

# Renfrewshire Council

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



October 2007



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# Key Messages

## Introduction

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

## Key outcomes from 2006/07 audit

We have given an unqualified opinion on the financial statements of Renfrewshire Council for 2006/07. 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 as the catering trading organisation generated a loss of £0.4 million due to the impact of equal pay compensation payments made in 2005/06.

The Council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. The Council recognises however that more work is required to further improve arrangements to monitor and control revenue and capital budgets and enhance certain aspects of housing rent accounting. The Council has established a good performance management system although plans exist to refine them further. The Council has created a sound mechanism to manage risk and risk management is embedded within the Council's decision making processes.

Good progress has been made in addressing the actions required by the Improvement Plan with no significant slippages from the dates originally set.

The Council has continued to advance improvements in its service to customers as defined by Statutory Performance Indicators.

The Council continues to operate within a tight financial regime and the Council anticipate that future grant funding from the Scottish Government will be challenging. The Council has developed an efficient government strategy and is pro active in working with others in topics such procurement and waste disposal. During the year, the Council has reported £6 million of efficiencies were generated and expect the same level of savings during 2007/08. Care will be required to ensure that these savings do not adversely impact the quality of service deliveries.

At the end of the year the Council increased its unallocated General Fund balance to £7.0 million. This reversed the trend in the previous year of reducing balances due to the impact of equal pay claims. The Council has agreed to increase the level of unallocated reserves by £2.0 million in 2007/08. Furthermore, the Council has agreed to a further £2.3 million one-off saving during 2007/08 to provide additional



flexibility in the setting of the 2008/09 budget. In October 2006, tenants voted against proposals for a housing stock transfer. This has created significant budget pressures on the Council's Housing Revenue Account. Reserves are expected to be reduced by around £3 million in 2007/08 and if drawn down at the same rate, will be exhausted within three years. The Council will therefore be required to approve substantial increases in rent levels or seek other funding if working balances are to be maintained and investment plans realised.

The Council has made good progress in addressing those risks identified by our 2006/07 Audit Risk Analysis and Plan, however several of the issues raised remain unresolved including:

- Implementing the Asset Management Strategy.
- Developing a corporate approach to Project Management.
- Developing integrated workforce planning techniques.

## Outlook for future audits

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

During the course of our work we recognised and discussed with officials a number of significant challenges for Renfrewshire Council. It is important that good progress is made in progressing key corporate initiatives such as implementing the Asset Management Strategy and developing a corporate approach to Project Management. Work on developing integrated workforce planning techniques will also be essential to properly manage staff expectations and the recruitment and staff retention pressures likely to flow from new single status agreements across all Scottish local authorities. The Council also needs to prioritise mechanisms which will allow it to meet its obligations under the 2015 Scottish Housing Quality Standard. Investment levels to attain the standard are significant and at present do not lie within Council resources.

The co-operation and assistance given to us by Members of Renfrewshire Council and staff during the audit is gratefully acknowledged.

Audit Scotland  
October 2007



# Introduction

1. This report summarises the findings from our 2006/07 audit of Renfrewshire Council, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the Council going forward.
2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Council's Scrutiny Board on 23<sup>rd</sup> April 2007. Under the following five strategic themes, the ARAP set out our views on the key business risks facing the Council and described the work we planned to carry out:
  - Affordability and sustainability.
  - Performance management and scrutiny.
  - Workforce planning.
  - Managing change.
  - Working with partners.
3. Overall conclusions about the Council's management of key risks are discussed throughout this report.
4. To supplement our work on the above themes we undertook a number of detailed exercises which resulted in separate audit reports. We assessed the degree of reliance we could place on the Council's internal audit section and issued reports into the Council's accounting and housing management systems. We also reported on ways in which the Council's performance reporting systems could be improved. Within this report, we highlight key messages from those separate reports for the consideration of members. Appendix A of this report sets out the key risks highlighted in this report which we wish to draw to the attention of Members and the action planned by management to address them.



# Performance

## Introduction

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

## Corporate objectives and priorities

6. Renfrewshire Council has six strategic objectives which related to the Council's contribution to achieving community planning objectives. Four other corporate objectives also exist. The ten strategic objectives are:
  - To provide and promote learning opportunities which meet the needs and aspirations of individuals, businesses and communities.
  - To support and sustain economic growth which generates work and wealth.
  - To make 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.
  - To create safe places to live, work and play.

Corporately, the Council planned to:

- Raise achievement, set standards and continually improve.
  - Ensure that services are designed to meet the needs of all residents.
  - Modernise the way it works.
  - Develop services in ways which can be sustained.
7. In order to deliver on these commitments, the Council has several significant programmes for improvement and change which are key mechanisms for delivering its priorities and vision.
  8. Following the May 2007 elections, the former Labour administration of Renfrewshire Council was replaced by a Scottish National Party/Liberal Democrat coalition. As a result, work is ongoing to develop an updated corporate plan for the next four years which reflects relevant manifesto commitments while recognising the need for consistency with general aims of the Scottish Government. A revised Community Plan is also being prepared.



## Overview of performance in 2006/07

9. In a recent report on Council performance achieved in 2006/07, the Chief Executive highlighted to Members a number of initiatives which addressed the Council's existing strategic aims. Examples of achievements included:

- **Providing and promoting learning opportunities:** Providing enhanced facilities and a better learning environment for pupils; an increase in the number of childcare places.
- **Supporting and sustaining economic growth:** Continued participation as a partner in the Renfrewshire Riverside Development; allocating £7.5m of additional Council funding for the regeneration of Paisley town centre.
- **To make progress towards Renfrewshire being one of the healthiest areas in Scotland:** Appointment of Active Schools co-ordinators; construction on the first phase of walking and cycling routes in Paisley.
- **Providing the best possible support and care to vulnerable individuals:** Reducing the proportion of children looked after in a residential setting; recruitment of additional foster carers.
- **Improving and maintaining our neighbourhoods and homes:** Enhanced working relationships with local housing associations and private landlords; the creation of steering groups to take forward local area development frameworks.
- **Creating safe places to live work and play:** The introduction of a freephone Antisocial Behaviour helpline; the work of the Council's ASIST team dealt with 249 cases of antisocial behaviour involving youths with the majority being resolved with the application of Acceptable Behaviour Contracts.
- **Raising achievement, setting standards and continually improving:** The completion of 4 new build and 2 refurbished schools by November 2006; the use of the Covalent performance management system to provide regular reports to management.
- **Ensuring that services are designed to meet the needs of all residents:** The adoption of the Financial Inclusion Strategy to improve access to financial services to vulnerable groups and to improve co-ordination with the public, voluntary and private sector in order to combat financial exclusion; continued efforts to keep publications clear and meaningful resulting in 239 publications gaining a Crystal Mark accreditation.
- **Modernising the way the Council works:** The introduction of a new integrated Financial Management System; the generation of savings from modernised procurement practices.
- **Developing services in ways which can be sustained:** The re-establishment of the Sustainable Development Working Group to monitor 15 key indicators reflecting Council performance across a range of key environmental measures; continued investment in flood mitigation measures.



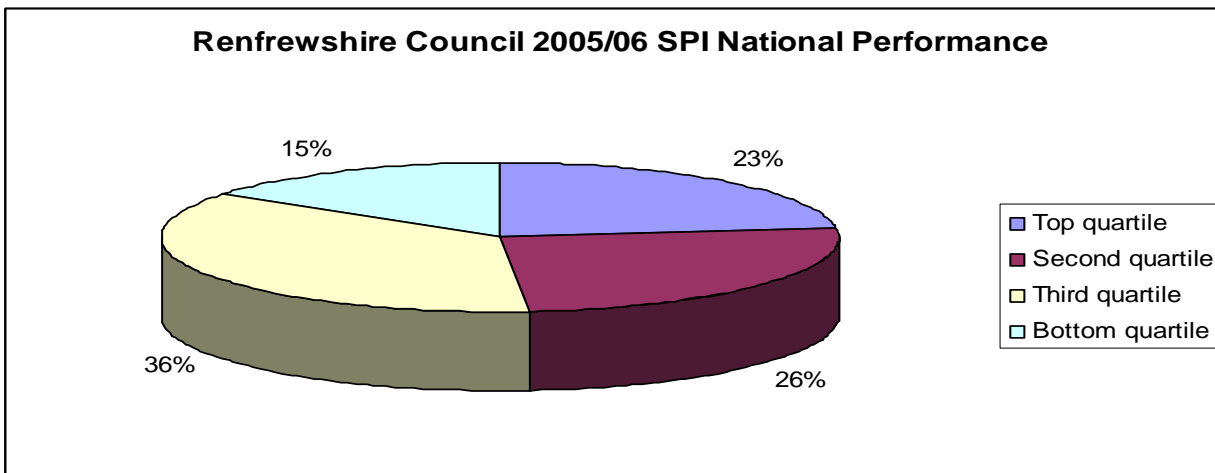


## Measuring and Reporting Performance

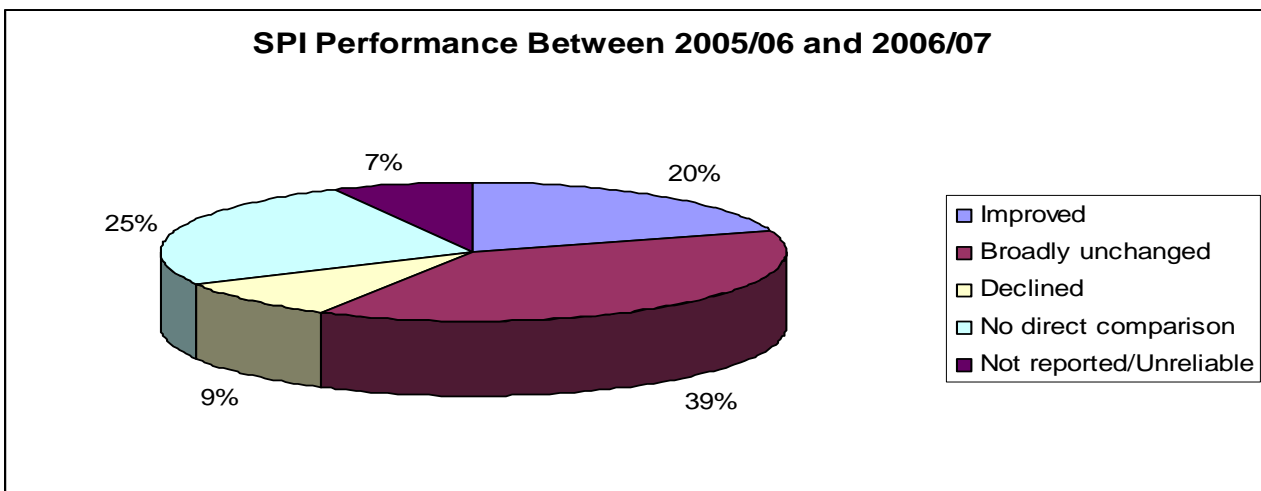
10. Following the 2006 Best Value report, Renfrewshire Council gave the commitment to report fully on progress made against the Council's strategic objectives and Community Plan. At Renfrewshire Council, performance reporting happens in a number of ways. Departmental Service Plans are annual three year rolling operational plans for each department and contain past performance information as well as forward looking performance targets. Annual Service Performance and Future Targets reports are also provided by each department to the relevant Policy Boards. These reports represent an analysis of progress against service plans. The primary means of performance reporting to citizens and stakeholders is via the Renfrewshire Council Magazine which is distributed on a quarterly basis to all households and is also available on-line as well as in other formats. Renfrewshire Council's 2005/06 annual report gained a Crystal Mark accreditation for its use of plain English.
11. In addition to local performance measures devised by the Council, Statutory Performance Indicators (SPIs) are collected, verified and published each year for all local authorities by Audit Scotland. SPIs facilitate comparison with other councils and are analysed in detail by Audit Scotland who prepare council profiles assessing performance for each council. Many of these indicators are also used by management of the Council to assist in monitoring performance.
12. The overall responsibility for managing performance reporting arrangements from a corporate perspective rests with the Chief Executive. In addition to maintaining regular contact with Departmental Directors, the Chief Executive holds annual scrutiny meetings with each Director to examine departmental performance across a range of dimensions.
13. A database of performance information has been established (Covalent) and, in due course, this will be the repository of all Council performance information. We commend the establishment and use of a corporate performance information database as this will facilitate not only easier corporate access to information but also independent checking of the veracity of the performance information contained therein. We are aware that in the past performance information examined by the Chief Executive and Policy Boards may have been taken at different times and may have covered different indicators. Plans have now been established however to draw on common performance information with immediate effect. This initiative is welcomed.

## Statutory performance indicators

14. One of the ways of measuring the Council's comparative performance is using statutory performance indicators. Council performance against others is noted below and although direct comparisons of individual indicators can be misleading, overall, the Council appears to be performing reasonably well.



15. Each year we review the reliability of the Council's arrangements to prepare Statutory Performance Indicators with the co-operation of the Council's internal audit department. Three indicators were reported as being unreliable (two associated with housing, one with protective services) due to the nature of information retained not complying with SPI requirements. The Council also failed to provide information on operational assets due to absence of reliable data.
16. During 2006/07, Renfrewshire Council continued to improve performance across a range of indicators.



Improvements in performance were noted in the following areas:

- Care staff in residential homes who have the appropriate qualifications;
- Refuse collection complaints per 1,000 of population;
- Percentage of women in senior management; and
- Number of children hearing reports submitted to the Reporter within the target time.



However, performance has declined notably as follows:

- Library stock turnover; and
- Attendance levels at indoor leisure facilities.

## **Best Value audit**

17. The Local Government in Scotland Act 2003 established Best Value and Community Planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of Best Value based on a full review by a specialist team with subsequent short follow-up reviews to be carried out by the local auditor.
18. The findings of the Best Value audit of Renfrewshire Council were published in July 2006. In response, the Council approved a Best Value Improvement Plan setting twelve priority improvement actions. Since this time, the Improvement Plan has been incorporated into the Council's ongoing performance management arrangements with regular reports on progress being submitted to the Scrutiny and Petitions Board every six months.
19. Good progress has been made in addressing the actions required by the Improvement Plan with no significant slippages from the dates originally set. The majority of initiatives have either been completed or are in progress. The Council recognises work on reviewing the Council's race equalities scheme is not as advanced as anticipated but this is due to the delay in the publication of the national race strategy by the Scottish Government.

## **Performance outlook – opportunities and risks**

### **Introduction**

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



## **Affordability and sustainability**

21. In common with other councils across Scotland, Renfrewshire Council continues to face significant financial pressures. Against the backdrop of low council tax increases coupled with the impact of the government's efficiency agenda, the costs associated with equal pay settlements and the proposed single status scheme present Renfrewshire Council with the challenge to ensure that sufficient resources are available to maintain and improve the quality and range of services to the public.
22. The 2006/07 financial statements reflect a surplus of £15.7 million, which after required accounting adjustments, results in a £5.4 million increase in the General Fund balance to £25.2 million. After allowing for specific known commitments, an uncommitted General Fund reserve totalling £7.0 million exists. This represents an increase of £3.2 million over 2005/06 and Members have budgeted to transfer a further £2 million to reserve as well as and a one-off saving of £2.3 million during the current financial year. The revenue budget for 2006/07 was underspent by £5.5 million due to in year approval to replenish reserves (£2 million), a planned transfer to Schools PPP reserves and £1.7 million of savings associated with re-profiling a number of significant capital projects.
23. The Housing Revenue Account incurred a deficit of £0.2 million, some £1.4 million less than budgeted. These savings were largely attributable to lower than expected interest rates and increased capital receipts.
24. The Council recognises that care will be required to minimise potential costs associated with the delayed completion of the new HQ complex and that additional funding streams will be required to permit the Council to meet its obligation under the 2015 target for acceptable housing quality standards. Future costs associated with equal pay compensation appeals may also present a pressure on budget and reserve levels.

## **Assessing performance**

25. The Best Value review in 2006 concluded that while the Council has established a firm base from which to improve in the future, work is still required to streamline performance management across the Council and to develop better information. The issues identified for improvement by the review included several areas which presented a risk to the effective assessment of performance.
26. The steps taken by the Council to address these issues have largely been successful and the Council's Corporate Management Team has a workplan which drives this and other key corporate initiatives forward. A review of Statutory Performance Indicators and other Council measures of performance are submitted to Policy Boards annually and special attention is also paid to those indicators where performance is comparatively low. The Council should also be commended for being shortlisted for a prestigious award for the quality of its public accountability reports.



27. The Council has accepted however that more can be done to clearly distinguish between performance measures that relate to managerial processes and procedures from those that relate directly to service delivery to citizens and stakeholders. Furthermore, it has been accepted that some scope exists to present a better balance between achievements and areas of under achievement in performance reports.

## **Workforce planning**

28. As a major employer, effective workforce planning is a key factor in determining how successful the Council is in delivering services to the public. The Council has in the past accepted the need to develop a strategic approach in this area. The Council has responded positively to this and has established a Workforce Development and Equalities Group to develop plans.
29. A workforce strategy has recently been agreed by the Corporate Management Team. This strategy comprises a framework to take forward such issues as workforce profiling, recruitment needs and practices, capacity management and performance management. A separate submission to the Corporate Management Team on equalities is planned.
30. The Council has recognised that greater corporate control of the staff appraisal process would be of value. The absence of centrally held information on staff assessments inhibits the operation of effective workforce planning and training strategies.

## **Managing change**

31. The Council has also responded well to the shared services agenda by taking steps to enhance co-operation with other local authorities and partners. This is best evidenced by the intention to work jointly with neighbouring local authorities on a "Value Chain Analysis" which is aimed at identifying the potential for further joint working hence creating efficiencies.
32. The Council has introduced a number of new management information and accounting systems over recent years including the implementation of a new housing management system and financial management system. Major projects such as the Schools Estate Programme and others in a significant capital programme (e.g. the new HQ development) suffered delays and highlight the challenges to staff to ensure that projects are completed to time, cost and specification. In light of this the Council has recognised the need for a corporate approach to project management. A "Centre of Expertise", coupled with a new Project Management Board and User Panel has been established to process new IT projects. Consultancy advice has been procured to assist in the development of a toolkit which will complement delivery of the agreed project management methodology. We understand that it is the Council's intention to consider how best to roll out to all service departments the approved methodology once it is created.



## **Effective partnership working**

33. Increasingly, the Council is dependent on partnership working to deliver service improvements. As stated in the recent Best Value report, the Council is strongly committed to community planning and recognises the importance of establishing effective working relationships with other agencies. Recent developments have included a proposed new structure for the Community Planning Partnership to help improve engagement between partners.
34. Following the election of a new Council administration, work is ongoing to agree a new Community Plan. Recognising the importance of the voluntary sector, the Council has approved a Voluntary Sector Compact and established a Joint Voluntary Sector Working Group to take the key issues of the compact forward. The Council has also enhanced joint working arrangements in areas such as child protection, child health and disability.

## **National studies**

35. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the Council are set out in paragraphs 36-43 below. Further information on these studies and reports can be obtained from Audit Scotland's web site at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## **Sustainable waste management**

36. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that local authorities should recycle 25% of household waste by 2000. Nationally, this target was not achieved.
37. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
38. The purpose of Audit Scotland's study was to examine the performance of local authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Executive in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.



39. The key findings from Audit Scotland's national report published in August 2007 highlighted that recycling rates have risen significantly, but further increases will be harder to achieve and will cost more. Because of slow progress at a national level in developing facilities to deal with waste that is not recycled it is unlikely that Scotland will be able to reduce landfill to the levels required by the EU.
40. From a Renfrewshire Council perspective, recycling and composting rates have improved over 2005/06 rising to 18.7 and 9.5 per cent respectively of total municipal waste. The percentage of waste going to landfill correspondingly reduced by 3.7 per cent from 2005/06 levels to 71.8 per cent. One key factor to improve performance is agreement on the future waste strategy for the Glasgow and Clyde Valley area between Renfrewshire Council, six neighbouring local authorities and the Scottish Environmental Protection Agency.

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

41. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape. The report contains a number of detailed recommendations which should be considered by the Council.
42. The key findings from the study are:
  - The Scottish Executive has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06 together with practical support and guidance to help youth justice services to improve performance.
  - The impact of additional funding on services and outcomes is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.

### **Scotland's School Estate**

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



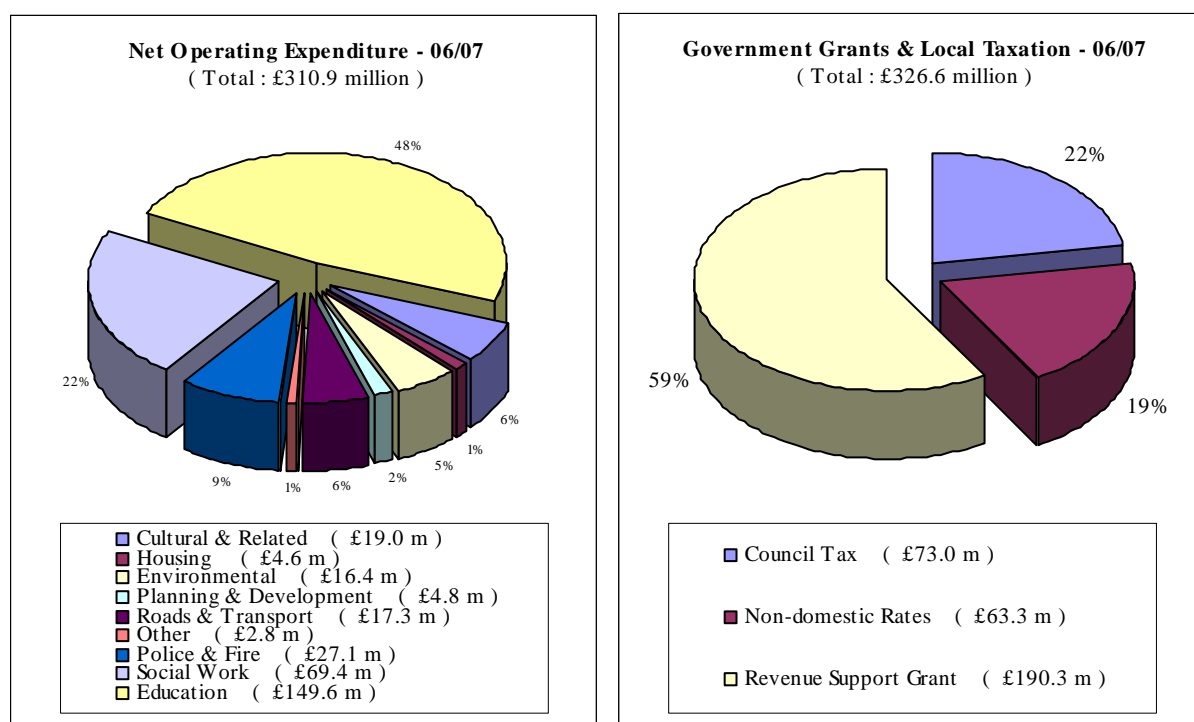
# Financial position

## Introduction

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

## Council tax and the general fund

### Operating performance 2006/07



45. The Council's net operating expenditure in 2006/07 was £310.9 million. This was met by government grants and local taxation of £326.6 million, resulting in an Income and Expenditure surplus of £15.7 million. This surplus figure is based on standard accounting practice and requires to be reduced by £10.3 million to incorporate specific Local Authority accounting adjustments such as certain pension costs, depreciation, etc. as required by statute, when calculating the £5.4 million increase in the Council's General Fund Balance.





46. The budget set for 2006/07 was based on a Band D council tax level of £1,143. A contribution from the general fund reserves of £0.1 million was planned. In her Foreword to the financial statements the Director of Finance and IT highlights that the additional £5.4 million increase in General Fund Balance is mainly the result of the following factors:
- A planned over-recovery of Education PPP Grant.
  - A planned underspend of £2 million in order to replenish reserves.
  - Delayed draw down of earmarked reserves in respect of Linwood Moss Landfill site.
  - Various underspends during the year.
47. During the year the Council's monitoring of income and expenditure required transfers of some £9.4 million into service departments. These transfers mainly represented additional funds being provided on re-determinations of Revenue Support Grant. The most significant of these reflected the additional £3.2 million level playing field support received by the Council for its PPP project and additional funding of £1.0 million and £1.6 million respectively for Working for Families and Anti-Social Behaviour initiatives.

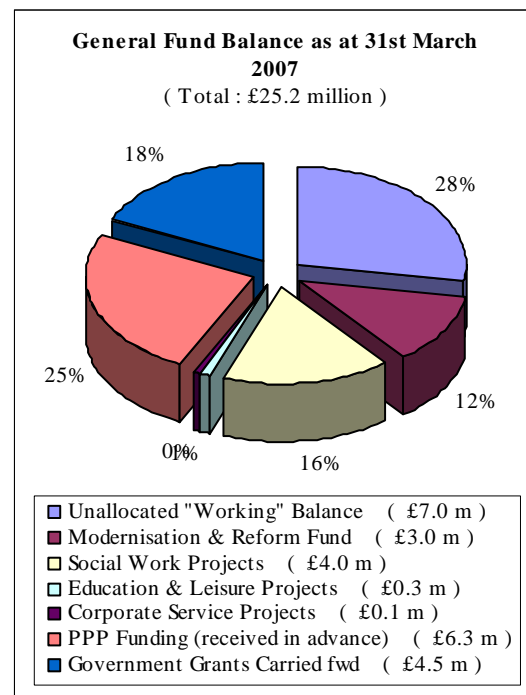
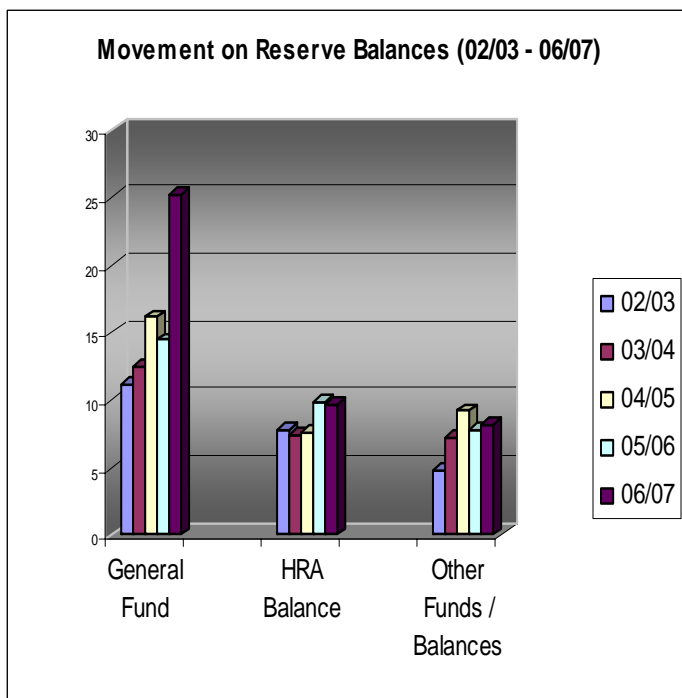
## Reserves and balances

48. As at 31 March 2007 the Council had total cash backed reserves and funds of £59.3 million. This includes the usable capital receipts reserve, an Insurance Fund to assist in funding insurance premiums and excess payments, and various Capital and Repair funds for the purpose of financing expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. A breakdown of these balances is shown below.

<b>Reserve Balances &amp; Funds as at 31st March 2007</b>	
General Fund	25.2
HRA Balance	9.7
Usable Capital Receipts	16.3
<b>Capital / Repair Funds :</b>	
Insurance Fund	2.4
M74 Extension	2.6
Council Headquarters	1.7
Reservoir Repairs	0.3
Education	1.1
<b>Total Balances Held</b>	<b>59.3</b>



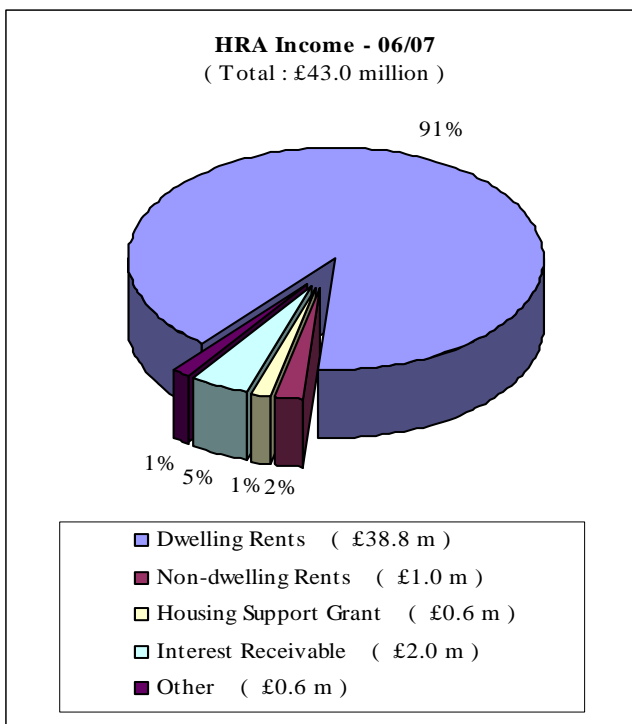
49. Whilst the Council's General Fund reserves have increased in recent years from £11 million in 2002/03 to just over £25 million in 2006/07, it is recognised that £10.8 million of this increase is associated with changes in accounting practice. £4.5 million is associated with an unspent balance of government grant which had previously been treated as creditors and £6.3 million with an advance payment of PPP grant. Other reserve fund balances have not changed materially over the same period.



50. The majority of the £25.2 million General Fund has been earmarked by the Council for specific purposes and as such only £7.0 million was unallocated as at the 31 March 2007. The Council aims to maintain a minimum working balance of unallocated funds of £9 million and in setting its budget for year 2007/08, the Council agreed to transfer a further £2.0 million from revenue in order to achieve that level of unallocated reserves. In September 2007, the Council increased this amount by £2.3 million to provide some additional flexibility for the setting of the 2008/09 budget.

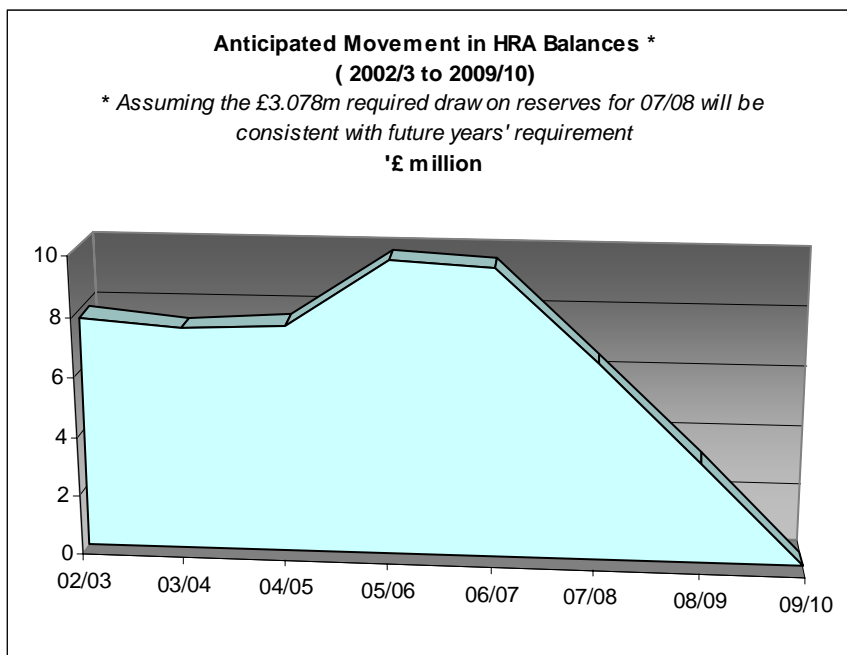
## Rents and housing revenue account

51. The Council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. HRA operating income in 2006/07 was £43.0 million. Operating expenditure of £50.7 million, resulting in an Income and Expenditure deficit of £7.7 million. As with the Council's General Fund, the need to apply certain statutory adjustments reduces this deficit to £0.2 million resulting in a carried forward reserve position of £9.7 million.



52. The budget set for 2006/07 was based on an average weekly rent level of £52.75, an increase of 4.0% on the previous year. A contribution of £1.4 million from the Housing Reserve Balances was originally planned. The £1.2 million underspend was largely due to savings in loan charges due a debt restructuring exercise and reduced levels of capital expenditure in year.
53. The HRA budget has been set for 2007/08 and incorporates a transfer £3 million from reserves to finance revenue expenditure. There is a risk that future drawdowns from reserves at the same level will exhaust reserves by 2009/10. The Council will therefore need to consider the scope for: generating substantial savings in housing operations; rental increases from their current comparatively high level; or obtaining some other form of additional finance.
54. There is a requirement for all local authorities housing properties to achieve the Scottish Quality standard by 2015. At the Council's budget meeting for 2007/08, the Council acknowledged that the HRA budget was effectively a "stand still budget" and as such does not move the Council towards achieving this target. We understand that the Council is presently in negotiations with the Scottish Government to consider future investment proposals for it's housing stock.

### Key Risk Area 1



## Group balances and going concern

55. The Council has an obligation to meet a proportion of the expenditure of the joint boards and authorities of which it is a constituent member. Some associate organisations which form a significant part of the Renfrewshire Council Group (Strathclyde Joint Police Board, Strathclyde Joint Fire and Rescue Board, Renfrewshire Valuation Joint Board, Strathclyde Partnership for Transport) had an excess of liabilities over assets primarily due to the accrual of pension liabilities as at 31 March 2007. In total these liabilities amount to £296 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due.
56. Given the statutory basis for those associate organisations with net liabilities, it is accepted that it is reasonable that their accounts should be prepared on a going concern basis.

## Spending on assets and long-term borrowing

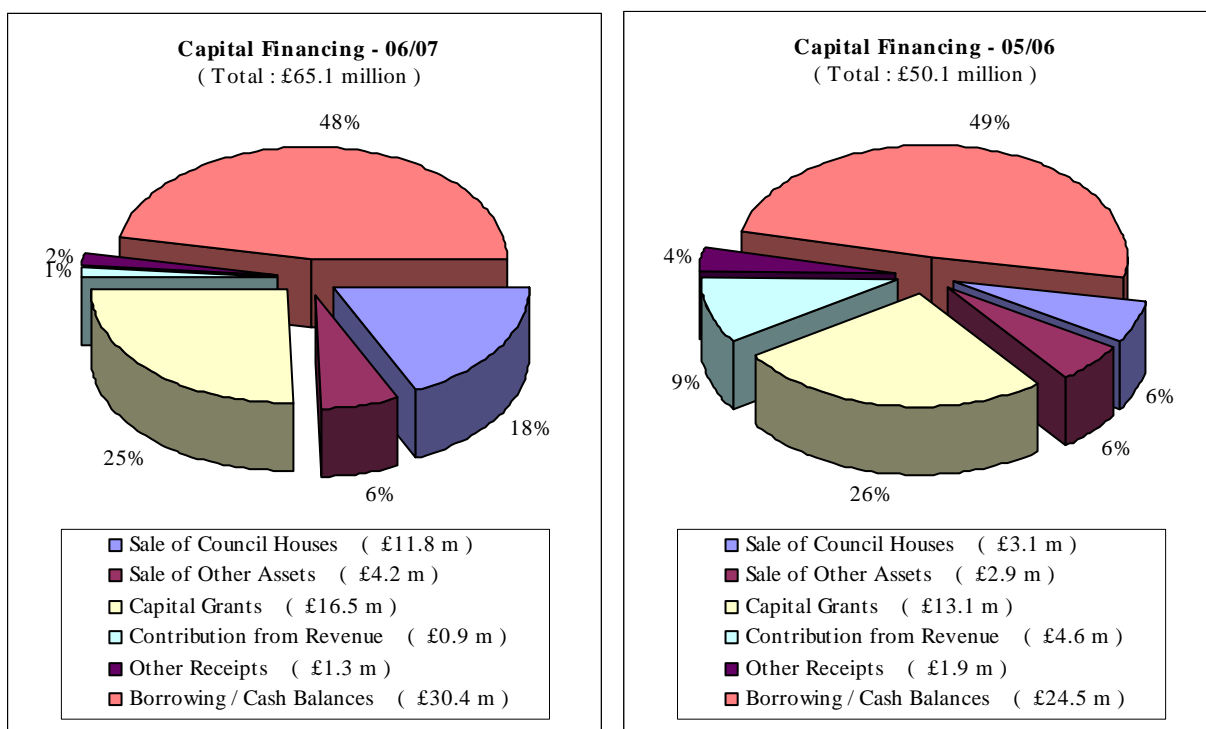
### Capital performance 2006/07

57. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2006/07 were set in March 2006 and the net external borrowing limit was set at £345 million an increase of £40 million from 2005/06. The borrowing position at year end was £287.6 million, inside the prudential limit.



58. Capital expenditure in 2006/07 totalled £65.1 million, rising from £50.1 million in 2005/06. The Council's capital investment programme is funded from a variety of sources. It can be seen below that the increased level of expenditure in 2006/07 was financed by a similar proportion funding sources of the previous year. Notably however, there were 2 main exceptions, the first being a significant increase in revenues from Council House sales which was partially offset by a reduction in the required levels of revenue financing.

**Sources of finance for capital expenditure 2005/06 and 2006/07**



59. It is noted that 75% of borrowing matures after more than 10 years and the Council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.

60. The Council originally approved a capital budget of £81 million for housing (£22 million) and non housing (£59 million) investment. Investment in housing was around £2 million greater than planned due to projects associated with working towards the Scottish Housing Quality Standard. Compared to the original budget for non housing investment, actual capital expenditure at £41 million, was around 30 per cent less than approved by Members. This was due to a significant re-profiling of investment in non-housing projects occurred in the following investment areas:

- School estate £12.6 million
- Penilee/Seedhill Playing field project £3.4 million
- Lagoon Leisure Centre £3 million
- New HQ Building £2.8 million
- New Care Home in Renfrew £5.5 million



61. The re-profiling of investments to 2007/08 was due to a variety of reasons and was offset to a degree by various other additions to the capital programme. Delays in capital investment plans have an adverse impact on the Council's ability to deliver its corporate objectives. The Council acknowledge that slippage in capital plans can be in part attributed to deficiencies in current project management arrangements. The implementation of the proposed Project Management methodology combined with the revised approach to capital monitoring introduced during 2006/07 involving a more proactive relationship between staff in service departments and finance should seek to minimise future delays and slippage in the capital programme.

## Key Risk Area 2

### Forward capital programme

62. The Council's capital investment plans were approved by the Council as part of the budget setting process in February 2007. Annual capital expenditure for 2007/08 and 2008/09 is anticipated to be £69.6 million and £66.6 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and an increase in borrowing within the Council's approved borrowing limits. The Council has informed us that they have re-profiled the capital plan for the current year and work is in hand to complete this for the subsequent two years in order to minimise the risk of slippage. The revised programme will be subject to enhanced scrutiny and monitoring and it is anticipated this area will be followed up as part of our audit process.

### Borrowing in advance of need

63. In recent years, a number of councils have disclosed significant amounts under investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's long standing Note for Guidance Number 96/5.
64. This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on temporarily is reasonable. It is a formally agreed policy under the Council's Treasury Management Strategy that officers are to work proactively and borrow early where there is opportunity to take advantage of favourable loan rates.
65. We note that the value of the Council's short term deposits at £79.5 million is high in comparison to other Scottish authorities but acknowledge that the Council has committed to a challenging 3 year programme of capital expenditure.



## Significant Trading Operations

66. 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.
67. The Council has four STOs, Building Services, Catering, Roads Services and Transport Workshop. In the three years to 31 March 2007, all STO's met the statutory target with the exception of Catering, which returned a cumulative deficit of £0.4 million as a result of the impact of significant equal pay costs incurred during 2005/06.
68. In addition to the STO's, the Council also operates a further 4 Trading Operations on a voluntary basis for management purposes. Of these voluntary trading operations, Domestic Refuse Collection, Street Cleaning and Grounds Maintenance all reported cumulative surplus positions at the year end. However, Building Cleaning reported a cumulative deficit of £1.756 million. As with the Catering STO, this deficit was due to the impact of equal pay costs during 2005/06.
69. It is a fundamental requirement under the guidance for trading operations to have formal Service Level Agreements in place. These are intended to fully specify the extent of the operation and should include a comprehensive charging policy. The Council has acknowledged that appropriate Service Level Agreements (SLAs)/ Service Specifications are not yet in place, although we note that a review of arrangements is currently being undertaken. The Council should ensure that SLAs and specifications are brought up to date and maintained.
70. In response to a specific Best Value Improvement Plan action point, the Council has appointed consultants to review the operation of all its trading operations and present options for the future. This review is currently underway. Once the results of this review are known, the Council should consider whether any revision to its declared list of significant trading operations is required. The Council has never undertaken such a review and we note from the levels of turnover that some trading operations which were previously deemed to be non significant, now exceed the turnover levels of significant operations and vice versa.

### Key Risk Area 3



## Financial outlook

### Current budget

71. The Council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a band D council tax level of £1,165 which represents an increase of 1.9 per cent from 2006/07 levels. The 2007/08 budget allows for a £4.4 million increase in pay costs along with additional sums to fund key priorities in Education and Social Work Services. Due to spending pressures facing the Council, no allowance has been made for non-payroll inflationary pressures (excluding utilities). The Council has also approved a plan to generate efficiencies and other savings totalling £6.0 million. These measures will permit the Council to increase unallocated General Fund reserve balances by around £2 million to £9 million, a level deemed prudent and in line with recommended best practice.
72. In 2007/08, the Council will receive total central government grant funding of £285.7 million, an increase of £13.1 million (4.8 per cent) over 2006/07. The financial year 2007/08 represents the final year of the current three year grant settlement. The announcement for grant settlement figures for future years will not be made until December 2007 and it is anticipated by the Director of Finance and IT that the settlement is likely to be tight in relation to local government. The Council acknowledge that it will not be in a position until after that time to consider future council tax levels having firmly established the overall budget position facing the Council.
73. In the revenue budget 2007/08 report, the Director of Finance and IT acknowledged that the Scottish Executive and COSLA, in negotiating additional resources agreed to a number of commitments relating to local government. These include bearing down on the council tax increases in 2007/08 and future years, pushing in year council tax collection rates higher, developing asset management, continuing to deliver efficiency savings and identifying best practice in delivering free personal care.

### Equal pay

74. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.
75. As at 31 March 2007, 201 equal pay claims had been raised against the Council and lodged at employment tribunals. The financial statements contain a provision for the likely cost of successful claims which will be kept under active review in 2007/08.



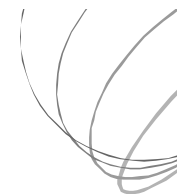


## Single status

76. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). 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.
77. During the year Renfrewshire Council reached agreement with all staff on a revised pay and grading model and discussions are currently ongoing in agreeing revised terms and conditions of employment (e.g. leave entitlements, arrangements for flexible working, etc) with relevant parties.

## Efficient government

78. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into their annual financial settlement. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
79. During 2006, councils across Scotland recognised that they had a responsibility to report efficiencies on the five key operational themes as set out in *Building a Better Scotland* (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.
80. Renfrewshire Council has a strong corporate commitment to the efficient government agenda and acts as either lead authority or an active participant in a number of projects financed by Efficient Modernising Government funding. During 2006/07, the Council approved a strategy to take this initiative forward and has claimed to have generated £6.0 million of efficiencies from the following general areas during the year:
- |                            |              |
|----------------------------|--------------|
| ▪ Procurement              | £1.3 million |
| ▪ Streamlining Bureaucracy | £4.0 million |
| ▪ Asset Management         | £0.1 million |
| ▪ Other Efficiencies       | £0.6 million |



81. This information has been reported to Members and the general public in August 2007 through the Council's first annual Efficiency Statement. It is the intention of the Council to summarise information on the various efficiency initiatives as part of the Council's annual performance report published later on in the year. Service plans for 2007/08 anticipate a further £6 million of efficiencies.
82. The Council recognises that at present gaps exist in the underpinning performance reporting systems to clearly demonstrate that efficiencies have not adversely affected service quality or customer satisfaction levels. There is also a need to create a better link between those efficiencies targeted as part of the service plan approval process with those reported in the annual Efficiency Statement.

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

### **Asset management**

83. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the *Prudential Code* which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The *Code* is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.
84. Furthermore, the Government's Efficient Government Initiative has identified asset management as one of five key areas for achieving efficiency improvements although efficiencies generated to date have been minimal.
85. During 2006-07, the Council approved the principle of an asset management strategy and a Corporate Asset Management Group has been established to progress matters. As part of this strategy a Strategic Capital Asset Management Fund has been created and a post for a corporate asset manager was approved although an individual is still to be appointed.
86. Work is required to improve the quality of asset management information held. The absence of information such as gross floor space of operational buildings inhibits decisions on asset usage and hence efficiency. Challenges for the Council also exist in that a high level survey of Council properties indicated that just over half of the Council's operational properties are fit for purpose or only require minor maintenance work.

#### **Key risk Area 5**



## Pension liabilities

87. 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. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. 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.
88. 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 liabilities being recognised in the annual accounts.
89. The Council's own estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Strathclyde Pension Fund by £67.3 million, reducing from £122.4 million in the previous year. A full actuarial valuation of the Strathclyde Pension Fund as at March 2005 was reported in early 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 108% at 31 March 2002 to 97% at 31 March 2005. At 31 March 2007, the funding level had improved to reach the 2002 level of 108%. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. This shows that budgeted contributions are expected to rise from 260% of employee contributions in 2006/07 to 270% in 2007/08 and 280% in 2008/09.



# Governance

## Introduction

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

## Overview of arrangements in 2006/07

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

92. A Statement on the System of Internal Financial Control is included within the annual financial statements. This provides a commentary by the Director of Finance and IT and the Chief Executive on progress made during the year in taking forward issues to be addressed to comply with the Code of Corporate Governance. We accept that the Council has a sound system of internal financial control in place and agree with the Council over the importance of close scrutiny over revenue and capital expenditure. Our work has also pointed to the importance of enhancing controls and clarifying responsibilities over the control of housing rents and this has been accepted by the Council.

## Scrutiny and Petitions Board

93. Following the May 2007 elections, the new Council revised its committee structure and created a Scrutiny and Petitions Board which has the responsibilities of an audit committee. As such it receives reports from internal audit on their activities as well receiving, as a minimum, a periodic report on the work of external audit. The Board's nine members, drawn from political parties comprising the Council, have also agreed a annual programme of five reviews to be carried out by nominated lead officers within the Council.

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



## Internal Audit

95. The environment in which Internal Audit functions operate has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revised Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards.
96. Such changes to the Code have expanded Internal audit's role and status within the Council's governance arrangements, providing an independent appraisal service to management by reviewing the effectiveness of the internal control system.
97. We carry out an annual review of the Council's internal audit arrangements and found that the function continues to deliver quality work in accordance with a comprehensive annual plan. We note however that a resource gap was identified by internal audit during their risk based planning approach for 2006/07 and work was altered to bridge this. We understand that a resource gap has also been identified for 2007/08 and work of a lower risk rating is again being deferred. This increases the importance of the continued monitoring of progress against the plan to ensure that work does not require to be further deferred or re-scoped.

## Risk Management

98. In line with recommendations of the Best Value review, the Council has further embedded the culture of risk management within its management processes through standardisation of forms and scoring methodologies. The implementation of Covalent also enhances the Council's ability to track and report risks.
99. The Council has revised its corporate risk register for 2007/08 and has identified five key risks namely:
- The impact of the housing stock transfer no vote.
  - Changes associated with a new Scottish Government.
  - Development of Business Continuity Plans.
  - The national public services transformation agenda.
  - The recruitment and retention of key staff.



## Systems of internal control

100. In her annual report for 2006/07 the Chief Internal Auditor provided her opinion that, where internal control weaknesses were found, appropriate recommendations have been made, and accepted and actioned by management. As such her conclusion was that the Council's system of internal control was operating in a satisfactory manner. She drew attention however to the continued importance of budget monitoring and risks associated with outstanding contractual issues associated with the completion of the new HQ complex.

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

- Creditors.
- Council Tax.
- Business rates.
- Budgetary control.
- Debtors and income.
- Cash receipting.
- Housing repairs.
- Housing and Council tax benefit.

102. Following a review of the housing rents system, we concluded that the system would provide us with the necessary level of audit assurance for our audit opinion on the financial statements. We did identify however an inappropriate level of separation of duties between project development and operational administration functions with consequential weaknesses in reconciliations. The need for additional management review has been recommended and accepted by the Council.

103. As part of our approved audit plan, system reviews were carried out on the Council's payroll and main accounting systems. No significant audit issues were identified.

## Prevention and detection of fraud and irregularities

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



## **NFI in Scotland**

105. In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
106. The NFI 2006/07 results (data matches) were made available to councils in January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
107. The Council has shown a clear, and ongoing, commitment to the NFI process through the allocation of responsibility to key officers within the Benefit Investigation team and Internal Audit, suitable prioritisation of the work, and the implementation of formal procedures and progress monitoring.
108. As at mid September, the Council has identified a total of £184,828 in overpayments (caused by either fraud or error) of which £167,627 is being actively recovered. To date there have been 17 cases of fraud identified. The work on reviewing and investigating NFI referrals is ongoing and a further 36 cases are still being investigated creating the potential for further savings. We consider it important that the Council maintains its current momentum in addressing NFI and uses the opportunities presented by NFI on an ongoing basis to assist in the detection of fraud.



## **Governance outlook**

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

109. Following the May 2007 elections, the former Labour administration of Renfrewshire Council was replaced by a Scottish National Party/ Liberal Democrat coalition. Eighteen new Members were elected to the forty Member Council. This degree of change presented the Council with challenges to ensure all Members are properly supported to permit them to discharge their duties. To help this process all Members received a copy of the Improvement Service Induction Pack for Members and were provided with a one day induction (covering such matters as the role of the Standards Commission, General Conduct of Council Business etc). The Council also provided a series of departmental briefings for members and provided training on Quasi-judicial functions. A rolling programme of further briefings on new legislation etc is planned. A personal development plan is being developed for each Member although it is recognised that the majority of members will not be in a position to assess training needs until they have been in office for sometime.

### **Changes at senior officer level within the Council**

110. During 2006/07, there was a change in Chief Executive with the retirement of Mr Tom Scholes and the appointment of Mr David Martin. The Director of Corporate Services, Mrs Margaret Quinn, also retired during the year.





# Financial statements

## Introduction

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

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

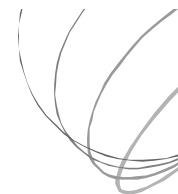
112. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

## Overall conclusion

113. We have given an **unqualified** opinion on the financial statements of Renfrewshire Council for 2006/07. We have, however, drawn attention to failure to comply with a statutory requirement referred to in paragraph 114. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

114. 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 67 of this report, the catering trading organisation made an aggregate loss of £0.4 million in the three years to 31 March 2007, with the result that the Council has failed to meet this statutory requirement. As explained in the authority's financial statements, this is entirely due to the additional liability arising from equal pay compensation payments made in 2005/06.

115. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



## Accounting practice

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

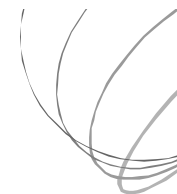
- Replacement of the consolidated revenue account with a traditional income and expenditure account.
- A new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit.
- Replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
- Similar changes to the housing revenue account and group accounts.

117. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. Two main adjustments were made to the un-audited accounts provided for public inspection. Firstly, in order to ensure consistency with the accounting requirements of the forthcoming Whole of Government accounts initiative, unspent balances on a number of specific grants were accounted for as income as they are invariably rolled over to the new financial year rather than the previous Council assumption that they would be repaid. This change in accounting practice is presentational and had the impact of increasing reserves by £4.5 million. The second main change was associated with a £2.5 million adjustment for pension contributions.

118. The net effect of these and other adjustments was to increase the surplus for the year by £1.5 million. More minor changes, including ensuring that transactions are recorded on a gross basis and full disclosure of all trusts funds, were also made. Further work to ensure the adopted charging policy is in line with Council policy will be carried out in 2007/08.

## Legality

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



120. 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. At present, the Council makes a charge for food preparation in what the Council considers appropriate circumstances. No clear guidance on this issue has yet been issued by the Scottish Government.
121. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed with the Office of the Scottish Charities Regulator (OSCR) that as an interim measure in 2006/07, reliance can be placed on the existing disclosures for trust funds in the Council's financial statements, supplemented by appropriate working papers. Further discussions between OSCR and CIPFA will take place in respect of the requirements for 2007/08 onwards.
122. 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. The Act requires that councils respond to FOI requests within 20 days. During 2006/07, the Council received 127 requests for information under the Act. All requests received were answered within the 20 day target response time.
123. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Financial reporting outlook**

124. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.
125. The main change is that the 2007 SORP requires authorities to comply with financial reporting standards (FRS) 25 and 26 in respect of loans, from 2007/08. This will result in large expenditure entries to the income and expenditure account as the SORP requires premiums on loans which have been rescheduled to be written off in line with the FRSs. At present, councils are able to write off premiums over the period of the replacement loan, which can be up to 40 to 50 years. Regulations restrict the write off periods for new premiums incurred on LOBOs from 1 April 2007 to a maximum of 20 years. These changes do not impact on council tax levels.



126. Other changes include:

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

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



# Final Remarks

128. 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.

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

130. A mechanism should be considered and agreed by Members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.

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



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	54	<p><b>HRA Investment</b></p> <p>The current and projected financial position on the HRA is unable to support the delivery of the investment required to meet the housing quality standard by 2015.</p>	<p>A business case to support the financially sustainable delivery of the SHQS by 2015 within Renfrewshire, is being developed and is due to be submitted for approval by the Council in November. This bidding document will form the basis of ongoing negotiations with the Scottish Government and Communities Scotland.</p>	<p>Director of Housing &amp; Property Services</p>	<p>November 2007</p>
2	61	<p><b>Capital Programme Slippage</b></p> <p>To minimise delays and slippage in the capital programme the Council need to ensure enhanced scrutiny and project monitoring arrangements are put in place.</p>	<p>A standardised project management methodology is being developed for use within the Council for major ICT. There is expected to be a gradual introduction of the key aspects of the methodology over the course of 2007/08, and thereafter to be introduced to construction projects.</p> <p>In addition, a range of improvements in relation to the governance and monitoring arrangements in regard to the monitoring of major capital projects have been developed and will be implemented over the course of 2007/08.</p>	<p>Director of Finance &amp; IT and Director of Housing &amp; Property Services</p>	<p>April 2008</p> <p>April 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	70	<p><b>Trading Operations</b></p> <p>Trading Operations do not currently operate with Service Level Agreements/ Service Specifications which fully identify the extent of the operation and include a comprehensive charging policy.</p>	A comprehensive review of the Council's trading operations is currently underway and is expected to be completed during 2007/08.	Director of Environmental Services	April 2008
4	82	<p><b>Efficiencies</b></p> <p>There is currently a risk that claimed efficiencies cannot confirm that service quality standards and customer satisfaction levels have not been adversely affected.</p>	The Council's corporate performance management systems will continue to be further developed to provide assurance of service quality and standards.	Head of Policy	August 2008
5.	86	<p><b>Asset Management</b></p> <p>Further work is required to implement the Council's asset management strategy in order to provide appropriate management information on the size, condition, and usage of Council assets.</p>	The Council's asset management strategy and associated implementation plan has been developed and will be approved by the CMT by December 2007. The Corporate Asset Management Group, chaired by the Director of Housing and Property Services, will lead the corporate implementation of the strategy in line with the agreed action plan.	Director of Housing & Property Services	Ongoing as part of strategy action plan