

# North Lanarkshire Council

## Report to Members on the 2005/06 Audit



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# Key Messages

## Introduction

In 2005/06 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

## Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of North Lanarkshire Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts. Two significant trading operations incurred deficits in the three years to March 2006 due to the inclusion of costs associated with the settlement of equal pay claims.

The council had corporate governance systems in place during 2005/06 that operated well within a sound control environment.

The Chief Executive provided his annual performance report for 2005/06 to the Council in September 2006. This highlighted the Council's most important achievements of the previous year and outlined progress against the targets set in the Council's performance plan for 2005/06. It highlighted actual performance outcomes which are directly linked to the aims and objectives in the corporate plan, demonstrating a number of improvements in services.

The Council uses the Statutory Performance Indicators (SPIs) as part of its performance management arrangements. We were able to assess the arrangements for each SPI as being reliable.

The Council recorded a net general fund deficit of £16.502 million in 2005/06. This was due to the creation of a provision arising from the offers of settlement of potential liabilities in relation to equal pay, offset to a degree by savings generated by a review of all non-essential expenditure during the year.

The Council's strategy is to maintain an unallocated general fund balance of £8.0 million as a contingency against emergencies. As at 31 March 2006, as a result of the provision made in respect of equal pay, the Council utilised its unallocated general fund balance in full and carried forward a deficit of £3.864 million on its general fund. The Council has, however, implemented a package of planned budget decisions to recover their financial position. Total savings of some £15.6 million budgeted for in both 2006/07 and



2007/08, should result in the reinstatement of the Council's approved contingency balance. Officers have advised that savings achieved to date are in excess of those budgeted.

The Council prepared group accounts in accordance with requirements. The overall effect of inclusion of the Council's subsidiaries, associates and joint ventures is to reduce net assets in the group accounts by £495 million. This is substantially as a result of including pension liabilities arising from the Police and Fire joint boards. These liabilities will be funded as they fall due through a combination of employee and employer contributions, government grant and council tax.

## Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council will need to manage in delivering on its stated objectives and priorities. We grouped them into the following six themes:

- Regeneration and investment
- Challenging and improving performance
- Workforce management
- Funding future improvement
- Accountability and governance
- Engaging with stakeholders

North Lanarkshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. While this has helped to reduce uncertainty, there remain significant risks in this area, particularly while existing pay and reward structures remain in place. The full implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

The Council remains to implement the single status agreement. The Chief Executive has recently informed all staff that in the absence of a collective agreement with trades unions, the Council's proposed pay model would be implemented with effect from 6 November 2006. Annual costs of implementation have been estimated as £4.4 million in 2006/07 and £6.5 million in 2007/08. The Council has identified the majority of the funding package needed to meet these costs, although some £3 million will require to be met through operational efficiencies. The Council may remain liable to Employment Tribunal claims from individuals claiming gender inequality. In securing a resolution, the Council needs to maximise the opportunity for service and job redesign to ensure that it achieves value for money from the investment in its staff.

Significant efficiencies are required in future years for the Council to balance its budget whilst controlling any future council tax increases and to meet targets set out for the government's Efficient Government programme. The Council currently has a process for achieving efficiency savings across its functions based on a percentage level of targeted savings. It will continue to be challenging for the Council to deliver



its ambitious programme of savings while managing the impact on the Council's services and overall objectives. If the Council is unable to achieve the required level of efficiency this will threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives.

A more systematic performance management system has recently been introduced, with key performance indicators developed within each service. This will help in underpinning performance improvement. An effective performance management system is also an essential tool to support decision making if the Council is to be able to demonstrate whether proposed efficiencies will impact on outputs and quality. Without this the Council will be unable to fully demonstrate the extent to which savings have impaired service outcomes or quality.

Robust asset management processes will be essential to ensure that future capital investment decisions make the best fit to corporate objectives. A corporate asset management plan has been produced and is available to support the updated capital investment strategy, on which work is under way.

Effective management of relatively high sickness absence levels will be necessary to ensure that these do not impact on the ability to achieve corporate objectives and priorities, and to make improvements in service performance.

Continuing development of risk management, performance management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements. Continued commitment to the NFI exercise will ensure that the public purse is properly protected from fraud. The forthcoming elections will require the Council to review its governance arrangements to ensure they remain fit for purpose.

This is the final year of our current appointment to the audit of the Council. From 2006/07 PricewaterhouseCoopers will become the Council's appointed auditor. The cooperation and assistance given to us by members and staff over the five years of our audit appointment is gratefully acknowledged.

**Audit Scotland  
October 2006**



# Introduction

1. This report summarises the findings from our 2005/06 audit of North Lanarkshire Council. The scope of the audit was set out in our Audit Risk Analysis and Plan, which was submitted to management in March 2006 and the Audit and Governance Panel in June 2006. This plan set out our views on the key business risks facing the Council and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on some of the matters raised in this report. Each report set out our findings and recommendations and the Council's agreed response. Appendix A attached, sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Council during the course of our audit work.



# Performance

## Introduction

4. In this section we summarise key aspects of the Council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of any local performance audit work and the findings of national performance audit studies.

## Corporate objectives and priorities

5. The Corporate Plan for 2004—2008 sets out the key goals and priorities for the Council until 2008 and explains how it plans to achieve these. The plan sets out seven themes, which cut across a variety of services:
  - Stimulating Business and the Economy;
  - Promoting Social Inclusion;
  - Encouraging Lifelong Learning;
  - Promoting Health, Wellbeing and Care;
  - Improving Housing and the Environment;
  - Promoting Community Safety and Development; and
  - Developing the Organisation.
6. A total of 32 key aims link in to these themes. These aims are wide-ranging and include:
  - improving and reshaping town centres by investing more than £20 million over the four years of the plan;
  - improving the learning system by investing £150 million in the Education 2010 PPP initiative to improve educational buildings; and
  - assisting in the building of 500 new rented and 3,475 owner-occupied homes.



## Overview of performance in 2005/06

### Annual report

7. The Chief Executive provided his annual performance report for 2005/06 to the Council in September 2006. The report highlighted the Council's most significant achievements of the previous year and outlined progress against the targets set in the Council's performance plan for 2005/06, which is the second year of the Council's Corporate Plan 2004 to 2008. The report also provided details of a selection of the Council's Statutory Performance Indicators for 2001/02 through to 2005/06.
8. The annual performance report provides actual performance outcomes which are directly linked to the aims and objectives in the corporate plan and demonstrate a number of improvements in services.

### Statutory performance indicators

9. Alongside local Key Performance Indicators (KPIs), aspects of the Council's comparative performance can be measured by Statutory Performance Indicators (SPIs). The Council uses the SPIs as part of its performance management arrangements and in most cases, the indicators are tracked on a quarterly basis and, where appropriate, measured against specific targets. Performance review within the Council includes the use of trend and comparative performance data, the aim of which is to identify and address emerging performance issues quickly. SPIs alone cannot give the full picture on the performance of a service. This year, the Chief Executive reported that 25 SPIs which had been noted as improving in 2004/05, continued to improve this year. Six SPIs had reversed the 2004/05 downward trend and had improved. However, 13 SPIs which had shown improvement in 2004/05, declined in 2005/06 and 10 showed little change from the previous year's position.
10. Significant improvements have been made in a number of areas such as:
  - the percentage of single rooms for children in Council run residential care homes has increased from 75.8% to 93.9%;
  - the percentage of noise complaints settled on day of receipt has increased from 66% to 87.7%;
  - the percentage of children seen by a supervising officer within 15 days has improved from 32.4% to 46.2%; and
  - rent arrears have showed a steady reduction in the last two years, with current tenants' arrears as a percentage of net debit standing at 4.3% this year, against 4.9% in 2004/05.
11. However, performance has declined in other areas such as:





- the percentage of children's places in Council residential care homes with en-suite facilities has dropped from 15.2% to 6.1%;
  - the percentage of consumer complaints dealt with within 14 days has dropped from 70.1% to 45.7%; and
  - the net cost of refuse disposal per premise has increased from £32.94 to £47.50.
12. The Council has integrated the SPI reporting requirements into its own internal reporting mechanism in the majority of departments, and this has improved the process by which indicators are produced. We are pleased to record that this year all of the SPIs reported by the Council have been rated as "A", meaning that suitable systems and reliable data were in place.

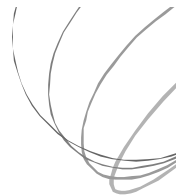
## Performance outlook – opportunities and risks

### Introduction

13. In our Audit Risk Analysis and Plan we identified some of the strategic risks to North Lanarkshire Council delivering on its stated objectives and priorities. We have grouped these risks into six themes which may impact upon service delivery. Risk exists in all organisations and, inevitably, is higher in those undergoing significant change. Therefore, the objective for any organisation is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

### Regeneration and Investment

14. There is a risk that the Council may be unable to address its aim to narrow the gap between deprived and prosperous neighbourhoods within North Lanarkshire if investment is not properly planned, funded and linked to its corporate objectives.
15. The decline in manufacturing and a growth in services has led to North Lanarkshire having the largest volume of derelict land in Scotland. In addition, it is recognised that the quality of town centres is in decline. In response, the Council has as one of its priority themes, to stimulate business and the economy. During 2005/06, the Council spent some £11.8 million on improving town centres and other regeneration projects.
16. The Council requires to have facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of Council objectives now and in the future. Capital plans should therefore be based on robust asset management planning.



17. The balance sheet records tangible fixed assets of some £1,704 million as at 31 March 2006. A three year capital plan linked into revenue budgets provides the basis for the Council's capital spending plans. However, the Council does not yet operate an asset management planning process which is linked to the financial planning process and which ensures that capital investment decisions represent the best fit to corporate objectives. Without a fully operational asset management system, there is a risk that Council assets may be utilised inefficiently. We are pleased to record that an asset management plan has been produced but it has yet to be fully utilised in a manner which demonstrates that the information has led to more effective Council decision making. The related capital investment strategy is due for completion during 2006/07 and this should provide the basis for future capital investment programmes and should provide the link between financial resources and Council priorities.

#### **Action Point 1**

### **Funding future improvements**

18. The Council's stated policy is to deliver savings that have no adverse impact on service delivery. The Council has a process of capturing efficiency savings across its services and functions based on a percentage level of targeted savings that are linked to the financial strategy model. These savings are re-invested in key priority services at a local level.
19. There is a risk that the Council is unable to afford the changes required to improve its performance while meeting new demands for its services. Significant efficiencies are required to release funding for improvements to service delivery and to meet the challenges of funding settlements and the Efficient Government agenda.
20. The Council has an Efficient Government Corporate Working Group (established as a result of the Efficient Government agenda) to control and monitor progress on efficiency projects. The group is aware of the most challenging aspects of efficient government including the need to develop mechanisms to ensure that outcomes and quality are not adversely affected by efficiency savings and to ensure that efficiency savings are genuine. However, until these mechanisms are fully established within the Council's performance management framework, the Council is not in a position to fully demonstrate that its 2005/06 efficiency savings have not impaired service quantity or quality.
21. The Council continues to face significant challenges in refocusing its resources on service delivery. Good progress has been made in a number of areas, including plans to become involved in a pathfinder project to develop best practice in the management of shared services, and in the implementation of an e-procurement system throughout the Council. Significant effort will be required to deliver the required level of efficiencies while continuing to improve performance. A more



structured approach to measuring and monitoring outputs, integrated with the Council's developing performance management systems, is essential to underpin this.

#### **Action Point 2**

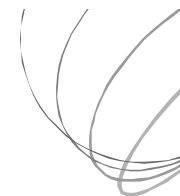
22. Longer term financial planning is necessary to fit in with the community and corporate planning timescale and that the financial and operational impact of longer term issues, for example, demographics, on the organisation's objectives are recognised and costed. The Council is currently developing longer term financial plans for both capital and revenue expenditure.
23. The Council must also deal with the significant risks arising from the job evaluation/single status and equal pay reviews. In respect of equal pay, some £23.5 million has been provided for in the 2005/06 accounts based on estimated future costs. The current position with regard to both equal pay and single status are subject to further comment within the Financial Position section of this report.

### **Challenging and improving performance**

24. The Council aims to achieve significant improvements in performance across its activities and recognises that the performance management framework will help to balance government requirements which need to be met with the services provided to meet local needs. Performance management is therefore considered to be vital for the success of the corporate plan.
25. The Council implemented a new performance management framework in October 2005. The framework was assessed during the remainder of 2005/06 and will be fully operational for the 2006/07 financial year. A further review of the performance management framework together with the introduction of efficient government will take place during 2006/07. This will be essential to enable the Council to demonstrate that the revised framework is effective in driving continuous improvement in Council services.

### **Accountability and governance**

26. Risk management is an essential component of the governance framework in any well-managed organisation. It is widely acknowledged that risk management has been slow to develop in local authorities in general. Within North Lanarkshire, risk registers have been prepared by each department and key corporate risks have been identified and are being managed by relevant senior managers. In 2005/06 work was undertaken within departments to review existing controls to ensure key corporate risks were being addressed within departmental risk registers. During 2006/07, management will continue to assess the adequacy and effectiveness of management arrangements in respect of key corporate and departmental risks.



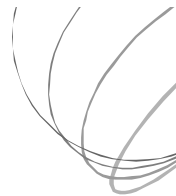
27. In prior years we identified that the Council needs to review its arrangements for funding external parties and, in particular, ensuring the funding is used as expected and whether members are aware of their responsibilities when appointed to arms length bodies. The Council set up a corporate working group during 2005/06 to consider weaknesses identified by previous audit work and to work towards full compliance with the Code of Guidance on Following the Public Pound. In addition, draft guidance has been prepared for members setting out their responsibilities. Our follow-up report on Following the Public Pound is currently being finalised and will shortly be issued to officers.
28. A significant change in the local government environment will be the introduction of proportional representation in the 2007 Council elections. The Council has established a member/officer working group which is developing options in relation to issues for political management and decision-making for consideration by the Council due to be elected in May 2007.

## **Workforce management**

29. People play the key role in delivery of high performing services and there may be a risk that the Council may not have the right skills, in the right place, at the right time—both through a period of significant change and on a continuing basis. Effective workforce planning is therefore essential to ensure that the right staff with the appropriate qualifications and experience are available.
30. Workforce planning is continuing within the Council. Due to other pressure on Council HR staff (namely equal pay, job evaluation), the proposed position statement on workforce planning is still being developed.
31. In a period of significant change (job evaluation, equal pay, changes to the pension scheme) the Council is particularly exposed to risks in relation to the morale of affected staff and the potential for industrial relations difficulties. Equal pay compensation offers have recently been made to staff within three high risk categories, cleaning, catering and home support staff. Collective agreement with all trade unions has not been achieved in relation to implementation of single status and underlying job evaluation. Discussions have been ongoing since late 2005. As a consequence, in late September 2006 the Chief Executive issued a letter to all staff advising that the Council had agreed to implement the proposed pay and grading model. The financial implications of these issues are discussed in paragraphs 72 to 79.

### **Action Point 3**

32. North Lanarkshire compares unfavourably with the rest of Scotland in terms of life expectancy and the incidence of serious ill health. The area also has a higher level of economic inactivity than the national average due to a range of health and social problems. There are also high levels of



incapacity benefit take-up. This may therefore have an impact on the staff employed by the Council many of whom will live in the area.

33. As reported in the 2004/05 performance indicators, North Lanarkshire Council had the highest sickness absence rate in Scotland for chief officers and local government employees at 7.4%. Of particular concern is the rate reported by Social Work (9.14%). There is therefore a real risk that services cannot be provided to the level required and that staff morale is affected as staff cover for absent employees. The 2005/06 performance indicators show sickness absence for chief officers and local government employees has reduced slightly to 6.8%. However, the rate reported by Social Work of 9.88% for 2005/06 is significantly higher than other Council departments and remains a cause for concern. The sickness absence statistics for April to June 2006 show the rate reported by Social Work for the period as 8.74%. Overall sickness absence figures for the Council for the period April to June 2006 is currently running at a reduced rate of 5.89%.

#### **Action Point 4**

### **Engaging with stakeholders**

34. The Local Government Scotland Act 2003 gives a greater impetus to effective partnership working to meet local needs and priorities. Within North Lanarkshire, considerable organisational and structural change is taking place within and between partner agencies with North Lanarkshire Partnership (NLP) pulling together local partners to ensure services are jointly planned and priorities shared. North Lanarkshire Partnership's Community Plan brings together the key public agencies and sets out a strategic framework for meeting the needs of local communities within North Lanarkshire. Partnership working is particularly important in relation to the regeneration agenda of the Council.
35. Increasingly, the Council is dependent on partnership working to deliver services and/or the Council's objectives. Inevitably much of the development of partnership working to date has focused on structures and processes.
36. In June 2006, Audit Scotland published its initial review of community planning arrangements. This found that community planning is progressing but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular the large number of national policy initiatives, each with their own funding arrangements can make it difficult for partnerships to plan and deliver effectively.
37. In September 2006, the North Lanarkshire Partnership produced the Community Plan Performance Report for 2005/06 which highlights the progress made during the year against a selection of the priorities and targets set out in the Partnership's Community Plan for 2004 to 2008. However, the



report does not provide a progress update on all priorities and targets within the Community Plan and as a result, service users and the wider public do not receive comprehensive information about performance in respect of community planning.

#### **Action Point 5**

### **Best value**

38. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
39. The Council are expected to receive a best value audit in early/mid 2007. The Council has introduced a process in order to assess their preparedness against best value requirements whereby each service department was required to complete a status report where they assessed their own preparedness using a traffic lights approach against each of the 10 best value criteria.
40. The percentage preparedness was calculated by the Council using the proportion of criteria which achieved green status (ie, a sound approach is in place in line with best value requirements and expectations). Following this exercise, which departments carried out between February and May 2006, the Council's overall preparedness was deemed to be 85%. This provided a means of measuring the Council's progress.
41. The Council acknowledge that those areas they appear to be weaker in, sustainable development and equal opportunities, require further attention. Service departments will be asked to update their status at the end of 2006 .

### **National studies**

42. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year include reviews of community planning partnerships, public sector pension schemes and the National Fraud Initiative as summarised elsewhere in this document. Other reports published during the year and of direct relevance to the Council are set out below. Further information on these studies and reports can be obtained from Audit Scotland's webpage at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

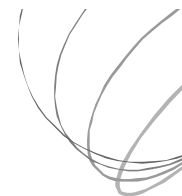


## **A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21<sup>st</sup> Century***

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

### **Following the public pound – a follow-up report**

44. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.
45. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when Councils fund external organisations, although only five councils had a low level of compliance. North Lanarkshire Council was one of 18 councils included in the moderate category of compliance.
46. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils. (We refer to North Lanarkshire Council's progress in paragraph 27 of this report).



# Financial position

## Introduction

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

## Council tax and the general fund

### Revenue performance 2005/06

48. The Council's net revenue expenditure in 2005/06 was £580.747 million, after transfers of £1.666 million to the insurance reserve, £0.934 million to the housing revenue account balance and £0.025 million to crematorium equipment fund. This was met by government grants and local taxation of £564.245 million resulting in a net general fund deficit of £16.502 million.

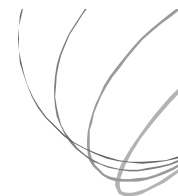
49. The budget set for 2005/06 was based on a Band D Council tax level of £1,041. The Council had planned to use £1.790 million from the general fund. In his Foreword to the financial statements, the Director of Finance highlights an adverse variance against budget of some £14.712 million which arose mainly as a result of the provision for equal pay compensation of £23.552 million, which was partially offset by

- commitments to be carried forward to 2006/07 of £1.684 million;
- savings on external borrowing costs of £1.691 million;
- improved PPP/Trading surpluses of £0.269 million;
- improved local tax collection of £0.335 million;
- departmental expenditure reviews which made savings of £4.367 million; and
- additional Revenue Support Grant of £0.494 million.

50. During the course of the year, the Council had to manage significant financial pressures. For example, the year opened with the Council having to absorb significant increased utility costs, projected in June 2005 to equal £987,000, rising to £1.486m by January 2006. These were largely absorbed through management action including the reconfiguration of services and expenditure control.

51. In addition, the Council had considerable pressure on its Social Work budget in the area of Payments to Other Bodies. The expected overspend in this area increased from £975,000 in August 2005, to





£3.025m by March 2006. The overspend arose because of demand led children’s services, the spending on which could not be controlled by the Council. The net out-turn position was achieved by management action through the ongoing review of expenditure.

52. As the potential impact on the costs of equal pay were identified, a review of all non-essential expenditure was undertaken. As a consequence, by the beginning of March 2006, the Council was projecting an overall year end underspend of £5.042m, arising from focused departmental action to generate efficiencies in service delivery.

## Reserves and balances

53. At 31 March 2006 the Council had total cash backed reserves and funds of £5.732 million, including a repair and renewals fund (crematorium fund) and an insurance fund that underpins the Council’s self-insurance arrangements.

*Table 1  
Reserves and Funds 2005/2006*

<b>Description</b>	<b>2005/06 £ Million</b>	<b>2004/05 £ Million</b>
General Fund	(3.864)	12.638
General Fund—Housing Revenue Account	2.687	1.753
<b>TOTAL REVENUE RESERVES</b>	<b>(1.177)</b>	<b>14.391</b>
Usable Capital Receipts Reserve	-	0.008
Repair and Renewal Fund	0.025	-
Insurance Fund	6.884	5.217
	<b>5.732</b>	<b>19.616</b>

54. The Council’s strategy is to maintain an unallocated general fund balance of £8.0 million as a contingency against future emergencies and unforeseen events. As part of the funding package to provide for the future costs of equal pay compensation, use was made of the unallocated general fund balance on a temporary basis. This allowed the Council to bridge the timing gap between creating the provision for anticipated future costs and the full implementation of the complete funding package.
55. As at 31 March 2006 the Council carried forward a general fund deficit of £3.864 million. If no remedial action had been planned, no funds would have been available to meet future earmarked commitments totalling £1.800 million, which included:
- approved use of balances in 2006/07 of £0.116 million;
  - balances earmarked for winter and roads maintenance of £0.700 million;



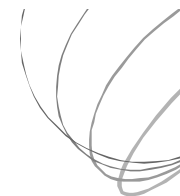
- waste disposal fund of £0.615 million; and
  - external funding group commitments of £0.369 million.
56. The Council has implemented a package of planned budget decisions which should deliver the funding to match the anticipated costs of equal pay compensation. A total sum of £16.5 million has already been incorporated into the revenue estimates for 2006/07 and 2007/08 which should result in the reinstatement of the Council's approved contingency balance of £8 million together with an element of unallocated resources to be applied to future expenditure. Officers have advised that savings delivered to date are in excess of those budgeted.

### ***Rents and the housing revenue account***

57. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2005/06 was based on an average weekly rent level of £44.14, an increase of 4% on the previous year.
58. A surplus of £0.934 million was reported in 2005/06, against a planned deficit of £0.553 million. This arose from higher than expected housing rent income and a significant reduction in expenditure on unlet properties.

### **Group balances and going concern**

59. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Strathclyde Joint Police Board, Strathclyde Joint Fire Board, Strathclyde Passenger Transport Executive, Strathclyde Concessionary Travel Scheme and Lanarkshire Joint Valuation Board) had an excess of liabilities over assets at 31 March 2006 due to the accrual of pension liabilities. In the case of Strathclyde Police and Strathclyde Fire the combined deficits total £4.3 billion, with the council's group share amounting to £505 million. This has arisen because the pension schemes for police officers and fire fighters are unfunded and are met entirely from current resources as payments fall due. The Council will only fund 12.31% of the Police Board's liability and 10.79% of the Fire Board's liability, matching its share of actual pensions paid in year. The balance is funded through direct Scottish Executive grant.
60. The overall effect of inclusion of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £495.061 million, substantially as a result of the pension liabilities noted above. All group bodies' accounts have been prepared on a going concern basis.

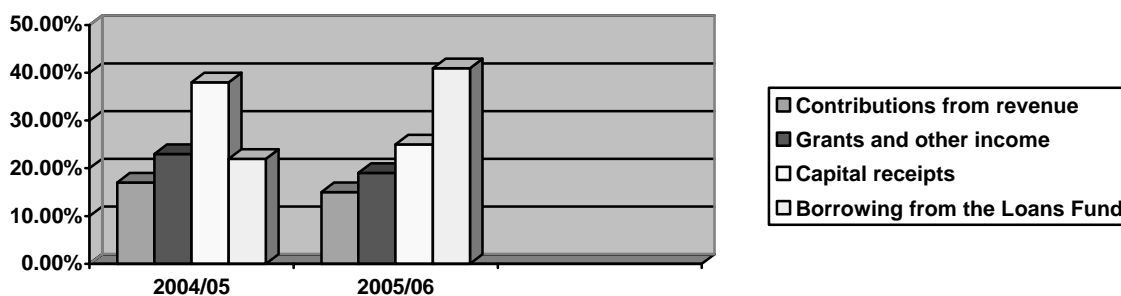


## Spending on assets and long-term borrowing

### Capital performance 2005/06

61. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2005/06 were agreed in March 2005 and significant increases in capital expenditure have been made under these freedoms as the Council seeks to improve its asset infrastructure.
62. Capital expenditure in 2005/06 totalled £117.105 million, rising from £106.931 million in 2004/05 and £62.634 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the Council has increased its capital spending, within the limits set within its prudential indicators, the proportion funded by debt has increased significantly with £48 million additional borrowings taken in 2005/06, an increase of £24 million on the previous year. The borrowing requirement of £48 million is some £11.7 million in excess of that originally planned and was mainly due to the late receipt of capital sales proceeds. These receipts were received in Summer 2006 and will lead to an overall reduction in the borrowing requirement in 2006/07.

*Chart 1  
Sources of finance for capital expenditure 2005/2006*



63. Almost 67% of long and medium term loans at the year end mature after more than 15 years. The Council has actively managed its exposure to variable interest rate movements with less than 2.5% of all debt exposed to variable rate risk, well below its prudential maximum exposure of 25%.
64. Budgeted capital expenditure for 2005/06 was £117.342 million, an underspend of £0.237 million when compared to actual expenditure. The Council should be commended for its efforts in ensuring that the planned capital programme is achieved.



## **Forward capital programme**

65. General services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £66.046 million and £57.777 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing.
66. The Council has a delivery plan in place to meet the Scottish Housing Quality Standard (SHQS) which was submitted to Communities Scotland in April 2005. The delivery plan sets out how the Council will ensure that its housing stock will meet the SHQS by 2015 and be maintained at that standard thereafter. The delivery plan also estimates that the Council would be required to invest £26 million for each year from 2005/06 through to 2014/15 in order to meet the minimum national standard and an additional £6 million each year over the same period to meet the Council's own higher standards. Capital investment in housing during 2005/06 was in excess of £40 million, with the 2006/07 level of capital expenditure estimated at almost £41 million. A housing stock condition survey is planned to take place during 2007 which will take account of all investment made to housing stock since the previous condition survey in 2000 and the results should be available in late 2007/early 2008.

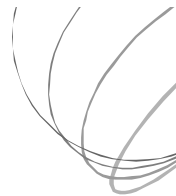
## **Significant trading operations**

67. 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, which are required to break even over a three year rolling period. The first three year period ended in 2005/06.
68. The Council has six significant trading operations, building cleaning, catering, grounds maintenance, cleansing, sport and leisure management and transport. In the three years to 31 March 2006, the building cleaning and catering trading operations failed to break even with aggregate deficits of £3.113 million and £3.574 million respectively. These deficits were incurred by the inclusion £7.397 million of exceptional costs relating to equal pay compensation in 2005/06 for employees of the building cleaning and catering trading operations.

## **Financial outlook**

### **Current budget**

69. The 2006/07 budget was based on a Band D Council tax level of £1,077 an annual rise of 3.5%. A contribution of £1.071 million from the general fund was planned. General allowances for pay and cost inflation pressures were built into the budget together with allowances for demographic pressures on demand led services in education and adult and elderly services. A range of measures were also built into the budget to meet additional pay costs resulting from the implementation of revised pay and

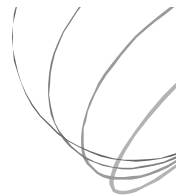


grading models (single status). A number of efficiencies and other savings were built into the budget and spend to save budgets established.

70. A high level revenue budget for 2007/08 has also been set, using the base budget projection, enhanced to reflect future cost pressures. The Council has decided to delay its decision on future Council Tax levels for 2007/08 until it has firmed up on its detailed budget for this particular year.
71. Local authorities have yet to be provided with details of provisional Scottish Executive Aggregate External Finance allocations for 2008/09. The Council has yet to agree a high level revenue budget or issue an indicative Council Tax level for this year.

## **Equal pay**

72. 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.
73. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06. There are risks for councils not only on whether traditionally female roles have been underpaid but also in relation to many mainly male manual workers in areas such as cleansing, grounds maintenance and building trades who receive bonus payments that typically are not available in areas such as catering and cleaning staff where the workforce is predominantly female.
74. In common with many other Scottish councils, North Lanarkshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. The Council has completed a fundamental review and an £23.5 million estimate has been made of the total one-off cost of these payments, with these costs being recognised in the 2005/06 financial statements.
75. The extent to which the actual costs vary from current estimates will depend on a number of factors including take-up rates and level of awards of any cases taken to tribunal. North Lanarkshire Council have based their estimate on a 90% acceptance rate with 10% progressing to tribunal. Acceptance rates are currently running at 94% for catering and cleaning staff and 65% for home care staff. Costs above that already budgeted will increase further the financial pressure on the Council.
76. While moves to agree compensation payments to affected employees will help to reduce financial risk in this area to some extent, there remain significant risks while existing pay and reward structures remain in place. The implementation of a revised pay and grading model and the future



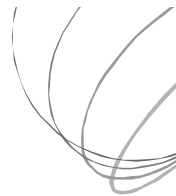
implementation of the Single Status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

## **Single status**

77. In 1999 a Single Status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. There was a presumption that Single Status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
78. The original national Single Status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. To date only one council has implemented Single Status.
79. North Lanarkshire Council remains to implement the agreement although discussions are continuing with staff and Trade Unions. Until a local agreement is concluded, the Council cannot be certain as to the actual final cost. This represents a significant financial risk to the council. North Lanarkshire Council has estimated that current pay costs will increase by over £7 million in 2006/07 and over £6 million in 2007/08 and 2008/09 and that departments will require to review their staffing establishment as part of a managed change process. In securing a local agreement we consider that the Council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

## **Efficient government**

80. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.
81. The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified councils of the efficiency savings they should achieve each year it anticipated that North Lanarkshire Council's contribution to the top-sliced target of £168.3 million will be £10.512 million over three years, equating to £3.372 million for 2005/06.
82. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign may take



longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the range and quality of services provided. In order to claim an efficiency, councils need to demonstrate that service outcomes have been maintained or improved.

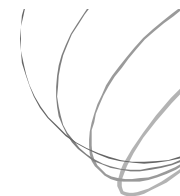
83. Based on information supplied by councils across Scotland, it is apparent that:

- few councils have a system in place to properly monitor, measure and report efficiency gains and that effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
- the level of projected efficiencies varies significantly between councils;
- the majority of planned efficiencies relate to areas and projects other than the SE's five key work streams of procurement, asset management, absence management, streamlining bureaucracy and shared support services; and
- plans for projects to create time releasing efficiencies are not well developed and little in the way of efficiencies is expected to be generated by 2007/08 through shared support services. In both cases this is indicative of the time required to develop plans for fundamental service redesign.

84. The Council is aware of the most challenging aspects of Efficient Government which requires mechanisms to ensure that outcomes and quality are not adversely affected by efficiency savings. In common with other councils, much work is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes efficiency and how it should be measured, monitored and reported. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2006/07.

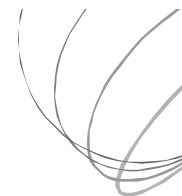
## **Pension liabilities**

85. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts as a result of the prevailing market conditions at that date.



86. The Council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde Pension Fund by £200.743 million, decreasing from £233.091 million in the previous year. This movement in liabilities has arisen as a result of changes in actuarial assumptions used.
87. A full actuarial valuation of the Strathclyde Pension Fund 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% as at 31 March 2005. (Recent correspondence from the actuary, shows an overall funding position of 102% as at July 2006). The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. This shows that budgeted contributions are expected to rise from 260% of employee contributions to 280% by 2008/09.





# Governance

## Introduction

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

## Overview of arrangements in 2005/06

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

90. A Statement on the System of Internal Financial Control is included within the annual financial statements, with the aim of providing assurance to stakeholders on the adequacy of arrangements. The statement highlights the Director of Finance's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system, but that work is ongoing to further develop the Council's risk management arrangements. The statement complies with accounting requirements and is not inconsistent with the findings of our audit. The Director of Finance, in signing the statement, has relied on the assurance statement provided by the Audit Manager, the reports of both internal and external audit and the work of managers within the Council. In addition, as part of the process, the Director of Finance receives written assurances from departmental directors that financial controls have been observed and have operated effectively during the year under review.

91. At a corporate level the Council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and senior staff, a whistle blowing policy and defined terms of reference for all committees. A code of conduct is currently being prepared for other staff.

92. Following on from the publication of the CIPFA in Scotland Directors of Finance section *Guidance Note on Audit Committee Principles in Local Authorities*, the Council replaced the Chief Executive's Audit Group with an Audit and Governance Panel which held its first meeting in April 2005. Membership comprises five elected members. In addition, independent advice is given to the

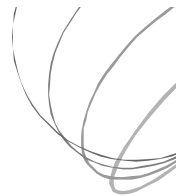


members to assist the discharging of their role and responsibilities and we consider that the Panel is well placed to provide robust scrutiny and contribute to the overall control environment.

93. The Council has a Risk Management Corporate Working Group which promotes the risk management policy throughout the organisation. All departments have risk registers in place and departments have continued to progress risk management arrangements during 2005/06. The Council has also identified and established a list of key corporate risks which have been allocated to relevant Directors, who have ensured that these risks were included within departmental risk registers. The Council has assessed how well these corporate risks were managed during the year and concluded that departments had properly documented and assessed existing controls in light of the identified risks. Progress is being made to further embed risk management arrangements into the Council's service planning and operational management processes.
94. The Council has also established a Corporate Governance Working Group drawn from officers of all departments which has undertaken a systematic review of the Council's corporate governance compliance with the CIPFA/SOLACE Code on Corporate Governance. The working group has reported both to the Corporate Management Team and the Audit and Governance Panel and is now pursuing the action points arising from that review.
95. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our annual review of the planned approach and organisation of North Lanarkshire Council's internal audit found no issues arising, and we are pleased to record that we are able to place reliance on the work undertaken in forming our opinion on the Council's financial statements. We consider there to be an effective internal audit function which largely follows CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom* and has contributed positively to the control environment within the Council. We reported that work remains outstanding on three issues; these related to an ongoing staffing review, completion of the updated Internal Audit Manual and clearer consideration of risks identified by the Council within internal audit's planning processes.

## Systems of internal control

96. In his annual report for 2005/06 the Audit Manager provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be placed upon the adequacy and effectiveness of Council's internal control systems in the year to 31 March 2006.
97. Recommendations made in previous years' internal audit reports are monitored by management and internal audit, with progress reported to the Audit & Governance Panel regularly. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. The majority of recommendations have been implemented. Those outstanding are of a routine nature.



98. 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:

- Payroll
- Creditors payments
- Housing rents
- Council Tax
- Capital accounting
- Non-domestic rates
- Main accounting system
- Budgetary control
- Debtors and income

99. We are currently finalising our report on further follow up of prior year systems reviews together with any other matters identified during the course of our 2005/06 audit. We would intend to submit this report to management shortly.

## Prevention and detection of fraud and irregularities

100. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy and procedures for reporting suspected frauds, thefts and other irregularities.

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

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

102. The Council has shown commitment to the NFI exercise and is systematically following up the reported data matches. A senior officer within the finance department is supervising the process. Following on from an initial review of the matches, the NFI results were prioritised and investigated. A review of progress indicates that investigative work is continuing into 2007. Savings reported at 2 October 2006 amounted to some £520,000.



103. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October 2006 and will have fresh information to investigate in early 2007. The Council needs to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.
104. Each year Audit Scotland gathers information on actual cases of fraud identified by Councils. In 2005/06 the Council identified 6 cases of non-benefit fraud where total losses were £10,281. A further 31 cases of benefit fraud were identified, with losses totalling £293,782.

## **Governance outlook**

105. Continuing development of risk management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements. In addition, continuing application of the appropriate level of resource to the investigation of potential frauds will ensure that the public purse is properly protected from fraud.
106. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, may have potential implications for the political make-up and governance of the Council. These reforms will require the Council to review its governance arrangements to ensure that they remain fit for purpose, including committee structures, role/remits of members and arrangements for training new members.
107. Leisure facilities transferred to a community trust in late September 2006. The Council therefore needs to ensure that effective governance and monitoring arrangements are in place to ensure that the Council's relationship with the Trust is effectively managed and that the arrangements deliver the Council's objectives.



# Financial statements

## Introduction

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

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

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

110. We also review the Statement on the System of Internal Financial Control by:

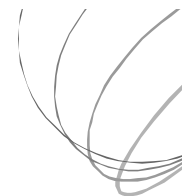
- considering the adequacy of the process put in place by the Council to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Council.

## Overall conclusion

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

112. 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 68 of this report, the building cleaning and catering trading operations made aggregate losses of £3.113 million and £3.574 million respectively in the three years to 31 March 2006, with the result that the Council has failed to meet this statutory requirement.

113. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were very good and this enabled the audit to progress smoothly.



114. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Council and publication. The financial statements are 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

115. 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'). While a number of adjustments were made to the unaudited accounts provided for public inspection, none affected the stated financial position on either the consolidated revenue account or balance sheet. Details of any significant accounting issues arising in the course of our audit are summarised below.

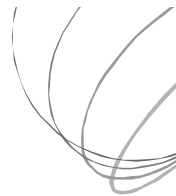
## Provision for equal pay

116. Under accounting rules the total expected costs of equal pay claims had to be recognised in full during 2005/06, because the Council had an obligation to pay the compensation and there was a reliable estimate of the amount. Total expenditure of £23.5 million was therefore recognised in the accounts. There remain uncertainties over the actual cost that will be incurred and the estimated cost is a matter of professional judgement. We have requested and received a specific representation from the Director of Finance that actual and potential claims have been reviewed and the amount recognised as a provision is the best estimate of the expenditure likely to be required to settle these. We are satisfied that a reasonable approach has been taken.

## Group accounts

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

118. North Lanarkshire Council was the only authority in Scotland to comply with the modified arrangements for the preparation of group accounts in 2004/05. As a result the Council was in a strong position when the requirements became mandatory for the first time in 2005/06. The Council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures. The group accounts are primary accounting statements of the Council. The Statement on the System of Internal Financial Control



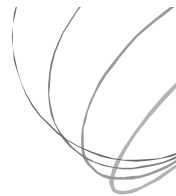
(SSIFC) refers only to the Council itself. The Council may wish to consider extending the SSIFC to cover the other bodies whose activities have been incorporated into the group accounts.

## **Debt restructuring costs**

119. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.
120. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to Councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.
121. There is currently a debate over the appropriate accounting treatment of LOBOs, specifically whether the characteristics of a LOBO requires any premium arising to be recognised immediately rather than over the life of the replacement borrowing. The Council had LOBO debt totalling £54 million at 31 March 2006, borrowed as part of restructuring from PWLB borrowing. Its accounting policy is to recognise the cost of premiums arising from all debt restructuring, including that involving use of LOBOs, over the full life of the replacement borrowing. A total of £15.5 million of rescheduling costs relating to the use of LOBOs was being carried on the balance sheet.
122. The applicable accounting treatment is subject to a large degree of professional judgement and has the potential to have a significant impact on the results and financial position of the Council. We requested and received a specific representation from the Director of Finance that in his view the overall economic effect of the original and replacement borrowing is substantially the same. In reaching this view he has taken into account the definition of the term 'overall economic effect' offered by the SORP guidance notes, the expected stability of interest rates over the period of replacement borrowing and that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any changes.

## **Housing rent arrears**

123. There are a number of former tenants with whom the Council has reached a rent arrears repayment agreement. As at 31 March 2006 some £635,000 remain outstanding, a decrease of £31,000 from 31 March 2005. In previous final reports we have recommended that the Council review the status of each agreement and then set up a bad debt provision where appropriate. As a result of the review of these arrears, officers have advised that provision has been made in the 2006/07 budget to write off



an element of these outstanding arrears with the remainder being written off in 2008/09 if still not collected.

124. In response to a further recommendation from our 2004/05 report, a provision has now been created for current tenant rent arrears. This has been calculated using a methodology which is based on the information produced for the Statutory Performance Indicators and is consistent with the Council's broader debt management policy.

## Legality

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

126. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the Council has provided for equal pay compensation payments in the financial statements. In our view, until the single status agreement is implemented, there remains the possibility that the Council may be judged to have not fully complied with the requirements of the Act.

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

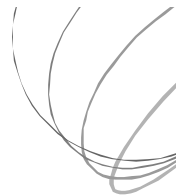
## Financial reporting outlook

128. 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 changing accounting rules. Significant challenges ahead are summarised below.

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

- 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; and
- similar changes to the housing revenue account and group accounts.

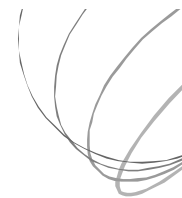
130. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities.

131. The scale of losses incurred in 2005/06 by the building cleaning and catering significant trading operations as a result of equal pay costs are likely to mean that similar comment will be required in audit certificates in 2006/07 and 2007/08.

### **Change of external auditor**

132. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years.

133. This is the final year of our current appointment to the audit of North Lanarkshire Council. From 2006/07 PricewaterhouseCoopers will become the council's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.



# Final Remarks

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

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

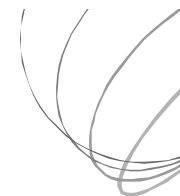
136. The co-operation and assistance given to us by North Lanarkshire Council members and staff over the five years of our audit appointment is gratefully acknowledged.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1.	17.	<p><b>Asset management planning</b></p> <p>The Council should continue to develop its asset management planning process to ensure the efficient utilisation of assets and linkage to the Council priorities.</p> <p><b><i>Risk: capital investment is not effectively targeted at areas that best support corporate objectives and priorities.</i></b></p>	<p>Implementation of revised capital programmes for 2008-09 and beyond based on asset management plans and the investment strategy to be completed and reported to Council</p>	<p>Director of Finance</p>	<p>March 2007</p>
2.	21.	<p><b>Efficiency programme</b></p> <p>Significant efficiencies are required for the Council to meet targets set out for the government's Efficient Government programme.</p> <p><b><i>Risks: the Council is unable to achieve the efficiencies necessary.</i></b></p> <p><b><i>It is unclear the extent to which savings comply with definitions of efficiency. Savings achieved impact on service quality and outputs to a greater extent than planned.</i></b></p>	<p>We will plan, control and measure progress on all Efficient Government actions including capturing and recording efficiency gains (both time releasing and cash savings) and put in place predetermined monitoring arrangements that are capable of demonstrating that reported efficiencies had no detrimental impacts on service standards or performance</p>	<p>Assistant Chief Executive (Corporate and Performance)</p>	<p>March 2007</p>



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
3.	31.	<p><b>Single status</b></p> <p>The Council remains to implement the single status agreement.</p> <p><b>Risks: initial and continuing costs are considerably in excess of expected levels.</b></p> <p><b>Industrial relations difficulties restrict the ability to deliver on key objectives.</b></p> <p><b>The Council may be judged to be contravening the Equal Pay Act.</b></p>	Implementation of the pay and grading model chosen as a result of the job evaluation outcomes	Head of Personnel Services	November 2006
4.	33.	<p><b>Sickness absence</b></p> <p>The Council has recorded the highest sickness absence levels in Scotland.</p> <p><b>Risk: services cannot be provided to the level required.</b></p>	<p>A review is planned of the revised sickness absence policy introduced in September 2005.</p> <p>A review is planned of the Council's contracted occupational health arrangements.</p>	<p>Director of Administration</p> <p>Head of Personnel Services</p>	<p>November 2006</p> <p>November 2006</p>
5.	37.	<p><b>Public performance reporting</b></p> <p>The community plan performance report does not provide progress on all targets and priorities.</p> <p><b>Risk: service users and the wider public do not receive comprehensive information about performance.</b></p>	Processes already being put in place for the production of the new community plan will incorporate revised monitoring and reporting arrangements.	Assistant Chief Executive (Community Regeneration)	January 2007