Renfrewshire Council

Report to Members on the 2005/06 Audit

Contents

Key messages

Introduction

In 2005/06 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 key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an unqualified opinion on the financial statements of Renfrewshire Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.

The council had corporate governance systems in place during 2005/06 that operated within a sound control environment. Areas for improvement, to further strengthen the internal control environment, have been agreed with the council. The council has been pro-active in its approach to the *National Fraud Initiative* and has used the opportunities presented by the initiative to assist in the detection of fraud.

The council received a full best value audit in 2006 with the report being published in July 2006. The council received a positive report and is in a good position to meet the changing demands on public services in its area. An improvement plan which responds to issues raised by the audit has been drawn up. Progress against this plan will be followed up by the local auditor.

At the end of the year, the council had a net revenue deficit of £1.668 million and a draw on the council's reserves has been necessary to meet the exceptional costs arising from the compensation payments for equal pay.

As a consequence of utilising reserves to fund the exceptional costs relating to equal pay, there is an unallocated general fund balance of £3.771 million. The council recognises that this level of unallocated general reserve is insufficient to provide for future contingencies or unforeseen spending pressures and has approved a strategy to increase its unallocated reserve balance by around £5 million by 2007/08.

The strategic objectives of both the corporate statement and community plan align with the council's twenty key corporate initiatives and a performance framework has been developed to monitor the progress of these initiatives. Monitoring is by the corporate management team, and at a senior member level, through the leadership board. Progress for each initiative is broadly in line with expectations, although slippage in progress has occurred in certain areas.

The statutory performance indicators showed improvement overall on year-on-year performance, with 21 indicators improved from 2004/05 and 14 declined. However, there are eight of the performance indicators which fall into the poorest performing lower quartile. The council has recognised that significant improvement is required in these indicators. It is consulting with top performing councils to identify how Renfrewshire Council can improve in these areas. This review is being overseen by the scrutiny board and is due for completion in January 2007.

Sound progress has been made in the risks areas identified in our audit risk analysis and plan issued to the scrutiny board in May 2006. This includes the approval of an asset management strategy; progress on major developments for the council such as the headquarters refurbishment, and schools PPP contract; payment of the majority of equal pay claims; and the community healthcare partnership agreement with NHS Greater Glasgow and Clyde becoming operational on 1 September 2006.

The council has approached the challenge of the efficiency agenda in a structured and systematic manner and it is evident at this stage that there is a clear commitment to efficient government objectives. However, the council is not yet in a position to fully demonstrate that its efficiency savings have not impaired service outcomes or quality.

The council has sought to limit its exposure to financial risk associated with equal pay claims by agreeing to offer equal pay compensation to specific groups of employees. As a consequence, 98% of employees eligible for equal pay compensation have accepted offers. A provision has been made for the estimated costs that could result if the remaining employees in these groups pursue their claims through the tribunal process.

The council has still to implement the single status agreement. However, good progress has been made in negotiations. The recent “yes” vote by Unison members means that together with non-trade union employees, the number of employees who have agreed to the single status agreement represent 82% of the workforce and it is anticipated that implementation for these employees will take place by the end of the 2006. A collective agreement has been signed with Unison, and the council has taken a decision to progress the statutory process of implementation for the remainder of its employees.

Outlook for future audits

The costs of equal pay compensation in 2005/06 was a considerable draw on the council’s accumulated reserves and has left the council with balances below that considered adequate by the council for future contingencies and unforeseen cost pressures. While the council plans to replenish general reserves over the coming years, it may be necessary to apply this contingent balance to future unforeseen cost pressures.

The council has not yet fully implemented the single status agreement. Until a local agreement is concluded for all staff, the initial and continuing costs of single status cannot be reliably estimated. This represents a future risk and could add to cost pressures for the council.

The council has now undertaken a ballot of Renfrewshire tenants on the transfer of its housing stock to Renfrewshire Housing Association. The ballot recorded a 'no' vote. This represents a significant risk to the council, as a stock transfer would have secured the investment required for the necessary improvements to housing stock to meet housing quality standards and the council had not prepared a contingency plan in the event of a 'no' vote to transfer.

The council has recently implemented a new housing management system and phase1 of the cash receipting system, and is developing a new suite of integrated financial systems which will replace the current financial ledger as well as the systems used for processing debtors and creditors accounts. The new financial ledger system is due to go live in December 2006. Given the importance of sound financial systems, the success of the implementation plan is essential to the council, and, until such time as the system is bedded in and is operating in line with expectations, this remains a risk to the council.

The council have made a positive start in addressing the challenge of the efficient government initiative to the extent that they anticipate that efficiencies achieved over the three years commencing 2005/06 will exceed the reductions in grant support. It will be challenging for the council to deliver the programme of savings while managing the impact in overall corporate objectives. It will be equally challenging for the council to put in place a benefits tracking system to demonstrate that efficiency savings have not impaired service outcomes or quality standards.

Developing modern infrastructure is essential for supporting the delivery of improved services. Successful delivery of the schools PPP project will remain a key component of the council's improvement strategy. The council also needs to develop its asset management process to ensure that all assets are used effectively and efficiently to deliver services in line with the council's priorities.

Changes to the code of practice on local authority accounting (ACOP) will have a significant impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

This is the final year of our current appointment to the audit of the council. From 2006/07 Audit Scotland will remain as the council's appointed auditor and the new engagement lead will be Peter Tait.

Audit Scotland, October 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of Renfrewshire Council. The scope of the audit was set out in our audit risk analysis and plan, which was submitted to the scrutiny board in May 2006. This plan set out our views on the key business risks facing the council and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

Performance

Introduction

3. In this section we summarise key aspects of the council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit which was carried out during the year and the findings of national performance audit studies.

Corporate objectives and priorities

4. The corporate statement sets out the council's vision, values and key strategic objectives. The community plan, covering the ten year period from 2000 — 2010 sets out the priorities for the council and its partners. The four strategic objectives from the corporate statement and the six shared strategic objectives from the community plan align with the council's twenty key corporate initiatives which, in turn, are linked to the relevant service plans.

5. The strategic objectives of the corporate statement are :

- raising achievement, setting standards and continually improving;
- ensuring that our services are designed to meet the needs of all residents;
- modernising the way we work; and
- developing services in ways which can be sustained.

6. The shared strategic objectives of the community plan are :

- to provide and promote learning opportunities which meet the needs and aspirations of individuals, business and communities;
- to support and sustain economic growth which generates work and wealth;
- to make significant progress towards Renfrewshire being one of the healthiest areas in Scotland;
- to provide the best possible support and care to vulnerable individuals;
- to improve and maintain our neighbourhoods and homes; and
- to create safe places to live, work and play.

7. A total of 20 key initiatives have been aligned to these objectives, which include the following :

- school estates strategy;
- housing stock transfer;
- modernising residential care for older people;
- efficient government;
- ambitious excellent schools; and
- achieve best value.

Overview of performance in 2005/06

Best value audit

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

9. The council received a full best value audit in 2006 with the report published in July 2006. The audit concluded overall that:

> *Renfrewshire Council has adopted a modernising agenda to ensure it is in a good position to meet the changing demands on public services in its area. It understands what needs to be done to develop best value and is making good progress in developing systems and processes to support continuous improvement. Now that these underlying systems are becoming established the council needs to concentrate on improving the quality and efficiency of its services year on year to deliver measurable benefits for local residents. It has developed a positive and customer focused organisational culture which effectively supports the drive for improvement.*
>
> *The council has strong and effective leadership and needs to build on its more positive recent experiences to sustain this trend for the future as it enters a period of further change with the 2007 electoral reforms and the retirement of the chief executive. It needs to ensure its political and managerial structures continue to support its business needs.*

10. The best value audit identified twelve areas where the council could improve its performance. An improvement plan in response to the issues raised by the audit has been drawn up, the details of which were reported to council in September 2006. Progress against this plan will be monitored through six weekly reports to the modernising and improvement group and quarterly progress reports to the corporate management team and the scrutiny board.

11. The council received a HMIe review in May 2006. It is expected that the final inspection report will be issued in November 2006.

Key corporate initiatives report

12. Each of the council's key corporate initiatives are linked to the objectives of the corporate statement and the community plan, and is led by at least one member of the corporate management team. Progress against objectives are monitored and reported at six monthly intervals to both the corporate management team and the leadership board.

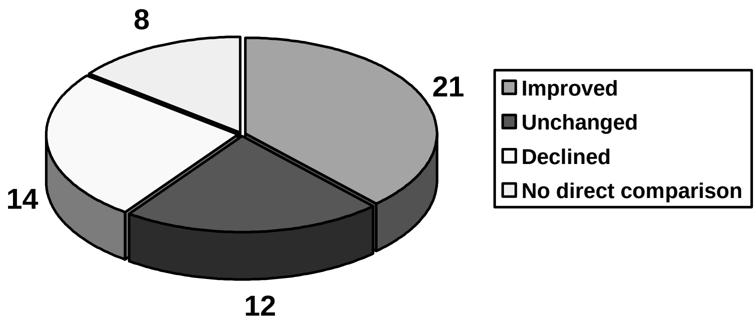
13. It was reported that overall progress at 31 March 2006 for each initiative was broadly in line with expectations, although some slippage against 2005/06 targets were identified, examples being :

- planning for change — the headquarters refurbishment had been delayed as a result of flooding;
- housing stock transfer — the approval of the business plan had slipped by two months as a result of ongoing discussions with Communities Scotland on the level of subsidy;
- Renfrew joint social work/health accommodation — approval of the business case had been delayed due to the transition from NHS Argyll & Clyde to NHS Greater Glasgow and Clyde; and
- modernising and residential care for older people — construction of homes delayed due to planning issues and the need to relocate an electricity sub-station.

Continued progress has been made against these initiatives since March 2006 and the corporate management team has agreed to review progress on the initiatives at six monthly intervals.

Statutory performance indicators

14. The council's performance is mainly measured against statutory performance indicators (SPIs). Historically, the council has delivered a mixed performance in terms of where they sit compared to other councils. This year there has been a general improvement in the indicators, though not by significant amounts. The performance in SPIs in 2005/06 compared to the previous year is highlighted below :



15. Substantial improvements have been made in areas such as:

- improved privacy in residential accommodation for the elderly;
- improvement in qualifications achieved by children in care; and
- an increase in the amount of council tax due which is collected, whilst keeping the cost of council tax collection stable.

16. However, there are areas of performance which fall into the lower quartile and require significant improvement. This issue was highlighted in the best value audit report in July 2006 and was considered in detail by the scrutiny board at its meeting in September 2006. A number of poor performing areas have been selected for further investigation by the scrutiny board. The specific aim of the review is to identify the causes of the poor performance and to learn from better performing councils to secure improvements. The SPIs requiring improvement include :

- the number of home care clients aged above 65 receiving care in evenings/overnight as a percentage of clients;
- the number and proportion of social enquiry reports submitted to the court by the due date;
- current tenant arrears as a percentage of the net amount of rent due in the year; and
- the percentage of current tenants owing more than 13 weeks rent at the year end, excluding those owing less than £250.

17. In 2005/06 a new indicator was introduced which looked at the value of overpayments of housing benefit. The information for this indicator was found to be unreliable for those councils who use the Northgate SX3 system for processing benefits, due to the system being unable to provide the information in accordance with the requirements of the indicator. Northgate intend to rectify this problem before the end of 2006 which should ensure that the indicator can be correctly calculated in future. As the council use the Northgate system, this indicator has been assessed as unreliable in 2005/06.

Performance outlook – opportunities and risks

Introduction

18. In our audit risk analysis and plan we identified some of the strategic risks to Renfrewshire Council delivering on its stated objectives and priorities. These risks have been grouped into five risk areas which will drive and support service delivery.

Performance management and improvement

19. The council aims to achieve continuous improvements in performance across its activities to demonstrate the achievement of best value. Opportunities for improvement in existing processes and increasing expectations of stakeholders present significant challenges. The council has recently introduced a computerised corporate performance management system, called '*Covalent*' aimed at better linking performance indicators and improving the efficiency of collecting and monitoring performance information. Sound progress has been made in populating the system with performance indicators and rolling the system out across all services, and reports to senior management and members are now being generated from the system.

20. We reported previously that the resignation of two opposition members from the scrutiny board had the potential to undermine the board's effectiveness in scrutinising performance. While steps have been taken to try to restore the number of opposition members on the board to the initial complement, it is noted that these vacancies still remain. Assurances have been given that the board operates in a non-political way, and recent training for members is increasing their ability to challenge and scrutinise. However, the impact of this situation should be kept under review.

21. The council has now approved an asset management plan. An action plan has been agreed for collecting management information and the introduction of a strategy for ensuring best value in the use of the council's asset portfolio. We will continue to monitor the council's progress in finalising the asset management strategy.

Key Risk Area 1

Managing change

22. The council has a number of high-level projects which if not managed effectively, could pose a significant risk to its ability to deliver services. These changes include the headquarters refurbishment, the implementation of a number of key financial systems, and the schools estate PPP contract which will see a number of existing schools rebuilt. Also, with the "no" vote to stock transfer, an alternative strategy must be put in place to secure housing investment. These are major

projects for the council which will impact not only on the way the council delivers its services, but also affect existing employment arrangements for a large number of staff.

23. Progress continues to be made in these projects, although some slippage has occurred. The headquarters refurbishment was delayed due to flooding, although staff have recently moved into the refurbished south building. There has been some slippage in the implementation of the key financial systems, although implementation of all systems will be concluded during 2006/07.

24. The directors of education and leisure services, finance and IT services and environmental services retired during the 2005/06 financial year. The resulting vacancies were filled internally from the relevant departmental heads of service. While the corporate management team has lost experienced members, the seniors officers appointed to replace them have an established knowledge of the council, so minimising any likely impact on the dynamics of the council and its ability to move forward. The chief executive retired very recently, although his replacement has been parallel working over a number of months, to enable a smooth hand-over.

25. The work on the schools PPP contract is progressing with one primary and three secondary schools now complete. Work is continuing in the construction of a further three primary schools, one secondary school and one shared campus school with anticipated completion dates in 2007. Contract payments are due to commence in 2006/07 and we will continue to review progress on the contract.

26. The council has now undertaken a ballot of Renfrewshire tenants on the transfer of its housing stock to Renfrewshire Housing Association. The ballot recorded a ‘no’ vote. This represents a significant risk to the council, as it would have secured the investment required for the necessary improvements to housing stock to meet housing quality standards. The council had not prepared a contingency plan in the event of a “no” vote.

Key Risk Area 2

Affordability and sustainability

27. Significant efficiencies will be required by the council to meet increasing demands for services against the challenges of reduced future funding settlements and the efficient government agenda. There are particular financial pressures facing the council relating to the revised single status pay and grading structure and the draw on the council’s reserves which has been necessary to meet the costs arising from compensation payments for equal pay.

28. The council has been pro-active in agreeing to offer equal pay compensation claims to specific groups of employees and 98% of these employees have now accepted the offers. The council has signed a collective agreement with Unison on the single status pay and grading structure, and the council anticipates implementing single status for both Unison and as many of the non-trade union employees as possible by the end of 2006. The council has taken a decision to progress the agreement with other employees using the statutory route. More details on both equal pay and single status are included in paragraphs 72 to 74 of this report.

29. In June 2006, the council approved a strategy to increase the level of unallocated reserves, currently only at 1.2% of net expenditure, to around 2.5%-3% of net expenditure. This is the equivalent to £8 million- £9.5 million. More details on the reserves position are included in paragraphs 48 to 50.

30. As part of the council's response to meeting Care Commission standards in residential care, five existing homes, none of which will meet national standards coming into force in 2007, are being closed. Three new care homes, two of which will have attached day care facilities, are being built. The build programme for two of the new care homes is on schedule although there is some slippage in the programme for the third home due to planning issues. These are being resolved but the necessary re-submission of the planning application will delay the start of work on the site until early 2007. Any significant slippage in the capital build programme could result in a delay in meeting Care Commission standards.

Effective partnership working

31. Increasingly, the council is dependent on partnership working to deliver service improvements. Statutory duties to initiate, facilitate and maintain community planning have been placed on the council relatively recently. Inevitably much of the progress in partnership working to date has been on setting up structures and processes.

32. The community healthcare partnership (CHP) with NHS Greater Glasgow and Clyde became operational on 1 September 2006. The CHP management team is now in place and the scheme of establishment has been signed by the council, NHS Greater Glasgow and Clyde and, more recently, the Scottish Executive.

33. The first meeting of the CHP committee was held in August 2006 when a joint planning structure was agreed. Joint governance arrangements and an integrated risk strategy are also being developed. These will be critical in supporting the partnership in effective joint working and achieving best value in the use of public resources.

Key Risk Area 3

Efficient government

34. The efficient government initiative is a five year programme and local authorities need to embrace the efficient government agenda and establish a clear programme for delivering efficiency savings. Lack of innovation and strategic focus in this area may potentially result in the anticipated level of savings not being released which could increase the financial pressures faced by the council when local government efficiency savings are top sliced from future funding settlements.

35. We have undertaken an initial review of the risks and management arrangements within the council in relation to the efficient government initiative and, in liaising with officers, an improvement plan has been drawn up. Progress against this plan will be monitored through the normal audit process.

36. The council's response to the efficient government initiative are detailed in paragraphs 75 to 81 of this report.

National studies

37. 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 include reviews of public sector pension schemes, and the *National Fraud Initiative* which is commented on later in this document. Other reports published during the year and of direct interest to the council are set out below. Further information on these studies and reports can be obtained for Audit Scotland's webpage at www.audit-scotland.gov.uk.

A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21st Century*

38. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the 'McCrone' report. This found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.

Council housing transfers

39. In March 2006 Audit Scotland published the results of a review of how well the Scottish Executive's housing transfer policy has been implemented and whether transfers have provided good value for money. This found that the transfer of council housing ownership is bringing benefits for tenants, including more investment in properties, promoting tenant control, facilitating increased repairs and maintenance and the building of new homes, and keeping rent increases down. The report also

founds that the management of transfers is improving but better, clearer measures are needed to assess impact and value for money. The report recommends that the Scottish Executive should reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers.

Following the public pound – a follow-up report

40. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.

41. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations, although only five councils had a low level of compliance. Renfrewshire Council was included in the high category of compliance.

42. There is scope for councils to improve its financial and performance monitoring. Councils should apply a risk-based approach taking account of factors such as the amounts of money involved, the size of organisations funded and how they are managed. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils.

Community planning – an initial review

43. In June 2006, Audit Scotland published its initial review of community planning arrangements. This found that community planning is progressing but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular the large number of national policy initiatives, each with their own funding arrangements can make it difficult for partnerships to plan and deliver effectively. This report contains a useful evaluation framework of the characteristics of community planning partnerships which could be used as a checklist by the council.

Financial position

Introduction

44. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

Council tax and the general fund

Revenue performance 2005/06

45. The council's net revenue expenditure in 2005/06 was £319.487 million, after a net transfer of £0.178 million to specific reserves, and transfer from the capital fund of £1.088 million. This was met by government grants and local taxation of £317.819 million resulting in a net general fund deficit of £1.668 million.

46. The budget set for 2005/06 was based on a Band D council tax level of £1,091. In her foreword to the financial statements, the director of finance and IT services highlights that, before meeting the exceptional costs arising from the compensation payments for equal pay (£10.303 million), there was an underspend against the general fund budget. The overall results for the year were £9.642 million better off than planned.

47. The main reasons for the significant underspend against the budget included the following factors:

- savings on financing charges of £4.428 million;
- underspends against the majority of services of £3.722 million. In particular education services had an underspend of £1.115 million, mainly as a result of lower than anticipated McCrone implementation costs. Social work services had an underspend of £0.931 million due to lower than anticipated expenditure in care at home services, savings in supported living caused by the slippage in the Merchiston hospital closure programme and a delay in the implementation of new mental health legislation, and underspends due to the delays in the development of new accommodation for the Renfrew area team; and
- lower than expected expenditure against the contingency budgeted within miscellaneous services. This has in part helped to offset the costs associated with the equal pay settlement.

Reserves and balances

48. At March, 2006 the council had total cash backed reserves of £53.170 million as shown below.

Table 1
Reserves and Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	14.454	16.122
Housing Revenue Account Balance	9.830	7.615
Capital Funds	5.483	6.959
Usable Capital Receipts Reserve	21.044	14.363
Insurance Fund	2.359	2.254
	53.170	**47.313**

49. The general fund balance of £14.454 million includes total earmarked funds of approximately £10.7 million. Significant earmarked amounts include:

- funds of £3 million reserved for developments arising from the completion of best value reviews;
- funds earmarked for future availability of the educational establishments to be replaced under the public private partnership (PPP) of £4.470 million; and
- funds earmarked for the carry forward of budgeted resources as part of the council's approach to year-end flexibility of £3.213 million.

50. Excluding earmarked balances from the general fund balance, leaves approximately £3.771 million available for other purposes. The council has recognised that this level of unallocated general reserve is insufficient to provide for future contingencies or unforeseen cost pressures and has planned to increase its unallocated reserve balance to a level of 2.5% - 3% of net expenditure, which is equivalent to £8 million - £9.5 million. This will be achieved by a combination of one-off savings and delayed spending, and the 2006/07 revenue budget includes a £1 million contribution to reserves. Council approval was also given in June 2006 to the following steps :

- imposing a targeted under-spend of £2 million on the 2006/07 budget spread pro-rata across departments. Savings are likely to be achieved through measures such as the non filling of vacancies and delaying non essential spend; and
- committing to increase the contribution to the general reserve to £2 million as part of the 2007/08 budget.

Key Risk Area 4

Rents and the housing revenue account

51. At 31 March 2006 the housing revenue account (HRA) shows a surplus of £2.215 million compared with a budgeted deficit of £0.633 million. Savings against budget were mainly due to an under spending on financing charges, arising from the receipt of refunds resulting from a review of the council's leasing contracts and a reduction in capital charges due to reprofiling the capital programme.

52. The balance carried forward on the HRA is £9.830 million. Of this total, £7 million had been earmarked to fund the historic debt breakage costs associated with the planned housing stock transfer, which will not now take place as a consequence of the recent tenants' "no" vote. In addition £1.410 million has been committed to the 2006/07 budget. This leaves £1.42 million available for other purposes. In the short term, this balance is available to support rent levels and address any unforeseen risks and costs.

Group balances

53. Arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. This has become more important with the *Prudential Code for Capital Finance in Local Authorities* which requires authorities to take note of all their commitments, including those in alternative service delivery vehicles.

54. The council prepared group accounts following a review to determine its interest in subsidiaries, associated entities and joint ventures. The 2005/06 financial statements report the Renfrewshire Council group in accordance with recommended accounting practice. The group accounts are primary accounting statements of the council. The background to their introduction and basis of their preparation is briefly summarised in the foreword to the accounts; also included are detailed accounting policies and notes. Council staff have put considerable effort into preparing the group accounts and are to be commended for the level of disclosure.

55. The council consolidated associates into its group accounts. This includes Renfrewshire Leisure Ltd, the Strathclyde Police, Strathclyde Fire and Rescue and Renfrewshire Valuation joint boards, and Strathclyde Passenger Transport Authority, all of which had an excess of liabilities over assets at 31 March 2006. In the case of the Police and Fire and Rescue joint boards, this relates to the substantial pension liabilities from their unfunded pension schemes. For the Strathclyde Passenger Transport Authority, the net liability arises mainly from the long-term borrowing required to fund new investment in rail and other passenger transport facilities. The overall effect of inclusion of the council's associates on the group balance sheet is to reduce reserves and net assets by £279.713 million, giving a net worth on the group balance sheet of £69.907 million.

56. All group associates have prepared their accounts on a going concern basis. Statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the deficit on police and fire pensions means that the financial position of the boards remain assured. Similarly, funding arrangements are in place between the Scottish Executive, constituent authorities and the Strathclyde Passenger Transport Authority.

57. In compiling group accounts, the council has achieved compliance with group accounting policies in accordance with the accounting code of practice for local government (ACOP). One exception relates to the valuations of the land and buildings of the Strathclyde Passenger Transport Authority and Renfrewshire Leisure Ltd which have been valued at historic cost. The difference in accounting treatment has been disclosed within the group accounts and efforts are to be made to ensure compliance from 2006/07.

Capital performance 2005/06

58. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2005/06 were set in February 2005 and significant increases in capital expenditure have been made under these freedoms as the council seeks to improve its asset infrastructure.

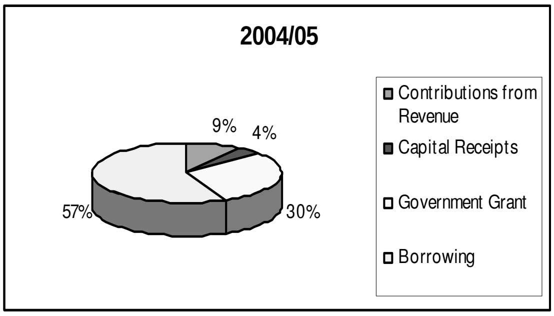
59. Capital expenditure in 2005/06 totalled £50.065 million, rising from £33.6 million in 2004/05 and £26.9 million in 2003/04, the last year of central capital controls. Capital investment in the last two years has been funded as shown in chart 1 below. As the council has increased its capital spending, within the limits set within its prudential indicators, the proportion funded by debt has increased, with aggregate long and medium term borrowing at 31 March 2006 of £287.7 million, an increase of £26.6 million on the previous year. This is as a result of new borrowing of £27.45 million from the Public Works Loans Board (PWLB) less scheduled repayments of principal. The new borrowing has been used to fund the 2005/06 capital programme and will fund part of the 2006/07 programme. On the advice of the council's treasury advisors, the opportunity was taken to borrow within prudential code limits for 2005/06, at historically low interest rates, to fund part of the next year's programme.

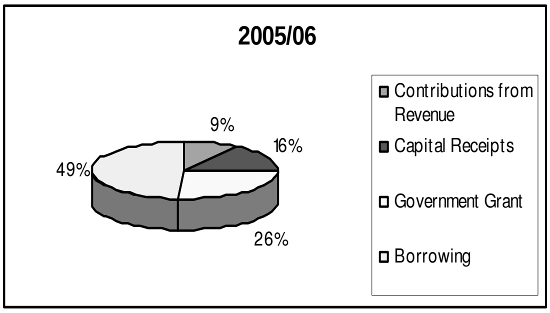
60. There was slippage of £10.9 million within the capital programme mainly due to the rescheduling into 2006/07 of various works such as the modernising residential care project, planning for change, various IT projects and the school estates strategy. Two housing programmes (kitchen upgrades and spending related to the community ownership programme) have also slipped into 2006/07. The council should continue to monitor closely the progress of the capital programme to ensure it is fully

aligned with its corporate objectives and is supported by the requirements of the asset management planning process. It is noted that the council has completed a detailed review of the procedures for managing the capital programme to strengthen capital monitoring and reduce future slippage. The new procedures include monitoring progress against the key preparatory milestones, the in-year phasing of all capital projects and formalising procedures for controlling project changes, and the reprofiling of planned expenditure.

Chart 1

Sources of finance for capital expenditure 2004/05 and 2005/06





61. Almost 74.8% of long and medium term loans at the year-end mature after more than 10 years, which sits within the council's treasury management limits. The council has actively managed its exposure to variable interest rate movements with only 7% of all debt exposed to variable rate risk well below its prudential maximum exposure of 25%

Forward capital programme

62. General services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £61.145 million and £37.755 million respectively. The reduction in the 2007/08 programme reflects the fact that a number of projects will be completed either during 2006/07 or early in 2007/08. These programmes are expected to be funded by a number of sources including capital receipts, grants and other contributions and supported and prudential borrowing totalling £78.529 million over the two years.

63. The housing capital programme for 2006/07 anticipates annual capital expenditure of £21.810 million. This is expected to be funded by capital receipts, borrowing and funding from the community ownership programme.

64. Because of the 'no' vote in the housing stock transfer ballot recently held with tenants, the council will need to review its own investment strategy for its housing stock, and in turn, review its prudential indicators.

Significant trading operations

65. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations(STOs) , which are required to break even over a three year rolling period. The first three year period ended in 2005/06.

66. The council has four STOs: building services, catering, roads services and the transport workshop. In the three years to 31 March 2006, building services, roads services and the transport workshop met the break even objective. Catering services incurred a cumulative deficit of £0.496 million, and did not meet the break even requirement. The deficit was due entirely to equal pay compensation payments made in 2005/06. It should be noted that, because the break even requirement is over a rolling three year period, this expenditure will impact on the achievement of the break even position over the next three years.

Financial outlook

Current budget

67. The 2006/07 budget was based on a Band D council tax level of £1,143, being an annual rise of 4.8%. General allowances for pay and cost inflation pressures were built into the budget together with allowances for demographic pressures on demand led services in education and adult and elderly services. Additional annual costs from the implementation of single status of £3.9 million were also allowed.

68. When the council approved the 2006/07 revenue budget in February 2006, members were advised that pending the outcome of ministerial representations, the efficiency review and the current negotiations for the implementation of the single status agreement, the council would not be providing an indication of the increase in council tax that may be required in 2007/08. The council develops the budget strategy around a three year budgeting cycle, through the budget strategy group. While they have not yet committed to council tax levels for 2007/08, work has been ongoing to assess the potential funding gap in view of the impact of equal pay, the strategy to replenish balances, single status and the likely council tax strategy as well as identifying and agreeing efficiency savings options.

69. Local authorities have yet to be provided with details of provisional Scottish Executive aggregate external finance allocations for 2008/09. The council have undertaken a significant amount of work, through the budget strategy group, to forecast the likely aggregate external funding position which has been used to inform the likely funding gap.

Equal pay

70. 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.

71. The council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay payments to specific groups of employees as part of a compensation package. Compensation offers were made to approximately 1,800 employees in January 2006. The percentage of employees who have now accepted the equal pay offers is 98%. The 2005/06 accounts include a provision of £1.451 million in respect of payments that may be made to employees who may take their case to employment tribunal. In calculating the provision, the council has estimated a liability, should cases be won at tribunal. The council have sought legal advice on the potential for other categories of staff to submit equal pay claims and have taken the view that, at present, any claims received would be resisted. However, a contingent liabilities note has been included in the notes to the balance sheet which recognises the potential for future claims.

Single status

72. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would 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. The original national single status agreement specified that implementation should take place by April 2003 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.

73. The council has yet to implement the single status agreement but has made good progress in negotiations. The first ballot of trade union members resulted in a "no " vote but a second ballot of Unison members, the results of which were announced in September 2006 has resulted in a "yes" vote. To date, agreement on the implementation of single status has not been reached with the other two trade unions, the GMB and TGWU. The council has signed a collective agreement with Unison on the single status pay and grading structure, and the council anticipates implementing single status for both Unison and as many of the non-trade union employees as possible by the end of 2006. The council has taken a decision to progress the agreement with other employees using the statutory route. It is anticipated that single status will be implemented by the council in early 2007, with payments being back dated to 1 April 2006.

74. Until a local agreement is concluded, the initial and continuing costs to the council cannot be reliably estimated, although the cost of the council scheme has been estimated at 4% of the pay bill. Evidence from other councils is that can be a significant variation in the level of potential costs. The non-implementation of the single status agreement represents a risk to staff relations and a continuing significant financial risk to the council and its ability to replenish general reserves to prudent levels. In securing a local agreement, the council needs to maximise the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Key Risk Area 5

Efficient government

75. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.

76. The *Efficient Government Plan* sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive has not notified councils of the efficiency savings they should achieve each year, it anticipated that Renfrewshire Council's contribution to the top-sliced target of £168.3 million will be £5.635 million over three years, equating to £1.830 million for 2005/06.

77. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided. In order to claim an efficiency councils need to demonstrate that service outcomes have been maintained or improved.

78. Renfrewshire Council has made a good start in addressing the challenge of the efficient government initiative. The council's modernising and improvement group (MIG), made up of senior managers and chaired by the director of finance and IT services, is responsible for overall co-ordination. Senior managers within various departments have been allocated lead responsibility for individual workstreams. Efficiencies anticipated by the council over the three years commencing 2005/06 are likely to exceed the reductions in grant support, and will help to meet the other pressures on the council budget.

79. The most significant efficiency gains are anticipated from improved procurement practices, and over the three years the council has identified £4.9 million of cash releasing efficiencies. The council has

the lead in an efficient government bid to the Scottish Executive called *Delivering Best Value for Local Authorities by creating a Centre of Procurement Excellence*. This bid aims to build on the effective platform that has been created by the Authorities Buying Consortium (ABC). This is a significant initiative involving support from 21 partners across Scotland and makes a substantial contribution to the Scottish Executive's shared services agenda.

80. Another shared services initiative which the council is progressing is agreement with NHS Greater Glasgow and Clyde to accommodate NHS employees within the new council headquarters complex. This arrangement should create economies of scale in terms of sharing the costs associated with accommodation as well as the benefits which will flow from co-location in terms of creating the opportunity to improve partnership working.

81. The council is aware of the most challenging aspects of efficient government which requires mechanisms to ensure that outcomes and quality are not adversely affected by financial savings. In common with other councils, much work is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency and how it should be measured, monitored and reported. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2007/08.

Key Risk Area 6

Pension liabilities

82. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. In addition, there are proposals to amend the local government pension scheme which are designed to reduce the ongoing cost although these have not yet been implemented. 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 on the face of annual accounts.

83. The council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde Pension Fund by £122.367 million, decreasing from £129.157 million in the previous year. The council is responsible to fund the cost of discretionary increases in pension payments arising from its early retirement decisions. In 2005/06 these costs amounted to £17.440 million. The council is also responsible for all pension payments relating to added years benefits it has awarded,

together with related increases. In 2005/06 these amounted to £0.952 million. The council also has a liability to pay for strain on the fund costs arising as a result of early retrials during the year. In 2005/06 these costs amounted to £1.087 million.

84. A full actuarial valuation of the Strathclyde Pension Fund was carried out in March 2005. Factors such as the volatile stock markets and increasing life expectancy have resulted in a funding position, calculated as the ratio of fund assets to past service liabilities, of 96.8%. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from 1 April 2006 to maintain the solvency of the fund. The employer's contribution rate of pensionable pay will be 260% in 2006/07 rising to 280% in 2008/09. These increased costs will be included in forward budgets.

Governance

Introduction

85. In this section we comment on key aspects of the council's governance arrangements during 2005/06. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2005/06

86. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the council had systems in place that operated well within a sound control environment and have reached the same conclusion this year.

87. A statement on the system of internal control and a corporate governance assurance statement are included within the annual financial statements, with the aim is of providing assurance to stakeholders on the adequacy of arrangements. The council concluded that governance arrangements were operating satisfactorily in 2005/06 and that the requirements of the local code of corporate governance continued to be substantially met.

88. At a corporate level the council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees.

89. The council's scrutiny board adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provides a sound contribution to the overall control environment.

90. The council has a risk management strategy and a risk management steering group which promotes the risk management policy throughout the organisation. The approach to risk management is well developed and continues to be improved. A corporate risk register is prepared and reported annually to the general management policy board. When considered necessary, independent risk assessments by external consultants are also commissioned, examples being key initiatives such as the housing stock transfer and the headquarters office refurbishment.

91. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carried out an annual review of the council's internal audit arrangements and found that the function continues to be well managed and operates to the highest standards. It was

noted that there had been some slippage against the 2005/06 audit plan, however plans were in place to ensure that the 92.5% target completion would be met and that all critical systems would be covered by the year end. The chief internal auditor has confirmed that they did in fact achieve 92.9% of the plan by the year end.

Systems of internal control

92. In her annual report for 2005/06, the chief internal auditor provided her opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are, in the main, satisfactory. Attention was drawn however to the need for the council to continue to drive its approach to improve asset management planning and business continuity in line with recommendations made by external audit previously.

93. Recommendations made in previous years' internal and external audit reports are monitored by management and internal audit, with progress reported to the officers' audit panel bi-annually. The council are proactive in ensuring that audit recommendations are addressed and provide updates on progress against the actions included in the members report as part of the final accounts process.

94. 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. Overall we assessed the main central systems as having a satisfactory level of control for our purposes. There were, however, a number of control weaknesses in the operation of the payroll system which reduced the level of assurance we could take from this system. Therefore, we had to increase the extent of testing carried out in this area of expenditure in the accounts. These weaknesses included: changes to standing payroll data and overtime claims not being checked to authorised signatories and no direct controls over the processing of manual emails requesting payroll changes.

95. In addition to the payroll system, certain areas have been reported to management where further improvements should be made. These include the need to: verify the number of properties on the rent roll to an independent source, reconcile the value of rent rebates awarded per the ledger to the housing benefits system, and reduce the current processing backlog of applications for discounts and reliefs received in the non domestic rates section.

Prevention and detection of fraud and irregularities

96. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy and response plan.

97. Under the *National Fraud Initiative* (NFI), councils compare information about benefit applicants, students, public sector employees and pensioners with other public bodies to find fraud and errors. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. The findings of the 2004/05 exercise were published in May 2006, highlighting that across Scotland £15.1 million of fraud, overpayments and savings were found, including:

- 270 cases where pensions were being paid to people who had died;
- 564 cases of public sector employees and pensioners either fraudulently claiming housing benefits or receiving them in error;
- 215 cases of housing benefit overpayments to students; and
- 53 cases referred to the procurator fiscal and 32 employees who have been dismissed, disciplined or who resigned as a result of the initiative.

98. In this council, there were 32 reports containing data for checking, of which 22 reports related to housing benefits which were checked by the housing benefits investigation team. Checks of the other ten reports were undertaken by internal audit staff and there were no significant findings in relation to these reports.

99. However in respect of the reports checked by the housing benefits investigation team, the total number of cases to date with either overpayments or errors is 134. It should be noted that these did not necessarily result from fraud, but were in some cases due to error. The value of these overpayments in respect of housing benefit and council tax benefit amounts to £0.484 million.

100. The overpayments are being recovered by the benefits overpayments team, although progress is slow due to the nature of the clients involved and their ability to pay. In certain cases, formal action has been taken, with 13 potential prosecution files, relating to pension cases, being passed to the procurator fiscal.

101. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The council has taken a pro-active approach to this initiative to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

102. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06, the council has identified one case of non-benefit fraud where individual losses were in excess of £1,000, experiencing an estimated total loss of £3,250. Thirty-nine cases of benefit fraud valued above £5,000 were identified, with losses totalling £443,000.

Governance outlook

103. Continuing the development of risk management and scrutiny arrangements will further strengthen the council's corporate governance arrangements. Consideration of the level of resources applied to the investigation of potential frauds will ensure that the public purse is properly protected from fraud.

104. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the council. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the council to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.

Financial statements

Introduction

105. In this section we summarise key outcomes from our audit of the council's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

106. We audit the financial statements and give an opinion on:

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

107. We also review the statement on the system of internal financial control by:

- considering the adequacy of the process put in place by the chief executive and council to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

108. We have given an unqualified opinion on the financial statements of Renfrewshire Council for 2005/06. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

109. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in paragraph 66 of this report, the catering trading organisation made an aggregate loss of £0.496 million in the three years to 31 March 2006, with the result that the council has failed to meet this statutory requirement.

110. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly.

111. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the council and publication. The financial statements are the means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

112. 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'). A number of accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. The net effect of these was to increase the general fund deficit for the year by £0.379 million. Details of this adjustment and other significant accounting issues arising in the course of our audit are summarised below.

Adjustments to the unaudited accounts

113. The unaudited accounts included £0.624million in the housing revenue account (HRA) for housing support costs. In accordance with the Housing (Scotland) Act 2001, local authorities should not account for expenditure on housing support services in the HRA and per guidance in BVACOP, no supporting people eligible expenditure should fall within the HRA. The council therefore agreed to remove the costs from the HRA and recharge them to other housing.

114. The unaudited accounts also included a creditor of £0.245million for transitional housing benefit (THB). This was a surplus of funds received under the THB arrangements which had not been taken back into income following the abolition of THB. The council agreed to take this amount into other housing income in 2005/06.

115. The net effect of the above amendments was an increase in other housing net expenditure of £0.379million.

Debt restructuring costs

116. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.

117. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate

stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.

118. There is currently a debate over the appropriate accounting treatment of LOBOs. One issue is whether the characteristics of a LOBO require any premium arising from replacing existing PWLB debt to be recognised immediately rather than over the life of the replacement borrowing. A secondary issue is whether interest should be charged according to the actual debt profile or smoothed over the length of the period.

119. The council had LOBO debt totalling £52.9 million at 31 March 2006. Its accounting policy is to recognise the cost of premiums arising from all debt restructuring, including that involving use of LOBOs, over the full life of the replacement borrowing. A total of £10.8 million of rescheduling costs relating to the use of LOBOs was being carried on the balance sheet which the council are writing off over the average term of the replacement loans.

120. As included in the representation letter signed by the director of finance and IT, this approach has been taken because the council considers that the overall economic effect of the original and replacement borrowing is substantially the same. In reaching this view the council has considered:

- the definition of the term 'overall economic effect' offered by the ACOP guidance notes;
- the expected stability of interest rates over the period of replacement borrowing;
- that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any increases; and
- the expectation that the loans will run to maturity.

Unspent government grant income

121. The accounts include, as part of creditors, £5.4 million relating to unspent grants at the year end. These grants are mainly ring fenced funds from the Scottish Executive and are being carried forward to 2006/07. It is our view that in accordance with proper and transparent accounting practice, these balances should be shown as part of the closing general fund balance and be ring fenced for use in 2006/07. The council has clear plans to spend the unspent grant. At the 31 March 2006, there was no requirement to return the money to the Scottish Executive as it had approved the carry forward of the funds to be spent in 2006/07, and some funds have been spent to date.

122. This matter has been discussed with colleagues in Audit Scotland. Because the letters from the Scottish Executive on the carry forward of these balances are often open to interpretation in accounting terms, and because the accounting treatment of grants, in general, is being considered by technical authorities in the UK and elsewhere, this matter will be considered further in 2006/07,

and a consistent approach agreed in all councils. We have not required that the accounts be changed for these grants this year.

Legality

123. Each year we request written confirmation from the director of finance and IT services that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The director of finance and IT services has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the chief executive and corporate management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

124. There has been continuing press coverage surrounding councils which have charged for the preparation of food which may contravene the terms of the Community Care and Health (Scotland) Act 2002 in relation to free personal care. We understand from our enquiries that the costs of food preparation are being recovered by the council in its charges. We are advised that the estimated sum involved is in the region of £0.5 million. Such charging, therefore, may represent a breach of statute, which can only be tested in the courts. We have been advised that the council's new community meals service, which was approved in August 2006, will, in a large number of cases change the method of food preparation, and charges for the new meals service will apply.

125. 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. As highlighted earlier in this report, the council has recognised a liability in the financial statements in relation to the potential contravention of this act. Until the single status agreement is implemented, however, there remains the possibility that the council could be judged to have contravened the act.

126. The Freedom of Information (Scotland) Act 2003 came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland. In 2005/06 the council received 476 requests for information and has been able to adequately fulfil its responsibilities under the act in respect of 460 of these requests. The remaining 16 information requests did not comply with the requirements of the legislation as they were not made available within the required timescale.

Key Risk Area 7

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

Financial reporting outlook

128. The council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting practice. Significant challenges ahead are summarised below.

129. A number of changes have been made to the 2006 SORP. These include:

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

130. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The council should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

131. Further ahead, there are proposed changes to the application of financial reporting standards (FRS) 25 and 26 in 2007. These standards will require the premium on loans that have been re-scheduled by the council to be charged to revenue expenditure in full in the year of re-scheduling rather than being written off over the period of the replacement loan, which can be up to 40-50 years. Every council will be affected by these charges of potentially millions of pounds to the revenue account and the impact this could have on council tax. Directors of finance have been talking to the Scottish Executive about legislation or regulation which would remove this risk of increasing council tax through the application of accounting practice. Audit Scotland has been participating in this debate and will continue to be involved in trying to find a solution to this matter.

Change of external auditor

132. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.

133. This is the final year of our current appointment to the audit of Renfrewshire Council. From 2006/07 Audit Scotland will remain as the council's appointed auditor and the new engagement lead will be Peter Tait. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.

Final remarks

134. The members of Renfrewshire Council are invited to note this report. We would be pleased to provide any additional information that members may require.

135. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.

136. This is the final year of a five year appointment. I would like to take this opportunity to express my appreciation for the assistance and co-operation provided by officers and members of the council during the course of our audit appointment.

Appendix A: Action plan

Key risk areas and planned management action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	Council facilities, infrastructure and assets may not be suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives.	The council's Asset Management Working group is currently implementing the Asset Management Action Plan agreed at the General Management Policy Board in March, 2006. Progress in respect of the strategy will be formally reported to the policy board on an annual basis. A key action undertaken has been a council-wide survey of property asset condition, suitability rating and running costs. This will assist in meeting the council's asset management performance information commitments and in the longer term, planning work associated with efficient asset management. In addition the council is continuing with key strategic asset management investment projects to both improve the corporate asset base and better meet the needs of the council. These projects include : • The new HQ project • Schools PPP Project and Estate Investment programme • Social Work Residential Care Project.	Director of Planning & Transport	As detailed within asset management action plan.

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
2	The council does not have a detailed plan in place to provide for the future investment in the housing stock given that the housing stock transfer ballot delivered a "no" vote.	The council is progressing discussion with the Scottish Executive and the Minister in respect of the development of a contingency plan and future options following the delivery of a "no" vote in the housing stock transfer ballot.	Director of Housing & Property	Ongoing
3	Until the joint governance arrangements and integrated risk strategy are implemented for the community healthcare partnership , there is a risk that schemes of delegation and accountability arrangements could be unclear and officers may act without proper authority. A lack of a shared understanding of risk management between partners could lead to ineffective decision making and restrict innovation.	The governance arrangements of the CHP remain well developed and were presented to the Health Board on 24 October, 2006. In terms of the management of the risk, Social Work Services have led significant inter-agency work which has taken place, and will continue, to ensure that responsibilities are clearly defined and understood across the partnership. The management of this risk features prominently in the Social Work risk register which is used as the key control mechanism for the management of key risks associated with the service.	Director of Social Work Services	Ongoing
4	The council has inadequate reserve funds for future contingencies.	In respect of the general reserves and the resultant impact of equal pay compensation payments, there is in place a strategy, agreed by the council, to replenish general reserves back towards a level of around £8.5 - £9.5 million.	Director of Finance & IT	Implementation of reserves strategy ongoing over 2006/07 and 2007/08

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
5	Delays in reaching the single status agreement could adversely effect staff relations and continue to expose the council to financial risk.	Agreement has now been reached with Unison in respect to the implementation of the new pay and grading model and negotiations are ongoing with the other trade union organisations. In addition the council has commenced the statutory consultation period associated with implementing the pay and grading model and it is therefore expected to move towards implementation during 2006/07.	Director of Corporate Services	Implementation expected during 2006/07
6	The council may not be able to substantiate what efficiencies have been obtained under the efficient government agenda and cannot demonstrate best value in the use of resources.	The council is a lead participant in a national project between COSLA and the Improvement Service to develop a framework which will support the tracking of efficiency savings in conjunction with key measures across all council services which will support the demonstration of service levels and quality being sustained.	Director of Finance & IT	Framework expected to be ready for use during 2007/08.
7	The council is not meeting its obligations in terms of responding to freedom of information requests.	The council has a relatively low failure rate in relation to responding to FOI requests within statutory timescales but will continue to exercise management action to drive the performance level to 100%.	Director of Corporate Services	Ongoing