

Glasgow City Council

Annual report on the 2010/11 audit



Prepared for Members of Glasgow City Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

We have given an unqualified opinion on the financial statements of Glasgow City Council for 2010/11. We have, however, drawn attention to the fact that the Area Operations and Transport significant trading operations failed to break even, on a cumulative basis, over the three year period to 2010/11. Whilst the trading operations reported a surplus in 2010/11, the three year deficit is due to the cost of voluntary severance associated with the council's Tomorrow's Workforce programme incurred in previous financial years.

In 2010/11 the council spent £2.5 billion on the provision of public services, with £2.3 billion on revenue services and the remainder on its capital programme. An amount of £8.8 million was added to the general fund balance resulting in a total general fund balance at 31 March 2011 of £53.9 million. This balance includes earmarked commitments of £30.2 million and an unallocated general fund balance of £23.7 million.

The council has been proactive in preparing financial plans and identifying savings to reflect reduced local government settlements. In 2010/11 the council introduced a Budget Review Toolkit which instructed services to review their budgets to identify service reform projects to deliver savings and efficiencies to meet the spending gap. In 2010/11 the council reported an underspend of £0.8 million against budget.

The council's policy remains to restore balances to 2% of the net cost of services over the medium term. As detailed above the unallocated general fund balance as at 31 March 2011 was £23.7 million which represents 1.5% of the net cost of services for the year. However, it is accepted that maintaining this reserves position at this level represents a significant achievement given the budgetary pressures faced by the Council during the year which included an increased demand for Education and Social Work services and the impact of the severe winter weather.

The council has established a service reform programme to generate efficiencies and savings enabling the council to provide services within a challenging financial context. During 2010/11 there were 36 service reform projects in progress with a savings target of £43.7 million. At the year end savings of £41.7 million had been being achieved. The programme for 2011-12 to 2013-14 is underway and includes 82 projects with potential savings across these years of £120 million.

Key to the service reform programme, in November 2009, the council approved a voluntary severance scheme, offering all staff aged 50 and over the option of voluntary redundancy/early retirement over a three-year phased period. The total number of confirmed leavers is 2,640. By the end of 2010/11, 59% of planned departures had taken place with the remaining departures occurring over the period to 31 March 2013. The target payback period for the costs of the scheme is 2.8 years.

The 2010/11 financial statements show gross capital expenditure of £193.0 million, after excluding non-asset creating expenditure of around £20 million. A number of significant capital projects have been completed, including the Riverside Museum and the M74 extension. The total capital programme decreased by £30.8 million to £1.4 billion. The planned capital expenditure for 2010/11 was originally £281.0 million (period 2) which decreased to £223.1 million during the year as a result of the rephasing of capital projects.

Capital receipts for 2010/2011 were £4.6 million, below the in-year target of £7 million. As a result, the 2011/12 receipts target has been increased to £15 million in order to meet the 3 year target of £30 million for the period to 2013/14.

This is the third year of the council reporting the Corporate Measures for Improved Performance (MIPs) that monitor progress against achieving the outcomes in the Council Plan 2008/11. In 2010/11 this highlighted that 71% of the MIPs have nearly achieved, met or exceeded their target which represents a deterioration in performance from 2009/10 when the corresponding figure was 80%. It is accepted that this may in part be linked to the impact of the economic downturn. We would therefore expect this to be reflected in future performance targets to ensure both that the council continues to set challenging, but achievable, MIPs and that performance against these targets provides a meaningful picture of the council's overall performance.

As part of its service review programme partnership working in the council is evolving. In November 2010, the five City of Glasgow Community Health and Care Partnerships (CHCPs) were dissolved and replaced by a single health-led CHP model. The revised arrangements included the creation of a single CHP with a substructure of three sectors - North-East, North-West and South. The CHP is governed by a single committee chaired by a NHS non-executive and includes councillors representing the three sectors.

The council has also reviewed its participation in the Clyde Valley Community Planning Partnership (CVCPP) during 2010/11 and has recently withdrawn its support from the plan to create a joint venture company to share the support services of finance, payroll, revenues & benefits, HR and IT. The council still remains committed to partnership working on other projects within the Clyde Valley partnership where possible.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recently published Scottish Spending Review 2011 indicates that significant budget reductions will continue to be required over the next few years.

While Glasgow City Council has responded well to the financial pressures of recent years it is apparent that significant challenges remain if the council is to maintain frontline services while achieving a balanced budget. It is the expectation that members and officers will continue to work together to deliver the council's long term financial plan.

An updated Assurance and Improvement Plan (AIP) 2011-2014 was published by the council's Local Area Network (LAN) of scrutiny bodies in April 2011. The LAN reported that no significant scrutiny risks have been identified and the council has been proactive in establishing plans to manage its financial pressures and achieve savings through extensive service reform. Whilst the impact of the service reform is being managed by the council, the longer term impact on services and the financial position are yet to be proven. To consider the implication of these reforms, a Best Value 2 audit of the council has been scheduled for 2013/14. In addition the performance of some service areas is being kept under review by the LAN, the council is providing performance updates in these areas.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Glasgow City Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Glasgow City Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and once approved by the Executive Committee, forms a key part of discussions with the Finance and Audit Scrutiny Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Glasgow City Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.
11. We have however, drawn attention in our audit report to the fact that both the Area Operations and the Transport significant trading operations have failed to break even, on a cumulative basis, over a three year period. Whilst the trading operations reported a surplus in 2010/11, the three year deficit is due to the cost of voluntary severance associated with the council's Tomorrow's Workforce programme incurred in previous financial years. Whilst this is a failure to comply with the Local Government in Scotland Act 2003, it does not impact on the fairness of the financial statements or affect the overall opinion on the financial statements.

Legality

12. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Director of Financial Services 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 relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

13. The council has prepared the financial statements assuming that both the council and its group can continue to operate as a going concern into the future. The 2010/11 group balance

sheet shows a net liability of £1,185 million and specific going concern issues exist in relation to Glasgow City Council's share of the net worth of three subsidiaries and two associates being a net liability.

14. The group financial statements have reported a net liability for a number of years due to impact of accounting for Strathclyde Police and Fire pensions. The council has identified that it has considered this and that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term by increases in annual pension contributions.

Annual governance statement

15. As part of our annual audit we review the disclosures made in the annual governance statement and the process for obtaining sufficient assurances to inform the content of the statement.
16. It was noted that the annual governance statement in the 2010/11 financial statements highlighted two areas where the controls in place required to be strengthened. These related to the procedures to be followed when an employee leaves the council and the circumstances surrounding a fraud which was able to be perpetrated primarily due to a lack of segregation of duties and a failure to adhere to agreed procedures.
17. In response to these issues the council has:
 - agreed an action plan which is designed to ensure there are tighter controls over the leavers process
 - implemented a number of actions to mitigate the risk of a similar fraud occurring in the future.
18. We are satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances from service directors and the chief executives of the Arms Length External Organisations (ALEOs). We are also content that adequate action has been taken to address the areas of weakness in the system of control highlighted in the annual governance statement, and that they did not impact on the financial statements. The improvement actions should be followed up during 2011/12 to ensure the revised procedures are being adhered to and adequately address the issues identified.

Refer Action Plan No. 1

Remuneration report

19. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

20. Local authorities in Scotland are required to follow The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). We are satisfied that the council prepared the financial statements in accordance with the 2010 Code.

Accounts submission

21. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

22. A number of errors were identified during the audit, where if adjustments were made they would have had a net effect of increasing by £7.0 million the accounting surplus for the year of £390 million shown in the comprehensive income and expenditure statement. The resulting impact on the net assets position would have been an associated increase of £5.3 million.
23. The most significant items related to:
- items of future planned expenditure incorrectly accrued in 2010/11 (£3.1 million)
 - understatement of the employee benefits accrual which represents the liability to the council at 31 March 2011 for items such as untaken annual leave (£1.2 million)
 - provisions which in our opinion did not fulfil the criteria set out in IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (£3.4 million)
 - omission of a discount paid to the council on the extinguishment of loans (£1.7 million).
24. Officers in finance did not adjust the accounts for these errors and we accepted this approach as the errors were not material to the accounts as a whole.

Prior year adjustments

25. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants and the inclusion of an accrual for employee benefits such as annual leave. These changes resulted in the net liability position of the council as at 31 March 2010 changing from £449.5 million to £117.2 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

26. In addition, a prior year adjustment was also required to the council's group statements in respect of an error identified in the methodology used by Police and Fire authorities in previous years to calculate the pension liability associated with injury benefits. In prior years this had been calculated on the basis of benefits currently in payment but in 2010/11 the basis changed to include an estimate of active scheme members who may be paid benefit in the future. As this represented a change in accounting policy it required a prior year adjustment to be made which impacted on both the prior year comparatives and in-year movements on the group balance sheet. As the council consolidates their share of Strathclyde Police and Strathclyde Fire and Rescue into the group financial statements, and the amounts involved were material, an amendment was therefore required to the group accounts. The overall impact of this adjustment was to increase the net liability position on the group balance sheet from £2.191 billion to £2.249 billion. This increased liability will not be payable in the short term, instead it represents payments to be made to individuals in the future over a number of years. The council considers therefore that it is still appropriate to prepare the council's group accounts on a going concern basis. We are satisfied with this approach.

Pension costs

27. Glasgow City Council is a member of the Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet.
28. The decision to uprate pensions in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI), announced by the Chancellor of the Exchequer in the June 2010 emergency budget has resulted in a one-off past service gain of £315.2 million in the Comprehensive Income and Expenditure Statement in 2010/11. This has substantially reduced employee costs from 2009/10. This treatment is consistent with accounting requirements and we are satisfied that this has been accurately reflected in the 2010/11 financial statements.

Pension fund accounts presentation and disclosure

29. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. A separate annual audit report is therefore being produced for 2010/11 which covers the specific issues risks relating to Strathclyde Pension Fund. A copy of this report will be taken to the Strathclyde Pension Fund Committee for consideration.

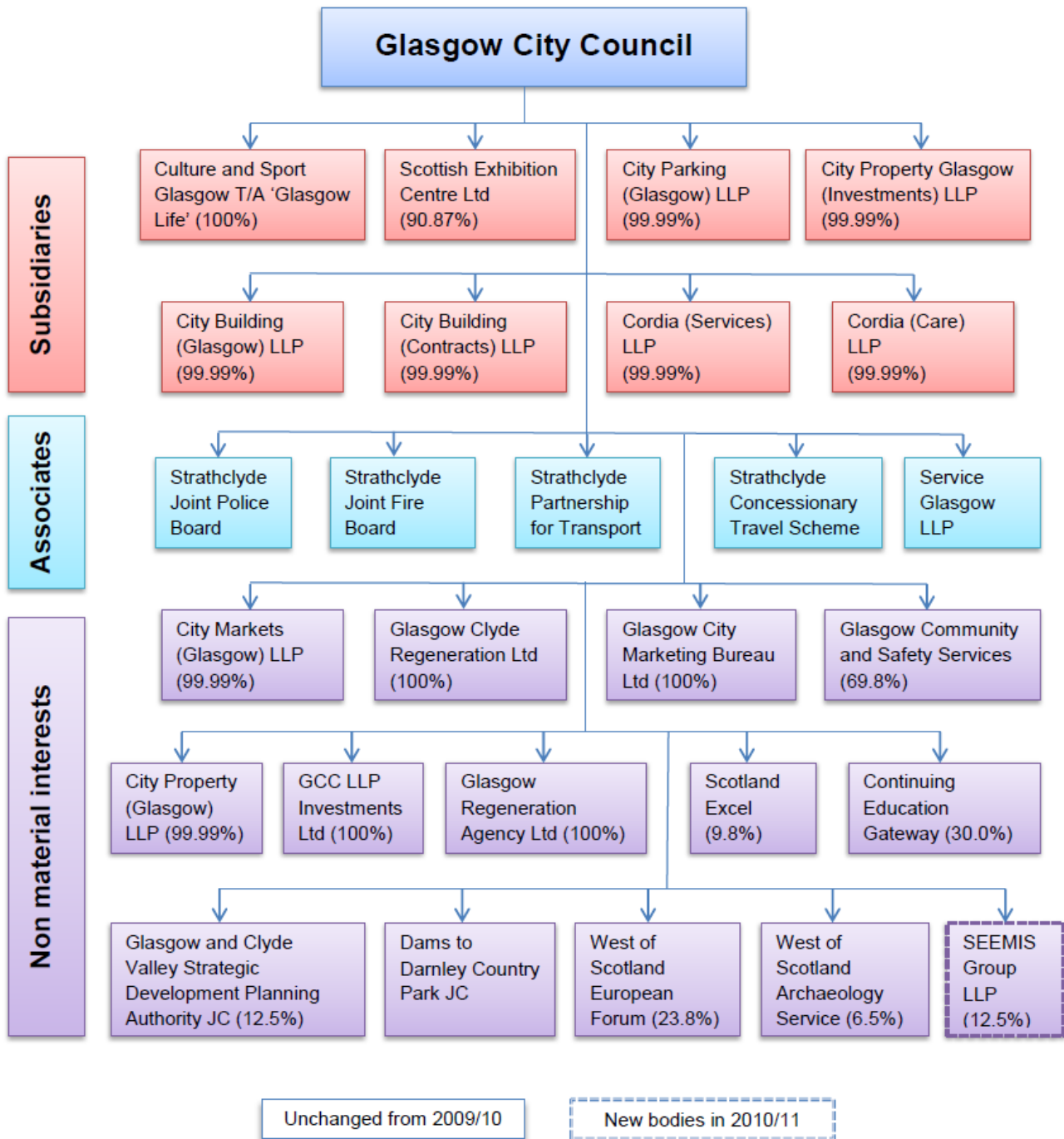
Whole of government accounts

30. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council did not receive the pro forma consolidation pack and related guidance until 21 June. Given the council's complex group structure, the council was unable to submit the consolidation pack to the Scottish Government by the deadline of the 29 July but it was provided in time for the audited return to be completed by the audit deadline of 30 September.

Group financial statements

31. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards. The bodies falling within Glasgow City Council's group boundary for 2010/11 are shown in Exhibit 1.
32. Following a review by the council in 2009/10 of the activities and functions of Glasgow Cultural Enterprises Limited, its business and assets were transferred to Culture and Sport Glasgow with effect from 1 April 2010.
33. During 2010/11 the council also disclosed 1 new "non-material interest" in relation to SEEMIS Group LLP. They commenced trading on 1 July 2010 and their principal activity is the provision of information technology solutions to Education Services. They are funded by the 28 participating authorities and Glasgow City Council's contribution in 2010/11 equated to 12.5% of the organisation's estimated running costs for the year.
34. ISA600 'Using the work of another auditor' requires us to consider a number of matters relating to the audit of group entities included within the financial statements of the council. As part of this process we issue questionnaires to auditors of material group entities and obtain audited accounts for all subsidiaries and associates. Based on this work we would highlight the following:
 - all bodies within the group received unqualified audit opinions from their external auditors
 - in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets have been aligned with the council.

Exhibit 1: Glasgow City Council Group Structure



Trust funds

35. Glasgow City Council has 35 trust funds with charitable status. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However, the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation of these requirements until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.

36. OSCR's feedback on the 2009/10 submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). Glasgow City Council's submission fell into the "below average" category.
37. The council is moving forward with restructuring its trusts into four key funds with improved governance arrangements, through consultations with OSCR, to assist with compliance with the regulations from 2013/14. Proposals to establish four new Lord Provost Funds, to amalgamate a number of existing trusts, were approved in November 2010, and charity SORP compliant accounts for 2010/11 are being prepared for the newly established Lord Provost's Goodwill Fund, and the Fossil Grove Trust.

Refer Action Plan No. 2

Common good fund

38. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements and maintains a fixed asset register with a list of assets published on the council's internet site.
39. The guidance note also states that local authorities should take reasonable steps to ensure that common good asset registers support the assets shown in the common good balance sheet. The council's view remains that reviewing the title deeds at point of sale represents "reasonable steps" for maintaining the asset register as a title deeds search of all council assets would be time consuming and prohibitively expensive.
40. Restrictions over the alienation or disposal of common good assets continue to be governed by the law of common good. No issues were identified through our routine audit activity during 2010/11 in relation to the treatment of common good assets.

Outlook

Carbon Trading

41. In April 2010 a new system for charging for carbon emissions was introduced. The council is required to purchase and account for carbon allowances to cover all of its non-transport related energy usage. The system aims to encourage a reduction in carbon emissions. Although 2011/12 will be the first year of full operation of the scheme, the council was required to make preparations for the scheme during 2010/11.
42. The council put in place a Carbon Management Plan and registered for the Carbon Reduction Commitment scheme within the required deadlines. Carbon budgets and monitoring and reporting arrangements have also been established. Based on current projections it is expected that the council and its group entities will have to purchase around £1.5 million of carbon allowances in 2011/12.

Audit appointment for 2011/12

43. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Glasgow City Council although the engagement lead and a number of the core audit team will change. We look forward to continuing the good working relationships that exist.

Financial position

44. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
45. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
46. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

47. In 2010/11 Glasgow City Council spent £2.5 billion on the provision of public services, with £2.3 billion on revenue services and the remainder on capital, resulting in an accounting surplus of £390 million. The budget set for 2010/11 was based on a Band D council tax of £1,213 with planned contributions of £5 million to the general fund.

Budgetary control

48. The council's net service expenditure for the year reported to committee was £1,434 million, an underspend of £0.8 million against budget.
49. Overspends in Social Work and Education were being reported early in 2010/11 and continued to increase during the year. These were incurred due to the nature of staffing in education resulting in issues from 2009/10 being carried into 2010/11. The increase in purchased placements and demand for learning disability budgets in social work also contributed to the overspend. More generally overspends were caused by the economic downturn and the severe winter weather.
50. By period 6 the reported overspend was £3.5 million. During the year corrective action was taken which reduced the overspend gradually over the rest of the year.

Financial position

51. The general fund increased by £8.752 million during the year to £53.911 million. Of this balance £30.244 million has been earmarked for specific purposes leaving an unallocated balance of £23.667 million (£28 million in 2009/10). This represents around 1.5% of net expenditure which is in line with the council's policy to restore unallocated reserves to 2% of net expenditure over the medium term.

52. Exhibit 2 shows the balance in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. The council's funds at 31 March 2011 totalled £141.1 million, an increase of £12.7 million on the previous year.
53. The main movements contributing to this increase are as follows:
- the transfer of £11.7 million to the Repairs and Renewals fund to meet ongoing commitments (£10.2 million) and the costs incurred by severe winter weather conditions (£1.5 million)
 - the transfer of £11.3 million from capital receipts to the Cultural and Recreation fund to help support the Commonwealth Games programme
 - earmarking of £10 million of the General Fund in recognition of the financial risks associated with the Service Reform programme.

Exhibit 2: Reserves

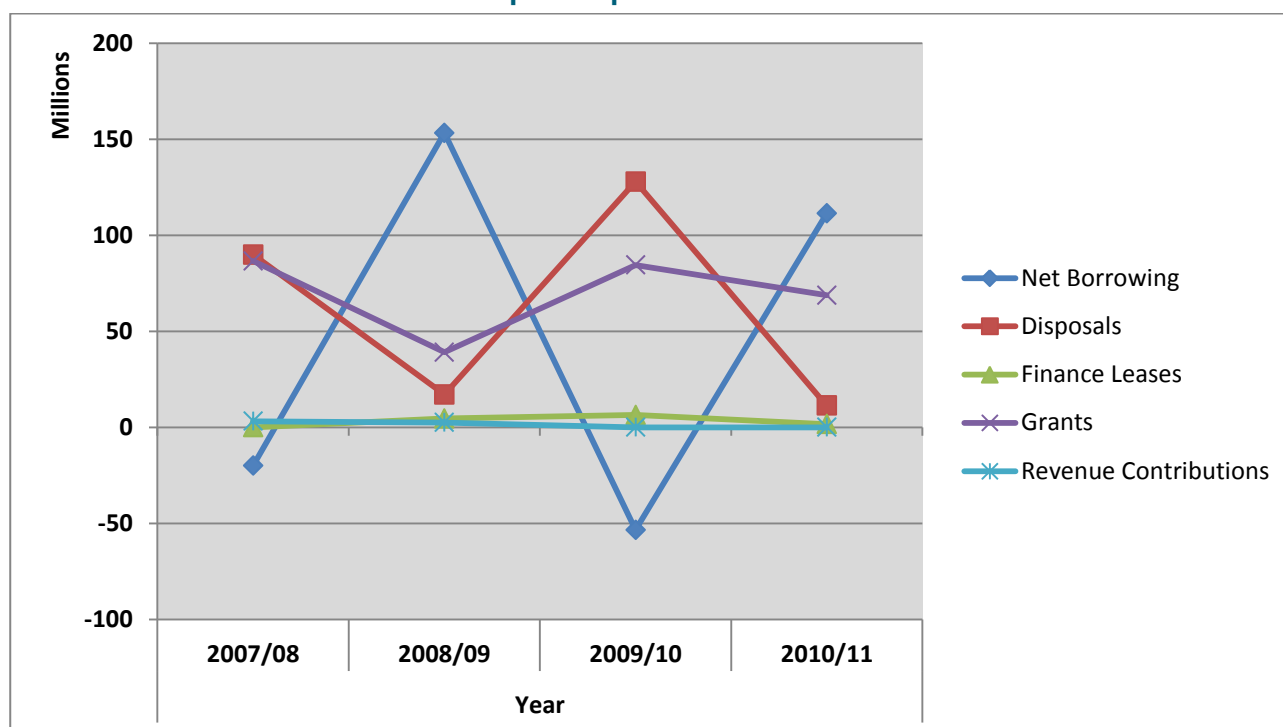
Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	45.2	53.9
Repair and Renewal Fund	16.7	27.4
Culture and Recreational Fund	11.3	20.7
Insurance Fund	20.9	19.5
Capital Fund	34.3	19.6
Total	128.4	141.1

Source: Glasgow City Council 2010/11 financial statements

54. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the Executive Director of Financial Services is to consider reporting these indicators as part of the financial statements.
55. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. The indicators will be issued to the council separately for consideration.

Capital investment and performance 2010/11

56. The 2010/11 financial statements show gross capital expenditure of £193.0 million, after removing non-asset creating expenditure of around £20 million. During the year a number of significant capital projects were completed, including the M74 extension. During the 2010/11 financial year, the value of capital projects to be delivered from 2011/12 onwards has reduced by £30.8 million to £1.4 billion.
57. The planned capital expenditure for 2010/11 was originally £281.0 million (period 2) which decreased to £223.1 million or by 21% during the year as a result of the rephasing of capital projects.
58. During 2010/11, the council reviewed capital projects where capital investment has been requested. As a result of this review it was agreed that projects amounting to £90 million over the next 3 years would not proceed to business case stage, with £6.6 million of this balance relating to 2010/11. These projects will be reviewed as financial circumstances change and where the target for capital receipts is exceeded.
59. The council's capital reserves as at 31 March 2011 total £19.6 million. These reserves contribute to the funding of major capital projects. These funding commitments are partly based on planned capital receipts from the sale of assets. The council achieved £4.6 million capital receipts for 2010-2011, which was below the in-year target of £7 million. An increased target for 2011-12 of £15 million has been set in order to meet the 3 year target of £30 million.
- Refer Action Plan No. 3**
60. Exhibit 3 below shows the sources of finance for the council's capital expenditure in 2010/11. During 2009/10 the council transferred its investment property portfolio to City Property resulting in a significant increase in capital receipts by around £120 million. For 2010/11 this level has fallen back to expected levels. This has also resulted in a corresponding need to increase net borrowing after the lower levels seen in 2009/10.

Exhibit 3: Sources of finance for capital expenditure 2007/08 - 2010/11

Source: Glasgow City Council financial statements 2008/09 to 2010/11

Treasury management

61. As at 31 March 2011, Glasgow City Council held cash and cash equivalents totalling £150 million (£90 million at 31 March 2010). The council's borrowing has increased by £102 million to £1,546 million as at 31 March 2011.
62. The council's treasury management strategy aims to minimise debt interest costs and to maintain the security and liquidity of investments. Opportunities for debt restructuring in order to generate revenue savings and improve the debt maturity profile are monitored by council officers in conjunction with external treasury advisors. As a result of advice, during the year the council made early repayment of £50 million of debt to take advantage of interest rate movements. This resulted in a discount of £1.7 million on repayment. The loans were replaced 3 months later at a lower rate.
63. The current economic climate means that interest rates on investments are low resulting in £2.3 million in investment income being received this year compared to £4.2 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates and its average cost of borrowing over the year was 4.4% compared to 4.6% last year.

Financial planning to support priority setting and cost reductions

64. The council has been proactive in preparing financial plans and identifying savings to reflect reduced local government settlements. In 2010/11 the council introduced a Budget Review Toolkit which instructed services to review their budgets. Originally it was intended that 20% of budget would be reviewed annually so that over a 5 year period 100% would be reviewed.

Due to the extent of the financial challenges facing the council a review of 100% of the budget was carried out to identify service reform projects to deliver savings and efficiencies to meet the spending gap and the results of this fed into the 2011/12 budget setting process.

65. The council's service reform programme is key to achieving identified savings and efficiencies.

Asset management

66. The council, with its joint venture partner Serco (ACCESS) has in place an Asset Management Planning (AMP) regime for the council's operational property portfolio. The main objectives of the AMP are to review assets from a corporate perspective to ensure that the council's property portfolio provides best value in delivering services. The main actions of the AMP are estate maintenance, property management and estate rationalisation. This planning process ultimately produces the council's Corporate Property Asset Management Plan (COPAMP).
67. The council's service reform programme includes an office rationalisation project, Tomorrow's Office. This aims to rationalise the council's city centre office space from 18 buildings to 6 with occupied floorspace reduced to 3,700 square metres from 9,300 square metres. The capital budget for this programme is £44.5 million with annual savings of £5.9 million per annum expected. Original projections were based on the assumption that the investment costs would be partially offset by proceeds from the sale of vacated buildings of £21 million. However due to the slowdown in the property market, the expected timing of capital receipts will be delayed dependent on the market conditions at the time of sale.
68. As reported previously, the council's non-operational and investment properties were transferred to City Property who are now responsible to the management and maintenance of these. Part of their role is to find ways to dispose of non-operational properties and maximise capital receipts at a time when the property market is difficult including taking proactive measures to position property portfolio for when market demand returns. The council set a capital receipts target of £7 million for 2010/11 with receipts of £4.6 million being achieved. The shortfall was as a result of current property market conditions.

Procurement

69. In July 2009 the Accounts Commission and Auditor General for Scotland published a joint report, Improving public sector purchasing, which examined the progress and impact of the Public Procurement Reform Programme. The report established that there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. It also highlighted the need for greater assurance on the quality of purchasing practice in public bodies.
70. In July 2009 the Scottish Government introduced a new assessment tool - the procurement capability assessment (PCA) - to monitor how far public bodies adopt good purchasing practice and as a basis for sharing best practice and promoting continuous improvement across the public sector. To date there have been two rounds of PCA assessments completed. In 2010 the council achieved an overall score of 64% (2009 47%) improving its status from 'conformance' to 'improved performance'.

71. The 2010 PCA identified weaknesses with regard to processes for procurement involvement in outsourcing decisions, spend categories coverage by strategies and forecasting of benefits savings and lack of planning schedules/forecasts development with suppliers. The areas showing most improvement were procurement strategy & objectives, key purchasing processes and systems and people.
72. During the year, we undertook an assessment of the council's procurement arrangements, to establish how well it is doing in ensuring it can demonstrate value for money when purchasing goods and services.
73. The council has performed a full evaluation of its procurement activity and prepared an improvement plan containing clear improvement actions which are directly aligned to the gaps in capability shown by the 2010 PCA.
74. The existing procurement strategy is currently being reviewed. The main recommendations for the new strategy include the centralisation and standardisation of the council's procurement operational and strategic activities, with the Central Purchasing Unit taking overall responsibility and governance for procurement within the council. Work is ongoing to integrate social care commissioning into this delivery model.
75. In 2010/11, the council's Corporate Procurement Unit achieved savings of £4.23 million from the purchase of goods and services, exceeding the target set of £3 million.

Workforce reduction

76. In November 2009, the council approved a voluntary severance scheme to offer all staff aged 50 and over the option of voluntary redundancy/early retirement over a three-year phased period. The cost of meeting the requests for severance was £127 million, and after taking account of the necessary investment in service reform to support the scheme, an annual salary saving of £44.4 million will be achieved. This will result in a payback period of 2.8 years.
77. In order to maximise savings and reduce the pay back period, services were asked to review the phasing of their release programmes and consider the possibility of earlier release dates for staff. The total number of confirmed leavers is 2,640. By the end of 2010/11, 59% of planned departures had taken place with the remaining departures occurring over the period to 31 March 2013.
78. All services were required to submit plans to the relevant policy committee detailing progress with the scheme and how they plan to continue to deliver services with reduced staffing levels. As part of the council's overall service reform programme, a number of initiatives are being considered including restructuring, working patterns changes and alternative service delivery options in order to continue to meet council service priorities.

Other change management programmes

79. During 2009/10 the council established a service reform programme to generate efficiencies and savings enabling the council to provide services within a challenging financial context. In

2009/10 savings of £30.4 million were achieved. During 2010/11 there were 36 service reform projects in progress with a savings target of £43.7 million. At the year end savings of £41.7 million had been achieved. The shortfall in savings was due to lower than planned efficiencies from the education estates strategy, delays in implementation of ASL rationalisation project and lower than expected savings from the Social Work workforce planning initiative.

80. The programme for 2011-12 to 2013-14 is underway and includes 82 projects with potential savings across these years of £120 million.
81. Reform initiatives totalling £71.0m were incorporated in 2011-12 service budgets. This target was subsequently reduced to £62.3 million as a result of resources from the Service Reform Fund of £8.9 million being utilised to allow the timing of certain projects to be carried out over a longer period. The current estimated shortfall in the savings target for the overall programme is £2.6m (4.0%).

Refer Action Plan No. 4

Partnership working

Community Health and Care Partnerships

82. As reported in our annual report on the 2009/10 audit, the council and NHS Greater Glasgow and Clyde (NHS GG&C) could not reach agreement on the budgeting and governance arrangements for the Community Health and Care Partnerships (CHCPs). To address these differences Sir John Arbuthnott, an independent third party, was commissioned by the council to prepare a report on the community health and care arrangements in Glasgow.
83. The report was published on 30 June 2010 and recommended a fully mandated Joint Partnership Board, a formal partnership agreement, a dedicated chief officer and a single Financial Director, a joint annual strategic agreement, Financial Framework and scrutiny and monitoring arrangements. However, following consideration of Sir John's recommendations, in August 2010, the council and NHS GG&C decided instead to concentrate on strengthening the proposals developed by NHS GG&C for a move to a single CHP (Community Healthcare Partnership) for the City.
84. From 1 November 2010 the five City of Glasgow CHCPs were dissolved and replaced by a single health-led CHP model. The revised arrangements included the creation of a single CHP with a substructure of three sectors - North-East, North-West and South. The CHP is governed by a single committee chaired by a NHS non-executive and includes councillors representing the three sectors.
85. Audit Scotland's national report on Community Health Partnerships (June 2011) found some local examples where the council's partnership arrangements were helping to improve community based services. However, it also drew attention in a case study to the particular problems of partnership working in relation to the Glasgow CHCPs as detailed above. Overall, it concluded that across Scotland existing arrangements are not yet demonstrating an

integrated health and social care service that clearly improves people's health and quality of life. We will continue to monitor developments in this area.

Clyde Valley Community Planning Partnership

86. During 2009/10 a review of joint working and shared services was commissioned by the 8 councils forming the Clyde Valley Community Planning Partnership (CVCPP). The review identified 10 work streams where it was felt that there was scope for joint working. Phase 1 was agreed in January 2010 with 7 work streams being prioritised. Glasgow City Council was named as the lead authority for the social transport and fleet management work stream.
87. In August 2011 a business case for proposals to create a joint venture company to share the support services of finance, payroll, revenues & benefits, HR and IT across the Clyde Valley was submitted. The business case is based on two options: Transactional Shared Services, which will focus on areas which are common to most councils and which are not subject to strategic direction at council level; and an Enhanced Scope Shared Services option which will include more specialist and professional areas. Annual recurring savings after 5 years are estimated as £18.1 million and £37.8 million respectively with an investment of between £28 million and £31 million respectively over the first five years. However this level of saving is dependent on the commitment of other councils and the level to which they wish to participate in the project.
88. The Executive Committee considered the business case on 22 September. It was agreed that due to the level of support from other councils the proposals were not sufficiently beneficial to Glasgow and they have therefore withdrawn support for the joint venture company. The council still remains committed to partnership working on other projects within the Clyde Valley partnership where possible. Ongoing projects include waste management, social transport and health and social care.

Outlook

2011/12 budget

89. The council, like all public sector organisations, faces a challenging financial climate. Significant budget savings are necessary in 2011/12 requiring strategic and long term planning to balance the budget whilst meeting council priorities. Rigorous budget monitoring takes place during the year to identify any variation from budget and to allow services to determine appropriate corrective action.
90. When setting the 2011/12 budget the council identified a potential funding gap of £57.2 million. This was subsequently reduced to £45.7 million after the approval of Workforce Planning savings by the Executive Committee in August 2010. On 11 January 2011 council approved a balanced budget incorporating budget reductions of £ 49.7million, allocated across services.

91. The budget included detailed savings for each service relating to both service specific programmes and corporate, council-wide projects. The main budget reduction programmes include:
- Corporate Services - acceleration of severance scheme (£2.5 million), Clyde Valley review initiatives (£2.0 million)
 - Education Services - targeted provision of free fruit (£1.8 million)
 - Social Work Services - personalisation and self directed support (£6.0 million), homelessness initiatives (£3.0 million).

2011/12 budget reporting

92. The 2011/12 budget monitoring report at 5 August 2011 (period 5) indicates an overspend of £0.2 million. The main cause of this position is an overspend within Development and Regeneration Services relating to reduced income from property enquiries and planning fees resulting from the economic downturn. This overspend is partly offset by savings in Social Work Services across various areas of community care and employee costs within fieldwork services. All other services are reporting balanced budget positions.

Financial forecasts beyond 2011/12

93. Looking ahead it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recently published Scottish Spending Review 2011 indicates that significant budget reductions will continue to be required over the next few years. The Scottish Government remains committed to the council tax freeze for another year and has confirmed that there will be 36% real terms cut to Scotland's capital budget in the UK spending review. It is also recognised that continuing to realise efficiencies will become more challenging in all councils over the longer term. Difficult decisions will need to continue to be made about prioritising resources towards service delivery priorities.

Refer Action Plan no. 5

Governance and accountability

94. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
95. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
96. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
97. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

98. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Glasgow City Council has extensive and well-defined scrutiny structures, with open reporting and debate. These are subject to periodic review. The council has three scrutiny committees with distinct areas of responsibility. Each scrutiny committee has 14 elected members, split equally between the administration and opposition and chaired by a member of the opposition.
99. The Finance and Audit Scrutiny Committee is responsible for monitoring the financial performance of the council and its trading operations, reviewing the performance of audit and inspection within the council and promoting the observance by councillors of standards of conduct. The committee is well attended by service department officers who respond to member queries.
100. The External Governance Scrutiny Committee is responsible for scrutinising the performance of the arms length external organisations (ALEOs) established by the council. The Committee is attended by representatives of the ALEOs on a rolling basis and councillors are able to question performance.

101. The Operational Delivery Scrutiny Committee is responsible for scrutinising and monitoring the operational performance of all council services (internal governance).

Internal control

102. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
103. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
104. As part of our work, we took assurance from key controls within the council's financial systems, with some of the controls being tested by internal audit. The results of our review of key controls were reported to the Finance and Audit Scrutiny Committee in September 2011. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented per an agreed timetable.

ICT website overview

105. We undertook an overview of the council's website during the year, focusing on five key areas of website development and control: strategy; facilitating accessibility and content; security; maintenance and performance. Our overall conclusion was that the council's website operation is generally sound, and in independent reviews it ranks well against counterparts within the United Kingdom. Our review did highlight some areas where there was a need to strengthen existing controls and arrangements, including the introduction of user consent around cookies and a refresh of some of the information and links on the site. The council is aware of these issues and has plans in place to progress them.

Prevention and detection of fraud and irregularities

106. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
107. Glasgow City Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a whistleblowing and response policy. This is relaunched every 2-3 years to enhance awareness of the policy and to ensure that it accurately reflects the arrangements in place. In addition, the council also has a code of conduct for employees and elected members and adheres to the nationally prescribed code of conduct for members.

NFI in Scotland

- 108.** The National Fraud Initiative (NFI) is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. It allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved.
- 109.** The Audit Scotland report, *The National Fraud Initiative in Scotland: Making an Impact* (May 2010), highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
- 110.** The current NFI round spans 2010/11 and 2011/12 and is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.
- 111.** As part of our local audit work we monitor the council's approach to participation in NFI. During 2010/11 we met with the Head of Audit and Inspection to discuss the approach adopted by the council's internal audit section to investigate the identified matches. Through these discussions we established that the council uses a risk based assessment to identify those matches that are most likely to represent potential fraud or error and as such require further investigation. From review of the approach adopted and the activity to date we are satisfied that the council is taking the all the necessary steps to identify and resolve the potential fraud or errors included in the council's data matches.
- 112.** The investigation of the NFI data matches identified through the council's risk based assessment will continue during 2011/12 and will be reviewed as part of our annual audit activity.

Housing benefit inspections

- 113.** In April 2008, the Accounts Commission agreed to a request from the Department for Work and Pensions (DWP) to take over the Benefit Fraud Inspectorate's responsibility for inspecting housing and council tax benefit services in Scotland. A programme of coverage is developed and delivered by our specialist team and the next housing benefit audit of the council is planned for 2011/12.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

- 114.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial

instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Glasgow City Council are satisfactory and we are not aware of any specific issues that we need to identify in this report, other than those relating to the requirements of the Bribery Act 2010 detailed below.

Bribery Act 2010

- 115. The Bribery Act 2010 came into effect on 1 July 2011 and covers the criminal law relating to bribery. The Act repeals all previous statutory and common law provisions in relation to bribery, instead replacing them with the crimes of bribery, being bribed, the bribery of foreign public officials, and the corporate offence of failure to prevent bribery.
- 116. In response to this the council are currently reviewing their codes of practice, codes of conduct, senior officer declaration of interests, guidance on gifts and hospitality and the procurement manual to ensure they satisfy the requirements of the Act. In addition a policy statement is also being prepared for submission as council policy which, following approval, will be incorporated into the council's local code of governance.

Roles and relationships

- 117. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications.
- 118. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Chief Investigating Officer (CIO) who determines whether, in his view, there has been a breach. If no evidence is found the matter is closed, however if the CIO concludes that there has been a breach of the Code, they report to the Standards Commission which then decides whether to hold a hearing.
- 119. During 2010/11, 9 members were reported to the Standards Commission. Of the notifications published to date, either no action was taken, or following an investigation, the investigating officer determined that there had been no breach of the Councillors Code of Conduct.

Specific audit findings

Commonwealth Games 2014

- 120. Audit Scotland, as the appointed auditors of Glasgow City Council, has a duty to ensure that the authority is making the best use of public funds. This requires us to consider any areas of major expenditure as part of our financial audit. Glasgow City Council is committed to providing 20% of the funding for the 2014 Commonwealth Games and manages many of the key construction and infrastructure projects.
- 121. In May 2009 we issued our first position statement which provided details of the governance arrangements and outlined some of the key facilities being developed for the Games by the council. Audit Scotland's Performance Audit Group (PAG) produced a report in November

2009 which provided an early assessment of governance, risk management, financial management and programme management arrangements at a national level.

122. During 2010/11 we issued our second position statement which assessed the operation of the arrangements in place to scrutinise and monitor progress towards the delivery of the Commonwealth Games and provided an update on the status of some of the major capital projects vital to the success of the Games, from our perspective, as local auditors of Glasgow City Council.
123. The report concluded that Glasgow City Council's local governance arrangements were continuing to operate effectively to ensure the authority's role in the delivery of the XX Commonwealth Games is subject to appropriate scrutiny. It also highlighted that the local governance arrangements had been further strengthened by the introduction of a Stage Evaluation and Assurance Process (SEAP) for the Infrastructure Programme and the new 2014 Legacy Framework Governance Structure which included the establishment of a Glasgow 2014 Legacy Board.
124. In addition, the report commented that as at March 2011 the overall Infrastructure Programme remained on schedule and within the approved budget. Work had begun on the majority of projects and two had already been completed within budget: Toryglen Regional Football Training Centre (opened April 2009) and Scotstoun Stadium (opened January 2010).
125. At the Scottish Parliament's Public Audit Committee meeting on 12 January, the Director of Audit Scotland's Performance Audit Group (PAG) reported that Audit Scotland's second national report would be undertaken during 2011.
126. The overall aim of this audit is to examine the partners' progress in implementing the recommendations made in the 2009 national report, and the related recommendations made by the Public Audit Committee, and to assess whether the partners are on track to deliver the Games on time and to budget. It also involves a high-level assessment of the Scottish Government and Glasgow City Council's plans to achieve a lasting legacy from the Games.
127. Fieldwork is currently underway and it is expected that the results will be published in early 2012.

Media coverage, correspondence and investigations

128. During 2010/11 there has continued to be significant media coverage of issues related to Glasgow City Council. These have covered a wide range of topics including payments to councillors by arms length organisations (ALEOs), progress towards the 2014 Commonwealth Games and the resignation of the Chief Executive of Glasgow 2014 Limited, and the state of repair of the city's roads. In response to these areas a number of actions have already been taken by the council and other bodies including:
 - The Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2011, effective from 1 July 2011, prohibit a Local Authority from allowing any body controlled by it from making payments to councillors by way of remuneration. The Executive Committee of 23 June 2011 noted arrangements had been made to terminate

all payments to councillors in respect of their membership of ALEO boards from 1 July 2011.

- The Finance and Audit Scrutiny Committee of 20 April 2011 considered the Audit Scotland Commonwealth Games 2014: Position Statement 2 report.
- The Finance and Audit Scrutiny Committee of 17 August 2011 considered the governance arrangements that are in place to allow the Council to monitor the activities of Glasgow 2014 Limited (the "Organising Committee") and advise of any changes required following the resignation of the Chief Executive.
- The Executive Committee of 26 May 2011 approved a Road Asset Management Plan (RAMP) that aims to 'identify the optimal allocation of resources for the management, operation, preservation and enhancement of the road infrastructure to meet the needs of current and future customers'.

129. On 31 August 2011 a letter of objection to the 2010/11 draft accounts was received by the Controller of Audit. This raised a number of queries relating to the disposal of land at Queens Park in 2006 and the treatment of common good assets by the council.
130. As the letter was received after the closing date for raising an objection of 18 August 2011, it was not appropriate for us to deal with this through the objection process. Instead we considered the issues raised as part of our ongoing audit work.
131. Following consideration of the letter, the council provided a response to the correspondent on 29 September 2011 clarifying their position on the issues raised. We have considered the council's response and the procedures in place in 2006 in relation to asset disposals, and are satisfied that the council took reasonable steps at that point in time to consider the legal title of the asset prior to disposal, and no further evidence has emerged to change this view.

Outlook

During 2011/12 we will continue to monitor and report on the areas highlighted above.

Best Value, use of resources and performance

132. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
133. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
134. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
135. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
136. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
137. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Vision and strategic direction

138. The council has vision and leadership, to address the significant challenges that Glasgow faces. The administration is prepared to take difficult decisions and is supported by a strong corporate management team. The council is aware of its operating environment and responds appropriately to challenges, often in a proactive and innovative way. There is a clear and consistent commitment to priority programmes.
139. Key developments during 2010/11 included:

- the requirement for services to produce a combined budget and service plan and annual reporting document (ASPIR). These provide detail on the services performance over the year and set out budget proposals and performance targets for the year. These are reported to the Executive Committee for approval and then referred to the appropriate policy development and scrutiny committee for monitoring progress.
- the establishment, in November 2010, of an independent Economic Commission comprising leading business figures and academics. The aim of the commission is to provide a review of the existing economic position of the city and identify opportunities to improve economic and employment growth.

Best Value

- 140.** In their first Best Value report in 2006 the Accounts Commission commended the council for its improvement agenda and commitment to change, clear leadership, and considerable rate of improvement. However, it also highlighted a number of areas for improvement and acknowledged the significant and complex social and economic challenges facing the council.
- 141.** In response to this report the council initially produced a 14 point improvement plan which Audit Scotland reviewed and reported progress against in April 2009. However, during 2008, the council's Corporate Management Team (CMT) also undertook a corporate level self assessment exercise to develop a new Best Value Improvement Plan. The findings from this exercise were reported to the council's CMT on 17 March 2009.
- 142.** The report contained a 37 point action plan, presented under 9 key themes which aim to provide a sound baseline for the council's Best Value 2 Audit. The issues which were subsequently identified within the Accounts Commission's progress report in April 2009 were also incorporated into the action plan. The new Best Value Improvement Plan (BVIP) was approved by full Council on 25 June 2009 and by June 2010 the plan was 51% complete (i.e. 19 of the 37 actions had been completed).
- 143.** The most recent update on the progress against the Best Value Improvement Plan was presented to the Finance and Audit Scrutiny Committee on 15 June 2011. This detailed that of the 18 improvement actions identified in the council's own Best Value self-assessment that were outstanding at June 2010, 8 are now complete, 7 are on schedule for completion, 2 are experiencing some delays and 1 action has been delayed significantly.
- 144.** The 3 areas where delays have been experienced relate to:
- improving benchmarking of key performance with relevant authorities and arms length organisations
 - review and implementation of the use of value for money data in performance management
 - monitoring implementation of the attendance management action plan to ensure it is driving improvement in attendance.
- 145.** The council has revised its best value action plan to reflect the current position and is working to address areas of slippage. Named lead officers have been assigned to progress each

improvement action and three monthly updates are provided to the Corporate Management Team. In addition, updates are also brought to the Finance and Audit Scrutiny Committee on a 6 monthly basis.

146. The timing of the Glasgow City's Council next Best Value audit (BV2) has been determined by a risk assessment performed by the Local Area Network (LAN). In the Assurance and Improvement Plan (AIP) update 2011 - 14, the LAN reported that no significant scrutiny risks have been identified and the council has been proactive in establishing plans to manage its financial pressures and achieve savings through extensive service reform. Whilst the impact of the service reform is being managed by the council, the longer term impact on services and the financial position are yet to be proven. To consider the implication of these reforms, a BV2 audit of the council has been scheduled for 2013/14.

Community/user engagement

147. During 2010/11 the council has continued to actively engage with stakeholders and has demonstrated that community engagement has had an impact on council decision making within local communities.
148. To assist this a number of specific developments have taken place during the year, including:
- the inclusion of an extra 200 respondents from ethnic minority backgrounds in the Spring 2010 household survey to ensure that their views are being appropriately considered
 - the preparation of a 2014 Community Engagement Strategy and the establishment of the 2014 Community Engagement Implementation Group to implement the strategy
 - the introduction of the new Customer Care Strategy for 2010-13 which defines common customer care standards and measures of performance across the Glasgow Family.

Overview of performance in 2010/11

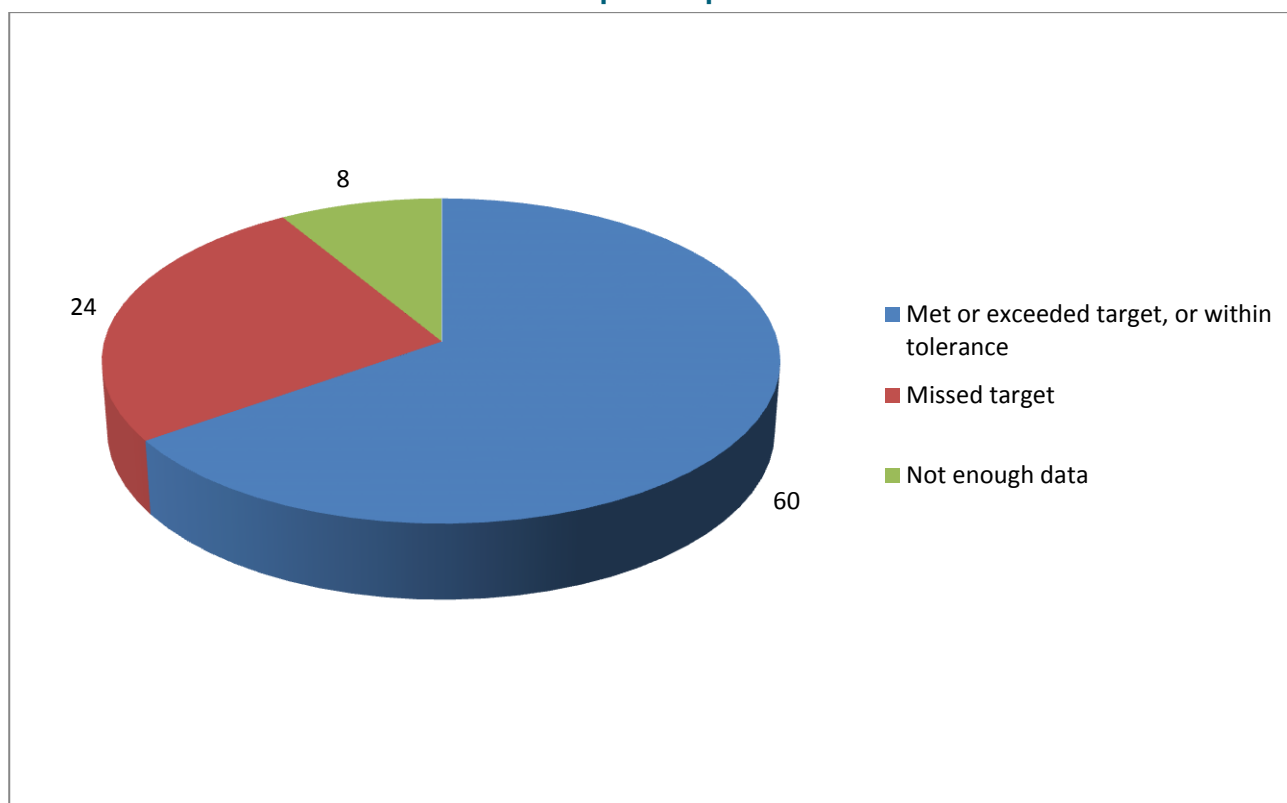
Performance management

149. The council has good corporate structures for assessing and reporting performance, with clear links between the Council Plan and Single Outcome Agreement (SOA), and service plans. During 2010/11 the number of single outcome indicators in use by the Community Planning Partnership (CPP) was reduced to provide a more focused approach to outcome monitoring.
150. The council's internal "measures of improved performance" or MIPS are reported to the corporate management team quarterly. This is the third year of reporting the Corporate MIPS that monitor progress against achieving the outcomes in the Council Plan 2008/11. However, in line with the approach adopted by the CPP the number of MIPS has also been reduced during 2010/11 following approval of the new suite of indicators at the Corporate Management Team meeting on 27 April 2010. As a result performance is now monitored against 92 MIPS of which 32 are also single outcome indicators.

Glasgow City Council measures of improved performance 2010/11

151. At the end of September 2011 annual performance information for 2010/11 was available for 84 of the 92 MIPS (summarised in Exhibit 4 below). Information on the remaining 8 was still being collated for reporting to the corporate management team. The reported figures highlighted that 71% of the MIPS have nearly achieved, met or exceeded their target during 2010/11. In 2009/10 the corresponding figure was 80%.

Exhibit 4: Achievement of measures of improved performance 2010/11



Source: Glasgow City Council corporate management team reports 28 June and 6 September 2011

152. Some of the measures of performance achieved in 2010/11 include:

- reducing the average days lost to sickness per employee (per year)
- reducing exclusions per 1,000 pupils in primary schools and reducing exclusions per 1,000 pupils in secondary schools
- increasing the number of successfully resolved anti-social behaviour cases.

153. Some of the measures of performance not achieved in 2010/11 include:

- recycling targets
- increasing the uptake in the number of 3 year olds attending pre school education
- target for number of adults supported by Community Addiction Teams.

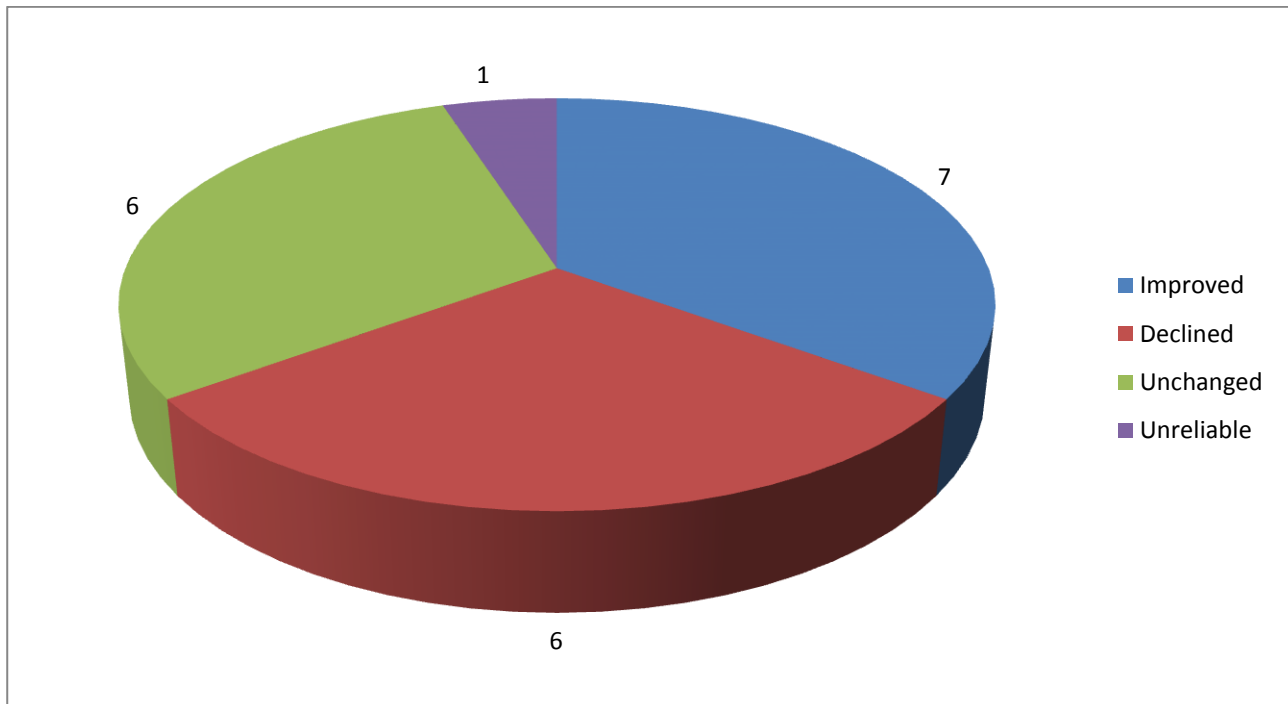
154. From review of the MIPS it appears that this deterioration in performance may in part be linked to the impact of the economic downturn. We would expect this to be reflected in future performance targets to ensure both that the council continues to set challenging, but

achievable, MIPS and that performance against these targets provides a meaningful picture of the council's overall performance.

Statutory performance indicators

155. In 2010/11, a total of 20 Statutory Performance Indicators were required. These show a mixed picture of performance as illustrated in Exhibit 5 below.

Exhibit 5: Improvements demonstrated by SPIs (Total 20 indicators)



Source: Glasgow City Council SPI data returns

156. The improved indicators include sickness absence levels, council tax collection and processing time for planning applications. The indicators which have declined include the gross administration cost per benefit case, the number of people aged over 65 receiving homecare and the percentage of homeless housed in permanent accommodation.

157. One indicator, covering the suitability of operational buildings, was classified as unreliable due to nurseries not being included in the submitted data.

National performance reports

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 6:

Exhibit 6: A selection of National performance reports 2010/11

- The cost of public sector pensions in
- An overview of local government in

Scotland	Scotland 2010
<ul style="list-style-type: none">• Community Health Partnerships• Scotland's public finances: responding to the challenges• Transport for health and social care• Physical recreation services in local government	<ul style="list-style-type: none">• Commonwealth Games 2014 - Impact report• Maintaining Scotland's roads: a follow-up report• How councils work: an improvement series for councillors and officers - Arms-length external organisations

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

158. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

159. In relation to Glasgow City Council the report highlighted the council's plans to save £13 million over 2011/12 and 2012/13 on the personalisation of services for 4,600 users with mental health problems, learning or physical disabilities as an example of how engaging effectively with service users can provide an opportunity for organisations to generate efficiency savings while improving services for users.

160. The Finance and Audit Scrutiny Committee meeting of 14 September 2011 noted the key messages contained in the report and the action already taken by the council in these areas as detailed below:
- The council set a balanced budget for 2011-12 after identifying savings of £58.5million to meet the spending gap. It was recognised in the Budget Report by the Executive Director of Financial Services that delivery of these service reforms were essential to underpin the budget. Currently the Service Reform programme is reporting a shortfall of £2.6million however this is being contained within existing resources. In addition, as part of the Draft Outturn for 2010-11 the council established a service reform fund of £10million to mitigate against the financial risk associated with the service reform programme in 2011-12.
 - Over the three year period from 2010 to 2013 around 2,600 staff will leave the council under its early retirement/voluntary severance release programme. This is scheduled to save a recurring £44million by 2013. Detailed reports were submitted by each service to their respective policy development or scrutiny committee during the latter part of 2010 to provide an update on the progress and plans within each service to manage the impact of leavers.
 - There are a number of areas where unit cost information is produced to allow benchmarking and this is an area which the council continues to progress. In addition, during its 2010-11 budget process the council introduced the budget review framework to allow all expenditure to be assessed against council priorities and also to assess the effectiveness of the service provision. This process has facilitated a number of service reforms.

Maintaining Scotland's roads: a follow-up report

161. This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:
- limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report
 - the condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition
 - the present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.
162. Within the report it highlights the fact that in 2009/10 Glasgow City Council overspent their winter maintenance budget by 166 per cent. It also draws attention though to the council's introduction of 'area integration' to Land and Environmental Services (LES) which brings together staff involved in road maintenance, grounds maintenance, street cleansing and refuse collection to create a more flexible operational team. Among the potential benefits

quoted are a reduction in employment costs (three per cent fewer staff), reduced overtime and reductions in the number of plant and vehicles required.

163. Since the report was published further progress has been made by the council. As mentioned previously the Executive Committee of 26 May 2011 approved a Road Asset Management Plan (RAMP) that aims to 'identify the optimal allocation of resources for the management, operation, preservation and enhancement of the road infrastructure to meet the needs of current and future customers'.

Sustainable waste management

164. In January 2010, part of the environment overview report Protecting and improving the Scottish environment focused on waste management and councils' performance since publication of the 2007 Sustainable Waste Management report. The 2010 report focused on councils' performance in increasing levels of recycling, and reducing the levels of biodegradable municipal waste sent to landfill.
165. During the year we reviewed the steps the council is taking to ensure that they will be able to meet European Union and Scottish Government targets to improve waste management over the next ten years.
166. The council did not meet its own targets for recycling and landfill waste reduction in 2010/11, although performance has improved from the previous year. Actual performance against targets was:
- volume of recycled and composted waste - 24.7% (target 31%)
 - municipal waste diverted from landfill - 80,388 tonnes (target 93,750 tonnes)
 - organic waste diverted from landfill - 36,384 tonnes (target 44,100 tonnes)
167. The council's Waste Strategy was approved by committee in February 2010. The policies and action plan have been aligned to the Scottish Government's Waste Plan, and is based around the key elements of collection, recycling, residual waste treatment and landfill.
168. A number of initiatives have been put in place to improve recycling and diversion of waste from landfill including:
- investment in infrastructure to allow residual waste treatment and extraction of recyclables
 - refurbishment and upgrading of existing civic amenity and recycling sites
 - redesign of weekly collections, including the introduction of household glass and cardboard collections
 - working with other public sector providers to develop a collaborative approach to the procurement of waste treatment services
 - community engagement initiatives through Land and Environment Services, to raise awareness of waste disposal and recycling across the city.

169. The full impact of some of these initiatives will not be achieved immediately. The council predicts it will reach the targets committed to in the Single Outcome Agreement once the full impact of all currently funded initiatives is achieved.

Progress against audit risks identified in the SRA

170. As noted above the results of a shared risk assessment (SRA) performed by the Local Area Network (LAN), were reported in the April 2011, Assurance and Improvement Plan (AIP) update 2011 - 14. No significant scrutiny risks were reported by the LAN however some areas of uncertainty for LAN members were identified where work was required to monitor key service developments and gather evidence of performance outcomes.
171. The council provided a response to the AIP update 2011 - 14 to the Finance and Audit Scrutiny Committee meeting on 15 June 2011, which we have used to update our intelligence and the updated position will be considered by the LAN as part of the 2011-12 audit. The following section shows the council's response to each of the service performance areas reported by the LAN as areas of uncertainty in April 2011.

Healthy - Improving health and wellbeing

172. The AIP reports varied progress in performance against local outcome indicators in this outcome area.

Glasgow City Council Assurance Statement : 15 June 2011

Drug related deaths are still coded 'Red' and information will be monitored by the SOA. Teenage pregnancy is also still classed as 'Red' and will be monitored by the Young Person's Sexual Health Steering Group which sits within the City's multi-agency children's services planning structure responsible for the development and delivery of the Child and Family Plan. The teenage pregnancy rate is a key indicator identified in Child and Family Performance Framework which is used to track progress towards the objectives set out in the plan.

We recognised that more data was required to support the direction of travel and the Director of Public Health has provided a full and detailed report on the progress towards the Healthy theme in the SOA, in particular those areas that were red-rated during the first half of 2010/11. This report was presented to the Operational Development Scrutiny Committee on 24 February 2011.

In addition, the council's specific contribution, and related performance in these operational areas towards the outcomes in the SOA will in future be included in six monthly service performance reports to the Operational Delivery Scrutiny Committee to complement the outcomes reported in the SOA progress report.

We have introduced new indicators to monitor areas such as binge drinking and smoking

rates and will monitor the emerging trends carefully.

Working - Building a prosperous city

173. The AIP reports that the effect of the economic downturn on public spending has had an impact on progress against economy related national outcomes.

Glasgow City Council Assurance Statement: 15 June 2011

Performance under the two National Outcomes that are aligned under the Working theme suggest that performance remains a mixed picture and dependent on the national recovery from the recession although there is improvement in more areas. Specific actions to target improvement in areas that are currently underperforming (Business Location ranking, Tourism expenditure, Employment rate of working age population and median earnings) are listed below.

Work is underway to consolidate and expand national and international positioning, through the implementation of: The Glasgow Strategic Major Events Forum: Strategy and Business Plan to 2016; Tourism Action Plan; Film Office Activities and 'Style Mile' activities. The current indicator used for business ranking in the SOA is currently under review to assess its suitability. Tourism expenditure has shown a downward trend and it is hoped that the measures outlined above will support improvement.

Whilst the gap in average earnings between Glasgow and the UK has grown there have been many other indicators that have shown Glasgow's resilience in tackling the effects of the global economic downturn. The Glasgow City Strategy continues to create sustainable employment opportunities for people who wish to work and reduce their dependence on benefits. The use of community benefit clauses in procuring capital works relating to the Glasgow 2014 has also yielded positive results. These and other initiatives have been fruitful in ensuring that the gap in the proportion of the population aged 16-64 in receipt of benefits between Glasgow and Scotland was unchanged in 2010 and over a longer timeframe has continued to show a downward trend.

Safe - Making Glasgow a cleaner safer city

174. The AIP reports that performance during 2009/10 was mixed with violent crime rates showing little improvement. The proportion of people who had a positive perception of the general crime rate in their local area had also decreased since 2006/07.

Glasgow City Council Assurance Statement: 15 June 2011

A number of the indicators previously included under this theme were revised during 2009/10 to encourage the use of more robust data to monitor progress and enable national comparison.

Social Work

175. The AIP reports that the changes in governance arrangements and the impact of the early retirement scheme represent challenges for social work services, particularly as demand is likely to increase as a result of the economic downturn.

Glasgow City Council Assurance Statement: 15 June 2011

With the dissolution of the CHCPs, Social Work Services has moved to a 3 area model of service delivery, with service planning reverting to being a City-wide function, and the performance management process focussing on the local delivery of services in accordance with priorities and standards specified centrally in the Service's Annual Service Plan and Improvement Report (ASPIR) and other City-wide plans.

This arrangement is mirrored on the NHS side by the establishment of a single CHP with 3 sectors.

The organisational performance review (OPR) process, developed to hold CHCPs to account for local performance and understand and address variations across a range of key indicators, will continue in a modified form, with the Executive Director holding 6-monthly meetings with the new Area Heads of Social Work to discuss local performance and identify areas for local action and/or where improved support is required from the rest of the system.

With the dissolution of the CHCPs and the move to 3 area teams, new operational structures have been established with a view to ensuring sufficient qualified social care staff and robust line management support.

Development and Regeneration Services (DRS)

176. The AIP reports that performance outcomes continue to be affected by the economic downturn. In addition, this service will lose 35 per cent of its staff as part of the early retirement programme.

Glasgow City Council Assurance Statement: 15 June 2011

Development & Regeneration Services are scheduled to undergo an EFQM self assessment in January 2012.

Land and Environmental Services (LES)

177. The AIP reports that the service continues to undergo fundamental reforms to change established working patterns and methods of service delivery. The severe winter weather also had an adverse effect on performance in several areas such as refuse collection and recycling as well the considerable effect on roads maintenance targets.

Glasgow City Council Assurance Statement: 15 June 2011

As part of Service Reform, alternative service delivery options are being progressed; tenders being prepared for waste disposal drivers, commercial waste, and domestic glass uplifts. New term time working patterns have been established for ASL drivers and the 2011 procurement exercise for vehicles will include a "with maintenance" option.

Land and Environmental Services are scheduled to undergo an EFQM self assessment in April 2011.

Progress against LES targets is monitored quarterly and the Strategic Projects Programme are reported to the SMT monthly.

Pothole repairs. An additional £8m funding is secured for 2011/12. There are two citywide patching contracts, a city centre resurfacing programme, a Nimpactocote surface treatment programme and a city wide resurfacing programme are all underway. The incidence of repairs has been heightened as a result of the severe winter weather.

Street cleanliness. Ongoing programme of LEAMS Street Cleanliness inspections involving partner authorities and Keep Scotland Beautiful.

The recycling rate of 31% will not be achieved this year but is predicted to be reached once the full impact of all currently funded initiatives is achieved. Kerbside glass collection has been extended to 100,000 properties; contract now in place for recycling bulky waste, upgrade of Shieldhall recycling centre complete and Polmadie underway.

Budget proposals have been approved to introduce managed weekly kerbside collections to achieve higher recycling rates.

A shortlist of 2 bidders has been approved for the Residual Waste Treatment proposals.

The proposed MRF upgrade has been put on hold to assess the site implications of the Residual Waste Treatment proposals.

Use of Resources: People

178. The AIP reports that around 2,600 employees had accepted offers for early retirement/redundancy by 2013. As a result extensive service reform and workforce planning is required to ensure that services are not adversely affected.

Glasgow City Council Assurance Statement: 15 June 2011

Significant work has been completed including a Workforce Planning Scrutiny review, and a corporate programme for the release of employees through Early Retirement/voluntary severance. The newly formed Strategic HR Forum will peer review service reform plans, grading allocations and develop corporate redeployment arrangements.

National risk priority: The protection and welfare of vulnerable people (children and adults) including access to opportunities

179. The LAN did not identify any significant scrutiny risks for the council for this national risk priority. However the assessment remained as an area of uncertainty mainly due to the unknown impact of the new governance arrangements, the need to rebuild partnership arrangements with NHSGGC and the impact of the voluntary severance scheme.
180. In addition, during 2009/10, 16.8 per cent of Glasgow care services had requirements placed on them from the Care Commission, a rise from 13.6 per cent in the previous year. Also, 5 per cent of Glasgow care services had a complaint upheld by the Care Commission, a rise from 2.7 per cent in the previous year.

Glasgow City Council Assurance Statement: 15 June 2011

Joint planning for Children and Family Services is on-going through existing structures which will be reviewed in due course.

An outline joint planning structure and accountability and reporting arrangements for community care services have been agreed by the Joint Partnership Board (February 2011). Officers will report progress to the Joint Partnership Board.

The impact of the voluntary severance scheme has been added to the Service's Risk Register and will be reviewed regularly by the Social Work Leadership Team.

All Care Commission reports contain an Action Plan which highlights operational and strategic areas for improvement and sets timescales for action. Rigid monitoring processes are in place to ensure issues are addressed

National risk priority: Assuring Public Money is being used properly

181. To reflect the challenges faced by all councils due to the economic environment, our financial assessment considered separately the council's financial management processes and its financial position. This noted that the council has strong financial management processes and has been proactive in preparing financial plans and identifying savings through extensive service reform.
182. However, due to the forecast reduction in funding and increasing costs and the scale of the savings to be delivered in the future, the ability of the council to maintain its financial position was considered an area of uncertainty.

Glasgow City Council Assurance Statement: 15 June 2011

We will monitor the delivery of savings through the Service Reform Programme. Responsibility for this is managed at an officer level by the Council Management Group and supported by the Project Management Office using recognised project management

Glasgow City Council Assurance Statement: 15 June 2011

principles.

There is regular reporting to Committee by the Executive Member for Service Reform with financial implications reported through Revenue Budget Monitoring reports to the Executive Committee and the Finance and Audit Scrutiny Committee. The Operational Delivery Scrutiny Committee will also receive regular reports on the progress of projects.

Outlook

183. The LAN will reflect the council's most recent performance information in the next update of the AIP, which will be reported as part of our 2011-12 annual audit. As detailed at paragraph 145 the next best value review of Glasgow City Council is scheduled to take place in 2013/14.
184. The local audit team will also monitor progress as part of their routine audit activity. In addition the Assurance and Inspection Plan also details activity by other scrutiny bodies over the next three years including:
- Education Scotland – Validated Self Evaluation, in partnership with council (2011/12)
 - Social Care and Social Work Improvement Scotland (SCSWIS) – Initial Scrutiny Level Assessment (ISLA) review (2012/13).

Appendix A: audit reports

External audit reports and audit opinions for 2010/11 presented to Finance and Audit Scrutiny Committee

Title of report or opinion	Date of issue	Date presented to Finance and Audit Scrutiny Committee
Annual Audit Plan – Glasgow City Council	4 February 2011	23 March 2011
Shared Risk Assessment / Assurance and Improvement Plan	11 March 2011	15 June 2011
Commonwealth Games 2014: Position Statement 2	31 March 2011	20 April 2011
Key financial controls assurance report	18 August 2011	14 September 2011
Report on financial statements to those charged with governance	7 September 2011	14 September 2011
Audit opinion on the 2010/11 financial statements	7 September 2011	14 September 2011

Other external audit reports to management during 2010/11

Title of report or opinion	Date of issue
Review of IFRS shadow financial statements	June 2011
Audit opinion on 2010/11 Whole of Government Accounts (WGA) return	September 2011
Improving public sector purchasing – follow up	October 2011
Sustainable waste management – follow up	October 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	37	<p>Charities compliance with accounting requirements:</p> <p>Charitable bodies are required to comply with the full requirements of the Charities Accounts (Scotland) Regulations 2006 from 2013/14.</p> <p>Risk - The council is not in a position to comply with requirements by 2013/14.</p>	The council is moving forward with restructuring its trusts into four key funds with improved governance arrangements, through consultation with OSCR, to assist with compliance with the regulations from 2013/14.	Executive Director of Financial Services/ Executive Director of Corporate Services	31 March 2014
2	59	<p>Capital receipts:</p> <p>The council achieved £4.6 million capital receipts for 2010/11 which was below the in-year target of £7 million.</p> <p>Risk - Expected capital receipts may not be achieved in future years.</p>	An increased target for 2011/12 of £15 million has been set in order to meet the 3 year target of £30 million.	Executive Director of Financial Services/ Managing Director of City Property LLP	31 March 2012
3	81	<p>Service reform programme:</p> <p>There is currently a shortfall of £2.6 million in the projected savings that will be achieved through the service reform programme.</p> <p>Risk - Planned savings are not achieved.</p>	Executive Directors will continue to identify options to mitigate the impact of these shortfalls within their overall budgets.	Executive Director of Financial Services	31 March 2012
4	93	<p>Scottish Spending Review 2011:</p>	The council published a financial forecast for	Executive Director of	February 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Budget reductions will continue to be required over the next few years. Risk - Tighter financial settlements will impact on council's ability to achieve their financial and corporate plans.	2012-13 in June 2010 setting out a spending gap of £48.7 million against which savings of £42.7 million have already been approved. This will be re-assessed once the council has received details of its settlement expected in early December.	Financial Services	