Glasgow City Council

Report to Members on the 2005/06 Audit

Contents

Key messages

Introduction

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

Key outcomes from 2005/06 audit

We have given an unqualified opinion on the financial statements of Glasgow City Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.

The council had corporate governance systems in place during 2005/06 that operated well within a sound control environment. During 2005/06, the council approved an overpayment policy and strategy and a counter fraud and sanctions policy and strategy. The council's response to data matches identified during the *National Fraud Initiative* has been positive with over £1.7 million of housing and council tax benefits overpayments and savings being identified. The council needs to ensure that it uses the opportunities presented by the *National Fraud Initiative* on an ongoing basis to assist in the detection of fraud.

The council has made steady progress against the improvement actions agreed as a result of its best value audit reported in January 2006.

During 2005/06, the council paid £37 million and provided for further costs of £23 million for equal pay settlement claims. Due to these costs, the balance on the general fund as at 31 March 2006 reduced to £4.6 million. This level of general fund reserves is significantly below the level of reserves considered as prudent by members. The council has revised its budgeted 2006/07 spending plans to permit it to restore general fund balances by £10 million. Although significant progress has been made in addressing the equal pay issue within the council, the council has recognised that additional costs may still be incurred. If these further costs arise it will place additional pressures on future council finances.

Continued development of performance management arrangements is required. Performance information available to elected members and management in 2005/06 requires to be refined to ensure that there is a clear link between financial inputs, operational outputs and strategic objectives. The council has developed revised key performance indicators in a number of important policy areas in order to drive up performance and to monitor progress.

The statutory performance indicators (SPIs) showed a mixed year on year performance. Improved performance has been noted in the time required for householder planning applications, accommodation standards in care facilities and reaction time to noise complaints. Performance has however deteriorated in aspects of homeless assessment, benefit assessment times and absence rates for council staff. The council has made significant improvements in the arrangements it has for collating SPI data.

The council are currently undertaking a workforce pay and benefits review to ensure compliance with equal pay legislation and remains committed to implement the single status agreement. The council anticipate that the review will take three years to implement fully, with overall additional costs estimated at around 6.4 per cent of the pay bill.

Outlook for future audits

In order to meet its key policy aims of council tax stability while delivering high quality services to the public the council faces significant financial pressures over the next year. It will be essential that revenue budgets are reviewed regularly for potential overspends and that exposure to financial risks is minimised. The substantial planned capital investment in projects such as the pre-12 schools strategy, the River Clyde regeneration and Clyde Gateway schemes will also require careful project management. It will be important to ensure that adequate capital receipts are generated to fund the council's planned capital programme while also generating the operational efficiencies anticipated from the council's efficient government programme.

Work is continuing on the introduction of a more systematic performance management system, with key performance indicators being revised and developed to address the council's refocusing of its strategic objectives. As well as underpinning performance improvement, an effective system is an essential tool to support decision making, if the council is to be clear on the extent to which potential savings will impact on the level and quality of service provided.

A key finding in the council's best value report was that work was required to ensure that existing operational and strategic plans reflected the council's refocus on social renewal issues. Revised guidance to service departments on this aspect has been prepared and it will be important that this refocus is actually reflected in the plans produced.

Continued efforts are required to minimise homelessness levels by creating more effective liaison arrangements with registered social landlords. This should help to address those difficulties being experienced in obtaining a sufficient number of offers of permanent accommodation.

Good progress has been made by the council in its response to the government's efficient government initiative with anticipated savings exceeding expectations. However, work is still required to allow the council to clearly demonstrate that efficiency savings have not adversely affected service delivery. In addition, more work is required to ensure that all the anticipated benefits from revised asset management system are realised. Progress in engaging with the community has been achieved with the creation of local community planning partnerships although delays in establishing local development hubs are currently being encountered.

The recent focus of the council has been on equal pay and single status. While there has been notable progress in some aspects of workforce management, it needs to continue its work on reducing staff absence levels through ensuring that the council's absence management policy and procedures are consistently applied across all service departments. This is currently being addressed through the corporate absence management team.

Changes to the code of practice on local authority accounting (ACOP) will have a significant impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

This is the final year of our current appointment to the audit of the council. From 2006/07 Audit Scotland will remain as the council's appointed auditor and the new engagement lead will be Fiona Kordiak.

Audit Scotland
October 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of Glasgow City Council. The scope of the audit was set out in our audit risk analysis and plan, which was submitted to the audit and ethics committee on 20 April 2006. This plan set out our views on the key business risks facing the council and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them. Monitoring of these risk areas and the agreed action should be consolidated with the council's best value improvement plan where appropriate.

Performance

Introduction

3. In this section we summarise key aspects of the council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit which was reported to the council in January 2006 and the progress made to date in implementing associated agreed improvement actions. The findings of national performance audit studies as they affected Glasgow are also noted.

Corporate objectives and priorities

4. The current council plan covers the period 2003 — 2007 and has five main objectives, namely:

   - to provide accessible, accountable council services that are effective and offer value for money;
   - to create a cleaner, safer city and a sustainable environment;
   - to promote social inclusion and tackle poverty and improve health and well being;
   - to sustain the physical, social economic, cultural and environmental regeneration of Glasgow; and
   - to develop Glasgow's metropolitan role, quality of life, heritage and services.

5. The plan also set out 111 detailed commitments across these objectives and contained details of how the council planned to achieve them. In June 2006, the council published a supplement to the council plan which acknowledged what progress had been made across its corporate commitments and detailed how the council planned to refocus its strategic priorities for the last year of the current administration. The council reported that around half of current commitments had been achieved and that it had been successful in meeting a number of recurring targets such as maintaining council tax stability. The council however recognised that four key commitments had not yet been delivered. These are associated with the following planned actions:

   - improving education attainment;
   - completing the M74;
   - making planned improvements to the Clyde Tunnel; and
   - meeting national recycling targets.

Overview of performance in 2005/06

Best value audit

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

7. The council received a best value audit in 2005, with the report published in January 2006. The audit concluded overall that:

> *The council's context, presents some significant and complex social and economic challenges and that the council's performance, in delivering some key services to the most vulnerable groups within the communities it serves, still needs to improve.*
>
> *However, in recent years the council has put in place a number of arrangements to support continuous improvement. Elected members and senior officers have sustained a focus on what matters and have delivered visible improvements in the city, underpinned by strong leadership. The council still has a lot to do and has not yet realised the benefits of all of its investment in performance, but it is clear that it is committed to continuous improvement. In doing this the council needs to further consider how it supports and manages its staff, who are critical to the delivery of its ambitions.*

8. The council has developed an improvement plan in response to the issues raised by the audit. The council has instituted arrangements to monitor progress regularly against this plan. To date, the council continues to make progress against the improvement actions agreed. Comments on certain aspects of the progress made on specific improvement actions are reported alongside other findings elsewhere in this report.

Annual report

9. The chief executive provided his annual report for 2005/06 to the council in June 2006. The report highlighted the council's most important achievements of the previous year, outlined progress with ongoing major areas of work and identified issues to be addressed in 2006/07. Service performance improvements highlighted included:

   - the announcement of a *Pathfinder* initiative that will bring together staff from various agencies within the city so that they can deliver a more joined up service for the people of Glasgow;
   - a review of the decision making process moving from the traditional committee based system to an executive style model;

- the formation of a corporate procurement unit during 2005/06 to improve procurement arrangements and deliver cost savings for the council, with savings of £5.2 million already achieved;
- a 65 per cent reduction in child road accident casualties and a 58 per cent reduction for all road accident casualties;
- an increase in community use of secondary schools with attendance at the city's ten community clubs from 63,577 to 122,524, representing an increase of 93 per cent;
- the provision of free fruit to all nursery and school pupils aged 2-12 through the '*Fruit Plus'* initiative has continued with over 9 million pieces of fruit being provided to 49,465 pupils;
- an increased use of the council's redeveloped website with an increase of 250 per cent from 2004 levels to 468,000;
- development of the council's access centre (call centre), with contact for ten additional services becoming available; and
- the recycling of 29,003 tonnes of domestic and commercial waste, giving a recycling rate of 15.73 per cent. Whilst this was below the Scottish authority average in 2004/05, it was 12,000 tonnes above the council's own target.

10. The council uses a range of initiatives linked with performance review and improvement within the service departments. All services produce their own annual budget and service plans, and annual performance reports which are linked to the council plan. All the corporate objectives are embedded within the service plans. The council has also focused on the development and implementation of their corporate performance reporting template to assist service departments to summarise the key areas of performance. Areas of under performance are challenged by the chief executive using the corporate issues report. This examines progress on projects linked to the achievement of each of the council's five corporate themes. Performance is also challenged using a performance report with a range of performance information on services which includes statutory performance indicators, local performance indicators and measures of improved performance (MIPS).

Statutory performance indicators

11. In addition to the council's own key performance indicators, which are reported as part of the annual reporting mechanism, the council has an obligation to report performance as measured by statutory performance indicators (SPIs). Over recent years, the council's ranking against the performance of other authorities has been mixed, with 23 per cent of indicators each falling within the top eight and bottom eight performing councils. Comparative information in respect of other authorities for 2005/06 is not yet available. During 2005/06, there is some year on year improvement in service levels although certain measures of performance have also deteriorated. The council has, however,

addressed past concerns over the accuracy of reporting, resulting in a much reduced level of unreliable indicators from five in 2004/05 to one this year. There is the firm expectation that the data collection problems associated with that indicator (usage of learning terminals in libraries) will be resolved for 2006/07. The council are unable to provide data associated with one new SPI: reporting performance on community care assessments.

12. Significant improvements in performance have been achieved in the following SPIs:

- the percentage of planning applications from householders dealt with within two months;
- the percentage of single rooms in residential care with en-suite facilities; and
- the time taken to take action on noise complaints.

13. However, the following adverse movements in performance are worthy of comment:

- the percentage of cases reassessed as homeless or potentially homeless within 12 months of previous assessment;
- the average time taken to process new and amended claims for benefits; and
- the sickness absence rates for council employees, in particular, teachers.

14. The government has set targets for the average time that should be taken for processing new and amended housing and council tax benefit claims (36 days and 9 days respectively). As the council's performance during 2005/06 for these targets was 38.3 days and 18.1 days respectively, performance fell outside national targets and should be a matter of concern. The increased time required to process new claims is attributed to service changes associated with the introduction of the verification framework, which requires additional individual case reviews and staffing pressures. The increase in processing time for change of circumstances cases can be explained by a change to definitions which has increased the overall number of cases significantly.

15. In line with the council's best value improvement plan, a performance improvement working group, chaired by the chief executive has recently been established with representation from the Improvement Service. This working group has the responsibility to review overall SPI performance and identify improvement actions.

Performance outlook – opportunities and risks

Introduction

16. In our audit risk analysis and plan we identified some of the strategic risks to the council delivering on its stated objectives and priorities. These risks were grouped into eight areas which will drive and support service delivery in an efficient and effective manner.

Affordability

17. The financial pressures on the council at present are significant. Revenue budgets have been constrained to meet the demands of equal pay and single status developments, while the size of the council's capital programme is at historically high levels. The council therefore needs to manage the risk of generating sufficient resources to maintain performance improvement while meeting new demands for its services. It will also be a considerable challenge for the council to ensure that planned efficiency gains from projects such as e-procurement, are realised and that there is clarity in defining efficiency gains separately from any re-prioritisation of budgets.

18. The council has kept a close watch on revenue and capital expenditure trends in the current year. Due to continuing pressures on service expenditure levels, mainly attributable to higher than expected redundancy, energy and transport costs the council reconfigured revenue budgets in August 2006 in order to reduce planned departmental expenditure by £9 million during 2006/07. The council has also reviewed and increased certain charges, which together with increases in specific government grant, has increased service department income levels by 11% since 2004/05.

19. The council has also responded positively to the necessity to identify and realise efficiency savings, both in terms of cash and time releasing initiatives as part of its response to the efficient government initiative. During 2005/06, the council has claimed that without reducing the quality of service provided, various projects will have reduced cash costs by around £9 million while an additional £1.6 million of time releasing savings will have been generated. The most significant projects which contribute to these totals are associated with redesigning administrative functions such as the creation of the shared service centre and the promotion of purchasing supplies and services via the council's new e-procurement system. Plans have been established to try and increase cash and time related savings by a further £18 million during 2006/07.

20. The *Efficient Government Plan* set by ministers established national targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive has not notified councils of the efficiency savings they should achieve each year the Scottish Executive anticipate that Glasgow City Council's three year contribution to the top-sliced element of the £325 million (i.e. £168.3 million) will be £10.490 million. The council plan to make a £23.6 million contribution to the national savings target of £80 million for revised procurement practices.

21. It will be important for the council that planned efficiencies are realised in order that the associated reduction in government support due to assumed efficiencies indicated by the Scottish Executive, are fully compensated for.

22. Three additional aspects of the council's response to the efficient government initiative merit mention. Further efficiencies are likely through better co-ordination between local authorities and others in providing shared services and sharing business processes. During 2006, the council was nominated as one of two pathfinder authorities charged with developing models of best practice and draw out the potential for, and encourage the formation of, shared service arrangements. We will monitor the progress of this project with interest. The council are also participating with other local authorities in a joint venture designed to accelerate the release of potential savings from e-procurement. The council's contribution to this project, which is likely to be the subject of a bid for funding from the efficient government fund , comprises staff and accommodation.

23. The monitoring arrangements for the efficient government initiative have been subject to various changes during the year. Following the introduction of revised decision making arrangements, the council's executive committee has regular monitoring responsibility for efficient government projects while responsibility for the general review of the council's efficient government programme has been given to the audit and ethics committee.

Action Plan Point 1

Performance management

24. During 2005/06, the council planned to reinforce the significant improvements made in reporting performance over recent years. One key focus of this work is to ensure that reporting mechanisms are based on more effective, outcome focused and measurable impacts. Such measures will help the council to drive up service performance generally and in high priority policy areas in particular.

25. To address these issues, the council has revised a number of key performance targets covering such areas as:

- educational attainment;
- support for those leaving the criminal justice system;
- children subject to a supervision order; and
- recycling and street cleanliness.

26. The council has also recognised that more work is required to ensure that management systems report a clear link between financial inputs and operational outputs, in both qualitative and quantitative terms. Work is currently underway to improve the standard of performance management information, possibly through the creation of an executive dashboard for monitoring and reporting on key performance indicators, which in turn, should be clearly linked to the strategic objectives of the council. In addition, we understand that the Improvement Service has commissioned an external

partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils' to assist their forward planning and aid them in demonstrating their efficiency gains for the financial year 2006/07. These activities address recommendations in the best value report and will attract continuing audit interest.

Social renewal

27. The council has refocused its policy agenda to build on its recent achievements in the physical regeneration of the city. It aims to deliver sustainable social renewal while maintaining economic growth which will enhance job opportunities across the city. Success in addressing the council's objectives will be influenced by the effectiveness of working relationships with community partners as represented through such forums as the community health and social care partnerships, regional, city wide and local planning partnerships.

28. A key finding in the best value report was that existing strategic and operational plans should be revised to reflect the council's social renewal agenda. To address this, the council has revised budget and service planning guidance to reflect this priority. The council is also in the process of conducting a social renewal audit of worklessness and has approved a new strategy for vocational training for young people. Action plans that have been devised establish detailed recommendations with appropriate timescales.

29. The council has been developing effective community engagement mechanisms to meet the needs of both the council and its partners within the new community planning framework. The local community planning partnerships are now meeting, although delays are currently being experienced in establishing local development and equality hubs. All hubs are expected to be operational by January 2007. Community health and social care partnerships commenced operation in April 2006.

Workforce planning

30. People play the key role in the delivery of high performing services and it is important for the council to have people with the right skills, in the right place, at the right time. The introduction of personal development systems, reducing absence management rates and developing the multi-tasking initiative also represent challenges for the council.

31. The council is currently undergoing a workforce pay and benefit review in order to comply with equal pay legislation and to ensure that men and women doing similar jobs receive the same remuneration. All staff have received the following guarantees from the council as part of the process;

    - there will be no job losses as a result of this;
    - there will be no wage freeze to fund this deal; and
    - no member of staff will lose any regular 'take home' pay.

32. The estimated position for the council is that there will be an increase in the council's overall pay bill of around 6.4 per cent. The impact on individual staff from the pay and benefit review will vary, with the council putting in place pay protection measures to mitigate the impact on those staff who will suffer a decrease in pay.

33. In December 2005, compensation payments were offered to approximately 11,000 employees determined as eligible for equal pay claims. The acceptance rate was 88 per cent. Since December, a further number of employees have accepted compensation payments, increasing the acceptance rate to approximately 90 per cent. Leavers from the council who had eligible claims were also made offers of compensation which were paid in March 2006. This resulted in a total payment of approximately £37 million in the year to 31 March 2006. A number of employees however, did not accept compensation payments and are pursuing retrospective payments via the employment tribunal system.

34. A corporate absence management team (CAMT) was established in 2005 following a decision from the corporate management team. The CAMT took up position in social work services (SWS), with a remit of supporting and assisting SWS in reducing absence levels through the consistent application of the council's absence management policy and procedures. It is the intention that the CAMT will move across various services with priority areas having been identified. The main areas are SWS and education services, which represent 55% of the workforce and have increasing levels of absence, so having a significant impact overall on the council's absence performance.

Action Plan Point 2

Homelessness

35. The council has anticipated an increasing number of homeless people in the city. Following the transfer of the council's housing stock to the Glasgow Housing Association (GHA), the main mechanism available to it is an effective working partnership with GHA and other social landlords. It is vital that development and investment activity of registered social landlords (RSLs) is consistent with the level of housing provision anticipated as being required by the council. The council established a homeless protocol with GHA and other RSL partners to deliver on the statutory duty to provide accommodation.

36. The number of cases assessed as unintentionally homeless and in priority need increased from 7,180 cases in 2004/05 to 7,235 in 2005/06. Provision of accommodation to these people remains a sensitive issue and some difficulties are being encountered in obtaining permanent placements for individuals. The potentially conflicting aims of both the council and RSLs (providing accommodation for the homeless and the importance of maintaining a balanced community) can complicate matters.

The homelessness duty protocol is the primary vehicle to relieve tensions, and is currently being reviewed by the council.

Action Plan Point 3

37. The council has also extended the *National Asylum Support Service* contract for a further 5 years, placing further strain on already limited resources, particularly in the provision of larger sized accommodation. The council has agreed that future development, funded through the housing development fund, will incorporate an increase in the provision of larger accommodation.

38. The council has agreed a development strategy incorporating a programme of new builds in the rented sector by partners. The council has established close monitoring arrangements with these partners, with current targets being met. Progress is reported regularly to the housing policy development and scrutiny committee.

Decision making and voting arrangements

39. Elected members play a critical role in representing the views of the electorate and in ensuring that the council responds to those views. In the changing local government environment, including the introduction of multi-member wards and proportional representation for the 2007 council elections, the council has taken various measures designed to revise its own decision making mechanisms and to ensure the smooth introduction of the new voting system for local authority elections, including the electronic counting of votes for the first time.

40. Scottish ministers and the secretary of state for Scotland have approved the adoption of a single transferable voting system (stv) for the May 2007 local authority elections, elections that will be held at the same time as those for the Scottish Parliament. The stv voting system involves the electorate in declaring a series of voting preferences and as such is more complex than the first past the post system. A substantial time delay could therefore arise before results are declared. With this in mind, Scottish ministers have approved the adoption of the electronic counting of ballots and the council has been involved in the testing of the hardware and software involved in the process. Although the council are still to acquire the equipment required for the returning officer, staff training is about to commence. It is important that all equipment is acquired and tested, and staff training is completed prior to May 2007 and that adequate technical support is on call to address any unforeseen technical problems on election night.

Action Plan Point 4

41. Given the changes to the number and composition of wards, together with the introduction of a proportional voting system, the council anticipates that there will be an increase in the number of new members after the election. The council intends to offer a similar degree of induction training as was provided in 2003, updated as appropriate, together with a dedicated internet site for members with relevant guidance.

42. As indicated in the council's best value improvement agenda, the council has reviewed its political and managerial structures to ensure that they reflect and support the achievement of the council's ambitions and maximise efficiencies. In March 2006, the council approved the adoption of an executive and policy development and scrutiny system comprising an executive committee, ten policy development and scrutiny committees and fourteen other committees. This new system, with revised schemes of delegations was approved in May 2006 and became operational from August.

Asset management

43. In November 2005, the council approved a strategy for asset management planning which will, when fully implemented, help improve council decision making on asset maintenance and use. It will be important for the council to ensure that this project is completed on time and that proper use is made of the management information it will provide. Major developments, such as the Clyde Waterfront project, together with the council's own major capital projects require to be carefully monitored to minimise the risk of project over-runs and delays. Key to this will be the operation of the new capital monitoring regime which was instituted during 2005/06.

44. Developing modern infrastructure is essential for supporting the delivery of improved services. While progress has been made in relation to the secondary schools PPP project and housing stock transfer arrangements, the council has not fully developed its asset management process which should ensure that all the council's assets are used effectively and efficiently to deliver services in line with the council's priorities.

Best value

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

46. As mentioned in paragraph 7 above, a best value audit was carried out in 2005 and reported to the council in January 2006. The progress made in implementing the more detailed action points underpinning the council's improvement agenda, along with reporting on progress made on those core

issues identified by the council itself, has been regularly monitored by the council's corporate management team. Good progress has been made in implementing all planned initiatives with no significant delays against anticipated completion dates.

National studies

47. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year include reviews of public sector pension schemes and the National Fraud Initiative as summarised elsewhere in this document. Other reports published during the year and of direct interest to the council are set out below. Further information on these studies and reports can be obtained from Audit Scotland's website at www.audit-scotland.gov.uk.

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

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

Council housing transfers

49. In March 2006 Audit Scotland published the results of a review of how well the Scottish Executive's housing transfer policy has been implemented and whether transfers have provided good value for money. In the national context, the report found that the transfer of council housing ownership is bringing benefits for tenants, including more investment in properties, promoting tenant control, facilitating increased repairs and maintenance and the building of new homes, and keeping rent increases down. The report also found that the management of transfers is improving but better, clearer measures are needed to assess impact and value for money. The report recommends that the Scottish Executive should reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers.

50. In the case of the transfer of housing stock from Glasgow City Council to the GHA, the report noted that the Scottish Executive is committed to providing, up to 2013, more than £1 billion in grants and subsidies, both directly to the housing association, and in connection with associated spending programmes such as development funding for social housing in Glasgow. The report noted however

that although individual components of this major investment programme are subject to appraisal, there is no arrangement for publicly reporting on its overall impact and effectiveness. The council may want to consider how it meets its responsibility for reporting in this area as part of its performance reporting.

Following the public pound – a follow-up report

51. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.

52. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations, although only five councils had a low level of compliance. Glasgow City Council was included in the highest category of compliance and therefore faces a relatively small gap to achieve full compliance.

53. There is scope for councils to improve their financial and performance monitoring. Councils should apply a risk-based approach taking account of factors such as the amounts of money involved, the size of organisations funded and how they are managed. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils.

Community planning – an initial review

54. In June 2006, Audit Scotland published its initial review of community planning arrangements. This found that community planning is progressing but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular the large number of national policy initiatives, each with their own funding arrangements can make it difficult for partnerships to plan and deliver effectively. The council has used the evaluation framework showing the characteristics of community planning partnerships, which is contained within the report, as a checklist for its own progress in community planning.

Financial position

Introduction

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

Council tax and the general fund

Revenue performance 2005/06

56. The council's net revenue expenditure in 2005/06 was £1,281.790 million, after contributions of £23.6 million to the capital financing account and contributions from specific funds of £42.9 million. This was met by government grants and local taxation of £1,257.466 million resulting in a net general fund deficit of £24.3 million.

57. The budget set for 2005/06 was based on a Band D council tax level of £1,213 which required the budgeted use of £7.5 million of uncommitted general fund reserve as at 31 March 2005.

58. The foreword by the director of financial services highlights that during the course of 2005/06 the council committed itself to addressing equal pay issues within the council. Compensation payments were made totalling £37 million and a provision of £23.4 million was made for all tax and national insurance liabilities, and for the settlement of outstanding claims. In order to fund payments from the budget set, the council utilised £18 million from the repairs and renewals fund and £2 million from the cultural and recreational fund to fund other elements of the budget, and applied £13 million of the general fund balance, as well as successfully securing efficiency savings in the year.

Reserves and balances

59. At 31 March 2006, the council had total cash backed reserves and funds of £199.6 million. In addition to the general fund, the council has statutory powers to hold repair and renewal, insurance and capital funds, and a cultural and recreational fund under a local act.

Table 1

General Fund and Reserve Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	4.594	28.918
Repair and Renewal Funds	18.896	39.932
Cultural and Recreational Fund	3.716	10.565
Insurance Fund	21.691	26.014
Capital Funds	150.663	125.355
	199.560	**230.784**

60. The use of balances to fund equal pay issues is discussed earlier. However additional points are noted in respect of reserves and balances.

61. The total movement in the year on the cultural and recreational fund is a net reduction of £6.8 million, comprising expenditure of £8 million and income of £1.2 million. We have been informed that expenditure comprises largely £2 million to release general fund balances to contribute towards the costs of equal pay, £0.7 million in respect of museums and acquisitions, £1.4 million in respect of the Glasgow 2014 Commonwealth Games bid preparation and £3.9 million in respect of a variety of other events. Income comprises largely £0.5 million temporary interest from investment in the council's loans fund and £0.7million from EventScotland in respect of a contribution towards the Glasgow 2014 Commonwealth Games bid preparation.

62. The capital fund consists of two elements, these being the investment programme (to fund capital investment projects) £146.7 million and new technology (to fund new technology projects) £4.0 million.

63. As noted above, the council has a balance of £147 million in its capital fund which was established to provide resources for tackling investment priorities for the council, including the pre-12 strategy and other major infrastructure and regeneration projects such as the M74 completion, and River Clyde regeneration. During the year some £34 million of capital receipts from asset sales was added to the fund and £5.4 million from investment income.

64. During 2005/06, members agreed a formal policy governing the use and level of reserves. Supporting protocols also outlined the key management and control arrangements governing reserves. The council's policy recognises that due recognition must be paid to such factors as the strategic, operational and financial risks facing the council at any one time although it is considered prudent that general reserves should be held at a level of 2 per cent of net expenditure (£25.6 million as at 31 March 2006) over the medium term. The need to fund equal pay compensation packages has

reduced the general fund to £4.6 million, a level substantially below that recognised as prudent by members. At this time, we understand that the council plan to restore the level of balances over the medium term and this has been taken account of in budget forecast models.

Group balances and going concern

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

66. The council has a controlling interest in five subsidiary companies as well as an interest in a number of the joint boards and committees which it has disclosed as associates. In its 2005/06 financial statements, the council is required for the first time to consolidate the financial results of these entities. Three joint boards (Strathclyde Police Joint Board; Strathclyde Fire and Rescue Joint Board and Strathclyde Passenger Transport Authority) had an excess of liabilities over assets at 31 March 2006. In the case of the police, and fire and rescue joint boards this relates to the substantial pension liabilities from their unfunded pension schemes, For the Strathclyde Passenger Transport Authority, the net liability arises mainly from the long-term borrowing required to fund new investment in rail and other passenger transport facilities.

67. The overall effect of inclusion of the council's subsidiaries and associates on the group balance sheet is to reduce reserves and net assets by £1, 399 million, giving a negative new worth of £1,112 million. All group associates have prepared their accounts on a going concern basis. As the director of financial services has said in her financial review, the pension liabilities which fall due in future years will be financed by increased annual pension contributions, in line with statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the joint boards. Similarly, arrangements are in place between the Scottish Executive, constituent authorities and the Strathclyde Passenger Transport Authority. Under these circumstances, we are content that the financial statements have been prepared on a going concern basis.

Spending on assets and long-term borrowing

Capital performance 2005/06

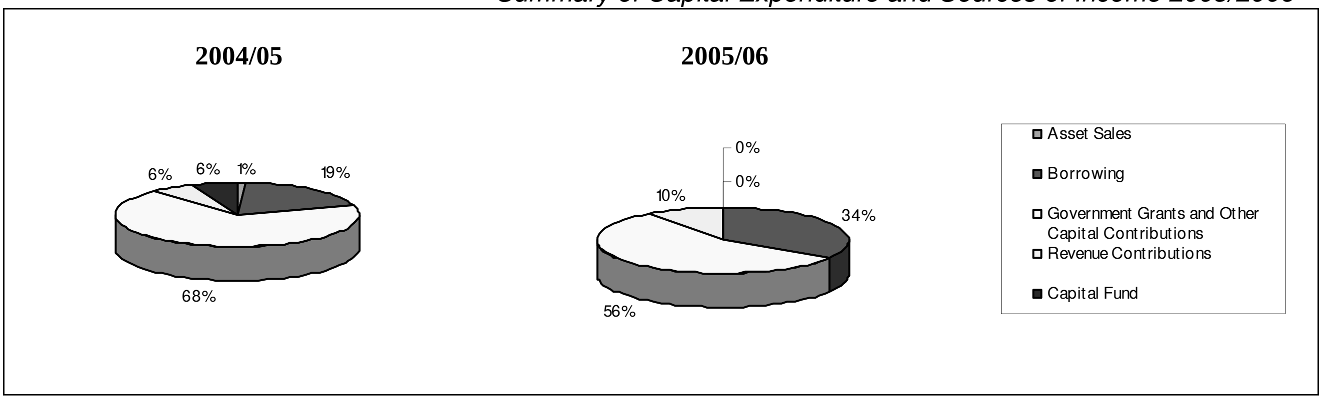
68. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. A report was taken to the financial services committee in February 2005 which noted the new three year spending review 2005-06 to 2007-08. It was proposed that, to maintain the council's existing policy,

the cost of any borrowing in support of capital investment above the level assumed for loan charge grant support in the local government finance settlement must be met by either additional revenue or efficiency savings. Furthermore, the council's prudential indicators for 2005/06 were set, envisaging capital expenditure for 2005-06 at an upper limit of £383 million and a lower limit of £345 million.

69. Capital expenditure in 2005/06 totalled £150.7 million, reducing from £242.1 million in 2004/05. The level of capital expenditure at £150.7 million was much reduced when compared to the prudential indicators, due to two major factors. Expenditure of £117 million, initially included as capital expenditure, mainly for housing development grant payments, was transferred to revenue at the year end in order to comply with proper accounting classifications. Secondly, there was slippage in the capital programme which is outlined at paragraph 73.

70. Capital investment in the last two years was funded as shown below in chart 1. The amount of capital expenditure funded through borrowing for 2005/06 was £51.1 million whereas the actual level of debt rose by £176.7 million. The reasons for the additional borrowing, over and above that to fund a proportion of the capital expenditure, were twofold. The council took a decision to transfer the funds held by the capital fund from the council's loans fund to be invested in trustee securities under an external fund manager from 1st April 2005. The sum involved was £100 million and, to aid cash flow, £100 million was raised from borrowing. Additionally £25 million was borrowed, at low interest rates, in advance of immediate requirements to support the 2006/07 capital programme, because of the advantageous interest rates available.

Chart 1
Summary of Capital Expenditure and Sources of Income 2005/2006



71. As outlined at paragraph 68, the council's policy is that the cost of any borrowing in support of capital investment above the level assumed for loan charge grant support in the local government finance settlement must be met by either additional revenue or efficiency savings therefore there is no additional impact on council tax. This approach is consistent with the council's objective of council tax stability.

72. The council has actively managed its exposure to variable interest rate movements with some 33 per cent of the council's overall long term borrowing exposed to variable rate risk which is below its prudential maximum exposure of 40 per cent.

73. There was slippage in the capital programme in 2005-06, notable schemes affected being: primary pilot/pre12 strategy (£38 million), the Whitecart water project (£10 million), and the River Clyde regeneration (£6 million).

Forward capital programme

74. A report on the prudential code was taken to the financial services committee in February 2006 which noted the current gross expenditure capital programme amounts to £885 million. The report outlines the indicators for the period 2006/07 and 2008/09, and anticipates 2006/07 estimated capital expenditure at an upper limit of £280 million and a lower limit of £250 million.

Significant trading operations

75. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three year rolling period. The first three year period ended in 2005/06.

76. During the year, following a best value review, the council reconfigured its trading operations to create four new trading operations, for which 2005/06 was the first year of operation (building GHA maintenance; building GCC maintenance, care and community services and facilities services). Seven trading operations were, therefore, subject to the three year break even target. Three of these operations had three year losses as follows:

- grounds maintenance £1.105 million;
- leisure management £0.723 million; and
- building — new construction over £50,000 £0.017 million

These three trading operations, therefore, did not satisfy the statutory requirement. The building — new construction over £50,000 operation did not achieve the statutory requirement because of the impact of FRS 17 adjustments. The other two did not achieve the requirement as a result of FRS 17 adjustments and the impact of past service costs and equal pay.

77. In October 2006, the council decided to create an arms length company with limited liability to undertake the functions of building services.

Action Plan Point 5

Pension funds

78. Glasgow City Council is the administering authority for the Strathclyde Pension Fund (SPF). The net assets of the two funds that make up the SPF at 31 March 2006 totalled just under £9.065 billion. The funds are administered on behalf of a number of councils and other bodies, whose employees are members of the fund.

79. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. *Financial Reporting Standard 17 (Retirement benefits*) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This involves substituting the actual payments made during the year to the pension fund by the individual council for its employer contributions, with an estimate of the amount the council would be liable for if it had to pay out pension's benefits arising from employee service in the current period. However, a further accounting adjustment is made in the consolidated revenue account so there is no impact on the level of council tax set by the council.

80. The consolidated balance sheet highlights that the council's estimated pension liabilities at 31 March 2006 exceeded its share of assets in the pension fund by £615 million. The movement from a liability of £638 million at 31 March 2005 is as a result of the latest triennial actuarial valuation. This valuation more accurately reflects the prevailing investment market conditions and also takes into account the data cleansing exercise undertaken by the administering authority which provides more accurate data on which to base the current valuation. Although the council's contributions will continue to increase from 260 per cent of employees' contributions in 2006/07 to 270 per cent in 2007/08 and 280 per cent in 2008/09, they are less than was originally anticipated. These contributions will be funded through the consolidated revenue account. The next full valuation of the pension fund will be at 31 March 2008.

81. The council, as the administering authority for the SPF, employs external fund managers to manage investment assets. Over the year, net assets of the fund increased on a market value basis by approximately £1.982 billion to total just over £9 billion. As at 31 March 2005, the actuarial valuation showed a funding level of 97 per cent, however a recent inter-valuation report as at 18 May 2006 recorded a projected funding position of 100.4 per cent.

82. The council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Strathclyde Police, and Fire and Rescue Boards, and the Strathclyde Passenger Executive through funding to the Strathclyde Passenger Transport Authority. These bodies had an excess of pension liabilities over assets at 31 March 2006, and these liabilities will be paid by the council as they come due.

Financial outlook

Current budget

83. The 2006/07 budget was based on a Band D council tax level of £1,213 which is the same level as set in 2005/06. The budget provides for £10 million to begin restoring balances to a level equivalent to 2% of net expenditure, the level deemed appropriate by members over the medium term.

84. The budget and service plan strategy for the period 2005 to 2008 reflects the council's key priorities of education, social renewal and regeneration, council tax stability, the pursuit of continuous improvement and best value in the delivery of services, and continued achievement of efficiency savings. In addition, the council has sought to address the equal pay issue affecting a significant number of staff.

85. It is noted that in addition to the traditional detailed budget presentation, a new format has been devised on a thematic basis to provide members with a more strategic and focussed presentation of the proposals, analysing savings options over four key categories, namely efficient government, income generation, re-prioritisation of services and service reconfigurations. Budget pressures, service improvements and developments met from efficiency savings and service improvement and growth are shown as service investment.

86. The financial year 2006/07 represents the second year of the Scottish Executive's three year grant settlement 2005-2008. In 2006/07 Glasgow will receive total central government grant of £1,188.663 million. This represents an increase of £50.3 million on the council's original estimate for 2005/06.

87. In setting its budget for 2006/07, the council is required to provide indicative council tax levels for 2007/08. The council has previously given a commitment that council tax increases would be no higher than 4% per annum. It will be essential that revenue budgets are reviewed regularly for potential overspends and that exposure to financial risks are minimised.

Action Plan Point 6

Equal pay

88. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. The council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package.

89. The financial statements include an equal pay provision of £23.4 million. This is made up of £10.4 million for tax and NIC (which was paid post year end) and £13 million in respect of payments that may be made to employees who have taken their case to employment tribunal. The average compensation payment to staff that accepted the offer was £3,300.

90. In calculating the provision for settlements outside the council's compensation scheme, the council has taken legal advice on the likely outcome of employment tribunals, which could be up to four times the payments offered. At the year end there were approximately 1,300 employment tribunal cases. As there may be some uncertainty over the final outcome of these claims the council has also included a contingent liability to address this uncertainty.

91. While moves to agree compensation payments to affected employees has helped to reduce the financial risk in this area, significant risks remain, particularly while existing pay and reward structures remain in place. The implementation of the pay and benefits review will address any underlying inequalities in pay and other conditions of service.

Single status

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

93. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.

94. As noted above, the council is currently undergoing a workforce pay and benefits review in order to comply with equal pay legislation and to ensure that men and women doing similar jobs receive the same remuneration. The estimated position for the council as a whole is that there will be an increase on the council's overall pay bill of around 6.4 per cent.

95. Job families have been designed to group jobs together which share a similar purpose and have similar characteristics. In total 14 families have been developed and agreed for the council. Within each job family there will be a number of levels or 'role profiles'. Therefore, every current post in the council will be allocated a job family and a role profile. The council anticipate that the review will take three years to fully implement.

Governance

Introduction

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

Overview of arrangements in 2005/06

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

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

99. At a corporate level the council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, an anti fraud anti corruption strategy that includes the council's whistle blowing policy and clearly defined committee terms of reference.

100. The council's audit and ethics committee adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provides a sound contribution to the overall control environment. The council's audit and ethics committee meets in accordance with the regular cycle of committee meetings and takes reports from both internal and external audit. During the year, a number of presentations have been made to the committee by officers of the council.

101. With the recent change to the decision making arrangements within the council, the scrutiny of departmental business is now the responsibility of the newly formed policy development scrutiny committees. The effectiveness of the support arrangements for these new committees and other aspects of the revised structure are likely to be of audit interest in the future.

102. The council is wholly committed to the management of risks within its control. The council's 2005/06 risk management strategy sets out a considered, practical and systematic approach to addressing its many potential and actual risks. The strategy also promotes effective risk management throughout council departments. The focal point for promoting risk management is the operational risk

management forum which is designed to raise the awareness of managers and staff of their responsibilities for risk management in carrying out their duties. During 2005/06, the council appointed a risk manager who has the responsibility for further developing the council's risk management strategy as well as assisting the council and departments in its implementation. Risk registers have been created at departmental and corporate levels, and the audit and ethics committee have taken presentations from all service departments on how departments apply the principles of the policy in practice.

103. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements and found that the function continues to be well managed and operates to the highest standards. Due to recruitment difficulties and the pressures of work on internal audit arising from additional work on *1 Business*, performance indicators and work associated with the *National Fraud Initiative*, a total of 374 days of previously approved work was either deferred or cancelled from the 2005/06 programme of work. These audits were either deemed to be low risk or that assurance could be obtained by alternative means.

104. The 2006/07 internal audit plan was approved by the audit and ethics committee in March 2006. Although this plan reported a 300 day shortfall in resources, a recruitment exercise is anticipated to cover the gap.

Systems of internal control

105. In his annual report for 2005/06, the head of audit and inspection provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are generally sound.

106. Many of the recommendations made by internal audit in 2005/06 sought to improve existing guidance and procedures. In the view of the head of audit and inspection, grants to external bodies continue to provide the biggest challenge in governance terms, although a lot of work has recently been done to update procedures for the council's administration of grants.

107. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on both the payroll and procurement systems. Testing concluded that the key controls within these systems could be relied upon for audit purposes. Work was also carried out to ensure appropriate arrangements were in place to allow the council to properly identify their group accounting boundary, identify all significant trading operations and that benefits from electronic procurement systems are properly identified and valued. No significant weaknesses were identified from these reviews although it was accepted that the council still had some decisions to take

on the future of certain trading operations not yet classified as such (for example museum retailing and car parking).

108. Reliance was placed on internal audit in the areas of bank reconciliations and some supplies and equipment purchasing, as part of the final accounts process.

Prevention and detection of fraud and irregularities

109. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include a code of conduct for elected members and for staff, an anti-fraud and corruption policy and response plan and a whistle blowing policy.

110. During 2005/06, the council approved an overpayment policy and strategy and a counter-fraud and sanctions policy and strategy. The aim of the former is to minimise the occurrence of housing and council tax benefits overpayments, and when they do occur to recover them quickly using the most suitable and efficient recovery methods. The use of a new claim form and the introduction of the reviews module of the verification framework are seen as the primary method of minimising overpayments. Additionally, a formal feedback mechanism has been introduced to ensure errors identified through accuracy checks are communicated to staff and additional training is provided where appropriate.

111. The aim of the counter-fraud and sanctions policy is to prevent and detect housing and council tax benefit fraud through building defences into working practices, conducting high quality investigations when fraud is suspected and using all legal sanctions available, including prosecution when fraud is identified.

112. The council was subject to an inspection of its benefits service by the Benefit Fraud Inspectorate (BFI) during the summer of 2004, the findings of which were published in January 2005. In addition, the Department for Works and Pensions (DWP) introduced a new performance standards framework in April 2005 in respect of benefits service delivery. The council developed a benefits service delivery plan to meet the DWP standards over the next three years and also to address the BFI recommendations. The first year action plan included developing a policy and strategy for overpayments and counter-fraud. Accordingly, during the year, the council approved a housing and council tax benefits overpayments policy and strategy and a counter-fraud and sanctions policy.

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

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

114. The report highlighted that Glasgow City Council identified, or has ongoing, investigations into more than £1.7 million of housing benefit overpayments and savings. The council has also been proactive in piloting new NFI matches involving disabled parking badge-holders and care home residents that will be made available to councils throughout the UK in 2006/07.

115. The high volume of matches identified through the NFI resulted in a slow start in respect of payroll to benefit matches, however the council identified a team to examine and resolve such matches and so ensure that the counter-fraud section were able to concentrate on those cases where fraud was suspected.

116. The council has used the data from the NFI to supplement its own policies and actions to prevent overpayments of benefit and fraud. We note that a strategy meeting has been set for December 2006 to identify resources and a strategy for prioritisation in respect of data flowing from the 2006/07 NFI exercise for investigation in early 2007.

117. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The council needs to ensure that it continues to use the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

118. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06, the council identified 39 cases of 1st tier frauds where losses were in excess of £5,000, experiencing a total loss of £376,401. 2nd tier fraud where losses were between £2000 and £5000 was also identified, with losses totalling £2,700.

Governance outlook

119. Continuing development of risk management and general scrutiny arrangements will further strengthen the council's corporate governance arrangements. Consideration of the level of resource applied to the investigation of potential frauds will also ensure that the public purse is properly protected from fraud.

120. The key governance issue the council will face in 2007 is the review of the new decision making arrangements recently adopted by the council. We are aware that a review of how well the new arrangements have been implemented is planned early in the new year and this is welcomed. The review should also examine what impact the change in the number of working groups has had. Further reviews of the structure will be required after the May elections to ensure the decision making structure remains fit for purpose.

121. There has also been considerable interest in the press and elsewhere regarding council arrangements for free personal care. At present the council's information systems are not configured to record and report on the average time between referral, assessment and the start of delivery of community care services. While, there is no waiting list for clients to receive services following community care assessments this does not rule out the possibility of delay between request, assessment and delivery. In addition, due to the various methods by which this policy is delivered, those elements of the service that are classed as 'free personal care' are not separately identified within the overall budget for all home-based elderly care.

Financial statements

Introduction

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

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

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

124. We also review the statement on the system of internal financial control by:

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

Overall conclusion

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

126. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in paragraph 76 of this report, three trading organisations made an aggregate loss of £1.845 million in the three years to 31 March 2006, with the result that the council has failed to meet this statutory requirement.

127. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were of a good standard, including the papers to support the new requirement for group accounts, and this enabled the audit to progress smoothly.

128. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the council and publication. The financial statements are the means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

129. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). A number of accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. These adjustments had no net impact on the deficit reported for the year. Details of significant accounting issues arising in the course of our audit are summarised below.

Provision for equal pay

130. As noted above, the financial statements include an equal pay provision of £23.4 million in relation to equal pay compensatory payments to specific groups of employees. Under accounting rules these costs require to be recognised in full during 2005/06, based on the best estimate of final costs, because at the year-end the council has a present obligation as a result of a past event, a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

131. These costs have been recognised in the consolidated revenue account, establishing a liability on the consolidated balance sheet. In order to be able to fund these payments within the revenue budget, the council utilised £18 million from the repairs and renewals fund and £2 million from the cultural and recreational fund to finance revenue expenditure which would normally have been met from the general fund. An additional £13 million was absorbed by the general fund, as well as securing efficiencies in the year.

Group accounts

132. As noted at paragraph 65 above, the council prepared group accounts in accordance with the new requirements, following a review to determine its interest in subsidiaries, associated entities and joint ventures. The group accounts are primary accounting statements of the council. The process for obtaining financial and other information from group entities for consolidating purposes was well organised and the overall standard of accounts preparation work this year was highly commended.

133. The council achieved compliance with group accounting policies in accordance with the accounting code of practice for local government (ACOP), except in respect of some areas which are fully disclosed in the accounts and which mainly relate to the valuation of assets of the Strathclyde Passenger Transport Authority under the historic cost convention. For 2006/07, officials should take

care to ensure the compatibility of accounting policies across the group. This will avoid consolidating assets on different valuation bases

134. In 2006-07, the council should also seek information on any intangible assets, such as software licences, held by subsidiaries.

Action Plan Point 7

Debt restructuring costs

135. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal. As at 31 March 2006, the council had £395 million of LOBOs. The amount held within the consolidated balance sheet as at 31 March 2006 in respect of debt premium was £81.1 million, with £10.8 million relating to LOBOs which have resulted from restructuring Public Works Loan Board debt.

136. There is currently a debate over the appropriate accounting treatment of LOBOs, specifically whether the characteristics of a LOBO requires any premium arising to be recognised immediately rather than over the life of the replacement borrowing. The SORP states that, "gains or losses arising on the repurchase or early settlement of borrowing should be recognised in the consolidated revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses should be recognised over the life of the replacement borrowing."

137. The council provided its view as to why the overall economic effect of the original and replacement borrowing is substantially the same. This was considered, together with our own analysis of the materiality of charging the premiums over a shorter period than that used by the council, and accepted for the purposes of our audit opinion.

Building services work for Glasgow Housing Association (GHA)

138. Building services has various contracts with GHA covering maintenance, investment and other work. At 31 March 2006, the council recorded a stock and work in progress balance of £24.2 million of which £20 million related to the GHA contracts. On enquiry, approximately £10.6 million of completed work for investment and gas related work was awaiting GHA acceptance. Of this, £3.1 million represents claims over 60 days old and is reflected as debtors in the council's financial statements.

139. Under the payment terms set out under the contract for this work, GHA is required to settle within a period of up to 28 days. During the year, the council has had difficulty in gaining settlement of debt and should consider what steps it can take to improve the settlement history of GHA. This is of particular importance given the cash flow implications for the newly created arms length company for building services.

Action Plan Point 8

Housing benefit payments to GHA

140. Each month the council makes a direct payment to GHA in respect of housing benefits for tenants. During 2005/06, it was noted that between July and October 2005, a total of £0.4 million had been overpaid to GHA with no refund being made to the council. Officers advised me that GHA had deliberately withheld payment because they were in dispute with the council over an unrelated financial matter. By December 2005, the balance owed to the council had grown to £0.5 million and it was not until January 2006 that the overpayment was refunded to the council.

Action Plan Point 8

Council tax and non-domestic rates income (NDRI) debt

141. The council has adopted a policy of writing off council tax and NDRI debt over 5 years old. In 2005/06, £1.4 million (council tax) and £0.1 million (associated costs) was written off. No NDRI debt was written-off during the year. We note that the procedure adopted to write off these fully provided for debts is now on a case by case basis.

142. Collection rates for council tax and NDRI debt imposed during the year continues to improve. The performance indicator recording council tax recoveries improved from last years 85.6 per cent to 86.1 per cent of income due, while the NDRI indicator improved from 94.4 per cent to 94.8 per cent. However, write-offs of debts older than 12 months continue to rise which indicates that the council needs to carefully monitor the level of resources employed on all tax collection to ensure that sufficient resources and effort are expended to maximise the recovery of all debt, including those sums older than 12 months.

143. Efforts made by the council to reduce the value of credit balances on council tax and NDR continue to be effective. As at 31 March 2006, the value of council tax accounts in credit fell from £3.5 million to £1.8 million. The value of NDR accounts in credit also fell from £9.6 million to £2.2 million over the year.

Asset registers

144. During the account preparation process, it was discovered that a significant asset (the Clyde Auditorium) had not been recorded as an asset by the council. As the council has formal ownership of this property, this oversight was corrected and the asset was recognised in the 2005/06 financial statements. We understand that departmental asset registers had recorded the asset but the assumption had been made that it was in the formal ownership of the Scottish Exhibition Centre. This highlights the need for the council to continue to improve the information held on its asset register, in line with our recommendation made last year.

Unspent government grant income

145. The accounts include, as part of creditors, £3.3 million of grants advanced to the council by the SE for revenue purposes, but not spent by 31 March 2006. These grants are mainly ring fenced funds. It is my view that in accordance with proper and transparent accounting practice, these balances should be shown as part of the closing general fund balance and be ring fenced for use in 2006/07. The council has clear plans to spend the unspent grant. At the 31 March 2006, there was no requirement to return the money to the Scottish Executive as it had approved the carry forward of the funds to be spent in 2006/07, and some funds have been spent to date

146. This matter has been discussed with colleagues in Audit Scotland. Because the letters from the Scottish Executive on the carry forward of these balances are often open to interpretation in accounting terms, and because the accounting treatment of grants, in general, is being considered by technical authorities in the UK and elsewhere, this matter will be considered further in 2006/07, and a consistent approach agreed in all councils. I have not required that the accounts be changed for these grants this year.

Legality

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

148. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the council has taken steps to redress the position and has incurred significant costs within these financial statements. A contingent liability has also been recognised for any

unforeseen costs arising from this matter. Until the single status agreement is implemented, however, there remains the possibility that the council could be judged to have contravened the Act.

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

Financial reporting outlook

150. Overall the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting practice. Significant challenges ahead are summarised below.

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

- changes to the single entity statement of accounts which include the replacement of the consolidated revenue account with a traditional income and expenditure account; a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and the replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to the single entity statement of accounts.

152. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The council should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

Change of external auditor

153. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.

154. This is the final year of our current appointment to the audit of Glasgow City Council. From 2006/07 Audit Scotland will remain as the council's appointed auditor and the new engagement lead will be Fiona Kordiak. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.

Final remarks

155. The members of Glasgow City Council are invited to note this report. We would be pleased to provide any additional information that members may require.

156. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.   Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members. The risk areas and actions should be considered alongside the council's best value improvement plan.

157. This is the final year of a five year appointment. I would like to express this opportunity to express my appreciation for the assistance and co-operation provided by officers and members of the council during the course of our audit appointment.

Appendix A: Action plan

Key risk areas and planned management action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	There is a risk that if planned efficiencies are not realised the council will face additional financial pressures.	Ongoing monitoring and review of progress and inclusion within financial planning models.	Head of Accounting and Budgeting	Throughout 2006-07
2	The council need to continue their work on reducing absence levels in key departments to ensure targets are met.	The Council will continue to monitor absences levels and roll out application of absence team to other services.	Head of Corporate HR	Throughout 2006-07
3	There is a risk that without a detailed homelessness protocol disputes will not be easily resolved.	The Council is currently updating its homelessness protocol.	Head of Homelessness Partnership	March 2007
4	There is a risk that without adequate equipment testing, staff training and on-site technical support the council will encounter delays in declaring the election results.	An Election Board of Officers has been set up to supervise and manage these elections.	Solicitor to the Council	In line with the implementation plan for the elections
5	The council need to continue to monitor the trading operations to ensure that statutory obligations are met and best value is being achieved.	The Council will continue to monitor the performance of trading operations throughout the year.	Head of Accounting and Budgeting	Throughout 2006-07
6	There is a risk that without regular reviews the council may incur overspends resulting in exposure to additional financial pressures.	The Council will continue to monitor expenditure and income throughout the year.	Head of Accounting and Budgeting	Throughout 2006-07
7	There is a risk that all assets have not been properly included within the financial statements of the group accounts.	The Council will implement revised procedures to deal with GHA payments.	Head of Accounting and Budgeting	March 2007
8	There is a risk that excessive payments are being made to GHA resulting in a negative cash flow to the council group.	Ongoing monitoring and review of progress and inclusion within financial planning models.	Head of Accounting and Budgeting	Throughout 2006-07