



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Review of single status provision
Year ended 31 March 2009

5 June 2009

AUDIT

Contents

This interim management report is presented under the terms of our appointment by Audit Scotland.

The contacts at KPMG in connection with this report are:

Grant Macrae

Director

Tel: 0131 527 6611

Fax: 0131 526 6666

grant.macrae@kpmg.co.uk

Keith Macpherson

Senior Manager

Tel: 0141 300 5806

Fax: 0141 204 1584

keith.macpherson@kpmg.co.uk

Elizabeth Rafferty

Assistant Manager

Tel: 0141 300 5805

Fax: 0141 204 1584

elizabeth.rafferty@kpmg.co.uk

- Audit plan overview 2008-09, update on single status and equal pay provision
 - per minutes of the special A&PR committee on 25 March 2009

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code"). This report is for the benefit of only West Dunbartonshire Council and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Update on single status and equal pay provision balances

Introduction

Within our audit plan document presented to the audit committee on 25 March 2009, we highlighted the ongoing implementation of single status and the settlement of additional equal pay claims as an area for audit focus. In particular we noted that as at 31 March 2008, West Dunbartonshire Council ("the Council") was carrying a provision in the balance sheet of £13.5 million, and that our audit work for the year would need to consider the transactions during the year against the provisions, and its closing value as at 31 March 2009. On 25 March 2009, the Audit and Performance Review Committee ("A&PRC") requested us to provide an update at the next committee in respect of our work in this respect.

Provision balances

Under Financial Reporting Standard 12 'Provisions, contingent liabilities and contingent assets', a provision is recognised in the financial statements when an organisation has an obligation as a result of a past event to transfer economic benefits to settle that obligation. Following a Council decision on 19 August 2008, implementation of the single status agreement was imposed with an effective date of 1 March 2009. As a result, the Council recognised its obligation to settle additional equal pay claims, in particular to those members of staff who had previously received compensation payments which were valid only to 31 March 2006. In addition the Council recognised that the delay in implementation of the single status agreement also required settlement payments to all members of staff. These claims were recognised in the financial statements for 2007-08 as meeting the conditions required by Financial Reporting Standard 12, and the estimated value of this provision at 31 March 2008 was placed at £13.5 million.

In the latter part of the 2008-09 financial year, the Council made payments to staff in settlement of its obligations, and these payments have been charged against this provision. Following the A&PRC request, we asked finance staff to prepare a schedule summarising the payments made against the provision to date.

In the financial year to 31 March 2009, finance have advised us that payments of £7.7 million (including tax costs) have been made in respect of additional equal pay compensation payments to staff. In addition, the Council has made realignment payments to all staff totalling £6.4 million, in line with the Council decision of 19 August 2008. Further costs of £0.4 million have been incurred in respect of handling of appeals.

In total, the Council has therefore incurred costs of approximately £14.5 million against its provision in the period to 31 March 2009. This includes costs of £1.0 million that were budgeted for as part of the 2008-09 budget allocation, and represents the fact that a share of the payments made should be charged to the period 1 April 2008 to 28 February 2009, that is, the period in 2008-09 before implementation.

We have undertaken audit work to confirm the completeness, existence and accuracy of payments made to employees in respect of these compensation and realignment payments as part of our interim audit fieldwork. At the time of preparation of this report, no significant matters have come to our attention as a result of our audit testing, however, we would note that some elements of our work in respect of some balances remains to be completed. Our conclusions on this work will be reported as part of our annual audit report to the Council and the Controller of Audit following completion of our audit for the year ended 31 March 2009.

From our discussions with finance staff, a number of appeals and tribunals remain ongoing, the costs of which the Council will be committed to meeting as at 31 March 2009. As a result, a further provision of approximately £1.85 million is currently expected to be required as at 31 March 2009. This will again be met from the existing 2008-09 budget. Auditing standards, however, require us to consider the appropriateness of the value of this provision, to the extent that it is required to "*meet obligations as a result of a past event*", up to the date of signing of the financial statements in September 2009.

Update on single status and equal pay provision balances

Ongoing costs

The implementation of the single status agreement from 1 March 2009, with the revised pay and grading structure and terms and conditions of employment, committed the Council to significant increased annual pay costs. As these represent ongoing costs in return for the benefit the Council derives from the employment of its staff, no provision is required or able to be met under Financial Reporting Standard 12, as there is no past event requiring the Council to make these payments. Consequently, going forward ongoing costs are met from the Council's budget setting process on an annual basis.

As part of the decision-making process for implementation of the single status agreement during 2008-09, we note that the Council took a decision to designate £1.0 million of its reserves to meet ongoing costs in respect of single status. The designation of reserves does not meet the requirements of Financial Reporting Standard 12 for recognition in the financial statements as this represents a budgetary decision of the Council, and not a decision where there is a legal or statutory obligation as a result of past events.