AUDIT SCOTLAND

Renfrewshire Council

Annual report on the 2013/14 audit

Prepared for the members of Renfrewshire Council and the Controller of Audit

October 2014

Contents

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Key messages

Financial statements	• Unqualified auditor's report on the 2013/14 financial statements
Financial position	• Budgeted contribution to general fund £1.1million and actual £1.9 million • An accounting deficit of £14 million for the year • Usable reserves similar to last year (£93 million) and relatively strong • Stable short term financial position and actions are being taken to address future financial pressures
Governance & accountability	• Governance arrangements are operating satisfactorily and appropriate systems of internal control in place during 2013/14 with no significant control weaknesses
Best Value, use of resources & performance	• Well established performance management framework • Performance measures still to be fully developed for new Council Plan
Outlook	• Changes to the accounting framework and approval processes that need to be planned for in 2014/15

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Renfrewshire Council (the council) for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of the council's charities audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

Financial position

3. The council recorded an accounting deficit of £13.9 million on the provision of services. After adjustment according to statutory regulations, the surplus on the general fund was £1.9 million against a budgeted surplus of £1.1 million and a surplus on the housing revenue of £1.6 million in line with the planned budget and prior to the transfer of resources to the Capital Fund of £2.1m, which has been earmarked for "managing the…debt costs of improving the standard of council housing".
4. The closing balance of usable reserves was £92.8 million, which was similar to 2012/13. The overall level of usable reserves is relatively high compared to other Scottish councils.
5. The general fund increased by £2 million during the year to £52.9 million. This balance is made up of earmarked commitments of £43.7 million and an unallocated balance of £9.2 million, or 2.5% of net cost of services. In setting its 2014/15 budget the Council has elected to utilise £1.9 million of these reserves to support non recurring expenditure leaving £7.3 million unallocated reserves available for 2014/15, broadly in line with the minimum level of £7 million recommended by the Director of Finance and Corporate Services.
6. The council's 2014/15 original financial plan (prior to further adjustments agreed by the council) anticipated a revenue surplus of £3.8 million. This includes savings efficiencies of £11.8 million that are expected to help mitigate upwards cost pressures of £7.7 million (including £2.1 million for inflation). Decisions taken by members included savings and investments across a range of services (for example heritage strategy, tackling poverty and City Deal) changing the net budgeted position to a planned draw of £1.9 million of unallocated reserves as referred to above.
7. Recent service budget reports identify a small surplus on service expenditure for 2014/15, however in the medium-term period up to 2017/18 the council requires to make significant budget savings, currently estimated at £20-£30 million.
8. The financial position of the council is relatively strong, based on statutory surpluses, available reserves and the short term

budget position. There are, however, recognised financial challenges still to be addressed in the medium term.

Governance and accountability

9. In 2013/14, the council had good governance arrangements which included a number of standing boards overseeing key aspects of governance. The council had an effective internal audit function and systems of internal control.

10. The new integrated health and social and care partnership is due to come into force locally in April 2015 while full integration arrangements must be in place by 1 April 2016. There is ongoing local engagement on operational issues and the financial aspects of integration, with a timetable in place to have the required protocols for 1 April 2015.

Best Value, use of resources and performance

11. The council has a well-established performance management framework. Service improvement plans for 2013-14 incorporated performance outcomes, which are subject to regular scrutiny by the relevant policy board. The service improvement plans include key performance measures used to record progress against service outcomes.

12. The new council plan, "2014-2017 *A Better Future, A Better Council"* describes what the council will do to deliver Community Plan objectives. However, a suite of performance measures is still to be fully developed and will be in place for 2015.

13. The council has a Strategic Change Programme (2014-2017) to ensure it can remain financially sustainable, whilst delivering against the community and council plans. Examples include a new voluntary severance scheme, service redesign, energy efficiency programmes and a decrease in the number of depots (from three to one). The initial phase of changes from the programme recently agreed by the Council is anticipated to realise savings of £8.4 million.

Introduction

14. This report is a summary of our findings arising from the 2013/14 audit of Renfrewshire Council.

15. Our responsibility, as the external auditor of Renfrewshire Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

16. The management of Renfrewshire Council is responsible for:
    - preparing financial statements which give a true and fair view
    - implementing appropriate internal control systems
    - putting in place proper arrangements for the conduct of its affairs
    - ensuring that the financial position is soundly based.

17. This report is addressed to the members of Renfrewshire Council and the Controller of Audit and should form the basis of discussions with the Audit, Scrutiny and Petitions Board.

18. This report will be published on our website after it has been considered by Renfrewshire Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits, which is presented to the Local Government and Regeneration Committee of the Scottish Parliament.

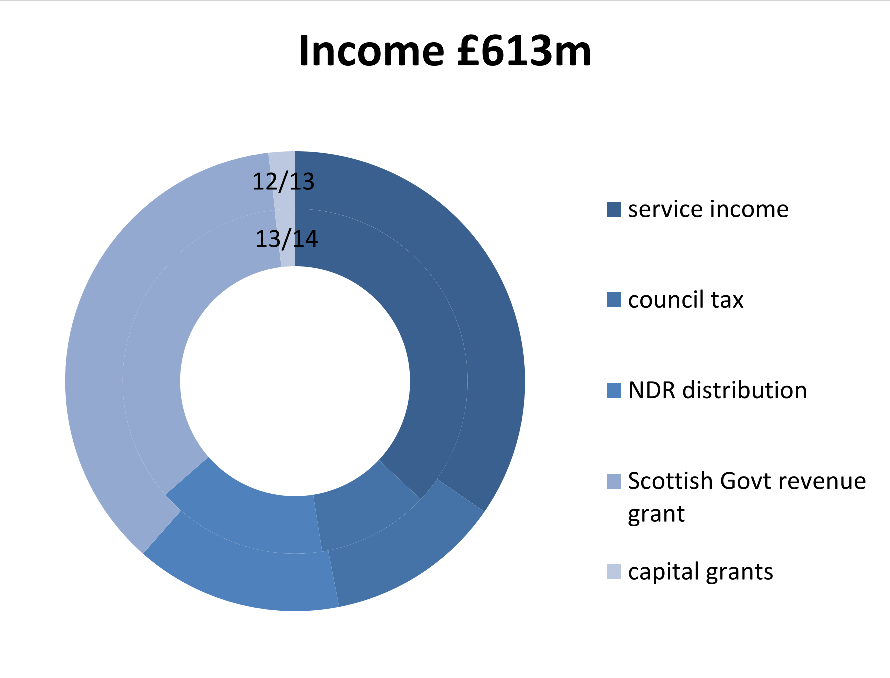
19. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are shown at Appendices I and II. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

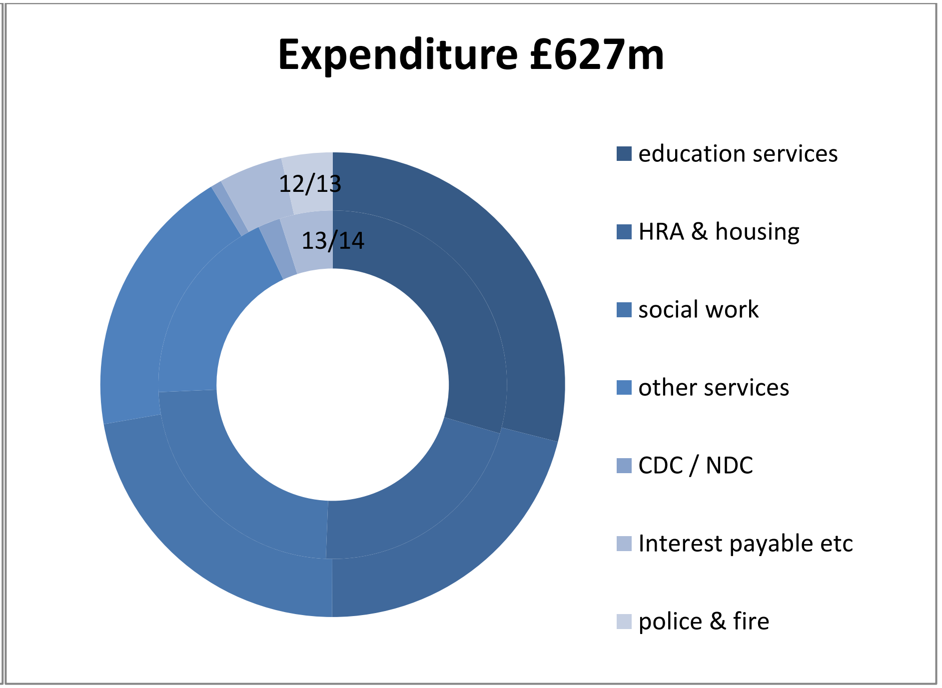
20. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Renfrewshire Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

21. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

22. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements





The financial statements show that income of £613 million this year is £13.8 million (2%) less than last year. Council Tax benefit income from the DWP has reduced by £13.7 million, as a result of the Welfare Reform Act 2012. Revenue grants from the Scottish Government reduced by £18 million reflecting the transfer of Police and Fire services, which are no longer funded by grants to local government. Additional income was generated by services (£9 million).

Expenditure reduced overall by £3 million (0.5%) to £627 million, mainly as a result of the transfer of police and fire services funding (-£22 million). This offset the additional expenditure across services, the largest of the increases (£8 million) being incurred by Social Work.

Audit opinion

23. We have given an unqualified opinion that the financial statements for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

24. We also review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of any of these matters.

Legality

25. Through our planned audit work we consider the legality of the council's financial transactions. This included obtaining written assurances from the Director of Finance and Corporate Services (the Proper Officer). There are no legality issues arising from our audit which require to be reported.

Registered charities

26. The Charities Accounts (Scotland) Regulations 2006 sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where members or officers of a local authority are the sole trustees.

27. We have given an unqualified opinion on the 2013/14 financial statements of the relevant charities.

Group accounts

28. Local authorities are required to prepare group accounts where they have a material interest in other organisations.

29. The council has accounted for the financial results of two joint ventures, four associates, three Common Good funds and four charitable trusts in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £39.5 million.

30. The net assets of the group at 31 March 2014 (£740 million) increased by £543 million from last year, due to the transfer of police and fire functions on 1 April 2013 and the removal of their pension liabilities from the group accounts.

Whole of government accounts

31. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Officers submitted the consolidation pack for audit on 13 August, which was later than the deadline of 30 July. The audited return has been submitted to the Scottish Government.

Report to those charged with governance

32. We presented to the Audit, Scrutiny and Petitions Board, on 30 September 2014, our report to those charged with governance (under ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

33. **Presentational and monetary adjustments –** Presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the statements. The effect of these adjustments was to increase expenditure by £0.1 million and increase net assets by £0.3 million, with the difference being reflected in prior year adjustments. There were no unadjusted errors.

34. **Holiday pay entitlement –** Recent legal cases challenge whether the basis on which holiday pay is calculated, is in line with EU law. The cases indicate that holiday pay to employees should include enhancements to basic pay: such as overtime, commission and on call allowances. In particular, the judgement from two cases heard at the Scottish Appeals Tribunal (EAT) on 31 July 2014 will have a bearing on potential costs but the outcome is not expected until the end of the calendar year.

35. In line with external legal advice, the council calculated the impact on holiday pay costs for the 2014 annual leave year (which runs from January to December) and revised the 2013/14 accounts. However, councils may be liable for a 'back-dated' element. At this time the legal position has yet to be clearly established and consequently there is uncertainty over the potential cost. In August 2014 members were updated on the financial risks from recent legal developments and the budget planning for 2015/16 includes contingency for the potential impact of the legal cases.

36. **Prepayments –** Audit testing and further work by officers, found a number of invoices which included cost elements that should have been processed as prepayments. The financial statements were adjusted to ensure that prepayments are correctly accounted for. Procedures and instructions to departments for accounting for prepayments will be reviewed for next year.

37. **VAT –** Officers identified that insurance premium tax on invoices for insurance contracts had been accounted for incorrectly. The council has subsequently contacted HMRC to correct this and it is estimated that a voluntary disclosure and payment to HMRC of £60,000 will be required to correct the VAT position.

38. **Internal balances –** The unaudited financial statements included a total of £2.64 million of debtors/ creditors for work between council departments and the building services trading operation. As these are internal balances between elements

within the council they should not feature in the balance sheet. This was corrected in the audited financial statements.

39. **Common good reserves –** There may be a technical accounting error in the allocation of the reserves between Unrestricted Funds and the Revaluation Reserve and officers have agreed to review the basis of the reserve during 2014/15

Refer Action Plan no. 1

Outlook

40. Next year (2014/15) there are changes to the accounting framework, including:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

41. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary.

Refer Action Plan no. 2

42. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires highways assets to be measured for the first time on a depreciated replacement cost basis in 2016/17 (they are currently included at depreciated historic cost). This will require a revised opening balance sheet as at 1 April 2015 and comparative information for 2015/16.

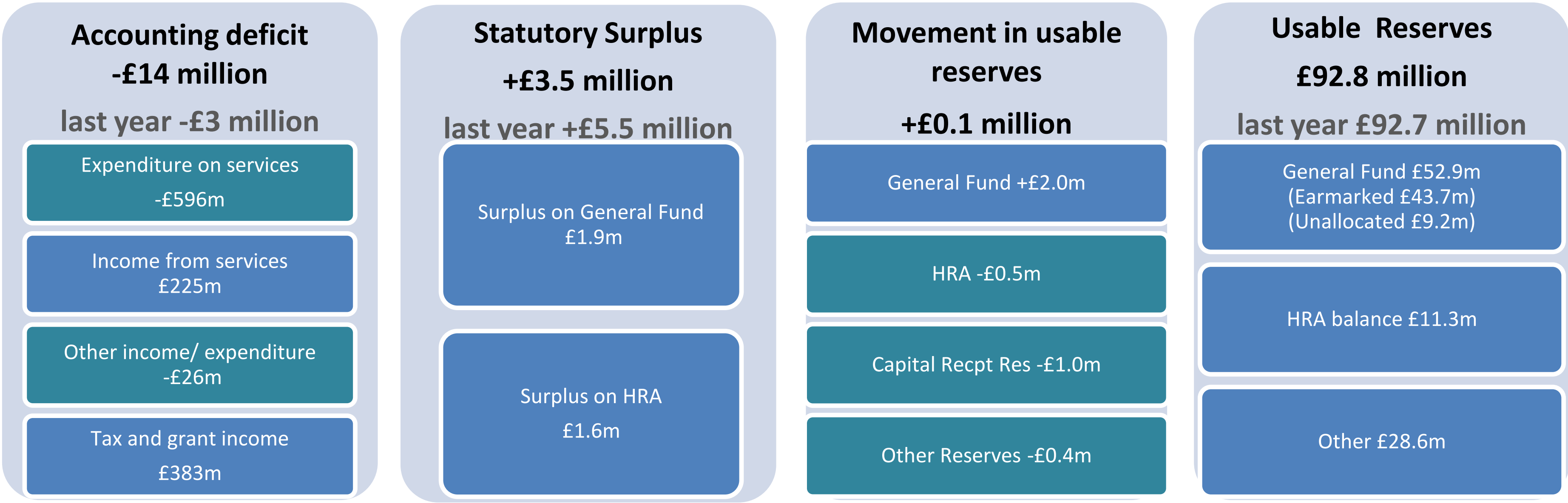
Refer Action Plan no. 3

43. The valuation method for council houses is linked to market rentals in the area and this has led to volatility in the valuation over a number of years. During the last financial year the valuation rose from £397 million to £510 million. In August 2014 the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) discussed the valuation method with the Royal Institution of Chartered Surveyors (RICS). RICS propose to prepare new guidance and this may lead to further significant changes to the valuation in 2014/15.

44. The Local Authority Accounts (Scotland) Regulations 2014 set out new requirements for local authorities to review their system of internal financial control; prepare annual governance statements and include a more detailed process for the annual accounts. The unaudited accounts must now be considered by the Audit, Scrutiny and Petitions Board. This can take place following submission to the auditor and up to 31 August. In addition, the audited accounts must be considered by the Audit, Scrutiny and Petitions Board by 30 September with publication on the council's website by 31 October each year.

Refer Action Plan no. 4

Financial position



Accounting deficit and statutory surplus

45. The Council reported an accounting deficit of £14 million on the provision of services. There are three main areas of accounting adjustments that are made to translate the accounting surplus to the statutory or general fund, position.

- capital charges - depreciation is removed and an internal repayment of debt from services is substituted (+£37.5 million).
- actuarial pension charges are removed and employer pension contributions substituted (+£14.5 million)
- removal of capital grants and capital funded from revenue (-£36.1 million)

46. Taking the above adjustments into account, the general fund increased by £1.9 million in the year and housing revenue account balance by £1.6 million.

Budget out-turn

47. The council budgeted for a £1.1 million planned surplus on the general fund. Key variations against budget include:

- an underspend of £0.3 million within Finance and Corporate services due to staff vacancies; and
- additional recovery of council tax income of £0.7 million as a result of an improvement in the collection rate of 0.1% on the previous year.

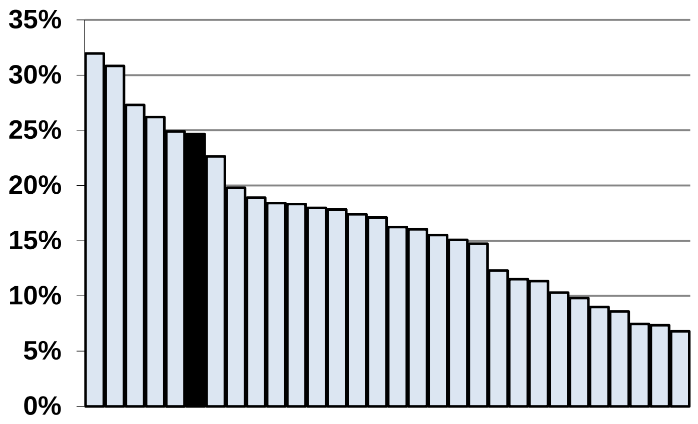
48. The Housing Revenue Account returned a year end outturn in line with the budget deficit of £0.6 million, after accounting for a planned contribution to the Capital Fund of £2.1 million. This budgeted deficit reflected the planned use of £0.6 million of reserves earmarked to support actions to mitigate the impact of welfare reform.

Usable reserves

49. Usable reserves are part of a council's strategic financial management and are used for medium and longer term planning. As shown above, the overall level of usable reserves increased slightly this year.

50. Exhibit 1 shows that the council continues to have a relatively high level of reserves, compared to other councils, as it plans to fund specific projects and anticipated financial pressures.

Exhibit 1: Usable reserves as a % of net revenue



Source: Scottish councils' unaudited accounts 2013/14

51. The general fund balance increased by £2 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £43.7 million and an unallocated balance of £9.2 million. This unallocated balance represents 2.48% of the net cost of services (2012/13: 2.42%). . The 2014/15 budget has committed to utilising £1.9 million of these reserves, leaving £7.3 million unallocated moving into 2014/15, broadly in line with the minimum level of £7 million recommended to members by the Director of Finance and Corporate Services.

52. The ring-fenced element of the general fund has increased from £30.6 million to £43.7 million over the last three years, an

increase of 43%. Of the £43.7 million that has been ring-fenced, £12.7 million is set aside to meet future PPP payments, £9.5 million for the waste management strategy and £7.7 million for ongoing service modernisation.

53. We conclude that, subject to any major change in Scottish Government funding, the financial position of the council remains stable and its activities are currently financially sustainable. In the medium term, actions are being taken to address future financial pressures (see paragraphs 66 - 72), which the council believes are sustainable.

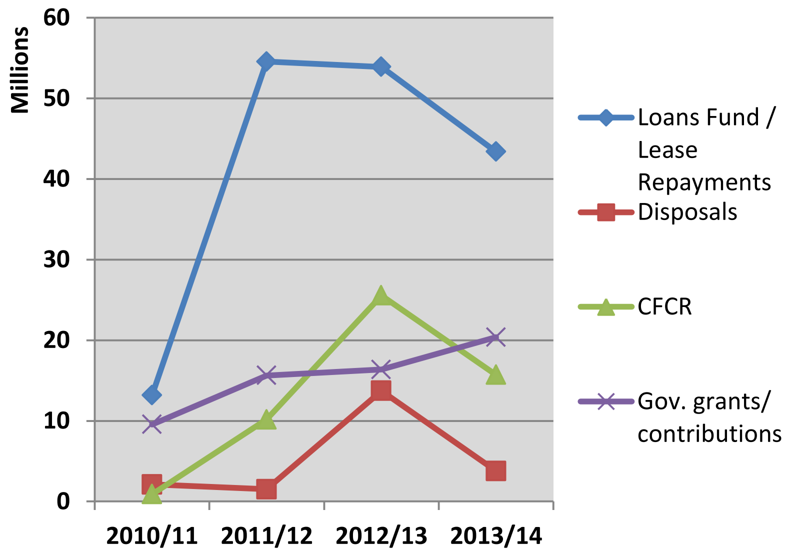
Capital investment and performance 2013/14

54. Total capital expenditure was £71.8 million. Investments included £10 million in schools, £5.5 million in roads and footpath upgrades and £30.7 million on the housing programme.

55. There was an underspend against the planned level of capital expenditure of £1.7 million (2%). At the year-end there was re-profiling of capital works of £13.5 million and slippage of £9 million (including: £2.6 million for St James primary and £1.3 million for CCTV projects).

56. The capital programme was funded as shown in Exhibit 2:

Exhibit 2: Sources of finance for capital expenditure



Source: Renfrewshire Council Annual Accounts 2010/11 to 2013/14

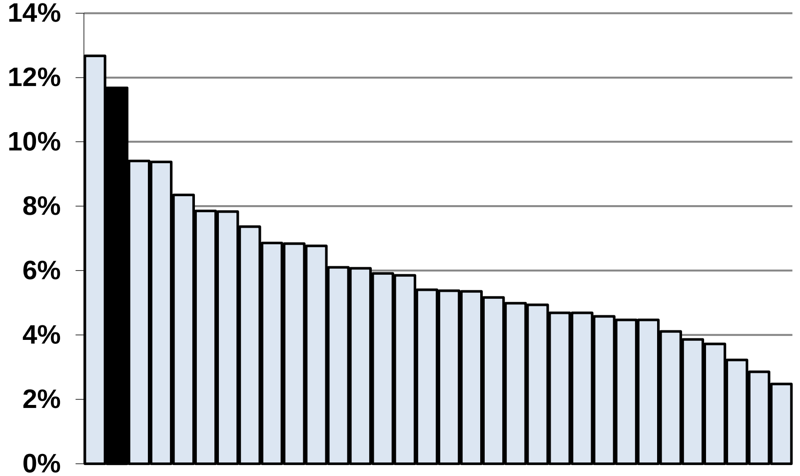
Treasury Management

57. Renfrewshire Council's underlying capital financing requirement (CFR) at 31 March 2014 was £371 million. As shown at Exhibit 2, capital expenditure was mainly funded internally, due to the council's ongoing policy of "debt smoothing". This process of accelerating the loans fund principal repayments by departments has meant that the council's level of external borrowing has decreased and no new external borrowing was required in 2013/14. The

increased payments represent approximately £30 million this year (from a normal planned repayment level of t of £10 million to £40.8 million in two additional tranches of £24 million and £6.8 million).

58. In Exhibit 3, the council's statutory provision for the repayment of debt is around 10% of net revenue. This is the second highest level amongst mainland Scottish councils.

Exhibit 3: statutory provision for repayment of loans fund advances by services



Source: Scottish councils' unaudited accounts 2013/14

59. At 31 March 2014 the council has total external borrowings of £247 million (2012/13 £276 million), of which 78% is at a fixed interest rate. Of this fixed rate borrowing, only 6% is repayable over the next 12 months, with 76.6% repayable beyond ten years. The maturity profile of the council's external debt is comfortably within the council's approved limits.

60. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. The national report is planned for publication in January 2015.

Housing Revenue Account (HRA)

61. In 2013/14 the HRA incurred an accounting deficit of £14.4 million (2012/13 £17.9m deficit). This arose principally due to depreciation and impairment charges of £28.6 million. After making statutory adjustments, the surplus on the HRA is £1.6 million. This allowed the council to establish a Housing Capital Fund of £2.1 million as part of its strategy for managing the cost of borrowing supporting investment to deliver improvement in housing stock in line with the requirement of the Scottish Housing Quality Standards.

62. £0.6 million of the earmarked reserve for welfare reform support has been applied in 2013/14 with £0.2 million spent on the Council Tenant Assistance Fund (CTAF) and £0.3 million on the employment of additional housing staff to ensure that

advice and support can be provided to tenants affected by welfare changes.

63. Welfare reform changes have introduced a significant financial risk to the HRA, however rent arrears have increased by only £0.1 million due to housing benefit restrictions on under–occupancy ("bedroom tax"), compared to a potential exposure to losses of £1.2 million (the value of the full reduction due to the under occupancy rules). For those tenants not affected by the under–occupancy rules, arrears are in line with the previous year-end, demonstrating that mainstream collection has been maintained. Former tenant arrears have however increased by 17% to £1.6 million.

64. Rental debt deemed irrecoverable and subsequently written off increased from £0.4 million to £0.7 million with most of this increase (£0.2 million) attributed to CTAF (further described in the welfare reform paragraphs below).

65. Overall the financial and resource pressures on the HRA have been managed successfully in this first year of welfare reform.

Outlook

66. A financial outlook paper was issued to the Leadership Board in December 2013. This notes that the council can expect a breakeven budget position in 2015/16, but still requires to identify further budget savings, currently estimated at between £20-£30 million during the two financial years 2016/17 and 2017/18.

67. In February 2014 the council approved its budget for 2014/15, including net service expenditure of £371 million. This represents an increase of £2 million (0.054%) from 2013/14.

68. The council's financial plan (prior to further adjustments agreed by the council) anticipated a revenue surplus of £3.8 million. This included budget adjustments of £11.8 million that are expected to help mitigate upwards cost pressures of £7.7 million (including £2.1 million for inflation).

69. The £11.8 million included suspending the annual contribution of £1.1 million towards the PPP payment reserve and recognised savings of £3 million arising from the debt smoothing programme.

70. Subsequent decisions taken by members included savings and investments across a range of services (for example heritage strategy, tackling poverty and City Deal) and the budget changed to net position of utilising £1.9 million of reserves to assist in funding non recurring investment commitments.

71. In December 2013 the council agreed to establish the *Better Council* Change Programme (2014-2017) to ensure the council could remain financially sustainable. Further detail is at paragraph 118, but the initial phase of changes from the programme recently agreed by the Council are anticipated to realise savings of £8.4 million over 2015 – 2016 as an initial contribution towards the medium term saving requirement

72. In May 2014 members approved the People and Organisational Development Plan that aims to increase flexibility within the workforce, to support the *Better Council* Change Programme and invest in employee development. The current council pay model has been reviewed and plans for a new structure for staff, directors and heads of service are being discussed with trade unions. The council is committed to integrating the 'Living Wage' into the pay and grading structure.

Governance & accountability

Appropriate systems of internal control are in place

Arrangements for the prevention and detection of fraud and irregularities are satisfactory

Governance arrangements are operating effectively

Arrangements for maintaining standards of conduct and the prevention and detection of corruption are satisfactory

Committees of the council are effective in overseeing governanace and performance moniitoring.

73. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Renfrewshire Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

74. Based on our observations and audit work our overall conclusion is that the governance arrangements within Renfrewshire Council are operating satisfactorily.

75. The corporate governance framework within Renfrewshire Council is supported by the following committees:

Leadership Board

Audit, Scrutiny and Petitions Board

Six thematic Policy Boards

76. Last year we reported that the Council changed its policy boards to better address the significant challenges from the economic downturn and changes in the public sector landscape. Three new policy boards were created: Economy and Jobs; Sport, Leisure and Culture and Planning and Property. The structure also included a new procurement sub-committee of the renamed Finance and Resources Policy Board. Three committees were deleted from the structure. The new boards met as planned during the year.

77. Due to public sector developments in 2014, the Council again reviewed its board structures. In June 2014 members approved the establishment of an Education and Social Work directorate. This is a result of a number of factors including the Early Years' Strategy, embracing the principles of 'Getting It Right for Every Child' and the creation of the integrated health and care partnership due to come into force in April 2015.

78. The redesign of services for children in Renfrewshire is at an advanced stage with education and early years services. A transition manager has been appointed to help implement the new structure.

79. In June 2014 members also agreed for officers to consult with stakeholders, employees and trade unions on the potential broadening of the remit of Renfrewshire Leisure Limited to manage all culture, sports facilities and services on behalf of the council. Depending on the consultations there may be further structural changes in 2015/16.

Internal control

80. As part of our audit we reviewed the high level controls across the council's financial systems. Our overall conclusion was that Renfrewshire Council had appropriate systems of internal control in place during 2013/14 and no significant control weaknesses were identified.

Internal audit

81. Internal audit provides members of the council and the senior management with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.

82. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards, subject to a few minor points, and has sound documentation standards and reporting procedures in place.

Public Services Network

83. In 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions.

84. The Cabinet Office introduced a 'zero-tolerance' regime for connection to the PSN, requiring organisations to demonstrate full compliance or face disconnection. Last year the council was awarded accreditation in September 2013.

85. Complying with the PSN code of connection has been a major challenge for councils and other public bodies. In April 2014, the corporate risk register included an associated risk for the first time.

86. The council's next accreditation deadline is 21 November 2014 and a dedicated project team have been working through a detailed list of actions, each with milestone targets, to strengthen the council's submission. This team report into the

project board, chaired by the Director of Finance and Corporate Services.

87. PSN compliance has operational and cost implications for the council. For example:

- ICT architecture requires significant redesign
- There is increased demand on time and resource in all council service departments to maintain compliance
- Flexible working options have been restricted or stopped e.g. 'Use Your own device'
- The council's decision to disclosure check all staff has introduced a new administrative burden.

88. The project team estimate that approximately four officers (full time equivalent) are working on PSN, excluding senior management time. Cost incurred on additional equipment and consultancy costs totalled £0.4 million in 2013/14, with £0.5 million budgeted for 2014/15 (9% of ICT and Change Management budget of £5.7 million).

89. It is harder to assess the impact on delivering other ICT projects but the Finance and Corporate Services outturn report for 2014 shows slippage on some ICT projects.

Arrangements for the prevention and detection of fraud

90. The council's arrangements for the prevention and detection of fraud and irregularities were satisfactory, based on our review of key controls, testing of transactions and review of National Fraud Initiative (NFI) arrangements.

91. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. Areas for improvement include providing regular updates to members and increasing take-up of the online training modules on the NFI website. In the 2012/13 NFI exercise the council investigated a total of 1,755 matches and identified 18 frauds (all relate to housing benefit) and 13 errors resulting in savings of £0.2 million.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

92. The arrangements for the prevention and detection of corruption in Renfrewshire Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

93. The Commissioner for Ethical Standards in Public Life in Scotland (the Commissioner) conducted an investigation into an allegation that the leader of the council had contravened the councillors' code of conduct by failing to declare a financial interest at a meeting of the Economy and Jobs Policy Board in March 2013.

94. The Commission concluded that there had been a failure to declare a financial interest. The panel noted that there had been a quick apology and that the leader had fully accepted responsibility for the breach of the Code. The Leader raised the oversight with the Chief Executive directly after it occurred. The Commission accepted that the breach had been an oversight and not intentional. They imposed a sanction of suspension of 4 weeks from meetings of the Economy and Jobs Policy Board.

Integration of adult health and social care

95. The Public Bodies (Joint Working) (Scotland) Act 2014 abolishes Community Health Partnerships and requires the integration of all adult community health and social care services. The plans for the Renfrewshire Health and Social Care Partnership are being progressed in consultation with NHS Greater Glasgow and Clyde.

96. This will require:

- the establishment of a local integrated partnership and related governance arrangements
- integrated budgets for health and social care
- joint responsibility for strategic and locality planning in the area served.

97. In December 2013, the council approved a partnership (body corporate) model for local integrated service delivery. The structures are designed to meet the agreed priorities for Renfrewshire. Officers are working with NHS staff to build a degree of consistency across the Greater Glasgow and Clyde Health Board area. Local arrangements do not include children's services. The arrangements will be completed once the Scottish Government publish the final regulations for the Act, which are expected imminently.

98. There is ongoing local engagement on operational issues and the financial aspects of integration are being implemented through the joint Technical Finance working group, with a timetable to have the required protocols in place for 1 April 2015.

99. Arrangements are in progress to recruit the Chief Officer of the Integration Joint Board and will be concluded in November. Recruitment for the Chief Financial Officer will commence once the Chief Officer is in post.

100. Commissioning plans for older people were approved in May 2014 and the council aims to develop joint commissioning plans for learning disability services, adult mental health services, physical disability and sensory impairment services by April 2015.

101. Health and social care integration will be implemented locally from 1 April 2015 while full integration arrangements must be in place by 1 April 2016. There is still a significant amount of work to be done in the next six months.

Refer Action Plan no. 5

Welfare Reform

102. The council has responded positively to the many challenges presented by welfare reform. All affected tenants (over 1,900) have been contacted as part of an ongoing communications campaign. The electronic processing system for the Scottish Welfare Fund from the supplier was not ready for the commencement date of 1 April 2013 and manual procedures were introduced with new ICT system operating from July 2013.

103. The council awarded higher than planned Discretionary Housing Payment (DHP) awards (£0.9 million compared to an initial DWP allocation of £0.3 million). £0.3 million of additional resources were secured through a bid to the Department for Work and Pensions DHP reserve fund. The council was one of eleven councils in Scotland to spend over 95% of their DHP budget, while ten councils were unable to spend more than 50% of their allocation. The UK Government has proposed to devolve the setting of DHP spending limits to the Scottish Government in future.

104. During 2013-14 the council established a Council Tenant Assistance Fund (CTAF) to further help council tenants affected by the under occupancy rules. This is targeted at tenants who are considered to be in financial hardship. Debt arrears of £0.2 million were written off as a consequence. This was lower than anticipated due to the additional DHP funding made available during the year.

105. The Council Tax Reduction Scheme (CTRS) replaced Council Tax Benefit from 1 April 2013. The CTRS is partly funded from the Scottish Government. The change resulted in a net cost to the council in the first year of £0.5 million, slightly less than the expected shortfall of £0.6 million.

106. The council continues to monitor the UK Government's plans for the roll out of Universal Credit. The latest information from the DWP states that the majority of the HB caseload will migrate to UC during 2016 and 2017, although no detailed migration plans are in place. This planned migration will not include some HB claimants.

Housing benefits performance

107. The council's speed of processing for new claims has been maintained at 29 days, just better than the Scottish average of 30 days. The processing time for a change in circumstances (CIC) has increased from an average of 10 to 13 days due to a significant increase in the volume of applications. The benefits

service's audit checking programme covered 5.5% and reported a 93% accuracy level (target 90%).

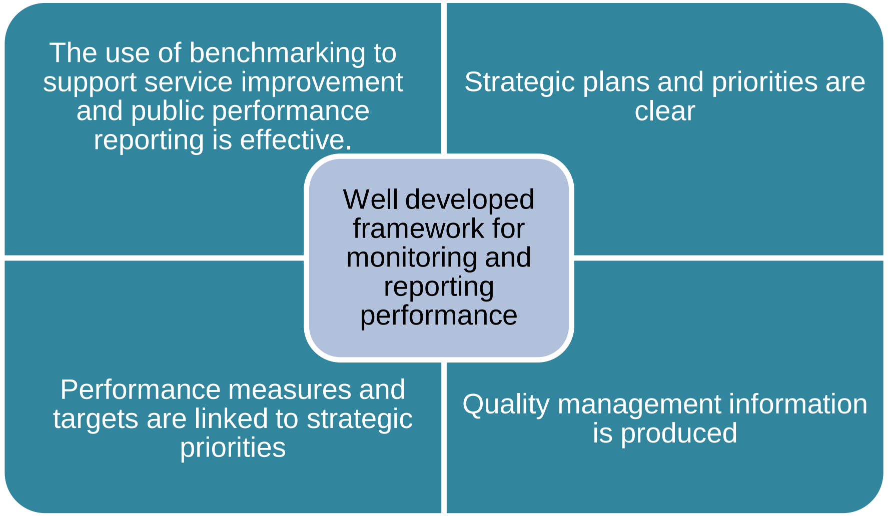
108. In June 2014, Audit Scotland published *Benefits Performance Audit Annual Update 2013/14* identifying common areas of benefits risk across Scotland. These include having a sufficient level of experienced staff and being able to undertake effective intervention activity. The council has reviewed the report and considered the findings.

Outlook

109. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. The health and social care integration will be complex and challenging and has significant implications for the future governance and delivery arrangements of adult health and social care services..

110. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Work and Pensions that will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils.

Best value, use of resources and performance



111. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also a duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

112. Audit Scotland's best value report on Renfrewshire Council was in 2006 and the annual shared risk assessment, performed by the Local Area Network (LAN), has concluded a targeted best value review has not been required.

113. The past year has been a period of transition as the council completed various improvement programmes and self-assessment reviews and began planning for new change programmes under the new council plan.

114. In 2011 the council completed a self-assessment review against the criteria in all 18 of Audit Scotland's best value toolkits. In 2013, the council revisited the toolkits and action plans to consider what improvements had been made for each area.

115. The council has fully implemented the Public Service Improvement Framework and is finalising a second cycle of reviews. The Corporate Performance Unit is assessing all the improvement plans and preparing an evaluation report for the CMT in late November 2014.

Use of resources

116. A new council plan 2014-2017 *A Better Future, A Better Council* was approved in December 2013. The plan reflects the priorities outlined in the refreshed community plan and

describes the role the council will play in delivering the agreed outcomes.

117. In February 2014 members agreed to establish the *Better Council* Strategic Change Programme (2014-2017) to ensure the council could remain financially sustainable, whilst delivering against the community and council plans.

118. The objectives of the plan are to:

- make changes to the ways in which the council's resources work together to create a sustainable organisation
- enhance the council's capability to plan, design and deliver services that are aligned to corporate priorities and provide Best Value and
- provide options to elected members to balance the council's budget in the context of a projected medium term gap of up to £30 million through to 2017/18.

119. Areas for review include operational (non-school) assets and associated running costs; further procurement opportunities and the corporate support model.

120. In October 2014 members agreed to a range of initial change measures as part of the programme including a new voluntary severance scheme; with 100 staff expected to leave over the course of 2015/16. Also, in the next two years there will be service redesign and energy efficiency programmes and a decrease in the number of depots from three to one. Overall, officers anticipate realising savings of £8.4 million from this initial set of changes in the medium term.

121. An external partner has been appointed to provide expertise and capacity, to support the council in achieving the improvement programme.

Performance management

122. The council has a well-established performance management framework in place. Service improvement plans incorporate performance outcomes, which are scrutinised by the relevant policy board. Key performance measures are used to record progress against outcomes. The council uses a performance management system, Covalent, to monitor progress against action plans and scorecards.

123. We are satisfied that appropriate arrangements were in place within the council for 2013/14.

124. The new council plan 2014-2017 *A Better Future, A Better Council* describes what the council will do deliver community plan objectives. However, a suite of performance measures are still to be developed.

Refer Action Plan no. 6

Overview of performance targets in 2013/14

125. Highlights of performance from the SIP outturn reports include:

- Significant increases in use of leisure services and on museum visits (‘Brick City’ Lego exhibition)
- 62% of council housing stock met the Scottish Housing Quality Standard (exceeding a 54% target) with the expectation that this will eventually reach 81%
- Gross rent arrears were 6.52% (target of 8%)
- The Renfrewshire Employability Partnership Programme is on target to exceed its projected outcomes. To date 1,220 people have secured employment and in total 4,090 local people have used the REP services.

126. Areas for improvement include:

- only 64% of employees and 83% of elected members had completed a personal development plan
- there are delays in implementing the corporate asset management ICT system.

Refer Action Plan no. 7

Statutory performance indicators

127. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since 2008 this has focused on councils’ responsibility for reporting performance information.

128. The Local Government Benchmarking Framework focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: corporate management of employees, assets and equalities and diversity
- SPI 2: service performance
- SPI 3: reporting of performance information.

129. The council has demonstrated that the process is well planned with instructions issued to those preparing and checking the indicators. In previous years performance indicators were prepared and reported altogether but for 2013/14 there are different deadlines, with some information not due until November 2014 or into early 2015.

130. The council’s plans for reporting will include accessible summary reports. Following feedback from consultation, hard copy information will not be sent to all residents; instead they will be advised where to find on-line and further hard copy information.

131. An evaluation of all Scottish Local Authorities’ approaches to public performance reporting (PPR) has been carried out by Audit Scotland’s Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils’ Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in

the evaluation. The results for Renfrewshire Council were mixed, with 58% fully, 38% partially and 5% not meeting the criteria.

132. Officers are reviewing examples of best practice from other councils to see how they can improve local public performance reporting, particularly on searching for and locating information on the council's website

Assurance and improvement plan 2014-17

133. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Renfrewshire Council. This is a shared risk assessment prepared by the Local Area Network of scrutiny partners for the council. This was published on Audit Scotland's website and was submitted to the Leadership Board on 4 June 2014.

134. Following the 2014/15 shared risk assessment process, we concluded that all areas are assessed as 'no scrutiny required'.

Local performance audit reports

135. In June 2011, Audit Scotland, on behalf of the Accounts Commission, published a national report entitled '*Arm's-Length External Organisations (ALEOs): Are you getting it right?'*. This report set out good practices to be considered by councils when setting up and operating ALEOs. More recently, following its consideration of a case involving The Highland Council, the Chair of the Accounts Commission's wrote to all councils highlighting the serious financial consequences of weak governance in the arrangements for overseeing ALEOs. The Chair took this opportunity to remind councils about the Commission's previous work in this area.

136. In 2014, we carried out a targeted follow-up review to provide the Accounts Commission with a position statement on councils' use of ALEOs and, in particular, assess what progress had been made subsequent to the publication of the 2011 report. This work will inform the Accounts Commission's consideration of ALEOs in the context of the public sector audit model.

137. We could see clear links between the work of Renfrewshire Leisure Limited (RLL) and the Council's strategic priorities. There were examples of good and well established governance arrangements in place and training provided to members of RLL on their specific roles. However, we considered that there could be clearer roles on council monitoring of performance, particularly if the remit of RLL is expanded.

National performance audit reports

138. The council regularly report the findings from our national reports to members including an assessment of recommendations against current practices and the agreement of actions to ensure further improvements. A summary of

national performance reports, along with local audit reports, is included in Appendices I and II.

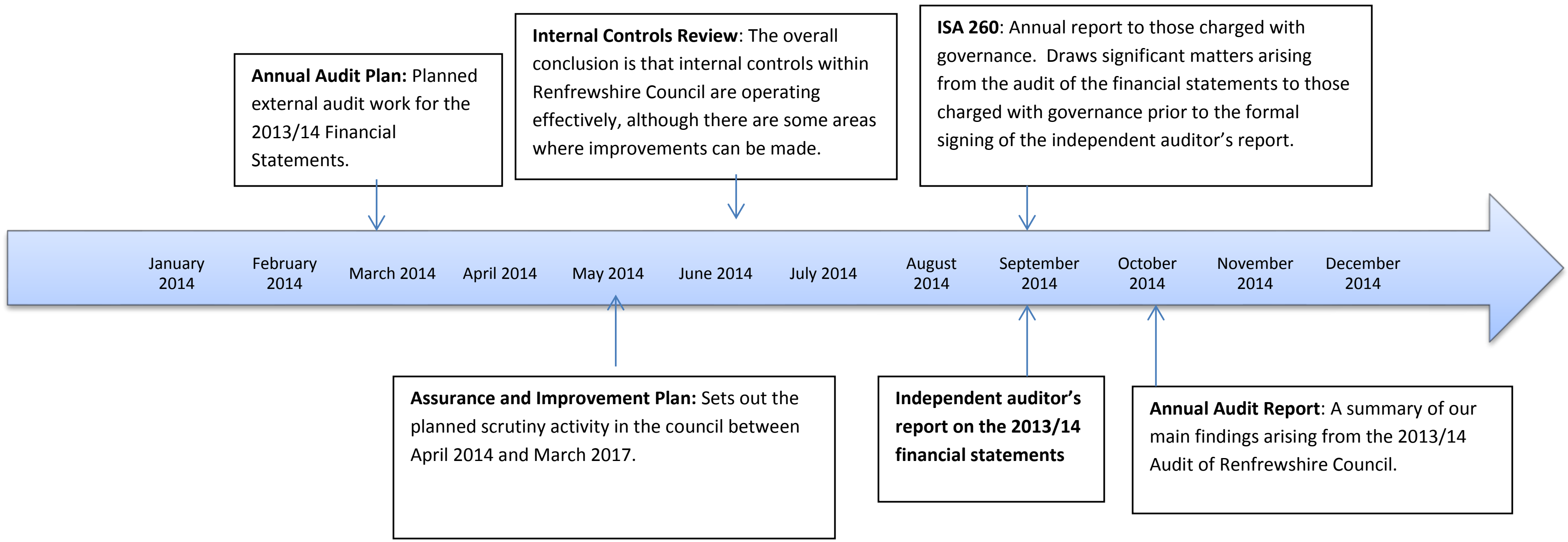
Outlook

139. The council has agreed to participate in the City Deal, on the basis of the offer negotiated by the Clyde Valley Councils with the UK and Scottish Governments. The total package of £1.13 billion is expected to deliver around 29,000 new jobs to the seven local authorities that make up the Glasgow and Clyde Valley City Region Infrastructure Fund.

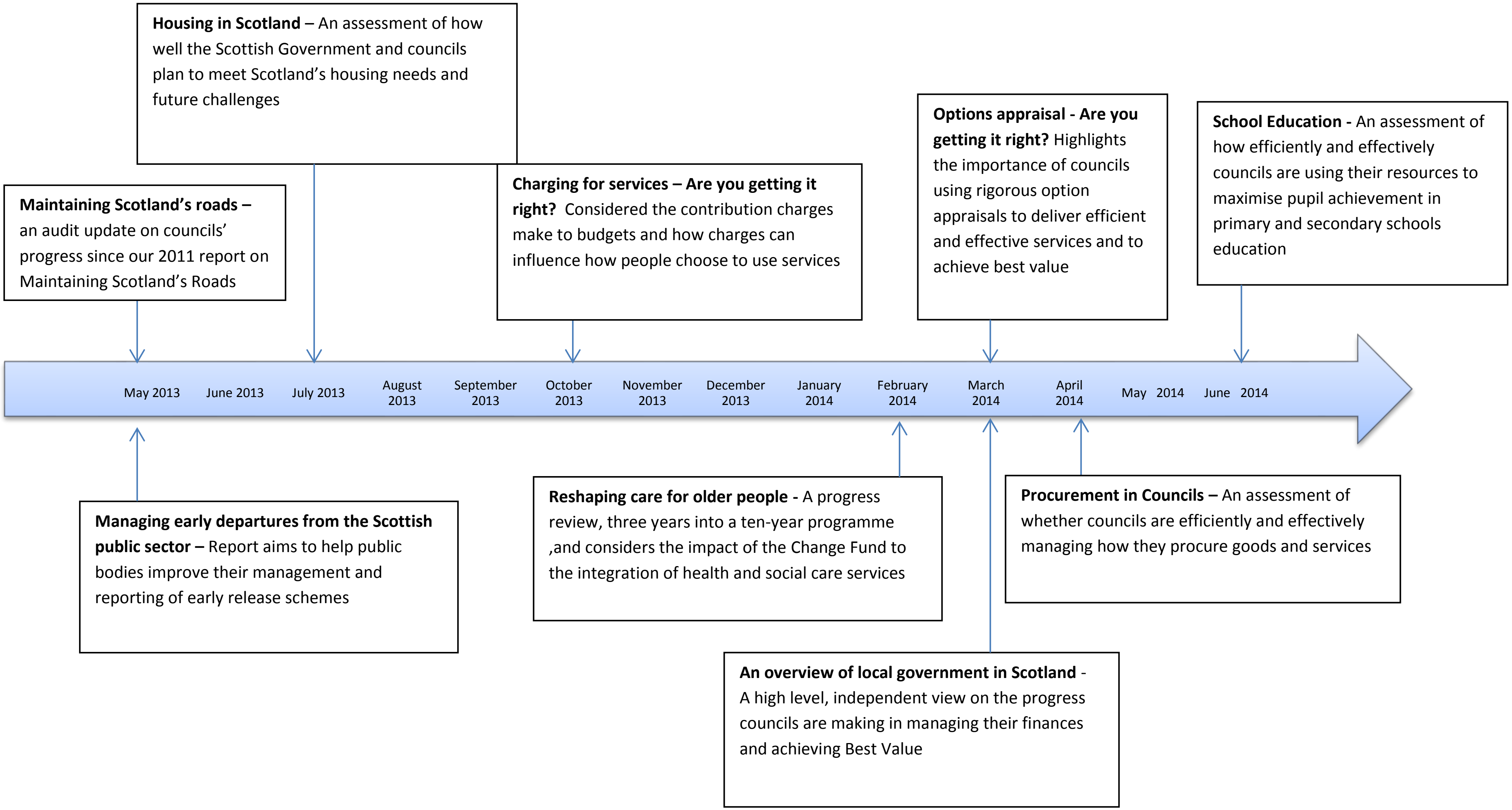
140. In Renfrewshire, three projects have been identified as being key elements of the Infrastructure investment across the City Region:

- Clyde Waterfront / Renfrew Riverside: the ongoing regeneration of Renfrewshire's waterfront and to support private sector investment to this area. It involves investment in road infrastructure, including a new bridge crossing between Renfrew and Yoker, to improve access to investment opportunities at Glasgow Airport and Inchinnan Business Park.
- Glasgow Airport Investment Zone: to maximise the investment and employment opportunities associated with the Airport, there will be investment in road infrastructure to the east of the Airport and improved access to the M8 and adjoining roads network.
- Glasgow Airport Rail Link: enhancement to surface access between Glasgow Airport / Paisley Gilmour Street and onwards to Glasgow Central and the wider rail network.

Appendix I – Summary of Renfrewshire Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice	
Financial Sustainability The council forecast significant savings of £20-£30m are required over the medium term. The council continue to face increasing pressures on demand-led services and uncertainty over impact of welfare reform and health and social care integration. There is a risk that these issues could have an adverse impact on the council's financial position and that planned savings are not fully realised.	We reviewed revenue monitoring reports for all services during the year for any significant overspends. We also reviewed updates on the financial outlook reported to members in year and the budget papers approved by council in February 2014 in order to obtain an up to date position on the financial position and achievement of planned savings. We assessed plans in place to achieve savings through the strategic change programme and People and Organisational Development Plan. We concluded that subject to any major change in Scottish Government funding, the financial position of the council remains stable and its activities are currently financially sustainable. In the medium term, actions are being taken to address future financial pressures, which the council
Housing Revenue Account Welfare reform changes have introduced a significant financial risk to the HRA, with increasing rent arrears and increased debt write off. There is a risk to the financial sustainability of the Housing Revenue Account.	We reviewed the rent arrear levels and debt write-offs and considered the mitigating actions put in place by the council. We concluded that overall the financial and resource pressures on the HRA have been managed successfully in this first year of welfare reform.

Audit Risk	Assurance procedure
Public Service Network (PSN) In September 2013 the Cabinet Office awarded PSN accreditation to the council, along with an action plan of issues to be addressed. Accreditation is to be awarded annually and compliance in 2014 requires additional technical work and implementing these action plans is time-consuming. There is a risk of unplanned costs and that development work of the ICT services, under the new ICT strategy, Connect Renfrewshire, could be delayed.	We reviewed documentation and discussed with officers the pressures and impact of the work of seeking re-accreditation. It is clear the council has prioritised PSN accreditation; allocated resources and had to overturn some earlier operational decisions on flexible working to do this, but as the council's risk register describes, ICT capacity is stretched in terms of work required to maintain accreditation.
Audit risk of material misstatement in financial statements	
Council Tenant Assistance Fund The application of the CTAF commenced in 2013/14 and there has been significant political/ audit interest in the application of the fund in accordance with the Housing (Scotland) Act 1987. There is a risk that the application of the fund does not meet legislative requirements.	As part of our financial statements testing we confirmed that the funds used in-year were in accordance with the original purpose and had been correctly treated within the financial statements.
Council Tax Reduction Scheme From 1 April 2013 the Council Tax Reduction Scheme replaced council tax benefit. There is a risk the change in classification or presentation within the financial statements will not be correctly actioned and that expenditure will be materially mis-stated.	Our financial statements work confirmed that the CTRS was correctly treated and appropriately presented within the financial statements.

Audit Risk	Assurance procedure
Accounts Payable While the work to complete the authorised signatory database was completed during 2013-14, Social Work services' structure of financial approval thresholds has not yet been fully established within the PECOS electronic purchasing system. There is a risk that social work orders through PECOS are not being authorised in accordance with the agreed financial thresholds.	Improvements to the authorised signatory database were still being made in 2013/14 to address internal audit findings that invoices were not being suitably authorised. We completed substantive testing on expenditure items to provide us with sufficient evidence that expenditure has been properly incurred.
Risk of fraud over revenue recognition ISA 240 requires that auditors consider the presumption that there are risks of fraud in revenue recognition. There is a risk that income is not correctly recognised and accurately recorded.	As planned we carried out substantive testing across income streams as part of our testing on the financial statements and there were no audit issues to report.

Appendix IV – Action plan

Ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1 Para 39	**Common Good Reserves** The revaluation reserve in the Common Good charity accounts is an historic balance, which council officers are unable to fully substantiate. **Risk** There may be a technical accounting error in the allocation of the reserves between Unrestricted Funds and the Revaluation Reserve **Recommendation** The council should review accounting records to identify the accurate balance.	This does not impact on the level of investments and assets held by the common good funds. Officers are reviewing the basis of the reserve and tracing back movements to prior years	Principal accountant for capital (F&CS)	31 March 2015
2 Para 41	**Changes in accounting standards** Next year (2014/15) there are changes to the accounting framework. These changes affect the group financial statements and include a change to the definition of control, used to determine treatment of interests in other entities. **Risk** The financial statements for 2014/15 do not adequately account for, or disclose, the group arrangements.	Finance staff attend technical accounting update each year to understand changes to accounting standards and Code of Practice on local authority accounting. Finance manager will prepare group boundary assessment as part of planning for financial statements.	Finance manager (Corporate accounting)	31 January 2015

Ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
	Recommendation The council reassess its group boundary prior as part of planning for 2014/15 financial statements.			
3 Para 42	**Highways Assets** Highways assets are to be measured for the first time on a depreciated replacement cost basis in 2016/17 This will require a revised opening balance sheet as at 1 April 2015 and comparative information for 2015/16. **Risk** There is a risk the council does not comply with the CIPFA Code of Practice on Transport Infrastructure Assets and is unable to identify/ include accurate valuation information for comparative purposes in the 2015/16 financial statements. **Recommendation** The council should ensure a timetable is in place and sufficient resources allocated to ensure all information prepared per above.	As part of the WGA return for 2013/14 a self-assessment update showed that the council was making satisfactory progress on collecting information. Most progress has been made on lighting, land and carriageways with more information required on traffic management, footways and cycle tracks.	Head of Corporate Finance	31 March 2015
4 Para 44	**Local Authority Accounts (Scotland) Regulations 2014** The unaudited accounts for 2014/15 are to be considered by the Audit, Scrutiny and Petitions Board before 31 August and the audited accounts must be	Corporate finance will liaise with Democratic Services Manager and agree a timetable to ensure new requirements are met. Members of Audit, Scrutiny and Petitions	Democratic Services Manager and Director of Finance and Corporate Services and	31 March 2015

Ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
	considered by 30 September with publication on the council's website by 31 October, each year. **Risk** There is a risk that the timing of Board meetings and the timetable for preparing and revising the accounts does not take account of these changes next year leading to these statutory deadlines being missed. **Recommendation** The council should ensure a detailed timetable is in place linked to Board cycle of meetings	Board will be updated on changes for 2015.		
5 Para 101	**Health and Social Care Integration** There are many governance and operational arrangements to be agreed prior to the implementation date of 1 April 2015 and regulations have still to be issued by the Scottish Government. **Risk** There is a risk that integration arrangements may not be fully developed by the required timescales. **Recommendation** Once regulations are issued plans are reviewed for progress and resource pressures.	Risk log in place and monitored for progress and emerging risks. Plans are in place for all tasks to ensure implementation by 1 April 2015.	Director of Finance and Corporate Services and Director of Social Work	31 March 2015
6 Para 124	**Council plan performance measures** The new council plan 2014-2017 *A Better Future, A Better Council* describes what the council will do to	Service Improvement plans include progress against developments Corporate Performance Unit is currently	Chief Executive's Service Manager	December 2014

Ref	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
	deliver community plan objectives. However, a suite of performance measures is still to be fully developed **Risk** Without clear performance measures and milestones there is a risk the council cannot clearly demonstrate progress against the council plan. **Recommendation** Scorecard is prepared reporting timetable established	developing a scorecard. Members will be updated on progress against scorecard in mid 2015.		
7 Para 126	**Personal development plans** **Percentage of employees having completed personal development plan was 64% against a target of 90% and number of elected members with a personal development plan at 82.5% (33 out of 40).** **Risk** **There is a risk that staff are not developed and performance managed on an individual basis during a time of change for the council when agile working and skills development could be key.** **Recommendation** There is a renewed drive to ensure all staff have personal development plans in place	**The council's new People and Organisational Development Plan approved in May 2014 commits to reviewing performance development programmes. A revised programme for supervisors and managers is being prepared. Service improvement plans include 90% target for 2014/15 and progress will be monitored.**	**Director of Finance and Corporate Services** **Directors of services**	**March 2015**