies of paperwork relating to housing transactions which had occurred prior to the stock transfer. We were informed that this paperwork had been handed over to River Clyde Homes and that there would be difficulty locating it. As these were operational transactions that took place prior to the stock transfer the council is still accountable for any income and expenditure and appropriate measures should have been taken to ensure paperwork was either copied or that access arrangements were established.

Reserves and Balances

33. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £23.507 million, an increase of £0.687 million on the previous year.

Table 1: Reserves and Funds

Description	31 March 2007 £ Million	31 March 2008 £ Million
General Fund	17.476	18.033
Housing Revenue Account Balance	0.842	0.517
Insurance Fund	4.360	4.747
Education Equipment Fund	0.142	0.210
Total	**22.820**	**23.507**

34. The general fund balance carried forward into the next financial year was £18.033 million. This represents around 5% of net annual expenditure and is above the council's prudential reserve target. This policy set a minimum reserve level of 2% to guard against financial risk.

35. At 31 March 2008, £9.684 million of the general fund balance was earmarked for specific purposes, leaving an unallocated balance of £8.349 million. Earmarked amounts have been identified for areas such as single status and schools estate strategy. The council had some unanticipated income from the settlement of a legal case, which increased the unallocated balance by £3 million.

Spending on Assets and Long-term Borrowing

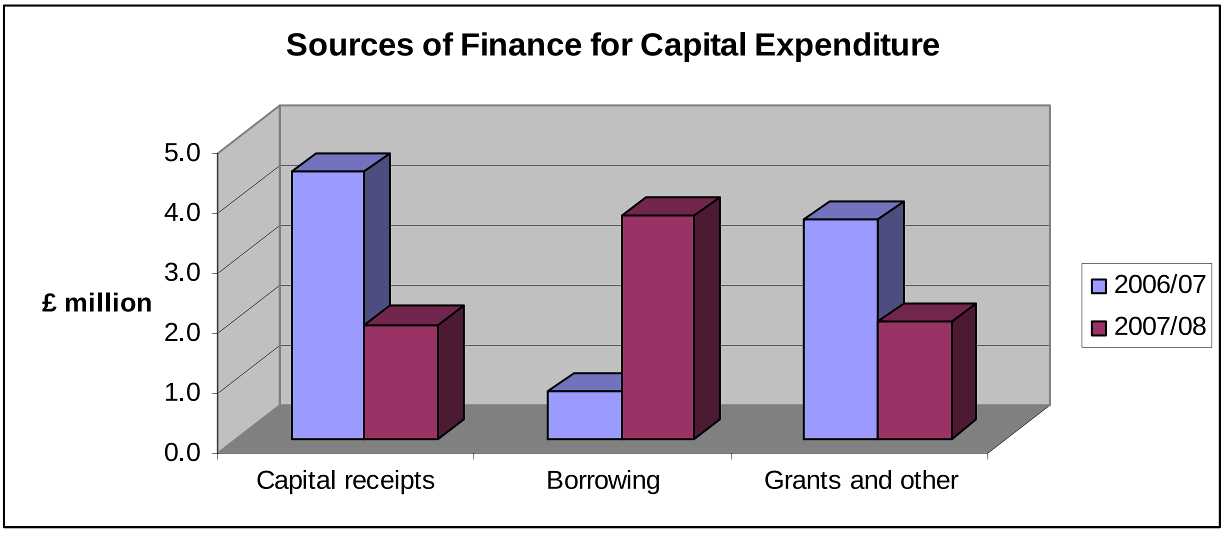
Capital Performance 2007/08

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 £40.167 million, rising from £24.605 million in 2006/07. Capital investment in the last two years was funded as shown in Chart1. The proportion of spend funded through borrowing rose from 9% of total spend the previous year to 50% in 2007/08. While there was an underspend of £6.2 million against the original approved budget for the general fund, the underspend against the final budgeted figure was £0.173 million. Some services experienced capital project slippage but the extent of it was much less than in previous years. The slippage figures do not however include the schools estate project, where at year end there was a planned carry forward of £5.082 million.

38. Spending on the council's own housing stock was £7.576 million. This exceeded the original budget by £2.7 million, although it was £0.674 million less than the final budget figure of £8.250 million.

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



Equal Pay

39. 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.

40. The council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. Actual and potential claims in relation to equal pay legislation have been reviewed. A significant number of known claims have now been settled and for those outstanding, a further £0.964 million has been reflected as a provision in the balance sheet at 31 March 2008. While there remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach, however the council should continue to review the amounts set aside in the light of ongoing developments.

Key Risk Area 3

Single Status

41. 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.

42. 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.

43. More than half of Scottish councils have now implemented single status or have firm plans in place for implementation by 31 December 2008. Inverclyde Council fully implemented single status in August 2008. The past costs for this during 2007/08 were set aside in an earmarked balance of £1.652 million, however continuing costs to the council will have to be met from revenue and will place a further strain on budgets in future years.

Borrowing and Temporary Investments

44. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

45. As at 31 March 2008, the council held cash and temporary investments totalling £35.6 million. During our audit of the council's 2007/08 financial statements we obtained assurances that borrowing decisions were subject to appropriate authorisation by the Chief Financial Officer, complied with the council's borrowing strategy, were within the council's authorised and operational limits (apart from temporary breaches arising from Housing Stock transfer transactions) and were justified as representing the best time for borrowing the amounts required in accordance with the advice provided by the council's treasury consultants.

46. Almost 98% of long-term borrowing at the year-end matures after more than 10 years. The council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk. As at 31 March 2008 the council currently has 10 'Lender Option Borrower Option (LOBO)' loans with a total debt of £102.9 million. £102.4 million of this debt is in the fixed interest rate period with the remaining £0.5 million in the variable rate period. Of the £102.4 million in the fixed rate period, £34.5 million will move into the variable rate period in 2008/09, £22.9 million in 2009/10, £25 million in 2010/11 with the remaining £20 million in 2012/13.

Debt Restructuring

47. There was a significant level of debt restructuring undertaken by the council in 2007/08. Between 30 March 2007 and 18 September 2007 the council repaid approximately £57 million of PWLB loans with these repayments funded from either council investments or discounts received from the PWLB. In November 2007 the council repaid a further £64.1million (£14.6 million on 28 November 2007 and £49.5 million on 30 November 2007) with these repayments being funded by temporary borrowing. The November restructuring was primarily undertaken to repay lower interest rate PWLB debt and thus enable the higher rate interest debt to be repaid by the Scottish Government as part of the housing stock transfer arrangements.

48. Subsequent to the stock transfer the council has undertaken £85 million of borrowing from the market and PWLB to repay the temporary borrowing taken out to support the restructuring exercise.

Significant Trading Operations

49. 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.

50. The council has three STOs of which one (Vehicle Maintenance) returned a cumulative deficit for the three years to 31 March 2008 of £0.01 million. A number of measures are ongoing to ensure that this cumulative deficit does not occur in future years.

51. The February 2007 Audit of Best Value and Community Planning follow up report highlighted that the council needed to increase the pace of improvement in improving the competitiveness of its trading operations. We have also recommended in previous reports to members that trading accounts should be reviewed periodically to ensure they still meet the criteria set to be classified as a trading account and also to ensure that there are no additional trading accounts that should be established. A comprehensive review was not carried out during 2007/08. The council plan to undertake a full review of its activities to ensure that trading operations are correctly identified, and represent value for money and competitiveness. A target date of April 2009 has been set to complete this review.

Key Risk Area 4

Group Balances and Going Concern

52. 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 associates on the group balance sheet is to reduce net assets by £138.273 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a

going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

53. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Two of these boards (Strathclyde Police and Strathclyde Fire and Rescue Joint Boards) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £144.721 million, with Inverclyde's proportion around 5%.

Financial Outlook

Council Tax Freeze

54. The council approved a nil increase in council tax for 2008/09. The financial settlement for 2008-2011 is underpinned, for the first time, by a concordat between Scottish Government and COSLA, representing Scottish local government. The financial settlement has reduced the incidence of ring-fenced funding while providing additional funding if a council set a nil council tax increase. Consequently, the 2008/09 budget assumes additional efficiency savings compared to the previous year. These have proved challenging to deliver in the timescale envisaged. Cost pressures include pay awards, pension payments, utility costs, landfill taxes, residential schools and additional support needs placements.

55. The council's financial strategy has identified a funding gap of £8.4m over the next two financial years with subsequent economic events increasing the gap to approximately £10m. The council has introduced a budget process that will help close the gap. Clearly, the council faces significant challenges in ensuring that planned activity is affordable within available resources. There are likely to be significant consequences for services and staffing levels in the longer term if underlying expenditure issues fail to be addressed.

Key Risk Area 5

56. 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.

Future Capital Programme

57. Revised capital investment programmes for 2008/09 and 2009/10 anticipate annual capital expenditure of £28.950 million and £14.556 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing.

58. The council has completed its housing stock transfer and as such is no longer responsible for the national target of complying with the Scottish housing quality standard by 2015. It is however monitoring the progress of local housing associations and will be reporting on this annually to members.

Landfill Directive

59. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.

60. Inverclyde was one of three councils is Scotland to exceed its limits in 2006/07. It anticipates more tonnage taxed in 2007/08 and paying higher penalties for exceeding its limits as well. There is a provision of £0.249 million in the 2007/08 accounts to cover landfill charges, however projected future penalties for this are £0.914 million in 2008/09 and £1.07 million in 2009/10. The Scottish Government has waived the penalties for 2007/08, however this is on the basis that the council is making robust plans to reduce tonnages in future but the council's capacity to do this appears to be limited.

Pension Funds

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

62. The council is a member of Strathclyde Pension Fund though it should be noted that teachers have separate pension arrangements administered directly by the Scottish Government. The fund is open to employees of the twelve unitary authorities in the Strathclyde area plus a number of other scheduled and admitted bodies.

63. The fund's investment assets are managed by a range of external fund managers. The total investment value has been increasing steadily since 2005 but has recently declined in line with the global economic downturn and the "credit crunch". The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Strathclyde Pension Fund by £5.576 million,

reducing from £41.051 million in the previous year. A full actuarial valuation of the fund as at 31 March 2005 was reported in early 2006 and the next one, which will value the fund as at 31 March 2008, has not been reported yet. In the last valuation the funding level, calculated as the ratio of fund assets to past service liabilities, was 97%. Between the triennial valuations, intervaluation reports are prepared but these have been volatile (31 March 2007 108%, 31 March 2008 89%). Employee contributions for 2007/08 were 5% for manual employees and 6% for other staff. The employer contribution was 13.5% for manual workers and 16.2% for other staff. The employer contribution is increasing from 270% of the employee contribution in 2007/08 to 280% in 2008/09. Future employer contribution rates for 2009/10 and the following two financial years will be considered when the latest triennial valuation is reported in early 2009.

Governance

Introduction

64. 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

65. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

Political Governance

66. 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. Nearly half of the Councillors elected in May 2007 were new to local government. At Inverclyde the previous Liberal Democrat administration has been replaced with a Labour minority administration and 12 out of the 20 members were new in May 2007.

67. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The council has a protocol for multi-member wards designed to assist both officers and members. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature. The success of multi-members wards relies heavily on the willingness of members to form working relationships with each other and difficulties exist for some members in this area. Considerable progress has been made in developing member support and development. A member training programme is being delivered however attendance levels are sometimes disappointing. All members have carried out a training needs assessment to identify areas of development. In addition 18 out of the 20 members have agreed their forward looking personal development plan.

Audit Committee

68. 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. During 2007/08, members in Inverclyde continued to have the opportunity to challenge service activities and performance through the operation of the committee structure.

69. The Audit Committee has continued to operate under the Chairmanship of the Leader of the Minority Opposition Group. The committee's remit includes risk management and anti-fraud reporting including benefit fraud as well as audit.

70. The committee appears to operate effectively on the criteria set by CIPFA and provides a reasonable level of scrutiny and challenge. Training on audit issues has been provided for all members however this was poorly attended with 8 out of a total of 20 members attending.

Internal Audit

71. 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 delivers work in accordance with a risk based framework.

Equalities

72. The council have an established Corporate Equality Group and have developed equality schemes required by legislation. Good progress was made in 2007/08 to mainstream equalities within the council.

Systems of Internal Control

73. A statement on the system of internal financial control for the council and its group was included within the financial statements and has been signed by the Chief Financial Officer and the Chief Executive. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the council, the Chief Internal Auditor received self-assessment questionnaires from subsidiary and associate companies. The Chief Financial Officer concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.

74. During the preparation of the group financial statements the council needs to place reliance on the systems of internal financial control of the individual bodies within the group. These assurances are obtained from the management and Chief Internal Auditor's of the group bodies. Although we are satisfied with the content of the council's Statement on the System of Internal Financial Control it is acknowledged that further work is required to formalise assurances and documentation from some members of the group.

Key Risk Area 6

Main Financial Systems

75. 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 the council's main financial systems. We assessed these systems as having a satisfactory level of control for our purposes. The council agreed to implement a number of improvement actions arising from the report and they are due to be completed by March 2009.

Prevention and Detection of Fraud and Irregularities

76. At a 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, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees. It is noted that the anti-fraud and corruption policy in place for the duration of 2007/08 dated back to January 2003 however we recognise that the policy was updated and approved by the Audit Committee in August 2008.

NFI in Scotland

77. During 2007/08 we continued to monitor the council's participation in the 2006/07 National Fraud Initiative (NFI). NFI brings together data from a wide range of public bodies 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.

78. The NFI has generated significant savings for Scottish public bodies (£9.7 million in the 2006/07 exercise with cumulative savings from previous exercises now around £37million). Where significant levels of fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

79. At 30 September 2008 the council, as part of the 2006/07 NFI exercise, had identified £0.098 million of overpayments and recovery activity was in progress for £0.084 million of this. The 'NFI in Scotland 2006/07' report published by Audit Scotland in May 2008 makes particular reference to the council as being one of the councils achieving the highest yield (relative to council size) and for their achievements in identifying and updating erroneous records of blue badge holders.

80. The NFI exercise highlighted an issue concerning council employees engaged in consultancy work for another council. At the request of the council's Chief Financial Officer, Internal Audit investigated this matter and concluded that there were weaknesses in the control environment surrounding other paid employment for employees. Internal Audit made recommendations detailing appropriate corrective action and we have received assurances that work is underway to implement these measures.

81. Preparations are underway for the 2008/09 NFI exercise and the council are ready to upload the relevant datasets via a secure electronic upload facility in October 2008.

Housing Benefit

82. 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. Inverclyde Council received one of the first inspections which concluded the council had sound arrangements in place to minimise risks in its benefits function. A number of improvement areas were identified which were consolidated in an action plan by the council. All actions are due to be completed by January 2009.

Data Handling and Payment Card Standards

83. 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.

84. 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.

85. Our audit of the council's approach to data handling and compliance with PCI/DSS is currently in progress and we will report our findings to the Audit Committee once it has been completed.

Governance Outlook

Single Outcome Agreements

86. 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.

87. Every council had agreed its first SOA by 30 June 2008. In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the council develops robust governance and performance management arrangements to manage the delivery of the outcomes agreed in the SOA.

Performance

Introduction

88. In this section we summarise how the council manages its performance. We discuss the overall arrangements before focusing on specific areas of performance. We give an outlook on future performance, including our views on the current status of identified risks. Finally we comment on the findings of other inspection agencies and Audit Scotland's national performance studies.

Corporate Objectives and Priorities

89. Following the May 2007 elections, the former Liberal Democrat administration of Inverclyde Council was replaced by a minority Labour administration. An interim plan was produced for 2006/07 and a new corporate plan "An ambitious, confident council" incorporating the council's vision and priorities for the next four years was approved by the council in October 2007. The plan is supported by core values that influence how the organisation works and behaves:

- We will be confident and ambitious.
- We will be respectful, caring and trustworthy.
- We will be open, honest and accountable.
- We will listen, engage and respond.
- We will strive for excellence in everything.

90. The values are underpinned by a number of key principles:

- Regeneration: Everything we do is geared towards social, economic and environmental regeneration of Inverclyde.
- Partnership: Working in partnership enables us to more effectively tackle the key issues facing Inverclyde.
- Sustainability: We apply the principle of sustainability to all areas of our work.
- Equality: We are committed to providing equality of opportunity both as an employer and as a service provider.

91. A total of 5 strategic outcomes are linked to these values and principles:

- Educated, Informed and Responsible Citizens.
- Healthy, Caring Communities.

- Safe, Sustainable Communities.
- A Thriving, Diverse Economy.
- A Modern, Innovative Organisation.

92. In October 2007 the full council approved the corporate plan. In April 2008 the Policy and Resources Committee approved the council's Financial Strategy and in June 2008 the full council approved the community plan 2008/18, 'Inspiring Inverclyde'. Development of these strategic documents was initiated prior to the announcement by the Scottish Government of a requirement to produce a Single Outcome Agreement (SOA). The council needs to ensure there are clear links between these documents to ensure that service activity is focused on the achievement of the outcomes in the SOA and community plan and that funding is available to support the delivery of these outcomes.

Key Risk Area 7

Overview of Performance in 2007/08

Public Performance Report

93. In February 2008 the council provided its 2006/07 Public Performance Report. This report highlighted the council's most important achievements over the previous 12 months, outlined progress with ongoing major areas of work and identified issues to be addressed in the coming year.

94. As at October 2008 the 2007/08 Public Performance Report has been drafted and is due to be published in December 2008. Provision of the report two months earlier than in 2006/07 would be a welcome improvement as it would provide the public, and other stakeholders, with more timely feedback on the council's performance.

Measuring Performance

95. In January 2007 the council approved a strategic planning and performance management framework. This reflects an integrated approach to strategic planning and performance management.

96. Corporate and directorate performance reports are presented to committees on a regular basis. A bi-monthly update on the council's progress against key corporate initiatives is presented to the Policy and Resources Committee. Consideration is being given to procuring and implementing an integrated electronic corporate performance management system to provide comprehensive and consistent performance information across the council. Further development of performance management reporting is required to establish clear links between service performance, the outcomes detailed in the Single Outcome Agreement, the community plan and corporate plan. The council needs to build

performance information which clearly links corporate priorities to service improvement and customer experience.

Key Risk Area 8

97. During the year the council has made progress in a number of strategic priorities. These include:

- Developing medium term corporate, community and directorate plans.
- Implementing a strategic planning and performance management framework.
- Concluding the transfer in ownership of housing stock to River Clyde Homes and Cloch Housing Association.
- Producing corporate and directorate performance reports.
- Producing a revised school estate management plan and funding model.
- Implementation of single status agreement.
- Conducting a customer service review.
- Completing a diagnostic review of council operations (Value Chain Analysis Project).
- Producing a financial strategy.

98. There are also a number of areas where work is in progress:

- Draft organisational improvement and asset management plans to be finalised.
- Draft procurement and community engagement strategies have been produced and are awaiting finalisation.

99. The council has also recognised that there are a number of areas where progress has been slow in relation to:

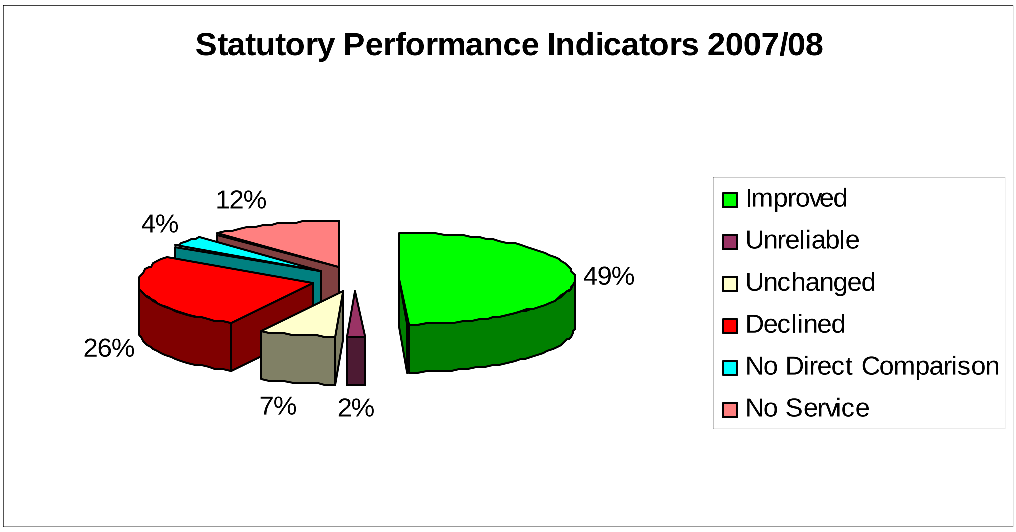
- Workforce planning.
- Ability to demonstrate improved service performance.
- Development of council wide business continuity management arrangements.
- Developing corporate programme / programme management arrangements which are supported by option appraisal arrangements.
- Statutory trading operations.

Statutory Performance Indicators

100. One of the ways of measuring council performance is through the 57 statutory performance indicators (SPIs) established by the Accounts Commission in accordance with the Local Government Act 1992.

101. Inverclyde Council reported against 50 of the 57 indicators in 2007/08. This was due to five of the 57 being not applicable after the housing stock transfer, one being for a service not relevant to the council and one being an optional submission. In overall terms, the following chart confirms that the council has made improvement in just under a half of the 57 SPIs.

Chart 2: SPI Movement (2007/08 vs 2006/07) (Total 57 indicators)



102. In 2006/07 we raised concerns about the quality of the audit trails provided by SPI co-ordinators to evidence the submitted figures and the council made a commitment to improve this in 2007/08. We are pleased to comment that we saw considerable improvement in this area in 2007/08.

103. One indicator was classified as unreliable. The qualified indicator was part of the asset management SPI that related to the proportion of the council's operational accommodation that was deemed to be suitable for current use. Although figures were submitted for this SPI the reliability of these figures could not be substantiated due to insufficient progress being made in 2007/08 to develop the accuracy of the data beyond the desktop surveys carried out in 2006/07.

104. The submission deadline was extended considerably for two SPIs ('Asset Management' which was partially qualified and 'Public Access').

105. The council recognises, and is committed to, the need for further improvement in service delivery and is continuing to implement policies, procedures and internal targets to build on the improvements

noted above and improve the poorer performing SPIs. In particular we note that the council is procuring a new performance management system. This will enable review and benchmarking of SPIs on a more frequent basis and facilitate better exception reporting to the Corporate Management Team, service committees and, where deemed appropriate, the Policy & Resources Committee. We further note that the council is giving consideration to the suitability of implementing six monthly reporting on SPIs, and is implementing improvement actions for a number of SPIs.

106. Some of the areas where significant improvements were made are:

- Average hours per week to complete community orders.
- Overall provision of respite care.
- Percentage of care staff in local authority residential children homes who have appropriate qualifications.
- Average time to process new benefit claims and changes of circumstances.
- Percentage of housing benefit overpayments written off.
- Percentage of council buildings suitable for and accessible to disabled people.
- Number of secondary schools with occupancy between 81% and 100%.
- Average time to institute formal action in the event of a non domestic noise complaint.

107. Performance fell significantly in the following areas:

- Percentage of daytime respite care not provided in a day centre.
- Percentage of days lost through sickness absence for craft employees.
- Average time taken between presentation and completion of duty by the council for cases assessed as homeless or potentially homeless.
- Percentage of homeless cases reassessed as homeless within 12 months of the previous case being completed.
- Average time taken (hours) between the time of a domestic noise complaint and an officer attending on site.
- Percentage of medium risk trading premises inspected within the two year target timescale.

108. Although we note the encouraging level of improvement there is still scope for considerable improvement in service provision within Inverclyde. Therefore we recognise the improvements made in 2007/08 and welcome the council's ongoing commitment to further this improvement in future years.

Key Risk Area 8

Best Value Audit

109. 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. Inverclyde's full best value audit reported in 2005 and since then the Audit Commission have requested four formal statutory follow up reports.

110. The latest report requested an update as at 30 June 2008. Audit work is nearing completion on this update and the report is due to be considered by the Accounts Commission in December 2008.

Performance Outlook – Opportunities and Risks

Introduction

111. In the course of our audit work we identified some of the strategic risks to the council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into six risk themes (see paragraph 3 above). In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. 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 have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Strategic Management

112. The council's timetable for producing a workforce plan has slipped from 31 March 2008 to 31 March 2009. The delay is primarily due to resources deployed in implementing the single status agreement. The council needs to increase effort and momentum in this area to provide direction in bringing together workforce requirements that align with strategic objectives.

113. Recently developed strategic planning documents were used to inform the content of the SOA. The council needs to ensure that the SOA outcomes are effectively linked to other elements of the strategic planning framework and develop governance and performance management arrangements to support delivery of the SOA.

Performance Management and Improvement

114. The council have adopted the Public Service Improvement Framework to support improvement and to facilitate the development of an organisational improvement plan (OIP). The OIP will combine findings from Best Value audits and other improvement plans within the council. Priority should be given to finalising the OIP to monitor delivery in achieving agreed actions.

Key Risk Area 9

115. Directorate plans and associated guidance have now been prepared which are aligned to both the corporate and community plans.

116. SPI performance has improved in the year however the council recognises that there is still scope for improvement and is taking positive steps to further improve service delivery.

117. Limited progress has been made in increasing finance skills outwith corporate services. There is a risk that financial expertise within the council is not sufficient to support effective financial management.

Key Risk Area 10

Corporate Governance and Risk Management

118. A comprehensive member development programme has been introduced during 2007/08. Attendance levels at some training events have been disappointing with less than half of the members participating. Training needs assessments have been carried out for all members and 18 of the 20 members have agreed forward looking personal development plans.

119. Considerable progress has been made in implementing a risk management framework within the council. Corporate, directorate and service risk registers have been compiled and progress reports presented to committees on a regular basis. The council is now looking at ways of overseeing all of the risks identified to provide direction in managing overall risk.

120. A new monitoring system has been developed by the Chief Internal Auditor to monitor implementation of audit recommendations. There are still a number of actions where deadlines set by the council have been missed. The council recognises that timescales provided were often unrealistic and is looking at ways to improve current practice. Progress has been made in addressing actions with a significant fall in the total number outstanding.

121. Quality control processes were introduced by finance in preparing the 2007/08 financial statements. In addition project management arrangements were implemented to control and manage technical accounting changes. Both of these developments resulted in improvements to the accounts preparation process.

Affordability and Sustainability

122. The general fund balance stood at £18.033 million, refer to paragraphs 33-35 for full details.

123. The council implemented its single status agreement in August 2008. Further details are provided at paragraphs 41-43.

124. There has been an improvement in the delivery of the council's capital programme with a significant fall in the amount of slippage occurring in 2007/08. Further details are provided at paragraphs 36-38.

125. Some progress has been made in developing a council wide corporate option appraisal system. We recommend that the system be extended to incorporate the development of programme / project management arrangements.

Key Risk Area 11

126. There is a risk that the council will incur further cost increases due to the Landfill Directive. This is discussed in full at paragraphs 58-59.

Effective Partnership Working

127. The council has approved a community plan and now needs to focus attention on ensuring effective governance and performance management arrangements are in place to support delivery of community planning outcomes also included in the SOA.

128. A community health partnership is now operational. The council is now exploring the possibility of moving towards a community health and care partnership to increase joint working arrangements.

129. The council consulted widely with members of the public and community groups and has drafted a community engagement strategy which is due to be finalised by December 2008.

Modernisation and Efficiency

130. Efficiency savings are monitored on a regular basis by the modernisation and efficiency programme board. An efficiency statement was produced for 2007/08 and the council is working towards achieving efficiencies identified in the projected 2008/09 efficiency statement.

131. The council has completed a diagnostic review of council processes (Value Chain Analysis Project) to identify areas of improvement and efficiencies at both corporate and service level. The council has completed the review stage and is now moving to the design stage.

132. Phase two of the modernisation and efficiency programme brings together planned action from the customer service review and Value Chain Analysis project. It is expected that delivery of this phase will have a significant impact on the way the council conducts its business with improvements in service provision and customer experience.

Key Risk Area 12

Asset Management

133. Our 2007/08 Strategic Audit Risk Analysis plan highlighted the fact that whilst progress had been made in the preceding twelve months toward the development of a corporate asset management plan there had been delays in the achievement of a number of the key milestones. A property portfolio review has been carried out and asset management software installed to progress asset management arrangements. The original timescale for completion of the plan was 31 March 2008 however a draft plan was not produced until June 2008 and a revised timescale for its completion has been set as 31 March 2009.

Key Risk Area 13

134. The 2006/07 members report also highlighted that a formal process had not been developed to identify assets which had suffered impairment. As at September 2008 condition surveys have been completed to provide costing and baseline details for future impairment reviews. A target date of 31 March 2008 had been set for the introduction of formal impairment reviews however this has been revised to 31 January 2009.

Key Risk Area 14

Procurement

135. A firm of external consultants was employed to perform a comprehensive review of the council's procurement practices and a report was issued in January 2007. The council has taken a series of actions in response to this report including the appointment of a corporate procurement manager, the establishment of a corporate procurement function and establishment of a Procurement Steering Group. A Corporate Procurement Strategy has been drafted however it is yet to be finalised and approved. It is further noted that it may need to be revised to take account of relevant findings and recommendations from the Value Chain Analysis Project.

Key Risk Area 15

Workforce Planning

136. In our 2006/07 annual report we highlighted the need for the council to develop a workforce plan with appropriate links to the council's strategic plans. Limited progress has been made in this area in 2007/08 and the timescales for completion of the plan have slipped from 31 March 2008 to 31 March 2009. The council remains exposed to the risk that the workforce may not be equipped to deliver strategic objectives.

Key Risk Area 16

137. A staff appraisal scheme is in place for senior officers and some services and the council intends to roll this process out to all staff. A council wide appraisal scheme has yet to be developed.

Key Risk Area 16

Business Continuity Planning

138. The Civil Contingencies Act places a requirement on the council to have suitable business continuity and emergency plans in place. The council does not have comprehensive and up-to-date business continuity plans in place which are consistently maintained and tested on a regular basis. Therefore the council is not complying with the act and is at risk of service delivery being materially impacted in the event of an unforeseen disruption to services.

139. The council's Internal Audit team has carried out a review of Business Continuity Management and the report is in draft stage as at October 2008. A Crisis & Resilience Management Team has been established with responsibility for progressing the recommendations made by Internal Audit.

Key Risk Area 17

Reports by Other Inspection Agencies

140. In 2007/08, the Scottish Housing Regulator, on behalf of Scottish Ministers, carried out a review of the homelessness service delivery at the council. The council no longer has responsibility for direct housing management following the housing stock transfer in December 2007 however it does retain responsibility for some areas such as homelessness services. The Housing Regulator's inspection of the homelessness service, issued in August 2008, graded Inverclyde "C - Fair". An improvement from the previous inspection was noted however further improvement is required. The council is preparing an action plan to address the weaknesses identified.

141. The Social Work Inspection Agency (SWIA) carried out a follow up inspection in November 2007 following a full performance inspection in 2006. The follow-up visit in November 2007 found that of the sixteen recommendations made, nine had been fully implemented, with progress noted in the remaining seven. SWIA also recognised that some of the recommendations would take some time to fully implement.

National Studies

142. 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

Free Personal and Nursing Care

143. 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.

144. In 2005/06 Inverclyde Council had 14,036 older people receiving free personal care, at over 11% the third highest proportion in Scotland. The number of people receiving care rose 28.5% between 2002/03 and 2006/07, compared to a Scottish average of 51.4%. In common with many councils, spending on older people's services as a proportion of total social work expenditure has declined from 51% to 46% between 2002/03 and 2005/06.

145. The council does not, and has not in the past, charged older people for food preparation. The council has however changed its criteria for when older people become ineligible for services and now only people within the first two categories (critical and substantial) are guaranteed to receive a service. The council is one of seven councils in this position, with two of these only offering a service to clients in the highest priority (although only 16 of 32 councils provided data for this).

Scotland’s School Estate

146. 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.

147. On 18 June 2008 Inverclyde Council’s Education and Lifelong Learning Committee approved the revised school estate management plan (SEMP). This plan details the modernisation of all schools in Inverclyde through either new or refurbished buildings.

148. Between June 2004 and August 2008 there has been progress made against the SEMP with a combination of school closures, amalgamations, full and partial refurbishments and the opening of new primary schools. The completion of the entire plan is scheduled for 2023.

Key Risk Area 18

Overview of Sport in Scotland

149. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% 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.

150. Inverclyde Council spends around £60 per head of population on sports facilities, parks and open spaces, the eighth highest in Scotland. Regarding sports participation, figures from 2003/04 showed that 52% of residents in Inverclyde participated in sport on a weekly basis compared with a range of 35% to 65% in other councils. The council approved a sports strategy in March 2007 and is currently making progress in implementing its recommendations.

Final Remarks

151. We have made a number of recommendations in reports issued during the course of the year and have obtained assurances from council officers that action will be taken as appropriate.

152. 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.

153. The agreed action points documented in Appendix A should be monitored by members via the action plan status reports which are reported to the audit committee on a regular basis. We will review the progress of action taken as part of the 2008/09 audit.

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.	9.	**Preparation and Audit of Financial Statements** The 2007/08 draft financial statements and supporting working papers showed significant improvement from those provided in 2006/07 however some working papers could benefit from more detailed information and a clearer audit trail to the statements. During the audit of the financial statements we experienced delays due to capacity of the finance department to provide responses to queries and clear matters arising due to reliance on individual members of staff. ***Risk: the council may not be able to present the audited accounts within the statutory deadline.***	An action plan will be created for the 2008/09 Accounts which will set out training needs for all staff. This will allow more nominated points of contact within the qualified team.	Finance Manager	28 February 2009
2.	17.	**Common Good Title Deeds** The council needs to prepare to have a common good asset register supported by title deeds in order to comply with LASAAC guidance. ***Risk: common good fixed assets are not identified and recorded within an asset register. Furthermore the council may fail to comply with LASAAC guidance.***	As part of the budget process, a bid has been made for additional funds to allow the exercise to be undertaken more speedily.	Head of Legal and Administration	28 February 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	40.	**Equal Pay** The majority of equal pay claims against the council has been settled however there are still some outstanding cases and the council have provided for a further £0.964 million to cover any additional costs which may be incurred. ***Risk: whilst there is still uncertainty over the actual costs that will be incurred there is an ongoing risk that these costs may exceed the level of reserves created.***	The number of cases and potential costs will be monitored on an ongoing basis and formally reviewed at the year end.	Chief Financial Officer	30 June 2009
4.	51.	**Statutory Trading Operations (STOs)** A comprehensive review of the council's trading activities has not been conducted. The vehicle management trading account failed to achieve the statutory requirement to break even over a 3 year period. ***Risk: the council may not be able to demonstrate competitiveness and best value from current arrangements for services provided by STO's.***	The council will carry out a fundamental review of its arrangements for the council's significant trading operations with a view to maximising operational performance further. Appropriate evidence will be retained of this review and all subsequent reviews.	Chief Executive	30 April 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	55.	**Financial Pressures** Expenditure needs to be contained within available resources. The council's Financial Strategy has identified a funding gap of £8.4m over a two year period with subsequent economic events increasing the gap to approximately £10m. Agreed savings need to be achievable and delivered timeously to avoid further pressure on the financial position. ***Risk: resources are insufficient to deliver services.***	The Council agreed a Financial Strategy in April 2008. It was agreed that this would be reviewed on a regular basis with updates to the Committee. The Council has put in place a new, robust budget process to ensure effective budget management and address the challenges it will face over the next two years. A two year budget will be agreed by the council in February 2009. Budget reports will be submitted to CMT and Policy and Resources Committee with the next one due November 2008.	Corporate Management Team Chief Financial Officer	28 February 2009 Ongoing
6	74.	**SSIFC Group Arrangements** During the preparation of the group financial statements the council needs to place reliance on the systems of internal financial control of the individual bodies within the group. These assurances are obtained from the management and Chief Internal Auditor's of the group bodies. The council have recognised a need for further work to ensure these assurances are adequate and received within the timescale for completion of the financial statements. ***Risk: the council may not be able to publish their financial statements within the statutory deadline.***	Appropriate arrangements will be put in place to ensure that the council can place reliance on the SSIFCs submitted by group bodies. This assessment will be incorporated into the overall accounts action plan.	Chief Internal Auditor	28 February 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7.	92.	**Strategic Plans** The corporate plan, Financial Strategy and community plan were finalised and approved during 2007/2008 however it is too early to assess the impact they have had on service delivery. Further work is required to ensure that there is a clear link between these strategic plans and the Single Outcome Agreement. ***Risk: achievement of the outcomes in the Single Outcome Agreement may be hampered by a lack of cohesion between them and other strategic plans. Furthermore there is a risk that these outcomes may not be achievable due to resource constraints.***	Links have been established between the SOA and the other strategic plans via the Directorate Planning process. Revised Directorate Planning reporting guidance will be issued by the end of March 2009 which will further develop the link between the SOA, key strategic documents and service delivery.	Head of Performance Management and Procurement	31 March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8.		**Performance Management Reporting**			
	96.	Performance management reporting has improved in 2007/08 however clearer links need to be established to link service performance to the Single Outcome Agreement, corporate plan and community plan.	Links have been established between the SOA and the other strategic plans via the Directorate Planning process. Revised Directorate Planning reporting guidance will be issued by the end of March 2009 which will further develop the link between the SOA, key strategic documents and service delivery.	Head of Performance Management and Procurement	31 March 2009
	108.	Although the council has demonstrated an encouraging level of improvement across the range of statutory performance indicators there are some areas of service performance which are in decline and there is a need for continued focus to ensure ongoing improvements in service delivery. ***Risk: the council may not be able to adequately monitor progress toward achieving the outcomes agreed in the Single Outcome Agreement or demonstrate service improvement focused on achieving corporate and community objectives.***	The Council's efforts to invest resources into improving its performance in respect of the statutory performance indicators are yielding benefits. The effort will be maintained over the period 2008/09 in order to secure further performance gains through more effective and efficient service delivery. The Council's approach to SPIs will be reviewed in relation to the most recent Accounts Commission Consultation on the future of SPIs.	Head of Performance Management and Procurement	31 March 2009
9.	114	**Organisational Improvement Plan** The council's OIP has been drafted however it is still to be finalised and fully implemented. ***Risk: key organisational issues are not be monitored and achieved within desired timescales.***	The OIP will be finalised by March 2009 and incorporate the outputs of both the PSIF Corporate Assessment and the Best Value Follow Up Report. Implementation of the OIP will be prioritised over the next 3 years and overseen by the SP & PM Board.	Corporate Director, Improvement and Performance	31 March 2009
			Regular reports on progress will be submitted to CMT and P&R Committee. The first reports will be submitted to the June meetings of the CMT and P&R Committee.	Corporate Director, Improvement and Performance	30 June 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10.	117.	**Finance Skills** Outwith the corporate finance service, financial skills in some parts of the organisation are underdeveloped. ***Risk: financial expertise may not be sufficient to support effective financial management.***	A proposal is being developed with IPF to provide a Financial capacity review and associated action plan with a timescale of early 2009 for production of the Action Plan.	Chief Financial Officer	28 February 2009
11.	125.	**Project Management Framework** The council has no overall corporate approach to option appraisal and programme and project management arrangements. ***Risk: this may lead to inconsistencies across the council in the way projects are planned, implemented and reviewed.***	The Corporate Director, Regeneration and Resources has been appointed Corporate Lead in ensuring recommendations arising from the Internal Audit review of Project Management are implemented. This will include option appraisal as a key stage of the project management lifecycle.	Corporate Director, Regeneration and Resources	31 March 2009
12	132.	**Modernisation and Efficiency Programme** Implementation of the programme will involve significant change to the way the council conducts its business. ***Risk: the council may not be able to manage the risks, challenges and difficult decisions that come with implementing such a large scale project.***	The Council has robust programme management arrangements in place for managing the M&E Programme including a Programme Board and Members Reference Group. Regular progress reports are submitted to CMT and P&R Committee which address any significant issues.	Corporate Director, Improvement and Performance Corporate Director, Improvement and Performance	28 February 2009 Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
13.	133.	**Corporate Asset Management Plan** A draft corporate asset management plan was produced in June 2008 however the timescale for its finalisation has slipped from its original date of 31 March 2008 to 31 March 2009. ***Risk: the council fails to achieve best value in its utilisation of assets.***	A draft Asset Management Plan has been produced in June 2008 which will: • Maximise the efficient and effective use of assets. • Provide quality accommodation for customers and employees. • Release under-used and revenue demanding properties. • Assist in the rationalisation and modernisation of public services within Inverclyde. • Review asset valuations in light of current market conditions. The draft plan after full consultation will be submitted to committee for consideration in early 2009.	Corporate Director, Regeneration and Resources	31 March 2009
14.	134.	**Impairment Review** As at September 2008 condition surveys have been completed to provide costing and baseline details for future impairment reviews. A target date of 31 March 2008 had been set for the introduction of formal impairment reviews however this has been revised to 31 January 2009. ***Risk: asset values carried in the financial statements do not represent current valuations.***	It is anticipated that software will be fully installed by November 2008 to allow records to be fully updated with the valuation information by January 2009.	Corporate Director, Regeneration and Resources	31 March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15.	135.	**Corporate Procurement Strategy** A Corporate Procurement Strategy has been created but is still in draft format. There has been slippage in the timescales to finalise this strategy and it is noted that the strategy may need to be revised to take account of the findings and recommendations of the Value Chain Analysis project. ***Risk: Purchasing decisions across the council are not made in a consistent fashion and may not achieve best value.***	The strategy and improvement plan for 2009/2012 has been developed and it is currently subject to a consultation prior to being submitted to CMT and Policy and Resources Committee for approval.	Corporate Director, Improvement and Performance	30 April 2009
16.		**Workforce Management**			
	136.	Workforce planning arrangements have yet to be developed in the council with only limited progress being made in 2007/08. The timescales for completion of the plan have slipped from 31 March 2008 to 30 April 2009.	It is anticipated that the workforce plan will be commenced by December 2008 with a view to commencing implementation in 2009.	Corporate Director, Regeneration and Resources	31 March 2009
	137.	The council is still to roll out a council wide staff appraisal scheme. ***Risk: the council's workforce may not be equipped to deliver the objectives and outcomes in the council's strategic plans and Single Outcome Agreement.***	A key component of the workforce plan will be the roll out of the Corporate Appraisal Scheme to all staff. This will be rolled out in two phases: Scheme design and approval by committee. Objectives set for all employees.	Corporate Management Team Corporate Management Team	31 March 2009 31 March 2010

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
17.	139.	**Business Continuity Planning** The council does not have comprehensive and up-to-date business continuity plans in place which are consistently maintained and tested on a regular basis. ***Risk: the council may not be able to restore key services in the event of potential disruptions in service delivery.***	Recommendations arising from the Internal Audit review of Business Continuity Management will be considered by the CMT for implementation by the Crisis and Resilience Management Team. Business continuity plans will be implemented for key services by 31 March 2009. Business continuity plans will be implemented for all other services by 31 March 2010.	Corporate Management Team Corporate Management Team Corporate Management Team	31 March 2009 31 March 2009 31 March 2009
18.	148	**School Estate Strategy** The council has carried out a full review of its school estate strategy and has approved a revised plan and funding model to modernise the entire school estate in Inverclyde. This requires ongoing monitoring and project management to minimise the financial and operational risks inherent in a capital project of this scale and nature. ***Risk: there may be slippage in the key project milestones which could result in additional financial pressures and have a detrimental impact on the delivery of education services within Inverclyde.***	Monitoring arrangements for the SEMP are considered to be effective and therefore any emerging risks will be considered and managed during the lifecycle of the plan. An annual review of the Schools Estate Strategy will be undertaken in June 2009 and reported to relevant Committee.	Corporate Director, Education and Social Care	31 August 2009