Glasgow City Council

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

AUDIT SCOTLAND

October 2007

Glasgow City Council

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on the 2006/07 Audit

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Key Messages

Introduction

In 2006/07 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 main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Glasgow City Council for 2006/07. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.

The council continues to face significant challenges both in relation to delivery of its improvement agenda and in managing ongoing financial pressures such as the implementation of its workforce pay and benefits review. As a consequence of funding equal pay compensation awards general fund reserves were reduced significantly below the council's target of 2% of net expenditure. Plans are in place to restore balances to the target level over the medium term.

The council demonstrates a commitment to continuous improvement. A best value improvement plan was compiled following the council's best value audit report in 2006. The plan contains fourteen actions of which ten have either been implemented or are on target for implementation. Some slippage has been experienced and the council is continuing to progress these areas including the completion of a corporate HR strategy, a leadership development programme and the roll-out of personal development plans.

The council has an integrated performance management framework which links a range of improvement activities within a single framework. Significant improvements have been made in reporting performance over recent years. The focus is now on ensuring that reporting mechanisms for the new council plan from 2007 are based on more effective, outcome focused, measurable impacts. The council needs to demonstrate that service outcomes have been maintained or improved and to evidence the link between resources and performance measurement.

As part of its review of services, the council have increased the delivery of services through external arms length organisations. There are risks associated with this method of service delivery in particular with ensuring that activity delivers the services required and that there is clear accountability for public funds. Overall the council has adequate arrangements in place to manage these risks. The council has an improvement action plan to address areas where we reported that arrangements could be improved in this area.

As part of the council's drive to improve services through partnership working, Community Health and Care Partnerships (CHCPs) were set up in April 2006 to reduce bureaucracy and devolve responsibility and decision making to the frontline for health care and social services. CHCPs are at an early stage in their development and a number of improvements are being implemented by the council in moving forward.

Outlook for future audits

As the council works towards restoring general fund reserve balances to 2% of net expenditure, the projected financial position in future years is tight. In addition, it is not yet clear what impact the new Scottish Government will have on local government finance, in particular in relation to the local government settlement and council tax funding. Medium term financial plans will need to be closely monitored to take account of such pressures.

The council has demonstrated a clear commitment to the efficiency agenda and has reported total efficiencies of £45.629 million in 2006/07. Efficiencies have been included in the approved revenue budget for 2007/08. It will be a challenge for the council to demonstrate achievement of these efficiencies whilst continuing to deliver high quality services.

The co-operation and assistance given to us by Glasgow City Council councillors and staff during our audit is gratefully acknowledged.

Audit Scotland

October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of Glasgow City Council. Findings are contained in four sections: performance, financial position, governance and financial statements. Within these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.

2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), issued to the council in March 2007. The ARAP set out our views on the key business risks facing the council and described the work we planned to carry out, under the following strategic themes:

   - affordability
   - business transformation to deliver service improvement
   - using performance management to drive service improvement
   - social renewal through working with partners
   - supporting political governance
   - workforce planning
   - efficient and effective use of assets.

3. We also undertook a number of detailed exercises which resulted in separate audit reports. These included:

   - a review of the internal audit service
   - partnership working – 2006/07 a review of Community Health and Care Partnerships (CHCPs) in Glasgow
   - a review of the use of arms length external organisations in delivering services.

4. Where appropriate in this report, we refer to key messages from these separate reports.

5. Overall conclusions on the council's management of key risks are discussed throughout this report. Appendix A of this report sets out the key risks highlighted in this report, which we wish to draw to the attention of members, and the action planned by management to address them.

6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.

Performance

Introduction

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

Corporate objectives and priorities

8. The council plan for 2003 – 2007 set out five key objectives:
   - providing accessible, accountable council services that are effective and offer value for money
   - creating a cleaner, safer city and a sustainable environment
   - promoting social inclusion, tackle poverty and improve health and well being
   - sustaining the city's physical, social economic, cultural and environmental regeneration
   - developing Glasgow's metropolitan role, quality of life, heritage and services.

9. In 2006 a supplement to the original plan was issued in recognition of emerging challenges. The council plan and supplement contain 147 commitments. These included the following:
   - delivering a programme of strategic best value and efficient government reviews to achieve greater efficiency, effectiveness and value for money
   - working with other agencies in order to develop effective policy and practice as a means of tackling anti-social behaviour in the city
   - improving performance within schools, by achieving year-on-year improvements in pupils' attainment in examinations and by reducing exclusions and raising the level of attendance at school
   - redirecting staff resources dedicated to the co-ordination and marketing of events to improve communication and partnership working with key agencies responsible for organising and attracting events to the city.

10. Following the Local Government elections in May 2007, the political make-up of the council is 45 Labour, 22 Scottish National Party, 5 Liberal Democrats, 5 Scottish Green Party, 1 Conservative and 1 Solidarity member. As a result of the continuing labour majority the corporate objectives set for the council prior to the election remain relevant going forward.

11. Following the election work is ongoing to develop an updated council plan for 2008 – 2011, incorporating relevant manifesto commitments. This is expected to be presented to the council in early 2008.

Overview of performance in 2006/07

Annual report

12. The council's annual performance report was published in August 2007 and provides a brief round-up of the performance of services for 2006/07. It includes a statement from the Leader of the Council highlighting the most significant achievements and developments during the year, including:

- creation of a number of arms length organisations as a result of the council's pathfinder programme to improve service delivery and cost effectiveness
- restructuring of management and operational arrangements to deliver better integrated and more cost effective services
- introduction of a range of initiatives to prevent and divert young people away from anti-social behaviour
- achievement of improved rates in reading, writing and mathematics and significant improvements in Scottish Qualifications Authority examinations in seven of the ten national benchmarks
- establishment of five community health and care partnerships (CHCPs) to integrate planning, management and delivery of a range of health and social care services at a local level.

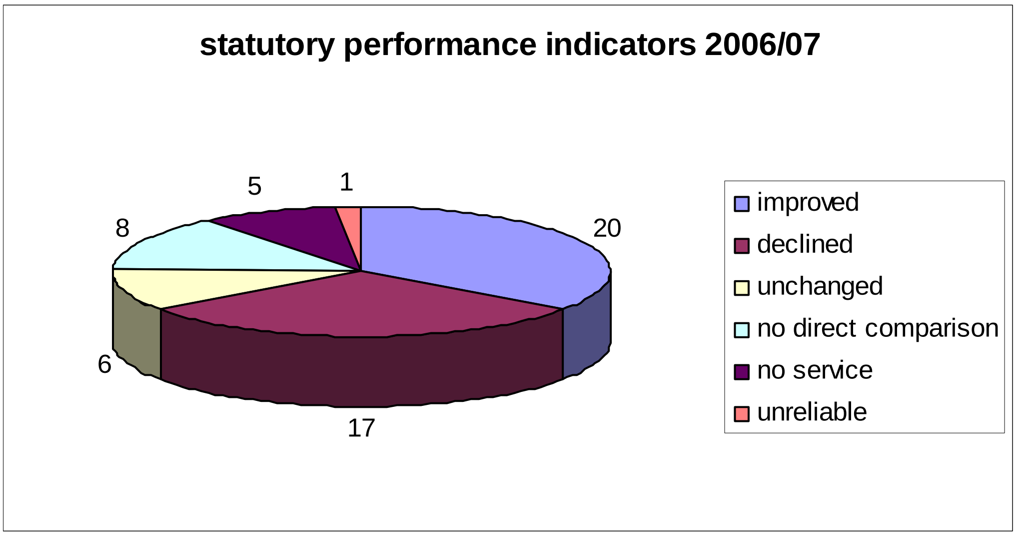
Measuring performance

13. The council has an integrated performance management framework which links various improvement activities within a single framework. Significant improvements have been made in reporting performance over recent years, including the introduction of a local suite of Measures of Improved Performance (MIPS) for services. However, the council acknowledges that improvements can still be made and the focus is now on ensuring that reporting mechanisms for the new council plan from 2007 are based on more effective, outcome focused, measurable impacts. The council also intends to review the number of performance measures being used to ensure they are focused on priority areas to improve service performance.

Statutory performance indicators

14. One of the ways of measuring council performance is through statutory performance indicators (SPIs). Historically the council's performance as measured by SPIs has been mixed.

15. In 2006/07, the council has reported continued improvement in around half of the SPIs.



16. Noteable improvements have been made in:

- the percentage of residential care places in single rooms (up 13%)
- the number of overnight respite nights provided to older people (up 11%)
- the percentage of council buildings that are suitable for/ accessible to, disabled people (up 17%)
- the percentage of respite care to children provided outwith a care home (up 10%)
- the replacement of books in libraries for adults against national target (up 22%).

17. However, performance has declined in the following areas:

- the percentage of secondary schools where the ratio of pupils to places is between 61% and 100% (down 11%)
- the overnight and daytime provision of respite care to children with disabilities (down 21%)
- the attendance at leisure pools (down 26%)
- the percentage sickness absence for chief officers and local government employees (up 6%)
- the cost of collecting council tax per dwelling (up 8%)
- the average time between presentation and completion of homeless or potentially homeless cases (up 14%)
- the percentage of the road network that should be considered for maintenance treatment (up 69%)
- the net cost of refuse disposal per premise (up 26%).

18. The council have established a statutory performance indicator working group which will identify improvement actions to be taken to address areas where service improvement is seen as a priority.

19. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall the quality of working papers provided to support the SPIs was good. One indicator (adult social work 1 – community care assessments) was classified as unreliable in 2006/07. This indicator was not reported in 2005/06. Council staff introduced arrangements for the collection of this data in 2006/07, however the data was deemed to be unreliable. Further possible solutions are being pursued, but it is anticipated that this indicator will again be assessed as unreliable in 2007/08.

Best value audit

20. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

21. The best value audit of Glasgow City Council was carried out in 2005 and the findings published in January 2006. In response, the council approved a best value improvement plan in February 2006 setting out the fourteen improvement agenda items from the report together with the planned actions and timescales for implementation.

22. Since this time, the improvement plan has been incorporated into the council's ongoing performance management arrangements. Progress reports have been considered by the Finance, Corporate and Trading Services Policy Development and Scrutiny Committee and the Audit and Ethics Committee. The latest report was presented to these committees on 20 June 2007 and 27 September 2007 respectively.

23. Many of the actions in the improvement plan are central to the council's 'core issues' which are reported on a quarterly basis to the corporate management team. Based on our review and monitoring of the regular reports produced, instances of service improvement can be identified, including a best value review of customer care which was reported to corporate management team. One consequence of this review was the production of an eleven point improvement plan, which is being monitored.

24. Overall the council's monitoring reports indicate that the council has made good progress in delivering its best value improvement plan. Ten of the fourteen improvements actions are either implemented or on target for implementation, some slippage has been experienced, for example:

    - a leadership development programme has been delayed by 6 months
    - education, social work and direct and care services require additional time to complete the implementation of personal development plans.

Performance outlook – opportunities and risks

Introduction

25. As stated in paragraph 2, our ARAP identifies some of the strategic risks to Glasgow City Council in delivering its stated objectives and priorities in the years ahead. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware, and have sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Affordability

26. The council continues to face significant challenges both in relation to delivery of its improvement agenda and in managing ongoing financial pressures such as the implementation of its workforce pay and benefits review. As a consequence of funding equal pay compensation awards, at 31 March 2006 general fund reserves were reduced significantly below the council's target of 2% of net expenditure. The council's plans to restore balances to the target level are discussed further in the financial position section of this report.

Key risk area 1

27. The council's capital programme is at an historically high level at £885 million over the medium term. Due to the nature of capital projects and the scale of the programme, there is a risk that the council will incur additional costs or fail to meet service objectives if the programme is not closely monitored and controlled. In recognition of this, the council has strengthened monitoring arrangements with regular reports to the Financial Services Policy Development and Scrutiny Committee advising of both the financial and physical progress of projects. Capital financial performance is set out in paragraphs 82 to 84.

Business transformation to deliver service improvement

28. The 2006/07 council plan supplement includes a commitment to review the management structures in the council. This review has now been completed, and the number of departments has been streamlined to six. The main change was the bringing together of education and social work services, and the merging of land and environmental services.

29. The council's service reform agenda is being driven forward to ensure resources are used efficiently and the scale of projects underway is significant. For example:

- the council is one of two authorities developing models of best practice through a 'pathfinder project' to identify the potential for the formation of shared service arrangements
- the establishment of a social enterprise company with charitable status to deliver cultural and leisure services
- the delivery of off-street parking through a limited liability partnership
- the transfer of building services trading operations to the City Building (Glasgow) Limited Liability Partnership (LLP)
- the creation of Glasgow Community and Safety Services Limited.

30. Inevitably, any significant change carries with it risks that expected benefits are not delivered, or that they are only delivered at greater time and cost. A focus on major change projects is also likely to limit the ability of individuals to manage 'business as usual'.

31. A number of the projects underway involve the delivery of council services through new arms length external organisations (ALEOs). There is a risk that such complex patterns of service delivery may make it more difficult to co-ordinate activity and ensure resources are properly matched to the needs of the community. In addition, there is a risk that lines of public accountability are blurred.

32. As part of the 2006/07 audit we reviewed the council's arrangements for managing these risks. This included a review of the council's decision making processes for choosing the ALEO route for building services and cultural and leisure services.

33. The key findings from our review are that:

- appropriate decision making processes were in place for approving the ALEO route for the delivery of building and cultural and leisure services in Glasgow. The rationale for why a particular arms length route has been chosen was documented and summarised for members before they took the decision to deliver services through an ALEO
- corporate governance monitoring arrangements are appropriate and are being strengthened through establishment of the compliance unit
- the arrangements for funding ALEOs are generally consistent with the main requirements of the *'Code of Guidance on Funding External Bodies and Following the Public Pound.'*

34. There are however a number of key risk areas where we reported that the council could strengthen arrangements:

- that resources are properly matched to the needs of the community and the role of voluntary organisations, in providing community services, is clarified
- strengthened public accountability arrangements should be introduced:
  - a report clarifying the reporting mechanisms and scrutiny arrangements for ALEOs should be presented to the Executive Committee
  - the corporate scrutiny arrangements should include a review of the success of the ALEOs in achieving what they were established to do
- the charitable status of the miscellaneous trusts should be reviewed.

35. In response to our findings, the council is implementing an improvement action plan to strengthen arrangements in these areas. We will monitor progress made throughout our audit.

Key risk area 2

Using performance management to drive service improvement

36. The council has yet to realise its investment and improvement activities in terms of improved performance. In order to claim efficiencies under the Efficient Government initiative, the council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement.

37. A particular area of focus for service improvement is in relation to homelessness. The council has anticipated an increasing number of homeless people in the city, which is a particular challenge as funding received for the homelessness street project is about to stop. Following the transfer of the council's housing stock to the Glasgow Housing Association (GHA), the main mechanism available is an effective working partnership with the GHA and other social landlords. A homeless protocol has been established with GHA and other registered social landlords to deliver on the statutory duty to provide accommodation. Fundamental to this process is the introduction of a common housing register which is currently being piloted. The council has also agreed a development strategy incorporating a programme of new builds in the rented sector by partners.

38. Business continuity and ICT failure is also recognised by the council as a particular risk to the continued delivery of services. The council's ICT, risk manager and insurance consultants are currently involved in an ongoing review of business continuity planning.

Social renewal through working with partners

39. The council aims to deliver sustainable social renewal while maintaining economic growth which will enhance job opportunities across the city. Success in addressing these objectives will depend on the effectiveness of working relationships with community partners through forums such as the community health and care partnerships (CHCPs), regional, city-wide and local planning partnerships.

40. The council and its community planning partners have established a company, Glasgow Community Planning Ltd, to manage the community planning process. The partnership issued a revised community plan in February 2006 which includes two fundamental objectives from the current council plan – addressing worklessness and addiction. Clearer links between the community and council plans and other strategic plans will be developed with the new council plan from 2007.

41. CHCPs were set up in April 2006 to reduce bureaucracy and devolve responsibility and decision making to the frontline for health care and social services. Considerable staff time has been expended in establishing the five Glasgow CHCPs. There is a risk that the focus to date has been on establishing structures and that the council cannot demonstrate that the expected efficiencies and improved service delivery have been achieved. This will require greater sharing of facilities and information, and fit for purpose mechanisms and protocols with key partners to ensure targeted co-ordination of activity.

42. A team of auditors drawn from Audit Scotland staff working on the NHS Greater Glasgow and Clyde and Glasgow City Council audits carried out a review of the arrangements to develop partnership working in relation to health and social services. Our review focused on the five CHCPs within the city of Glasgow i.e. North Glasgow, East Glasgow, South East Glasgow, South West Glasgow and West Glasgow. key areas covered include financial management and accountability issues, information and data sharing, governance arrangements and performance management.

43. In carrying out this review we recognise that CHCPs are still in their early stages. However, partnership working has already demonstrated significant improvements in service delivery areas and it is anticipated that the CHCPs will build on this success. Our report acknowledges the progress made by both organisations in bringing together two very different and complex bodies to work in partnership, with a common goal of delivering service improvement in this short time span.

44. Some areas of good practice were identified including:

- the establishment of a CHCP Executive Group to drive forward improvements in the CHCPs
- financial performance of CHCP services is reported on a regular basis to the CHCPs and partners

- CHCP objectives, as detailed in the development plans, are clearly aligned to the NHS Board, council and social work services plans as well as the community plan.

45. However there are a number of key challenges for the CHCPs to be managed:

    - CHCP aligned budgets are compiled on an annual basis based on historical information. As a result CHCPs are not yet in a position to demonstrate how the range of services included in the development plans can be provided by them within the resources currently available. In addition they are not yet able to demonstrate that they will be effective in delivering improved community services at a local level
    - not all CHCPs deliver services from joint premises, co-location may assist in improving service delivery and should be considered for new projects where appropriate
    - separate ICT systems are used by CHCP services, with no overarching CHCP ICT strategy or agreed information security policy yet in place
    - performance measures are necessary to identify improvements in the service provided by CHCPs, but these have not yet been fully developed
    - harmonisation of policies, procedures and information systems within the CHCPs is required to further enhance partnership working.

46. We will monitor CHCP developments, throughout the period of our audit appointment, and the progress made by them in delivering community based services.

Supporting political governance

47. In common with many councils, the May 2007 elections have resulted in a considerable number of new councillors. This has required support from officers to ensure that adequate training and development programmes were provided.

48. The introduction of proportional representation and multi-member wards also requires new ways of working that will support efficient representation and sharing of workload within each ward. The council already has plans in place to agree procedures with the new members on issues such as data sharing between members of a multi-member ward, constituency complaints procedures and allocation of workload.

49. In response to the approaching elections, the council introduced a new decision making structure in 2006 based on an Executive Committee and policy development and scrutiny committees. The effectiveness of the new structure has recently been reviewed. The review concluded that whilst it is still bedding in, the new structure is generally working well and should continue. Some areas for improvement were identified and are being actioned, including more guidance on the roles of the

policy development and scrutiny committees, updating the scheme of delegated functions and clarification of the scrutiny arrangements for arms length organisations.

50. The council's corporate governance arrangements are discussed in more detail in paragraphs 110 to 129.

Workforce planning

51. The successful delivery of council services, whether directly by council staff or by others and monitored by council staff, depends on the capacity, capability and competency of the workforce. Workforce related issues are at the forefront of local government priorities at this time. The council committed a lot of resources and, consequently, has made good progress in trying to resolve equal pay and single status issues.

52. The council has completed a workforce pay and benefits review aimed at creating new job profiles designed around modernised service delivery by increasing flexibility and enhancing the skills of the workforce. In March 2007 a report was presented to the Executive Committee providing an update on the implementation of this review. It noted that in December 2006 offer letters were sent out to 28,000 staff detailing the implications of the new structure and a positive response had been received, with 95% acceptance. At the time of this report to committee staff within senior positions were being advised of their personal position and being invited to accept revised contracts.

53. The council recently developed a corporate human resources strategy, known as the people strategy, which was presented to the Executive Committee in September 2007. The aim is to ensure a consistent approach in managing workforce related issues across the organisation.

54. The council has identified that the introduction and management of staff personal development plans are key elements in the implementation of the new pay and grading structure and in ensuring that staff have the skills required for their roles. An employee development commitment steering group has been established to consider the rollout of the personal development plans. Although personal development plans can be an important tool in addressing staff uncertainty and morale issues, successful application must be driven by service managers. There is a risk that service delivery will be adversely affected if they are not implemented consistently.

55. During a period of significant change, the council is particularly exposed to risks in relation to staff morale and the potential for industrial relations difficulties. In order to mitigate these risks the council makes efforts to communicate with its staff through a wide range of channels. The first ever council wide staff survey was undertaken by Ipsos MORI in March/April 2007 and the key results were presented to the Executive Committee in September 2007.

Efficient and effective use of assets

56. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the *Prudential Code* which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.

57. The Government's Efficient Government Initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:

- strategies to reduce maintenance costs
- proactive asset disposal policies
- long-term capital planning and budgeting
- robust asset management monitoring information.

58. Our 2006/07 ARAP highlighted that a corporate asset management plan is not yet in place but the council is undertaking a number of actions to work towards this. An asset management planning development strategy was approved in November 2005, with a proposed 3 year implementation plan. This included the development of a corporate property information repository to comprise a single system for storing property information.

59. Following a review in 2006, the approach to asset management has changed. The review highlighted that future service improvements will require a sufficient ICT and property infrastructure and concluded that existing arrangements could benefit from investment and the involvement of external expertise through a partnership arrangement. The council is now in the process of procuring a strategic partner to provide property services for all operational properties with the exception of education establishments. The partnership will record details of the council's property data, building on work already completed, to allow the council to measure the performance of its portfolio, review and challenge the holding and use of the portfolio and provide a range of management information to assist in investment decisions.

60. At 31 March 2006 the council held £120 million of surplus assets, the council disposed of £30 million of assets during 2006/07 in line with council plans. At 31 March 2007 the value of surplus assets is £105 million and these are being managed as part of the council's overall financial planning for

capital investment. The council are in the process of identifying a surplus property management company to ensure a corporate approach and to minimise the resources tied up in holding assets that are no longer in use.

61. Both the McClelland Report and the Efficient Government Plan highlighted that there are major gains to be made from better procurement practices and that efficiencies can be achieved through the use of electronic procurement and public services joining together to maximise purchasing power through collaborative buying.

62. Eight of the council's nine services are now using the PECOS electronic procurement package, with a number of performance measurement tools developed to provide information for managers to monitor the progress of the procurement programme. The council recognises that the key challenge is now to report the cost and time efficiencies achieved through the system and has developed a benefits tracking toolkit to achieve this.

National studies

63. 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 of direct interest to the council are set out in paragraphs below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

64. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.

65. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.

66. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.

67. The key findings from Audit Scotland's national report published in September 2007 highlighted that:

- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
- there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met
- increased recycling has led to increased cost
- all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill directive targets.

68. The national report highlighted that significant progress has been made in meeting national interim recycling targets with the percentage of municipal waste recycled and composted increasing from 7% in 2001/02 to 25% in 2005/06. However Glasgow City Council is amongst the lowest with less than 20% being recycled. The council is to review the key findings in this report. Follow up audit work will be carried out as part of our 2007/08 audit plan in this area.

Dealing with offending by young people

69. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. A follow-up study was undertaken to ascertain improvements in performance of agencies in the context of a changing policy landscape. The performance update report was published in August 2007.

70. The key findings from the study are that the Scottish Government has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06 together with practical support and guidance to help youth justice services to improve performance. However, the impact of this on services and outcomes is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.

71. The report highlights some specific developments in Glasgow City Council.

Youth Justice Services in Glasgow City Council

Description	2002	2006
Youth Justice Teams	Two pilot youth justice teams (outwith areas covered d by these teams young people who offend managed through generic children and families services).	Youth justice teams in all five community health and care partnership (CHCP) areas.
Offence based cognitive behavioural programmes	Pilot teams committed to run one group work programme each but not achieved due to resource and operational difficulties.	Programmes team with three members of staff established. Delivers programmes and trains other members of staff to deliver group work and one-to-one programmes. (50 staff trained in 2006/07).
Intensive support and monitoring services (ISMS)		Multi-agency intensive support package, coupled with a movement restriction condition. Sixty-five young people assessed and 37 people on ISMS orders at some point during year.
Antisocial behaviour services		Early intervention, prevention and diversion services, restorative justice service, ASB services, safety education, city centre task force, security, CCTV.

72. This demonstrates that the council has made improvements in its youth justice services between 2002 and 2006. The council is to review the key issues identified in the report as this area continues to move forward.

Scotland's School Estate

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

Financial position

Introduction

74. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'affordability', our ARAP outlined the significant challenges being faced by the council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

75. The presentation of the 2006/07 financial statements has changed significantly from the previous year, as a result of changes to the *Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP)*. In place of the previous consolidated revenue account, the financial statements now include an income and expenditure account and a statement on the movement of the general fund balance which reflects items that need to be included/ excluded when determining a local authority's budget requirement and the level of council tax.

76. The council's net operating expenditure in 2006/07 was £1,248 million. This was met by government grants and local taxation of £1,264 million, resulting in an income and expenditure surplus of £15.879 million. The statement of movement on the general fund balance shows that a general fund surplus of £7.297 million was achieved in year. When this surplus is added to the general fund balance brought forward from 2005/06, the council has a general fund balance of £11.891 million at 31 March 2007.

77. The budget set for 2006/07 was based on a band D council tax level of £1,213, the same as in 2005/06. This was a challenging budget and net expenditure was £8.5 million more than the revised budget. The overspend arose because services incurred higher than anticipated energy costs and an increase in the equal pay provision. This overspend has been offset by savings in debt management.

Reserves and balances

78. At 31 March 2007 the council had total cash backed reserves and funds of £197.651 million, including an insurance fund and funds to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and Funds

Description	2006/07 £ Million	2005/06 £ Million
General Fund	11.891	4.594
Repair and Renewal Funds	17.283	18.896
Cultural and Recreational Funds	4.209	3.716
Insurance Fund	19.418	21.691
Capital Funds	144.850	150.663
	197.651	**199.560**

79. The council aims to maintain a minimum unallocated general fund balance of 2% of net operating expenditure (£24.966 million at 31 March 2007). By 31 March 2006, as a consequence of funding equal pay compensation awards, the general fund balance was reduced to £4.594 million, this has increased to £11.891 at 31 March 2007. Of this total balance, the council has earmarked £1.186 million leaving an unallocated general fund balance of £10.705 million.

80. The council has plans in place to restore balances to the 2% target level in the medium term. In 2007/08 the council plans to contribute £5 million to the general fund balance and a contribution of £1 million to the council's repair and renewal funds.

Key risk area 1

Group balances

81. 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. In 2006/07 the council has included seven subsidiaries and five associates in its group accounts disclosures, which comply with the SORP. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. The overall effect of the inclusion of these associates on the group balance sheet is to reduce reserves and net assets by £1,535 million, mainly as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis.

Spending on assets and long-term borrowing

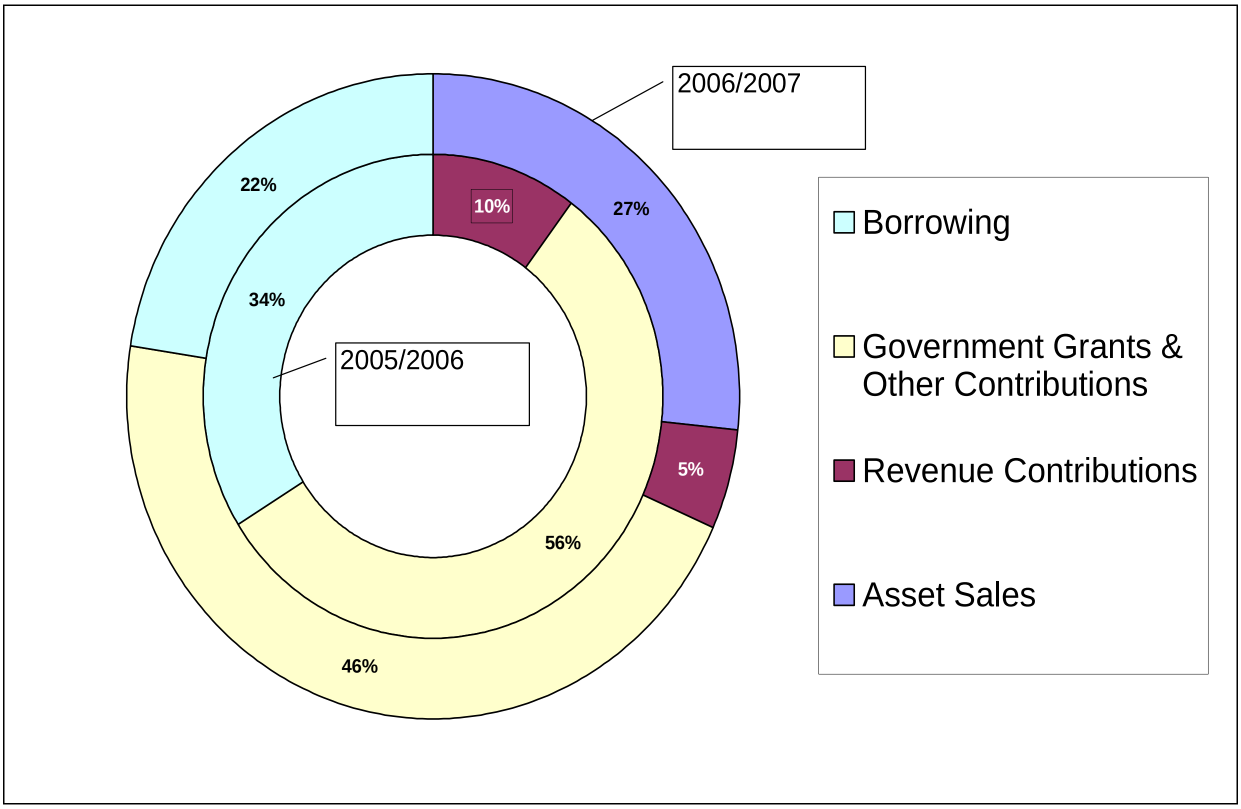
Capital performance 2006/07

82. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 were set in February 2006 and show that the approved capital investment programme will have no incremental impact on council tax levels.

83. Capital expenditure in 2006/07 totalled £158 million, an increase from £151 million in 2005/06. The council's policy is that the cost of any borrowing in support of capital investment above the level assumed for loan charge grant support in the local government finance settlement must be met by either additional revenue or efficiency savings to ensure no impact on council tax. This is consistent with the council's objective of council tax stability. The following charts show how capital expenditure has been funded.

Sources of finance for capital expenditure 2006/07

Exhibit 1: Sources of Finance for capital expenditure.



84. The council's capital programme is estimated to total £885 million over the medium term. The council reviews the capital programme annually through the budget and service plan process. The outturn investment programme expenditure for the year was reported to the Executive Committee in June 2007 and totalled £178.1 million. This was in line with the council's expectations.

Borrowing and temporary investments

85. In recent years, a number of councils have disclosed significant amounts under temporary investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's Note for Guidance Number 96/5. This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on temporarily is reasonable.

86. Glasgow City Council had significant short term investments of £180 million at 31 March 2007. We reviewed the council's borrowing in 2006/07 against the guidance. We found that the council had borrowed to take advantage of low interest rates, that there was sufficient documentation of the council's decisions and that the decision to borrow in advance was not influenced by potential income which could be generated from temporarily investing surplus funds. We consider that the council has complied with the requirements of the Note for Guidance.

Debt restructuring

87. In 2006/07 the council reduced its total Public Works Loans Board (PWLB) debt from £816 million to £795 million. During 2006/07, interest rates were at historically low levels and opportunities arose for the council to reschedule some of its outstanding borrowing. In accordance with the approved treasury management strategy for 2006/07, PWLB loans totalling £272 million, held at interest rates ranging from 4.1% to 10.375% were selected for early repayment. These were replaced with twelve new PWLB loans with a range of 41 to 50 year maturity dates, totalling £272 million, at an average interest rate of 4.19%. Total borrowing of £292 million was repaid during 2006/2007, including the debt rescheduling. This has had the effect of lowering the annual average interest rate on PWLB debt from 7.03% to 6.85%. The council calculates the annual savings arising as £1.944 million, with £0.472 million saved in 2006/07. The net premium in year of £0.582 million was accounted for in accordance with the SORP.

Significant trading operations

88. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which

are required to break even over a three year rolling period. The first three year period ended in 2005/06.

89. In 2005/06 the council reported the financial results of ten STOs. As part of the council's service review programme, a number of STOs have been restructured over recent years. As part of this programme in 2006/07 the council's building services were transferred to City Building (Glasgow) LLP. As a result of these changes, at the end of 2006/07, the council is required to report the three-year financial results of six STOs against the three-year break even target.

90. In the three years to 31 March 2007 two STOs, grounds maintenance and leisure management, have made statutory deficits of £0.963 million and £1.198 million respectively, thereby failing to achieve the statutory target.

91. Included in the STO income are additional payments made to the STOs to meet the costs incurred in 2006/07 for equal pay, the workforce pay and benefits review and FRS17 pension costs. We have received a specific representation from the Executive Director of Financial Services that if the activities undertaken by the STOs were transferred instead to a private contractor, TUPE legislation would apply and the employees would retain the same terms and conditions. The council, therefore, would require to make similar payments to a contractor for these costs. We have accepted this treatment on the basis that the council has clear plans to carry out best value reviews on the STOs, which include reviews of service level agreements and charging structures. These reviews are scheduled to be completed over an 18 month period.

Key risk area 3

Pension funds

92. Glasgow City Council is the administering authority for the Strathclyde Pension Fund (SPF). The net assets of the two funds that make up the SPF at 31 March 2007 totalled just under £9.810 billion. The funds are administered on behalf of a number of councils and other bodies, whose employees are members of the fund.

93. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescales are long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. 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 financial statements.

94. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six main public sector pension schemes in Scotland may be as high as £53 billion, primarily due to unfunded schemes. There are proposals to reduce the ongoing cost by amending the local government pension scheme, although these have not yet been implemented.

95. Glasgow City Council, as the administering authority for the SPF, employs external fund managers to manage investment assets. Over the year, net assets of the fund increased on a market value basis by approximately £745 million.

96. The council's own estimated pension liabilities at 31 March 2007 exceeded its share of assets in the pension fund by £419 million, reducing from £616 million in the previous year. A full actuarial valuation of the Strathclyde Pension Fund was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 108% at 31 March 2002 to 97% at 31 March 2005. At 31 March 2007 the funding level had improved to reach the 2002 level of 108%. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. This shows that budgeted contributions are expected to rise from 260% of employee contributions in 2006/07 to 270% in 2007/08 and 280% in 2008/09.

97. The council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Strathclyde Police, Strathclyde Fire and Rescue Board, and the Strathclyde Partnership for Transport. These bodies had an excess of pension liabilities over assets at 31 March 2007, and a share of these liabilities will be paid by the council as they fall due.

Financial outlook

Current budget

98. The council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a band D council tax level of £1,213 which is the same level as set in 2006/07 and 2005/06. As reported above the budget includes £5 million to continue restoring reserve balances to a level equivalent to 2% of net expenditure, the level deemed appropriate by members over the medium term.

99. The budget and service plan strategy for the period 2005 to 2008 reflects the council's key priorities of education, social renewal and regeneration, council tax stability, the pursuit of continuous improvement, best value in the delivery of services and continued achievement of efficiency savings.

100. The financial year 2007/08 represents the final year of the grant settlement 2005 to 2008. In 2007/08 the council will receive total central government grant of £1,196 million.

Forward capital programme

101. A report on the prudential code was taken to the Executive Committee in February 2007 and noted that the current gross expenditure capital programme amounts to £942 million. The report also outlined the prudential indicators for the period 2007/08 to 2008/09.

Equal pay

102. 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. In 2005/06, a provision of £23.428 million was included within the financial statements for all tax and national insurance liabilities and the settlement of anticipated equal pay settlements. During 2006/07 the council used £10.427 million of this provision for settled claims. The provision was reviewed towards the end of 2006/07 in response to the most recent information available and the provision at 31 March 2007 is £17.722 million.

Single status

103. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

104. 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.

105. In response, as reported in paragraph 52, the council has carried out a workforce pay and benefits review. Whilst substantial progress has been made financial risks remain in relation to staff who have yet to accept the outcome from the review. At 31 March 2007 a provision of £2.5 million has

been included in the financial statements to meet these costs. The financial implications of the pay and grading structure going forward are significant, with an annual projected cost of £35 million plus an additional £13.7 million in the first three years for protection arrangements. The council has taken appropriate steps to mitigate the risks involved with the appeals process and have put in place training provided to those most affected by the review.

Efficient government

106. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into their annual financial settlement. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

107. During 2006, councils across Scotland recognised that they had a responsibility to report efficiencies on the five key operational themes as set out in *Building a Better Scotland* (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.

108. Glasgow City Council has recognised the importance of delivering efficiency savings as an integral part of service delivery. The council has established an efficient government development group with member and officer representation to direct and promote the efficient government agenda. The council's 2006/07 efficiency statement is included within the 2006/07 annual performance report and reports that the council achieved total efficiencies of £46 million in 2006/07:

Claimed efficiencies in 2006/07

Efficient Government Theme	Cashable efficiency £m	Non cashable efficiency £m	Total efficiency £m
Procurement	3.090	3.538	6.628
Asset Management	0.455	1.016	1.471
Shared Services	1.404	0	1.404
Streamlining Bureaucracy	9.590	0	9.590
Other	23.894	2.642	26.536
Total efficiencies	**38.433**	**7.196**	**45.629**

109. Overall, the council has complied with the Improvement Service guidance in preparing its efficiency statement for 2006/07. There was no requirement for the statement to be audited in 2006/07. The efficiencies reported for the year have been achieved as a result of the roll out of an e-Procurement strategy, changes in delivery models and staff realignment alongside the management of non-essential expenditure and staff vacancies. It will be a challenge for the council to demonstrate achievement of these efficiencies whilst continuing to deliver high quality services.

Governance

Introduction

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

Overview of arrangements in 2006/07

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

112. A statement on the system of internal financial control and a corporate governance statement are published within the annual financial statements. The statements cover the council's strategic management framework and control environment, and detail the arrangements in place to manage the council, involve the community and ensure that business is carried out in a proper manner.

Audit and ethics committee

113. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The success of an audit committee as part of the council's scrutiny arrangements is dependent on its members.

114. Prior to the elections, our assessment of the Audit and Ethics Committee was that it adhered to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provided a sound contribution to the overall control environment. The new Audit and Ethics Committee was established following the May 2007 elections. The membership has changed considerably and a new convenor has been appointed. A review of the new committee's compliance with CIPFA's guidance note will be completed during 2007/08.

115. The council's Audit and Ethics Committee meets in accordance with the regular cycle of committee meetings and takes reports from both internal and external audit. During the year, a number of presentations have been made to the committee by officers of the council.

116. Currently the internal audit service outlines its planned audit work in a three year strategic plan, 2003/04 to 2007/08 and a high level annual plan which is approved by the Audit and Ethics

Committee. The Head of Audit and Inspection reports progress to the committee against this plan quarterly and in an annual report.

117. The quarterly reports include performance indicators covering overall adherence to the annual audit plan, the number of final reports issued within 20 days of completion and the results from customer satisfaction surveys. The indicator showing adherence to the audit plan shows the percentage of productive days worked in a period against those planned. No performance measures are reported to show how effectively these resources have been applied in completing planned exercises in the period. Although the number of final reports issued in the period is reported, there are no details of which reports have been issued and these are not matched against the individual audit exercises included in the annual plan. As a result the committee cannot easily identify the implications of any slippage on particular audit exercises included in the plan. In response to our comments, the performance information presented to the committee is to be reviewed to ensure it clearly demonstrates the service's performance in delivering the annual plan.

Internal audit

118. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the council's internal audit arrangements and found that during 2006/07, the internal audit service continued to operate in accordance with the code.

119. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that we were able to place reliance on the following specific pieces of work in 2006/07:

- housing and council tax benefits
- council tax and non domestic rates
- income
- business control environment
- statutory performance indicators

Systems of internal control

120. In his annual report for 2006/07 the Head of Audit and Inspection provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are generally satisfactory. However specific comment was made to the review of SAP HR authorisations at the shared service centre, education services and land services. The audit was undertaken by external consultants, KPMG, on behalf of internal audit services. The report identified a number of high risk weaknesses in the SAP system processing HR/ payroll transactions. These include concerns over the number of staff with access rights to make changes to the system, processing of leavers and the lack of checks on standing payroll data by services.

These findings have been disclosed in the internal audit annual report and have been reflected in the council's 2006/07 statement on the system of internal financial control.

121. As part of our work to provide an opinion on the annual financial statements, we completed our own assessments to establish the extent to which we could gain controls 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 in 2006/07:

- budgetary control
- main accounting system
- housing and council tax benefits
- creditors payments
- council tax billing and collection
- non domestic rates billing and collection

Prevention and detection of fraud and irregularities

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

NFI in Scotland

123. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where identified risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

124. The NFI 2006/07 results were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the data, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.

125. The council has responded positively to NFI and adopted a structured approach to the 2006/07 exercise. The Head of Audit and Inspection met with relevant officers in December 2006 to discuss the council's NFI strategy. Regular meetings are held to monitoring progress.

126. A total of 22,948 unique referrals were identified in 2006/07. Included in this figure were 11,420 Department for Work and Pensions (DWP) referrals which are being investigated by the DWP. As at the end of August 2007, 2,826 referrals had been processed with 267 in the process of being investigated.

127. Total savings identified to date for 2006/07 are £0.354 million in relation to the identification of overpayments. A further £0.300 million of overpayments is currently being recovered by the council.

128. The work to review and investigate NFI referrals is ongoing and further savings may be identified. The council needs to ensure that it maintains the current momentum on addressing NFI and uses the opportunities presented by NFI to assist in the detection of fraud.

Future outlook

129. CIPFA/SOLACE have recently produced *Delivering Good Governance in Local Government – Framework* which sets out principles and standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. Glasgow City Council are aware of this new guidance and are awaiting the publication of the Scottish guidance notes before reviewing their corporate governance structures against the framework.

Financial statements

Introduction

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

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

131. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

132. We have given an **unqualified** opinion on the financial statements of Glasgow City Council for 2006/07. We have, however, drawn attention to 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.

133. 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 90 of this report, both grounds maintenance and leisure management have made statutory deficits in the three years to 31 March 2007, with the result that the council has failed to meet this statutory requirement.

134. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good enabling the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication.

Accounting practice

135. 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'). As noted in paragraph 75, the 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These 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
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts
- restatement of 2005/06 comparative figures.

136. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP.

137. The council adjusted the financial statements to reflect our audit findings. As is normal practice, a minor error remains unadjusted and has been reported to the Executive Director of Financial Services and the Audit and Ethics Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Bank reconciliations

138. The preparation of bank reconciliations is an important internal control in verifying the integrity of the bank balance figures in the balance sheet and the income and expenditure transactions processed through the financial ledger. The council was unable to provide comprehensive bank reconciliations to support two significant balances included in the overall bank overdraft of £19.375 million. Unreconciled balances on these accounts totalled £3.669 million at 31 March 2007. The council does have procedures in place for the verification of year-end bank balances, but these have not been robustly applied in this case. The Executive Director of Financial Services has now disclosed

this weakness in the statement on the system of internal financial control and has initiated a review of bank reconciliation processes.

Key risk area 4

Police grant income

139. The council has accounted for police grant income of £96.515 million within the financial statements. The grant is paid to Strathclyde Police, therefore it is our opinion that the council's contribution should be shown net. The accounts have been adjusted to reflect this view.

Council tax

140. At 31 March 2007 cumulative credit balances on the council tax system totalled £7.776 million. The council has an ongoing process to review credit balances, which account for 0.7% of the total council tax collected in the associated period, with monies refunded or transferred to relevant accounts throughout the year (£5.6 million in 2006/07). The implementation of a new council tax system, however, resulted in insufficient staff time being available to fully address these balances during 2006/07. There is a risk with this level of credit balances that recovery procedures will not be as effective as taxpayers are pursued for debts already paid. The level of credit balances is to be kept under review.

Legality

141. Each year we request written confirmation from the Executive Director of Financial Services that the council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The Executive Director of Financial Services has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

142. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed with the Office of the Scottish Charities Regulator (OSCR) that as an interim measure in 2006/07, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. Further discussions between OSCR and CIPFA will take place in respect of the requirements for 2007/08 onwards.

143. The Freedom of Information (Scotland) Act 2003 came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland.

The Act requires that councils respond to freedom of information requests within 20 days. Since the Act came into force the council have received 4,231 requests for information and has responded to 3681 (87%) of these within the 20 day target response time.

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

Financial reporting outlook

145. The council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.

146. The main change is that the 2007 SORP requires authorities to comply with financial reporting standards (FRS) 25 and 26 in respect of loans, from 2007/08. This will result in large expenditure entries to the income and expenditure account as the SORP requires premiums on loans which have been rescheduled to be written off in line with the FRSs. At present, councils are able to write off premiums over the period of the replacement loan, which can be up to 40 to 50 years. Regulations restrict the write off periods for new premiums incurred on LOBOs from 1 April 2007 to a maximum of 20 years. These changes do not impact on council tax levels.

147. Other changes include:

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

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

Final Remarks

149. 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.

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

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

152. The co-operation and assistance given to us throughout our audit by members and staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26 80	**Reserves** As a consequence of funding equal pay compensation awards general fund reserves are below the council's target of 2% of net expenditure. ***Risk: The council may not be able to respond to unforeseen financial pressures without a significant impact on council tax levels.***	Monitoring of the 2007/08 financial position indicates that the council is on target to contribute £5.000 million to reserves by the year end. The council has plans to restore balances to the 2% level over the medium term.	Executive Director of Financial Services	March 2008
2	35	**Arms length external organisations (ALEOs)** Complex patterns of service delivery make it more difficult to demonstrate the effective use of funds. Arrangements should be reviewed to ensure effective scrutiny and accountability is achieved. ***Risk: Resources may not be properly matched to the needs of the community and public accountability of funds may not be clear.***	A report clarifying the reporting mechanisms and scrutiny arrangements for ALEOs is to be presented to the Executive Committee. A timetable has been set for reviewing ALEO performance to the Finance, Corporate and Trading Services Policy Development and Scrutiny Committee.	Executive Director of Financial Services	March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	91	**Significant Trading Operations (STOs)** Two STOs did not break even over the three year period to 31 March 2007. The STOs need to be reviewed to ensure that the current structures and charging policies are achieving the statutory break even target. ***Risk: The STOs may not be providing best value in service delivery.***	Plans are in place to carry out best value reviews on the STOs, which include reviews of service level agreements and charging structures. These reviews are scheduled to be completed over an 18 month period.	Executive Director of Financial Services	March 2009
4	138	**Bank Reconciliations** Whilst procedures are in place for the preparation of bank reconciliations, they have not been robustly applied. Two bank reconciliations had not been prepared. ***Risk: There is a risk of misappropriation or misposting of funds. Bank balances may not be fairly stated in the financial statements.***	A review of bank reconciliation processes has been initiated. Reconciliations for all bank accounts will be available at 31 March 2008.	Executive Director of Financial Services	March 2008