

East Renfrewshire Council

Report to Members and the Controller of Audit
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



East Renfrewshire Council

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Key Messages

Financial statements

We have given an unqualified opinion on the financial statements of East Renfrewshire Council, which give a true and fair view of the financial position of the council and its group for the year ended 31 March 2010.

All councils are facing challenges in preparing their 2010/11 financial statements, to ensure that accounting developments associated with the impending adoption of International Financial Reporting Standards and other initiatives (e.g. charity accounting) are implemented smoothly. The council needs to ensure that it is ready for these changes to ensure compliance with the new requirements.

Use of resources

In overall terms, the council managed its resources well with the balance on the general fund increasing by £2.3 million and contributions totalling £4.5 million were made to specific reserves. This was partly facilitated by a legal ruling which allowed the council to recover VAT totalling £1.3 million from HM Revenue and Customs. While the council has added to its reserves in 2009/10, the unallocated general fund balance stands at £6.9 million, which, at 3.3 per cent, is less than the councils aim to maintain free reserves of 4 per cent of net expenditure.

The last budget monitoring statement to the council had reported overspends in a number of areas, the main areas being in the Community Health Care Partnership (CHCP) and Environment, however remedial action was taken and all services were able to bring expenditure in line with budget at the year end. These overspends were attributed to the continuing increase in demand for services in the CHCP, the additional costs associated with the harsh winter in 2009/10 and an under-recovery of income in planning, waste and cleansing services.

The implementation of the terms and conditions element of the single status agreement has been a particular challenge to the council this year. Negotiations have been ongoing with unions, however to date no agreement has been reached and the cabinet has approved the dismissal and re-engagement of staff if agreement cannot be achieved.

Governance and accountability

The tensions associated with the forthcoming period of financial constraint have the potential to create a challenge for members. We believe, however, that relationships between members and officers are currently constructive and businesslike. Given the key role that political parties have in local democracy, we expect that the council will continue to make difficult strategic decisions while maintaining meaningful and effective scrutiny arrangements.



Performance management and improvement

The council has effective arrangements in place for monitoring performance with regular reporting against the Outcome Delivery Plan, Statutory Performance Indicators, service standards and service plans, to both members and the Corporate Management Team.

The council is continuing to drive forward its Public Service Excellence (PSE) programme which aims to identify opportunities to improve the efficiency and quality of services provided. The programme has delivered savings and efficiencies in a number of areas during the year including the implementation of a revised HR structure, increased use of electronic payment methods and a new e-planning service. The success of the PSE programme will be vital in helping to reduce the impact of the funding cuts in the coming years.

Outlook

Never has the case been stronger for sound governance and good financial management given the likely reduction in funding in the years 2011 to 2014. Although the exact size of the reduction will not be known until November 2010, the council anticipate a funding gap of around £32 million to March 2014 and it must take action now to accommodate cuts in its budget that minimise the impact on services to the public. Senior management within the council has recognised this and all service departments have plans which would enable cuts of up to 15 per cent. The likely scale of budget reductions means that the council faces the risk of dissatisfaction amongst some service users and the action to impose a low pay settlement and revised terms and conditions may result in poor staff morale.

It is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections and the council will continue to face tough decisions about spending and priorities.

In June 2010, we submitted our final shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. We are not proposing any best value work at this time, however there are plans to carry out a joint exercise with the Scottish Housing Regulator later in the year in response to some significant risks identified in the council's housing service. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

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

October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of East Renfrewshire Council (the council) and other relevant work carried out by Audit Scotland. Several detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) http://www.audit-scotland.gov.uk/work/scrutiny/docs/East_Renfrewshire.pdf. Where relevant, we comment on issues identified in the AIP for review by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Getting it right for children in residential care
 - Protecting and improving Scotland's environment
 - Making an impact – overview of best value audits 2004 - 09
 - Improving public sector efficiency
 - Overview of local government in Scotland 2009
 - Scotland's public finances – preparing for the future
 - Roles and working relationships – are you getting it right?
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting is that the council understands its risks and has mechanisms in place to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10. We also comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

Audit opinion

8. We have given an unqualified opinion that the financial statements of East Renfrewshire Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30th June. Working papers to support the 2009/10 accounts were passed for audit as planned and we acknowledge the co-operative manner all council staff have displayed during the audit process.
11. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting issues

12. 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). With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). This is perhaps the biggest technical challenge that accountants and auditors have had to face in recent years with a series of complex and resource intensive changes in accounting policy required.

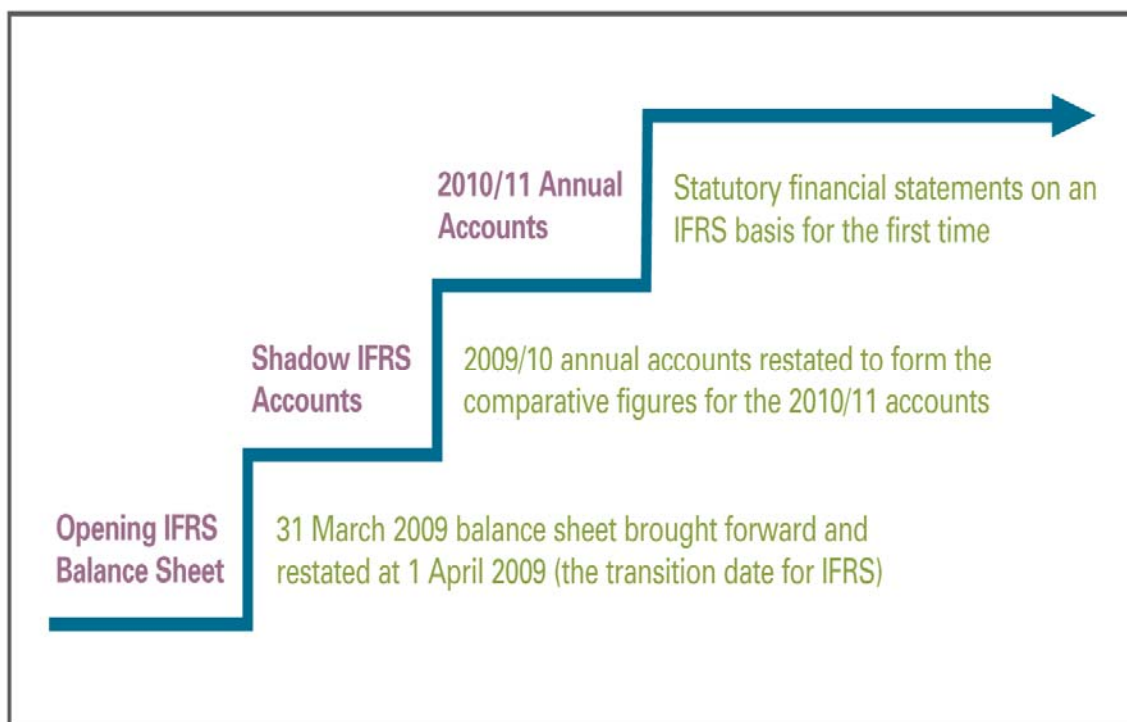


The key stages of transition to IFRS accounting are set out below.

Exhibit 1

Key IFRS transition milestones

The early production of an opening IFRS balance sheet is the key to a smooth IFRS transition



Source: Audit Scotland

13. During the year, the council restated its March 2009 balance sheet under IFRS principles and passed them to us for review. Our review concluded that the council had made the appropriate accounting entries to the main account balances affected by preparing accounts on an IFRS basis, including changes to:

- the treatment of government grants deferred
- leases classifications
- PPP accounting
- the classification and valuation of fixed assets
- annual leave accruals

14. The overall standard of accounting required to restate the balance sheet was good. Following on last year's Report to Members, the council should prepare full shadow IFRS based 2009/10 accounts as soon as is practicable.

Key issue/risk 1



15. In accordance with the 2009 SORP and the decision to adopt some IFRS accounting requirements early, the council amended its opening balance sheet and comparative information in the financial statements. The key changes to the balances reported in the prior year included:
 - PFI arrangements. These were accounted for in accordance with IFRIC12. The net impact on the income and expenditure account is an increase in expenditure of £6.9 million. The schools PPP and roads PFI valuation of £99.1 million is now included in the council's balance sheet together with the liability to the PFI operator. This and other changes resulted in an increase in the liability of £4.7 million.
 - Non-domestic rates. The 2009 SORP changed the accounting requirements. As an agency agreement the only requirement is to recognise the net debtor/creditor with the Scottish Government.
16. We are satisfied that the council prepared the unaudited 2009/10 accounts in accordance with the 2009 SORP. As in past years, all proposed audit adjustments were incorporated within the revised financial statements which resulted in the following changes to the financial position previously made available to members in June 2010:
 - a decrease in net worth of £8.6 million
 - an increase in the income and expenditure deficit of £5.2 million
 - an increase in General Fund balance of £0.3 million.
17. These changes resulted from various audit adjustments, the most significant in monetary terms being associated with eliminating the double counting of certain assets and recognising changes to the value of assets due to impairments and depreciation charges.
18. In recent years, the council has adopted the proper practice of accounting separately for those components of assets which have a different, normally shorter asset life. This is to ensure that depreciation charges are not misstated. During this year's audit, a review of council house valuations established that the value of replaced kitchens, bathrooms, heating systems and windows were being reflected in both the value of houses as well as in separately identified assets leading to an overstatement of overall assets totalling £8.7 million. The revised financial statements were adjusted for this double counting.
19. Following a review of asset valuations the council agreed to a net reduction of £1.3 million to bring values in line with the accounting principles set out in the SORP. A substantial element of this reduction was £896,000 associated with the Benchmark site where capitalised expenditure had not resulted in any increase in overall valuation due to the nature of the work being undertaken.
20. The council recently acquired a new fixed asset accounting package (Logotech) to record and control fixed assets. Audit testing of balances identified that asset values had been incorrectly loaded into the



new system which resulted in an overstatement of depreciation of £992,000 which was subsequently corrected.

21. Other significant financial issues that merit separate mention are:

- **Increase in pension liability:** The council's deficit within the Strathclyde Pension Scheme has increased significantly during 2009/10. As at 31 March 2010, it stood at £124 million, an increase of £84 million from the previous year. This deterioration is principally due to a reduction in discount rates applied to future liabilities partially offset by a recovery of asset values in the stock market. This assessment is a snapshot of the position as at the year end and the council has received advice from the appointed actuaries that asset holdings and planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities.
- **Accounting for PFI transactions and balances:** As disclosed in the Statement of Accounting Policies, contracts let under the terms of the Private Finance Initiative are now to be accounted for under the terms of International Financial Reporting Standards. This means a change in presentation within the council's accounts whereby the underlying assets created under these contracts are now to be recognised on the council's balance sheet, together with the associated lease liabilities. These changes have resulted in a net decrease in balance sheet values at 31 March 2009 of £4.7 million which, in essence, reflects the removal of a long term PPP debtor which has been replaced by the value of the land and buildings together with matching liabilities. Future accounts will be presented on this basis.

Group accounts

22. Local authorities use various means to provide the public with services including other organisations with which it has an operating interest. These interests are reflected in the council's consolidated group accounts which are required to give a true and fair view of a council's overall income and expenditure. The council has no subsidiaries but has a minority interest in twelve associate entities, five of which, due to the significance of the council's interest, have been incorporated within the council's group accounts, namely:

- Strathclyde Police Joint Board
- Strathclyde Fire and Rescue Joint Board
- Strathclyde Concessionary Travel Scheme Joint Committee
- The Renfrewshire Valuation Joint Board
- Strathclyde Partnership for Transport

The council's group accounts also incorporate the financial position of the sixteen trust funds operating under the stewardship of the council.



Trading operations

23. East Renfrewshire Council has one significant trading operation (STO), Catering. Despite budget overspends earlier in the year, the service reported an annual trading surplus of £112,000 in 2009/10, which gave a three year cumulative surplus of £153,000.
24. All bodies within the group received unqualified audit opinions from their external auditors. On consolidation, the excess of assets over liabilities of the council's group significantly reduces the council's own net worth by £130.1 million to £16.1 million due to increased pension deficits as at 31 March 2010.

Trust funds

25. The council acts as trustee for seven trusts with charitable status. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. Currently, the council files annual returns to the Office of the Scottish Charities Regulator (OSCR) based on the existing disclosures for trust funds in the council's financial statements. However, from 2010/11, OSCR requires a set of accounts for each trust fund and that those accounts should be subject to independent examination. The council has yet to establish arrangements for this new requirement.

Key issue/risk 2

Audit testing

26. As part of our work, we tested and took assurance from the council's main financial systems, eg:
 - Payroll
 - Housing rents
 - Main accounting system
 - Debtors
 - Non-Domestic Rates (via Renfrewshire Council)
 - Creditors payments
 - Council tax
 - Cash income and banking
 - Housing and council tax benefits

We also placed reliance on the work of the council's internal audit with satisfactory results.

Prevention and detection of fraud and irregularities

27. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees. The council updated its Code of



Corporate Governance in 2009/10 and has carried out a process of self evaluation of its governance practices against the six principles of the CIPFA/SOLACE governance framework.

NFI in Scotland

28. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
29. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The NFI online application noted that fraud of the value of £13,000 had been detected from the matching exercise at East Renfrewshire Council. This sum has since been recovered by the council. We understand that East Renfrewshire was one of seven councils noted in the national report as requiring to improve their arrangements. In particular the council had not filtered down the population of matches prior to investigating and consequently certain matches received extensive coverage while others received little attention. The council has responded positively to these criticisms with improvement actions for the current year.
30. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010. The national report included a self-appraisal checklist that all participants are recommended to use prior to NFI 2010/11.

Housing benefit

31. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team is carrying out a programme of risk assessments of benefits services in all councils over a two year period.
32. The risks to East Renfrewshire Council's benefits service were originally assessed in April 2009 and a detailed report was issued. The council responded with an action plan and progress on the action plan was assessed by Audit Scotland in September 2010. Of the fifteen actions, ten are fully and two partially completed, with three actions outstanding. The latest assessment has identified 21 new risks, of which, the decline in the accuracy of benefit claim processing and the decline in overpayment recovery performance are of particular concern. A formal report on these issues is currently being prepared for the council's response.

Key issue/risk 3



Legality

33. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Director of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Outlook

34. The key issues for the council to consider are the following:

- Preparing a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. Overall the council has made good progress in this area, in common with around half of Scottish councils. The council should proceed to prepare full shadow IFRS-compliant accounts as soon as is practicable.
- Carbon trading. From April 2010, a new and complex system for charging for carbon emissions was introduced by the European Union (EU). The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. This 2010/11 charge is likely to be £0.2 million for the council.
- Charitable funds held in Trusts will be required to comply with OSCR's new reporting requirements. The council should take the necessary steps to ensure that the reporting and audit arrangements for these funds are established at an early date.



Use of resources

Financial results

35. In 2009/10, East Renfrewshire Council spent £232.9 million on the provision of services to the public. More than £216 million was on revenue services and the remainder was spent on capital items. The council's net operating expenditure in 2009/10 was £230.9 million. This was met by central government and local taxation of £215.8 million, resulting in a deficit of £15.1 million, 6.5% of the net expenditure for the year. The budget set for 2009/10 was based on a Band D council tax level of £1,126 with planned contributions of £0.5 million to reserves. After taking account of statutory adjustments, the council's general fund balance increased by £2.3 million and contributions totalling £4.5 million were made to specific reserves.
36. Members receive budget monitoring reports from the Director of Finance at various points during the year as well as a report on the final outturn which is compared to the last budget monitoring statement. In line with the council's established monitoring cycle, members received the monitoring report for the period to 1 January 2010 in March this year. This report highlighted overspends amounting to £75,000 across the Community Health Care Partnership (CHCP), Environment, Catering STO and the Housing Revenue Account. The most significant of these overspends were in CHCP and Environment. The CHCP overspend was attributed to the continual high demand in most service areas, in particular children and families, the elderly, learning and disability and mental health. The Environment Department overspend was reported prior to the impact of the extreme winter in 2009/10 and was mainly attributed to under recovery of income in planning and waste and cleansing services. The final outturn report showed that all overspends had been brought in line with budget at the year end.
37. The council set its 2009/10 winter maintenance budget at £750,000 based on an "average" winter. In response to the extreme conditions that hit the country in December 2009 and January 2010 and the increased costs of staff and salt resources, the council approved a "supplementary estimate" to increase the budget by £250,000.



38. The following table provides ratio analysis about the council's financial position.

Ratio	Description	Value for East Renfrewshire 2008/09	Value for East Renfrewshire 2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	73%	92%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	10%	12%
Long term borrowing compared to council tax and NDR revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	115%	107%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	560%	547%

39. Appendix C illustrates how East Renfrewshire Council's financial position, in relation to these ratios, compares with other Scottish local authorities. East Renfrewshire Council's ratios, as at 31 March 2010, do not create any cause for concern and are generally better than those of other Scottish councils.

Reserves and balances

40. Exhibit 2 shows the balance of the council's funds at 31 March 2010 compared to the previous year. Funds include a capital reserve to assist in financing future capital expenditure, a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets and an insurance fund which will fund the excess against future claims. At 31 March 2010, the council had total cash backed reserves of £27.9 million, an increase of £6.9 million on the previous year.



Exhibit 2 Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	10.537	8.216
HRA Fund	0.501	0.474
Repairs and Renewals Fund	3.692	2.429
Capital Reserve	12.264	9.173
Insurance Fund	0.952	0.794
	27.946	21.086

41. The general fund increased by £2.3 million during the year to £10.5 million, which equates to 4.6 per cent of the council's net operating expenditure. Of this balance £3.6 million has been earmarked for specific purposes: the equalisation of future PFI/PPP payments, spend to save to enable the council to make upfront investments which will ultimately deliver savings, Whitelee Windfarm and commuted sums from developers in respect of affordable housing. This leaves an unallocated balance of £6.9 million, which, at 3.3 per cent, is less than the council's aim to maintain free reserves of 4 per cent of net expenditure (£8.3 million in 2009/10). In a period of financial uncertainty, efforts must be made to maintain and carefully manage reserves levels.

Group balances and going concern

42. The overall effect of inclusion of all of the council's associates on the group balance sheet is to reduce net assets by £130.1 million, mainly because of pension liabilities. Some of the associates (Strathclyde Police, Strathclyde Fire and Rescue and Renfrewshire Valuation Board) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. However, 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.

Capital performance 2009/10

43. The council's prudential indicators for 2009/10 were set in February 2009. Capital expenditure in 2009/10 totalled £16.6 million, an increase of £0.1 million from 2008/09 and £0.6 million less than budget. We are pleased to report that the level of slippage incurred in the year is significantly less



that reported in previous years, mainly due to tight monitoring throughout the year and a revision of the capital plan to more achievable levels in view of the current economic climate.

44. Exhibits 3 and 4 show the trend in capital slippage and sources of finance between 2007/08 and 2009/10.

Exhibit 3

Capital slippage 2007/08 to 2009/10

	Capital Expenditure £m	Capital slippage £m
2009/10	16.6	0.6
2008/09	16.5	8.6
2007/08	16.9	6.6

Exhibit 4

Sources of finance for capital expenditure 2007/10

	2009/10 £m	2008/09 £m	2007/08 £m
Borrowing	9.3	10.6	10.9
Capital from current revenue	0.4	0.7	0.7
Capital income	6.9	5.2	5.3
Total	16.6	16.5	16.9

Treasury management

45. 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. As at 31 March 2010, East Renfrewshire Council held cash and temporary investments totalling £15.3 million. This is an increase of £9.5 million on the level of investments held at 31 March 2009 (£5.8 million).
46. The current economic climate means that interest rates on investments are low. The council received £255,000 in investment income this year compared to £643,000 last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates and its average cost of borrowing over the year was 4.35 per cent. The council has taken advantage of the drop in interest rates to reschedule £2 million of debt. This has resulted in a net saving of £59,000. The council is



monitoring the opportunities to make further savings through restructuring debt however has concluded there is no financial benefit in doing so at this time due to the lack of incentives available.

47. In October 2008, the council had £1 million invested in the Heritable bank, a UK subsidiary of one of the banks which collapsed during the Icelandic banking crisis. During the year, the recoverability of this investment improved from 80 per cent last year to a current estimate of 85 per cent. As at 31 March 2010, the council had recovered 35 per cent of its investment and further interim payments are expected until September 2012.
48. In March 2009, the Scottish Government issued guidance to local authorities with deposits in Icelandic banks during the period 1 October 2008 to 31 March 2009. The guidance allowed authorities to make a statutory credit to their General Fund to postpone the effects of any impairment loss arising as a result of the collapse of the Icelandic banks until 2010/11. The council chose to apply the statutory credit in 2008/09 and in this financial year, £41,500 has been charged to the general fund. The remaining £149,000 will be charged to the general fund in 2010/11.
49. As reported last year, the council adheres to the CIPFA Code of Conduct for Treasury Management and has established clear procedures for all treasury management activity. The council has continued with its policy of restricting the level and period of investment with risk assessed approved financial institutions.

Financial planning

50. In accordance with the concordat with the Scottish Government, the council again froze council tax levels in 2010/11. The council however recognises that against the background of constrained public finances, anticipated reductions in government grant funding are expected to create a £32 million funding gap over the period to 2013/14. This was stressed to members during the year by the Director of Finance who also noted that it would be important that the council's longer term financial strategy took full account of likely funding constraints.
51. The council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. As the financial constraints faced by the council are significant, the level of savings required cannot be delivered through efficiency measures alone. Actions will be required to be in place for a number of years and are likely to constitute a major change in the way in which the council delivers its services to the public. The council recognise this and the various service redesigns being delivered through its Public Service Excellence programme and other initiatives will be key in helping to ensure council services are delivered in a more customer focussed and efficient manner. Meanwhile, in approving the council's 2009 to 2012 Outcome Delivery Plan (ODP), council departments were challenged to scenario plan the impact on services of up to 15 per cent reductions in budgets.



52. The council is aware that as staff costs represent approximately half of its annual expenditure, the possible funding gap and cost pressures cannot be met without a reduction in overall staff numbers. In response to an invitation to staff to apply for voluntary early retirement and redundancy, 99 employees left the council by 31 March 2010. As recognised in the financial statements, further steps to reduce workforce numbers may be required. Current estimates are that this is likely to be around 10 per cent of the workforce (400 - 500 jobs).
53. These actions clearly indicate that the council has been proactive in addressing future financial constraints as savings can take time to accrue and action is required now to be sure of achieving savings in the future. The UK government announced the results of the Comprehensive Spending Review (CSR) on 20 October 2010. The impact of the CSR is still to be considered by the Scottish Government and grant funding levels for individual councils are still to be agreed. East Renfrewshire Council however believes that its current financial planning assumptions are consistent with the CSR announcement.
54. After taking account of service redesigns, as a result of initiatives like the Public Service Excellence Programme (PSE) and the Clyde Valley review, it is essential that future council budgets are balanced in such a way that protects, as far as possible, the quality of services provided to the public.

Key issue/risk 4

Asset management

55. In 2009, Audit Scotland published *Asset Management in Councils*. This study found that strategic asset management was not well developed in most councils. East Renfrewshire Council has made progress in this area with the approval of the first Corporate Asset Management Plan (CAMP). At present this covers only property, with roads, vehicles and housing asset management plans currently in preparation.
56. The council's key objective within the CAMP, a rationalised property portfolio with fit for purpose multiuse buildings, addresses a number of challenging issues. 24.4 per cent of the council's operational accommodation is unsuitable for its current use, the maintenance backlog amounts to £23.3 million, and a current spend per annum of £15 per square metre on maintenance compares to a recommended spend of £23 per square metre. The council has progressed its strategic review of office accommodation and the Head of Environment is intending to advise members on a series of asset disposal options. Potential capital receipts, potential revenue savings, backlog maintenance figures, and carbon emissions will all be included in the business cases as context.
57. The CAMP also incorporates energy efficiency and environmental objectives and the council has been able to reduce its energy consumption and CO2 emissions by 16 per cent and 15 per cent respectively over the past 2 years. Sustainability and energy efficiency are prime drivers in proposed



capital projects and the council's energy manager is charged with maximising benefit rather than simple compliance. A current example is the design of the Isobel Mair school which incorporates several sustainability initiatives. With reference to disability access, 80 per cent of council buildings are designated as being suitable and accessible to disabled people.

58. The rationalisation of the council's property portfolio places more emphasis on the managed disposal of surplus assets. We conducted a review of surplus assets (a net book value of £4.4 million in the 2009/10 financial statements) and found that, at the time of our review, there were no formal arrangements in place to identify an asset as surplus and that currently there are no approved procedures for how surplus assets should be marketed and disposed.

Key issue/risk 5

59. During the year, a member of the public queried with us whether the council had achieved value for money in the letting of the former Woodfarm Sports Hall to the Woodfarm Education Trust (WET). This council owned property had lain vacant since June 2008 and was recorded in the council asset system as surplus. The property was in need of significant repair and was subject to planning restrictions. In December 2008, following an approach from the Trust to acquire the site for a community facility, the council considered that a 20 year lease, with an option to extend to 125 years, would be the most appropriate option. A lease with the Trust was signed on that basis in March 2010.
60. Rental levels were based on the valuation of the property set for local taxation purposes in 2005 by the Renfrewshire Joint Valuation Board given the council's view that a market rental would be difficult to determine. Since being let, the Trust has invested £30,000 in the fabric of the property and we have been informed by the council that community events within the facility have been well attended and has received positive press reports. We also note the council's belief that in overall terms the development has been a success.
61. The council has informed us that in its opinion, as it was not formally disposing of the property, there was no need to carry out an option appraisal, or formally seek notes of interest from other parties for other uses.
62. In our opinion, in order to demonstrate the achievement of value for money, the option to the lessor of a lease for 125 years, by way of payment of a capitalised rent after 3 years, should have required the council to adopt many of the principles that apply to property sales. As such, proactively seeking potential interest in the property from other community groups and other developers would have provided the council with better evidence to compare and contrast potential financial returns and other forms of community benefits.



Procurement

63. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. The exercise was led by Scotland Excel and results were summarised as non-conformance, conformance, improved performance and superior performance.
64. The results of the first PCA process assessed the local government sector overall as non-conformant (22.6 per cent compliant). While this is a low score, it does not mean that councils are doing anything illegal, but that councils are not achieving best value across their procurement activities.
65. While this initial score for the local government sector is modest, the measure of success of each individual council's procurement performance should be judged on the improvement from one PCA to the next. This will measure the impact of improvement activities councils undertake between assessments.
66. To assist this, in December 2009 councils agreed to participate in a national procurement improvement programme, designed around the PCA results. This improvement programme focuses on delivering improvements in a variety of workstreams which are hosted by Scotland Excel and involves input from council procurement professionals across Scotland. Workstreams are tackling the following key issues:
 - The role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
 - Getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
 - Adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
 - Embedding new systems and processes.
 - Conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.
67. The PCA will run annually using the 2009 data as the benchmark for monitoring progress. It is hoped that improvement activities within councils will result in annual increases in performance and scores.



68. East Renfrewshire Council scored 27 per cent which takes it into the conformance band. In relative terms the council is working above the average for local government, but in absolute terms needs to build on the solid foundations that it has in place to achieve better value for its customers. While there is room for improvement in each of the eight criteria assessed, the council were assessed as non-conformant in specification of goods and services, contract and supplier management and performance measurement.
69. In recognition of the need to improve practices the council has updated its improvement plan to progress issues raised in the assessment. We will monitor the council's progress and will review the results of the follow up PCA.

Key issue/risk 6

Payments to Scottish Water

70. Councils across Scotland are required to bill and collect water and sewerage charges on behalf of Scottish Water. The system governing how this is done is based on the provisions of a Scottish Statutory Instrument which takes account of council tax collection rates and is significantly influenced by levels of council tax benefit claimants. As a result, most councils pay over to Scottish Water sums in excess of those collected. Determining the exact amount in excess of the sum collected is problematic for most councils due to the absence of separate bill payer accounts for council tax and water charges. East Renfrewshire Council currently estimate that they pay Scottish Water around £40,000 in excess of the amounts collected each year. We understand that the Scottish Government is committed to review the current arrangements.

Managing people

71. The council implemented an integrated HR service from April 2010 thus enabling more coherent and consistent HR practice across the Council. Over two thirds of employees are now using the limited e-HR self service. Certain elements, such as absence management and performance appraisal are at the development stage and not yet functional. To enable workforce planning decisions to be made effectively, it is important that staff performance and development is supported by an effective performance appraisal system. The council has completed a review of the Performance Review Development (PRD) scheme, forms and documents have been shared with the Unions and training courses are now running for employees and managers.
72. Detailed manpower plans and policies are very important in a time of increasing financial pressures. During the year the council approved policies on redeployment, flexible working, redundancy and early retirement. The council's Workforce Plan 2009-2014 was also approved.
73. Workforce efficiencies were generated in several areas, in particular through vacancy management and overtime reductions. The council continues to target reductions in overtime and sick pay cost.



The maximising attendance policy was discussed and agreed with the unions and was implemented in September.

74. Two voluntary redundancy trawls (in April and November 2009) have been completed, resulting in a reduction of 99 posts to 31 March 2010 and a non-recurring cost of £2.1 million in the 2009/10 financial year. All employees were advised of the options available for voluntary redundancy except for school based teaching staff. Each request for redundancy was assessed as a business case against a framework of criteria, including the potential affect on service delivery and the potential for making savings. For the redundancies actioned in 2009/10, the council estimates that the costs will be recovered over 1.42 years, after which, annual savings of £2.7 million will be achieved. Since April 2010, a further 13 redundancies have been approved.
75. Although the council appears to have well developed plans to tackle the need to reduce the workforce, it recognises that reductions of up to 10 per cent of the workforce may be required. These reductions will not apply uniformly across the council as service areas respond to different statutory requirements and policy priorities, both local and national. The onus is therefore on the departments to continue with the service redesign initiatives driven by the PSE and to identify where further savings can be made in the future. The initial workforce plan requires to be updated to reflect these ongoing departmental reviews and the financial challenges that lie ahead. The first update of the plan is due to be presented to the Corporate Management Team (CMT) in October 2010.
76. In September 2010, the Cabinet approved the draft harmonised terms and conditions of service package and approved the delegated authority to officers for the ongoing negotiations with the trade unions. The council intend to have the revised terms and conditions implemented by 1 April 2011. A period of protracted negotiations with the unions has resulted in an impasse and cabinet has therefore approved the issue of formal notices to the trade unions that dismissals and offers of re-engagement to staff may be considered. In the council's opinion, this course of action will not prevent the ongoing discussions with the trade unions from continuing with a view to reaching a negotiated settlement. The imposition of a revised terms and conditions package coupled with the nationally imposed pay award of 0.65 per cent has the potential to cause some degree of staff dissatisfaction.

Key issue/risk 7

77. The number of equal pay cases outstanding has increased to 604 by October 2010. Although offers made on 145 cases have been accepted, an additional 314 cases have been received, many of which relate to a disagreement on the appropriate start date for backdating compensation payments. We shall continue to monitor developments in this area.

ICT

78. The council is maintaining good progress in establishing a sound information management environment and new systems will be implemented to improve data collection and storage. Sound



management is being achieved through the implementation of policies, guidance and standards needed to improve information governance, and supported by an information asset register (IAR).

79. The council makes good use of Information Communication Technology (ICT) to support and deliver services. It also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. Investments plans are in place for 2009-2014 for corporate ICT infrastructure, education infrastructure, corporate information security, mobile working and customer management investment.
80. The council is working closely with the Improvement Service as the lead council for implementing aspects of the Customer First Programme including a review of data privacy issues. The council also redeveloped its website incorporating national standards developed as part of the programme, and it has indicated that this approach has provided real efficiencies and saved development time. The website has also been integrated the Lagan customer relationship management (CRM) system, used by the council to track and manage customer interactions.

Data handling and security

81. Data handling and security continues to receive public and media attention as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
82. The work being carried out to progress the council's information management plans, include:
 - the Council's Information Security Officer and Council's Data Protection Officer are working towards ensuring that a list of data sharing arrangements are included in the IAR
 - the Council's Information Security Officer has developed a sharing protocol which is issued for any sharing arrangements initiated by East Renfrewshire Council
 - Information Security Workshops are on the corporate training calendar and available to all employees should they be approved to do so by their line manager. Furthermore the InfoAware Software comprising a number of security awareness modules is now available on the council intranet
 - it is now accepted practice that major upgrades to systems that process personal data are reviewed by the council's data protection officer or equivalent.



Outlook

83. The country is in a period of reduced economic growth with significant implications for public finances. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget. This has significant implications for the council as overall resources are likely to reduce against a backdrop of increasing demand for services.
84. The council's 2010/11 budget was approved by members in February 2010. The budget was set based on council tax levels remaining frozen for the third consecutive year with the Band D charge remaining at £1,126. The budget also reflected a reduction in revenue grant funding of £2.3 million and £649,000 for the capital grant following the additional £5 billion efficiency savings target which had been set nationally.
85. The revenue estimates for 2010/11 set net expenditure for the year at £226.2 million which represents an increase on the 2009/10 budget of £4.0 million. This increase is mainly due to additional funding being received to meet the 18:1 pupil/teacher ratio in P1-P3 classes, the increasing nursing care home fees and care provider costs due to demographic changes and additional funding for increased investment in roads maintenance.
86. The 2010/11 budget assumes a contribution of £400,000 to reserves but also provides for £1.350 million investment from reserves in property and road repairs. A further £400,000 is estimated to be spent on spend to save projects under the PSE programme.
87. The latest budget outturn reports for 2010/11 indicate that current expenditure plans are running under budget.



Governance and accountability

Introduction

88. Corporate governance is about direction and control of organisations. Councils are large complex organisations so good governance is critical. In December 2002, the council adopted a code of governance which was consistent with the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government – A Keystone for Community Governance*. The aim of this code is to provide a statement of the structures and processes that the council intend to govern its internal policy making, community leadership, partnership working and the mechanisms designed to ensure proper control and accountability.

Scrutiny

89. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Audit Committee's remit includes the control environment, to review both internal and external audit outputs and plans and to promote an anti-fraud culture. The committee is well attended and demonstrates best practice by being particularly active, operates a culture of constructive challenge and undertakes its own programme of investigations. The committee:

- is a formally constituted committee with clear terms of reference, reports directly to council and usually meets in public
- membership is in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council
- reviews the audit certificate and considers matters arising from the audit of the annual accounts. While copies of the unaudited accounts are made available to members there is no formal meeting to discuss the financial statements submitted for audit. This is generally accepted as good practice and allows members to be more proactive in the monitoring of audit recommendations and findings.

90. The Accounts Commission issue a range of national study reports and an overview of local government each year. Recommendations are generally directed at all councils and the Audit Committee now also review these as a matter of course.

Roles and relationships

91. The challenges associated with the financial climate facing the council have the potential to create tensions within the council. Effective leadership from members is essential to ensure that changes in



service provision are implemented in an informed and constructive manner. A recent Audit Scotland report *Role and working relationships: are you getting it right?*

www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf includes a tool kit for councillors and officers to assess their relationships.

92. Continuous professional development will also help in this regard and the council has promoted the benefits of Personal Development Plans (PDPs) since their inception in 2007. A personal development record is maintained for each member, encompassing both formal training and the more informal ways by which members increase their knowledge and understanding of both council business and local government issues eg involvement in departmental briefings, participation at conferences. All members, bar one, have a PDP in place, and HR is currently inviting members to attend follow up meetings to update their PDPs for the remainder of the 4 year term. Information and consultation sessions, held immediately before council meetings, are a useful approach to ensuring that as many members as possible receive information that is relevant to them in their role.
93. Members have already demonstrated their leadership role in their capacity as cabinet conveners and in the championing of certain council initiatives. This leadership role will be increasingly important in addressing the challenges ahead.
94. With reference to the conduct of members, there have been no complaints to the Office of the Chief Investigating Officer or referrals to the Standards Commission during the year.

Partnership working

95. The East Renfrewshire Community Planning Partnership (CPP) has continued to work towards the delivery of the targets set out in the 2009 SOA update. Performance and Accountability Reviews, implemented in 2009, provide the opportunity for the council's Chief Executive, CMT and key senior partner representatives to consider SOA progress. For example, the May 2010 meeting focused on economic, health and community safety targets and agreed specific improvement actions.
96. The community planning arrangements have been in place for a year now and the CPP has acknowledged that it would be useful to consider the effectiveness of the outcome delivery mechanisms and other working arrangements. Budgetary pressures should also remain a key agenda item so that partners have sufficient warning of each other's constraints to deliver on prior commitments.
97. The council participates in the East Renfrewshire Community Health Care Partnership (CHCP) with Greater Glasgow Health Board. Budgets and staffing resources within each of the partner organisations have been aligned with the aim of delivering an integrated approach to social work services. SWIA commended the CHCP in the area of children and families for the multi - agency development of integrated plans across key themes. A further example of this integrated approach is the new Barrhead Health and Social Care Centre which is currently under construction.



Community engagement

98. Community engagement is a key element of community planning arrangements and as such is subject to the council's ongoing review. Phase one of the review, reported to the Cabinet in March 2010, found that the coordination, planning and management of community engagement could be improved at a corporate level. This would serve a key objective of involving local people earlier in the engagement process and feeding back to participants and the wider public in a consistent way. The Cabinet agreed to establish a corporate group to oversee the coordination and prioritisation of engagement activity, including the development of a common planning framework.
99. The three local area forums and ten community councils continue to provide a conduit for citizens views on service issues. Each area forum is chaired by an elected member and the minutes of meetings are reported to Cabinet. The fifteenth survey of the Citizens Panel of 1200 people in February 2010 returned a response rate of 55 per cent. The results are available on the council's website and a subset of these results now features in the annual Statutory Performance Indicator report. With the level of service provision coming under increasing financial pressure in future years, the customers' perception of services will be important and the council should encourage participation and response wherever possible.

Public performance reporting

100. The council produces an annual performance report. It is published on the council's website and available in hard copy on request. Although the report presents a balanced picture of the council's performance against its corporate priorities, it is not easily assessable to all citizens due to its length and complexity.

Governance and internal control

101. An updated Code of Governance for 2010/11 which follows the key principles of the CIPFA/SOLACE framework has recently been approved by members. New additions to the code include strategy guidance, to ensure all new strategies link to the Single Outcome Agreement (SOA) and Outcome Delivery Plan (ODP) and are outcome focused, and Brightwave e-learning, to engage employees with a range of online training packages.
102. Following a review of the existing code during 2010, the council reported success in addressing the issues highlighted for improvement such as the development of a new ODP, the roll out of the Public Service Improvement Framework initiative, etc. Work is ongoing however, and key actions for 2010/11 include refreshing the Corporate Statement and reviewing the Equality Strategy.
103. The council performed a self assessment of compliance with the Code during the year with satisfactory results. Both internal audits' and our own work in the area of governance found no evidence to contradict this.



104. As raised in our AIP, there is a large number of people (2,200 approximately) who have applied for one of the council's 3,080 houses and in our view, the council's system underpinning housing allocations must be transparent and robust. In July 2010, internal audit performed an audit of the arrangements surrounding how the council allocate housing tenancies.
105. Internal audit's work identified serious shortcomings in the standard of documentation retained by the housing department to support individual lettings decisions and other issues associated with letting procedures including the transparency of approving lettings to staff members. The highly critical report was followed up promptly by senior officers within the council under the direction of the Chief Executive. Independent legal advice confirmed that there was no need for legal action in those cases where the justification for housing allocations was questioned.
106. The report made 21 key recommendations which were largely accepted by management, although two associated with how to verify applicants information were not accepted on grounds of cost. Management action has been promised to ensure existing system requirements are followed at all times and new controls are being introduced to improve the standard of record keeping, particularly when documenting the reasons for allocation decisions. Additional levels of management checks are also being introduced to improve the control environment within this department of the council.
107. The professionalism of the internal audit section in carrying out this review, together with the speed and commitment of senior management within the council to address the reports findings is to be commended. It is an essential element of good governance that internal audit's work is considered in a timely manner and remedial action taken promptly. Audit Scotland, working in conjunction with the Scottish Housing Regulator, will be examining aspects of the council's administration of housing and other associated matters before the end of the year.

Outlook

108. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases. In 2010/11, we expect to see further developments in accountability, governance and public reporting arrangements within the council.



Performance management and improvement

Introduction

109. An effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities, to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that the council did not have any significant weaknesses in this area. This section provides a high level overview of performance management in East Renfrewshire Council.

Vision and strategic direction

110. The council provides good community leadership at a local level. The Single Outcome Agreement (SOA) is the core strategic document for the council and its partners. We are satisfied that there is evidence of good linkage between the SOA and the council's own ODP and other council strategies. The ODP sets out how council departments will contribute to delivering SOA outcomes.

111. All inspectorates reported evidence of effective vision and strategic direction within the council. We are satisfied that the council has experienced staff that work well with members to provide clear vision and leadership. The council promotes a culture of continuous service improvement through the PSE programme.

Performance management

112. Overall, we note that the council has satisfactory arrangements in place that allow for effective performance monitoring. The council makes use of various performance management tools such as covalent to report performance across all departments. There is mid and end year reporting on SOA outcomes, Statutory Performance Indicators (SPIs) and the ODP. Annual performance reports, including departmental reports on ODP performance, are available on the council website.

113. Following a review of performance management, the council aims to present more concise information to allow members more time to discuss the most crucial issues. There will be more use of quantitative information and, where possible, trends and benchmarks will be highlighted to allow members to identify the comparative performance of the council. PSIF improvement plans are focused on performance management reviews of each department or service and the Cabinet will develop its own workplan each year.

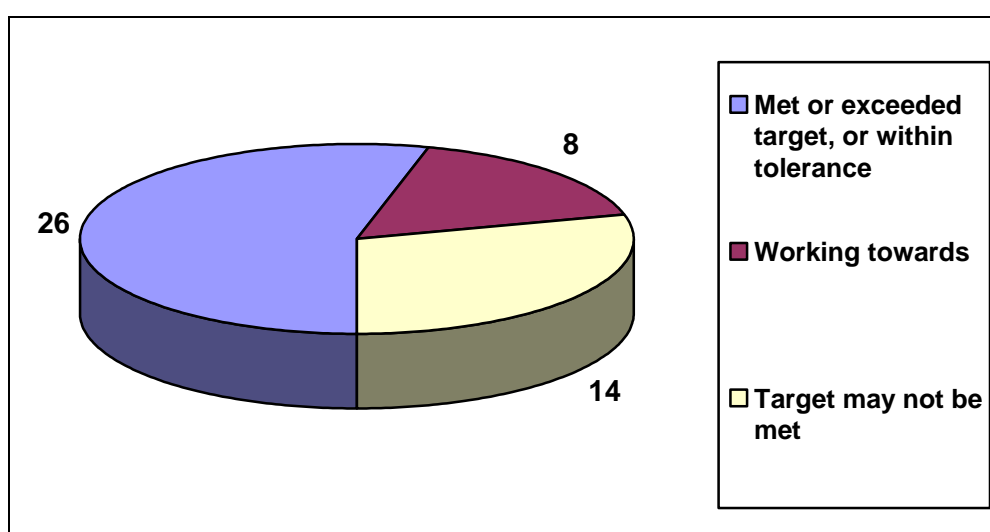


114. With reference to SOA performance, many of the 2011 SOA targets have been achieved. A partnership improvement action plan has been approved by members to consider areas where targets are not being met. Areas which are causing concern are around unemployment, affordable housing and vulnerable residents.

115. Exhibit 5 summarises progress in 2009/10 against 2011 SOA targets measured through the SOA.

Exhibit 5

Achievement of East Renfrewshire Council's SOA targets 2009/10



116. Understandably, the economic climate has had an impact on performance in particular in the figures relating to unemployment. There is to be a continuation of partnership activity to support individuals and businesses through the economic downturn.

Performance indicators

117. The Accounts Commission has significantly reduced the range of SPIs that all councils must report. This change was to encourage councils to provide a much clearer and rounded picture of performance based on best value criteria and on the individual council policy objectives. To address this, the council introduced a number of new indicators, in addition to the 25 SPIs, eg indicators on procurement, Citizens Panel feedback etc. The results for 2009/10 broadly show the council's performance is improving or staying the same in around 65 per cent of the indicators, where a comparison with 2008/09 is available.

118. Action was taken to try to improve performance on those indicators which featured in the 3rd and 4th quartile national rankings from 2008/09. The council revised its absence policy and scrutiny procedures in order to address the 13.7 days lost per employee for non – teaching staff. The rate of absence has improved to 13 days in 2009/10. Current tenants' arrears as a percentage of net rent



was 21st in the 2008/09 national ranking at 8 per cent and although the council has increased the support offered to tenants in this regard, the 2009/10 arrears has declined to 8.3 per cent. A housing sub group has addressed the performance of the housing repairs service and the percentage of repairs completed within target times. The 2009/10 indicator, however, shows a decline to 73.3 per cent, from 80.5 per cent in 2008/09.

Key issue/risk 8

Shared services

119. The eight councils (including East Renfrewshire) forming the Clyde Valley Community Planning Partnership (CVPP) commissioned Sir John Arbuthnott to undertake a review of joint working and shared services. The review identified 10 areas or work streams where it was felt there was scope for joint working and shared services. A phase 1 programme was agreed in January 2010 and this prioritised seven of the work streams, as indicated in Exhibit 6.

Exhibit 6

Shared services work stream leads

Works Stream	Lead Council
Integrated waste management	North Lanarkshire Council
Integrated health and social care	Renfrewshire Council
Social transport and fleet management	Glasgow City Council
Property sharing and management in hubs	South Lanarkshire Council
Joint approach to support services	East Renfrewshire and Inverclyde Councils
Common charging framework	East Dunbartonshire Council
Joint economic strategy	West Dunbartonshire Council

120. The programme is managed and monitored by Leaders and Chief Executives of the CVPP and each work stream has an agreed project remit and plan and is supported by a task group from across the constituent authorities. Each project has an outcome or output target of March 2011, at the latest. Four of the work streams (waste management, social transport, support services and health and social care) are preparing outline business cases for submission to the CVPP on 26 November 2010. Target savings are 10-20 per cent in each service area. East Renfrewshire Council is jointly leading the support services workstream.

Public Service Excellence Programme

121. The Public Service Excellence Programme is the umbrella for all change, efficiency, redesign and shared service activities across the council. It seeks to coordinate and prioritise continuous



improvement activities across all departments. Since its introduction in February 2009, the programme has delivered savings and efficiencies in a number of areas including a revised HR structure, increased use of electronic payment methods and a new e-planning service. In 2009/10, the programme delivered £2.3 million in savings.

122. The council has reported that the main risk to delivering its PSE is resistance to change and the limitation of resources available to support the programme. It has however identified a number of initiatives to pursue in 2010/11 including to further increase payments received either online or by the automated telephone service, rationalise council buildings and conduct a council wide review of business support activities.

123. The council is fully aware of the challenges it will face in the short to medium term through significant funding reductions and is using the PSE programme to identify ways to reduce its expenditure to reduce the impact of the funding shortfall, while continuing to deliver successful services.

Key issue/risk 9

Progress against audit risks identified in the AIP

124. This report includes any significant findings that have arisen from our annual review of the management of strategic risks contained within the AIP which was published in July 2010. The AIP contains audit and scrutiny risk assessments prepared by a local area network with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of East Renfrewshire Council.

125. The overall assessment of risk for East Renfrewshire Council is “no significant risks”. As a result planned scrutiny activity is currently assessed as low. The council is recognised as having several areas of performance, most notably educational activities, where it excels and these were recognised in the AIP. As with all risk assessments some areas on concern and uncertainty were identified. The following paragraphs note the position against each of these areas.

Protection and welfare of vulnerable people, including access to opportunities

126. The AIP expressed uncertainty over the future of services for older people given the projected 32 per cent rise by 2031 in older people numbers. The council recognises the challenges it faces and has developed a strategy which recognises the need to shift resources to reflect this changing demography. The success of the council’s strategy in this area will be subjected to regular monitoring.



The impact of the greater financial pressures currently faced by councils

127. This is an area of uncertainty for most Scottish local authorities. The council has several initiatives designed to help manage the impact of future budget reductions which are discussed at paragraphs 50 to 54 above. We will continue to monitor the council's response to financial pressures.

Road condition

128. At the time of our risk assessment, the council's road network was considered in need of significant remedial work to address historic below average maintenance performance and the impact of a severe winter. The council's current budget provided for an additional £500,000 to be spent on road maintenance. The road maintenance report to cabinet of August 2010 highlighted the need for the 2011/12 revenue and capital budget setting processes to consider the case for increased funding. At the current level of funding the deterioration in the road network will increase, eventually resulting in some roads becoming unsafe and unusable. The council is currently in year 3 of a three year nationally coordinated project to produce a roads asset management plan. This will draw together all relevant policies, practices and procedures, which currently exist at various sources, and allow more focused management and also comparisons with other councils.

Housing stock

129. This was assessed as an area of concern. The council is yet to complete a full survey of its housing stock which will determine the extent of investment required to meet its obligations in meeting the Scottish Housing Quality Standard by 2015. Furthermore, concerns were expressed over the council's record of ensuring the provision of new social housing and with regard to performance in carrying out certain landlord functions.

130. Since the publication of the AIP, the council has commissioned the survey with completion due for January 2011. It is likely that this data will require a revision of the capital programme. The council continues to work closely with developers on the delivery of its affordable housing policy and welcomes the national initiative to explore options for bringing more institutional investment into housing. The Local Housing Strategy Working Group is continuing to monitor progress on performance issues eg there has been an improvement in the amount of rent loss due to voids.

Homelessness

131. All Scottish councils have an obligation under the 2003 Homeless etc (Scotland) Act to ensure that by April 2012 all unintentionally homeless households would be entitled to settled accommodation. It was not clear to us that the council had sufficiently developed plans to address this obligation. Since the publication of the AIP, the Director of Environment has reported service improvements to cabinet and intends to undertake a further review of the service to ensure the legislative and single outcome



agreement requirements are met. This area will be subject to scrutiny activity by the Scottish Housing Regulator in late 2010.

Equality and diversity

132. East Renfrewshire Council introduced its Minority Ethnic Community Engagement and Development Strategy in March 2010. This is intended to be a three year strategy. The council has an ongoing commitment to embed equality and diversity into all of its functions with progress on equalities being reported in the mid and year-end performance reports to the Chief Executive who is the equalities champion.

Risk management

133. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance. Overall we are satisfied that the council has a sound approach to managing risk and has a well developed approach to risk management at both a corporate and departmental level. The corporate risk register reflects the SOA while the departmental risk registers all now tie in with the ODP.

134. The corporate risk management group meets quarterly to discuss the corporate risk register. Individual departments maintain their own operational risk registers. Work is underway by officers to incorporate partnership working risks onto the registers. The Audit Committee receives reports on corporate risks quarterly, with the corporate risk register being updated on a biannual basis. We have reviewed the latest risk register and all of the risks identified in our AIP have been accounted for.

Outlook

135. The council will have to face up to a number of difficulties in driving forward its PSE programme and it will be important for the council to accurately monitor and measure the achievements of this programme.

136. Maintaining and improving performance in its SOA and SPIs in a period of financial constraint and organisational change will also be challenging for the council.

137. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk/work/scrutiny/index.php. The timing of East Renfrewshire's best value audit will be determined by annual risk assessments. There are currently no plans for any best value work in the council over the next three years. However, the AIP does include scrutiny activity by other scrutiny bodies over the next three years. Inspection activity by SWIA (follow up work), Scottish Housing Regulator (review of homelessness and other housing issues) and HMICS (best value of Strathclyde Police) is planned over the next few months.



Appendix A

Key external audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9/2/10	8/4/10
Annual Overview of Internal Audit	9/2/10	Letter to Chief Executive
Assurance and Improvement Plan	1/7/10	23/6/10
Annual Overview of Internal Financial Control	10/5/10	Letter to Director of Finance
IFRS – Opening Balance Sheet	22/7/10	30/9/10
Report on financial statements to those charged with governance (ISA 260)	15/9/10	22/9/10
Audit opinion on the 2009/10 financial statements	30/9/10	11/11/10



Appendix B: Action Plan

Key Issue/Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue/Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	14	<p>IFRS Preparation</p> <p>IFRS will be introduced from 2010/11. The council should prepare full shadow IFRS based accounts as soon as is practicable.</p> <p>Key Issue/Risk</p> <p>Any delay in the preparations for IFRS will adversely affect 2010/11 reporting deadlines.</p>	Work has already commenced in this area. It is anticipated that this will be completed by 31 March 2011.	Chief Accountant	31 March 2011
2.	25	<p>OSCR Reporting Requirements</p> <p>OSCR will require councils to revise the financial reporting for charitable funds wef 2010/11. The council need to formalise how it plans to comply with the new arrangements.</p> <p>Key Issue/Risk</p> <p>Non-compliance with OSCR requirements could lead to adverse audit opinions.</p>	Discussions with OSCR are on-going regarding their requirements for the 2010/11 financial statements.	Chief Accountant	31 March 2011
3.	32	<p>Housing Benefit</p> <p>Our performance audit identified a decline in the accuracy of benefit claim processing.</p> <p>Key Issue/Risk</p> <p>In addition to the affect on benefits awarded to the individual claimants, a continuing decline in accuracy exposes the council to the risk of errors being uncovered in the audit of the annual housing and council tax benefit subsidy claim and subsequent sanction by the DWP.</p>	<ul style="list-style-type: none"> ▪ Target of 500 audits set for 2010/11 ▪ Action taken against staff who regularly fail audit ▪ Audit trends analysed and discussed at Team Leader meetings ▪ Retraining of staff ▪ Accuracy noted at Revenues Management Team 	Benefits Manager	Action taken in June 2010



Action Point	Refer Para No	Issue/Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	54	<p>Financial pressures</p> <p>The significant budget cuts which are expected to fall out of the UK government's comprehensive spending review will have a major impact on the council's ability to deliver services at current levels.</p> <p>Key issue / risk</p> <p>The council must keep its financial planning assumptions up to date to reflect changing circumstances. It must also ensure that members are regularly consulted on all options that are required to maintain a balanced budget.</p>	<p>A long term strategy to deliver balanced budgets on a prioritised service basis is being followed. This incorporates scenario planning to accommodate ongoing uncertainties on funding levels.</p> <p>This process is being coordinated by the Budget Strategy Group.</p>	Director of Finance	Ongoing
5.	58	<p>Asset Management</p> <p>Our review of surplus assets found that there were no formal arrangements in place to identify an asset as surplus and no approved procedures for how assets should be disposed of.</p> <p>Key issue/risk</p> <p>This lack of a definitive procedure exposes the council to challenge on best value and other grounds.</p>	Development of an asset disposal strategy.	Head of Environment	31 March 2011
6.	69	<p>Procurement</p> <p>The council has updated its improvement plan to progress issues raised in the Procurement Capability Assessment.</p> <p>Key issue/risk</p> <p>Without further improvement in practices the council will not realise the full efficiencies achievable from "superior performance" as defined by the McClelland report.</p>	<p>The Corporate Procurement Section has been actively involved as a leading user in 5/6 of the Procurement Improvement Programme workstreams.</p> <p>Implementation of the measures contained within the updated Improvement Plan submitted to the Corporate Management Team in March 2010 has resulted in a PCA 2010 result of 43% (subject to confirmation). The full benefit of a number of measures now adopted will also not be reflected until the PCA 2011 exercise, which suggests the</p>	Corporate Procurement Manager	To reach Improved Performance by 2013



Action Point	Refer Para No	Issue/Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>initial target of Improved Status by 2013 is on target.</p> <p>It should be noted that Superior Performance is "World Class" and would require a significant investment in resources, which may not reflect a return on investment.</p>		
7.	76	<p>Managing People</p> <p>During a period of organisational change, a premium should be placed on good staff relations in order to realise planned efficiencies etc.</p> <p>Key issue/risk</p> <p>The imposition of the recent pay settlement and planned revised terms of conditions for staff may compromise good staff relations.</p>	<p>Effective communication with staff and trade unions will be prioritised during this period of organisational change. Effective HR policies will support and underpin organisational change which impacts on staff.</p>	Deputy Chief Executive	Ongoing
8.	118	<p>SPIs</p> <p>The council recognises the need to take action on SPIs where performance is poor.</p> <p>Key issue / risk</p> <p>The impact of funding cuts and staff reductions / service re-design may make it more difficult to improve performance in areas which are already underperforming.</p>	<p>Managing performance will remain one of the highest priorities of the CMT through 6 monthly performance reviews.</p>	Deputy Chief Executive	31 March 2011



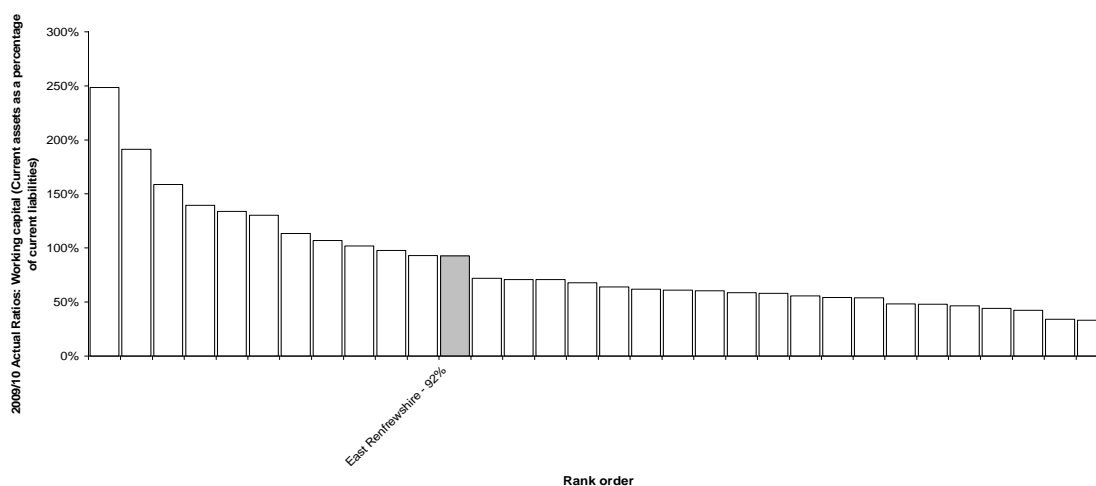
Action Point	Refer Para No	Issue/Risk Identified	Planned Management Action	Responsible Officer	Target Date
9.	123	<p>PSE programme</p> <p>The council has developed its PSE programme to produce a number of initiatives to improve and/or make more efficient services to the public.</p> <p>Key issue / risk</p> <p>It is intended that service re-design will be taken forward through this programme to ensure that the council is able to deliver services as efficiently as possible. The council needs to ensure that it maintains its momentum on this programme to minimise the impact of the forthcoming budget cuts on service provision.</p>	<p>The PSE Board will continue to drive progress on projects within the programme and agree priorities and timescales for the programme as a whole.</p>	<p>Deputy Chief Executive</p>	<p>31 March 2011</p>



Appendix C: Ratio Analysis

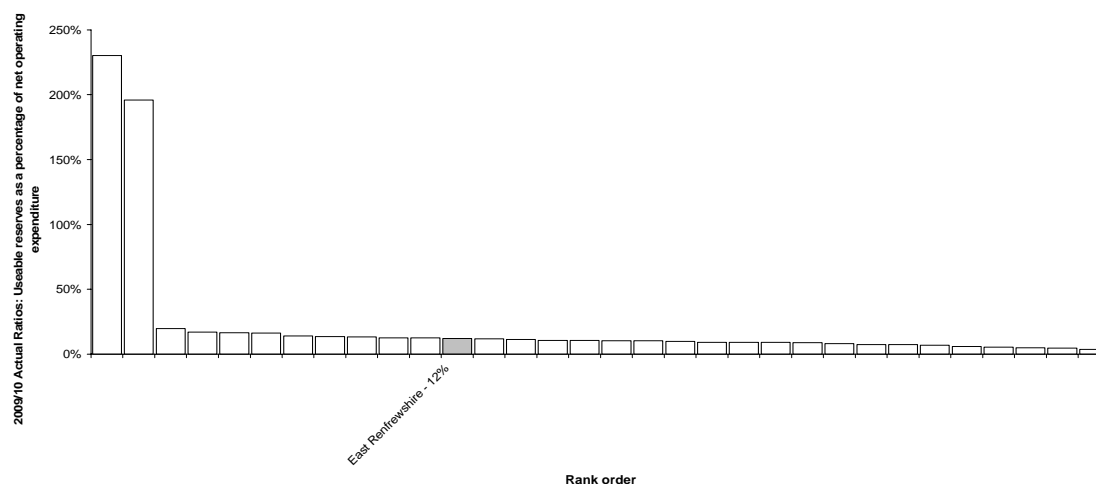
All Scottish Councils (East Renfrewshire Council highlighted)

Working capital 2009/10

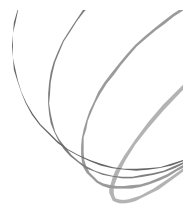


This ratio indicates whether the council has enough short term assets to meet its current liabilities so above 100% is desirable.

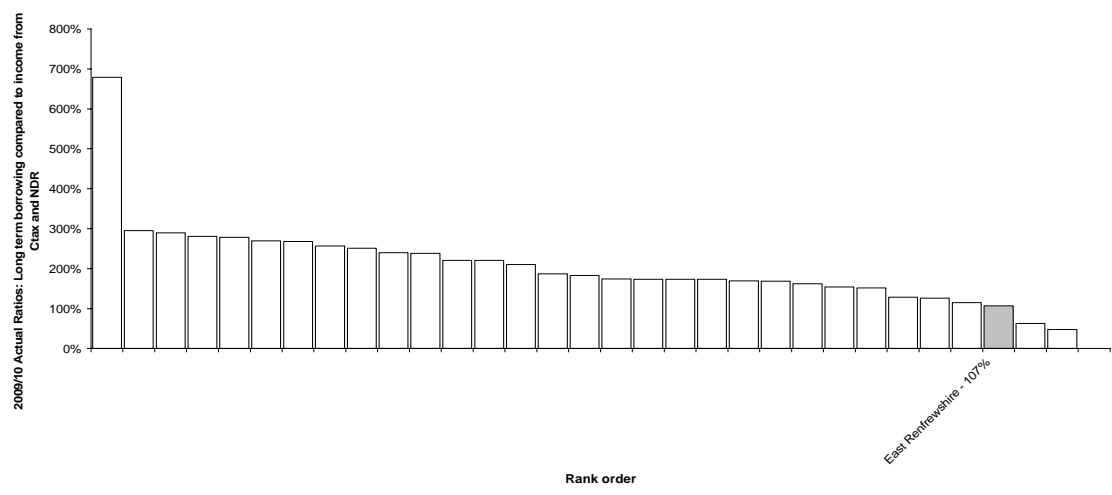
Useable reserves as a percentage of net operating expenditure 2009/10



This ratio measures the council's ability to meet potential future variations in expenditure. The higher the percentage, the more the council will be able to absorb unforeseen costs.

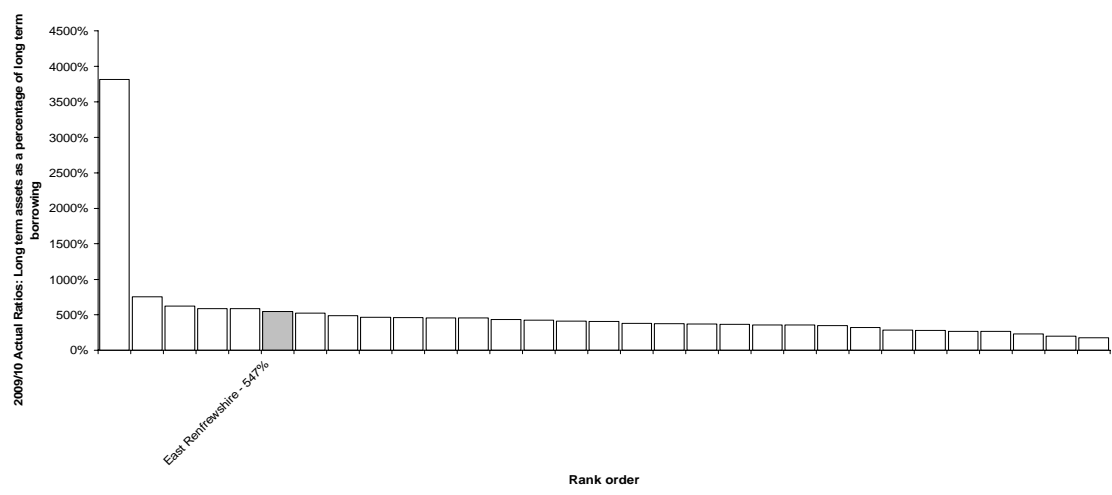


Long term borrowing as a percentage of Ctax and NDR income 2009/10



This ratio measures the effect of long term borrowing on the council's budget. In this case, a lower percentage is desirable.

Long term assets as a percentage of long term borrowing 2009/10



This ratio demonstrates the relationship between the long term assets held by the council and the long term borrowing. A higher percentage is desirable.