

Glasgow City Council

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008

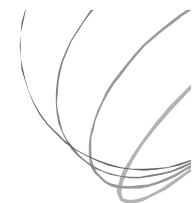


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Key messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and looked at aspects of performance management and governance. This report sets out our main findings and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of Glasgow City Council.

We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading operations break-even on a rolling three year basis. For the three year period to 31 March 2008, two trading operations did not achieve the statutory requirement due to deficits arising in 2005/06. It is anticipated that the statutory three-year target will be met in 2008/09.

The council has a new council plan 2008-2011. Each key objective in the plan is supported by individual outcomes and targets which form a key part of the new single outcome agreement with the Scottish government for 2008/09.

In 2007/08 a contribution of £16.9 million was made to the general fund. The budget set for 2007/08 was based on a planned contribution of £5.0 million. The main factors, contributing to the better-than-planned financial position, include service underspends of £8.6m (mainly due to vacancies) and savings in financing charges of £12.0m offset by lower-than-planned council tax billing of £7.2m. The council ended 2007/08 with an unallocated balance of £19.0 million and has largely dealt with the financial pressures arising to date from existing equal pay claims and its workforce pay and benefits review.

The council has a significant capital programme and expenditure in 2007/08 was £159.7 million. However slippage in capital projects was 30% by value, due to delays in the timing of a number of large projects including the Clyde Gateway regeneration, Pre-12 strategy, SECC investment and White Cart water projects.

The council has continued to make good progress with its best value improvement action plan and can demonstrate some positive outcomes for the people of Glasgow. The council is beginning to improve how it manages and engages with its staff and how it achieves value from effective partnership working through the single outcome agreement.

The process of reporting arms length organisations (ALEOs) performance and governance arrangements to the finance, corporate and trading services policy, development and scrutiny committee commenced in



2007/08. In 2008/09 this good practice has been extended, with a programme established for ALEOs to report risk and business continuity planning to the audit and ethics committee.

Audit Scotland issued a number of national reports during the year. The local position on a few of the areas covered are noted below.

In recent years significant new investment has been made across Scotland to reduce the amount of household waste sent to landfill. The percentage recycling/ composting rate in Glasgow has improved from 15.7% in 2005/06 to 18.1% in 2007/08, although this remains one of the lowest rates within Scottish councils.

A major programme of school building renewal started at the end of the 1990s. Glasgow continues to progress an ambitious programme to improve the school estate. The Pre-12 strategy will create 35 new campuses, to replace 88 primary, 46 nursery and 7 special educational needs centres. In addition, using a PFI approach, 11 new-build and 17 refurbished secondary schools have been provided.

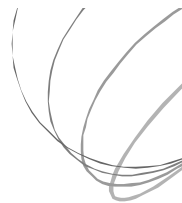
In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland, bringing together data from public bodies, to help identify and prevent a wide range of frauds against the public sector. The 2006/07 NFI exercise identified fraud and errors of £9.7 million. Around 30% of this total was attributable to Glasgow. This reflects the commitment and effort afforded to NFI data matches within Glasgow City Council. The main areas of progress within Glasgow resulted in savings in housing benefit of £0.5 million and pension payments of £0.3million. The council has been particularly active in these areas, with over half of the Scottish recorded caseload.

Outlook

Emerging pressures on the council's 2008/09 budget include energy costs, income shortfalls and CHCP overspending. The overall impact could be an increased cost base of £11.0 million. In 2008/09 only this will be offset by £5.0 million from a successful appeal to the VAT tribunal. Beyond this, the council will need to manage its financial pressures through efficiency savings if council tax freezes continue.

Capital receipts have a significant impact on council tax/ general fund levels. The existing level of capital receipts may not be sustainable as the number of surplus assets that can be sold reduces and the market value of assets falls in the current market. This could have a significant impact on council budgets and the capital investment programme in the future.

Glasgow is to host the Commonwealth games in 2014. The governance structure for delivering the Commonwealth Games involves the Scottish Government, the Commonwealth Games Federation, Glasgow City Council and the Commonwealth Games Council for Scotland. Local governance arrangements to be adopted by the council are currently under development. The Scottish Government is funding 80 per cent of the cost and Glasgow City Council is funding 20 per cent. However the responsibility



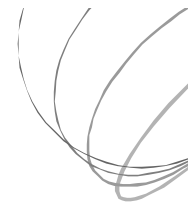
for delivering the majority of the Commonwealth Games sport venues lies with Glasgow City Council. It is important that the council clarifies its project timetables and expenditure phasing for these projects.

Significant trading operations have been reviewed and may be reconfigured next year to ensure the services are delivered in a way which delivers best value for the council.

The council has identified that it will undertake a 'shadow audit of Best Value' during the course of 2008/09, to review improvement requirements in the context of local and national developments and to build an agenda for further improvement prior to the next Best Value Audit by Audit Scotland.



October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of Glasgow City Council, the second year of a five year appointment. Findings are set out in four sections: financial statements, financial position, governance and performance. Within each section we have also provided an outlook, setting out key issues facing the council going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in January 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - financial planning and efficient use of resources
 - performance management
 - community planning and partnership working
 - procuring and managing assets
 - supporting political governance
 - workforce management
 - technical accounting and regulatory developments.
4. Overall conclusions about the council's management of risks, identified by our audit, are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



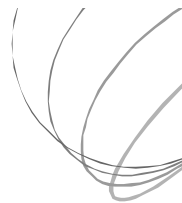
Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the statement on the system of internal financial control and consider the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

8. We have given an unqualified opinion on the financial statements of Glasgow City Council for 2007/08. 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.
9. 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 earlier in this report, two of the seven statutory trading operations made aggregate losses in the three years to 31 March 2008, with the result that the council failed to meet this statutory requirement for care and community services and facilities services. As noted later in this report, the council proposes to rationalise the existing statutory trading operations going forward and this may lead to these two organisations becoming an arms length limited liability partnership.
10. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were of a good standard enabling the audit to progress smoothly. This was enhanced by regular meetings with council officers to ensure early identification and agreement of issues. Audited accounts were



finalised prior to the target date of 30 September 2008 and are now available for presentation to the council and publication.

Statutory objection

11. Citizens have the right to make a statutory objection under section 101(2) of the Local Government (Scotland) Act 1973. No objections were received in relation to Glasgow City Council's 2007/08 financial statements.

Accounting practice

12. 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'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. These include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.
13. We were satisfied that the council had prepared the accounts in accordance with the revised SORP.

Issues identified during the financial statements audit

14. The council adjusted the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the executive director of financial services and the audit and ethics committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising during the course of our audit, and not identified elsewhere in this report, are summarised below.

Capital receipts

15. In 2007/08 the council achieved capital receipts of £89.9 million (£42.2 million in 2006/07). £55.6 million of the receipts relate to sales of car parks to City Parking LLP and two private operators. The 2007/08 revenue estimates, approved by members at the council meeting on 8 February 2007, include the recognition of this principle and application of £25.0 million from these receipts. In 2007/08, £74.4 million of capital receipts have been released to the general fund, shown as off setting the statutory debt repayment of £56.1 million, leading to a net credit to the general fund of £18.3 million.



16. This profiling strategy has been adopted by the council over a number of years particularly to assist in the management of equal pay issues. It remains part of the council's financial strategy to apply capital receipts in this way to manage budget pressures over the medium term. Capital receipts are profiled over a relatively short period (around 3 years). The unapplied receipts at 31 March 2008 are £35.4 million. This contrasts with the repayment of borrowing for new assets which is spread over the longer term, typically in excess of 20 years.
17. Current accounting rules permit the profiling of receipts in this way. However it should be noted that the impact of this treatment is that the net amount which is financed through council tax income is lower than if the receipts were released over a longer time period. If the level of capital receipts collected by the council falls or the accounting rules on the treatment of capital receipts change, this could impact adversely on the sustainability of services or on council tax levels in future years.

Key risk area 1

Identification and valuation of common good assets

18. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the financial statements this year, with common good asset registers in place by March 2009.
19. Accounting guidance says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet. When any asset is identified for disposal by the council the title deeds are checked to see if they indicate whether or not it is an asset owned by the common good fund. The council's view is that reviewing the title deeds at point of sale represents reasonable steps for maintaining the fixed asset register. A title deeds search of all council assets would be time consuming, expensive and possibly inconclusive and in the executive director of financial service's view would not represent best value.

Council tax and non-domestic rates debtors

20. The balance sheet identifies significant changes in the debtors and bad debt provisions between this year and last year. In June 2008 the executive committee of the council agreed to write off council tax and non-domestic rates debts older than five years. This involved £68.4 million of council tax debts and £34.2 million of non-domestic rates debts. These were already fully provided for within the previous years' bad debt provisions, so there was no overall effect on the council's financial position.



Legality

21. Each year we request written confirmation from the executive director of financial services that the council's financial transactions accord with relevant legislation and regulations. Legality requirements are also included within our audit programmes. The executive director of financial services has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.
22. We reported last year that local authorities with registered charitable bodies (registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
23. The council has identified that there are a number of charitable trusts which have been inactive for a considerable period, or for which their purpose is now outdated. The council is in the process of re-organising its existing charities and is awaiting a response from OSCR to its proposals.
24. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial statements outlook

IFRS adoption

25. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI. Within Glasgow City Council the executive director of financial services is the chairperson and a member of CIPFA/LASAAC and is involved in changes in accounting practice. The council is planning to assign responsibility for monitoring IFRS developments to a specific finance officer and attendance at relevant training events is being encouraged.



Financial position

Introduction

26. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks and pressures.

Council tax and the general fund

Operating performance 2007/08

27. The council's net operating expenditure in 2007/08 was £1,308.9 million. This was met by government grants and local taxation of £1,302.6 million, resulting in an income and expenditure account deficit of £6.3 million. This is 0.5% of the net expenditure for the year. After taking into account statutory and non-statutory adjustments a contribution of £16.9 million was made available to the general fund during the year. The budget set for 2007/08 was based on a Band D council tax level of £1,213 with a planned contribution of £5.0 million to the general fund.

28. The main factors, contributing to the better-than-planned financial position, include service underspends of £8.6m (mainly due to vacancies) and savings in financing charges of £12.0m offset by lower-than-planned council tax billing of £7.2m.

Reserves and balances

29. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £219.2 million, an increase of £21.5 million on the previous year.

Table 1. Reserves and fund balances

Description	31 March 2007 £ Million	31 March 2008 £ Million
General Fund	11.9	28.8
Repair and Renewal Fund	17.3	19.6
Cultural and Recreational Fund	4.2	5.2
Insurance Fund	19.4	21.4
Capital Fund	144.9	144.2
	197.7	219.2



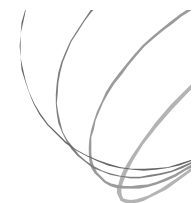
30. The in-year general fund surplus of £16.9 million, when added to the amount brought forward from 2006/07, results in a total general fund balance of £28.8 million. £9.8 million of the general fund balance has been earmarked for specific purposes leaving an unallocated balance of £19.0 million. Earmarked amounts have been identified for local housing allowances and employment support allowances, homelessness grant, rehabilitation of offenders, supporting people, corporate parenting, free school meals and working for families programmes. The unallocated balance is 1.5% of the council's net annual operating expenditure and is in line with the council's policy to restore reserve balances to the 2% target level progressively over the medium term. In 2008/09 the council plans to contribute a further £5.0 million to the general fund balance.

Equal pay

31. 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 can put forward claims to an employment tribunal. In dealing with this issue Glasgow City Council made a settlement offer to 11,000 staff in December 2005 and this was accepted by 90%. At 31 March 2007 around 2,100 cases were being pursued through Employment Tribunals, when the council agreed to pursue negotiated settlements. Negotiated settlements were reached with a significant number of the outstanding claims. At 31 March 2008 settlement payments had been made to 993 claimants with a further 119 settlements reached since then (but unpaid at 31 March). 124 cases are still pending.
32. For Glasgow City Council the issue of equal pay appears to have been significantly addressed for those claims received to date, however some continuing claims can be expected. Remaining challenges are being made for female dominated groups, 2005 compromise agreements and protection arrangements and the council still need to manage and monitor these. The provision, as at 31 March 2008, is £3.8 million. Early settlement payments in 2008/09 have further reduced the provision and it now represents 2% of the total expenditure to date of £61.0 million.

Workforce pay and benefits (single status)

33. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms).
34. 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.

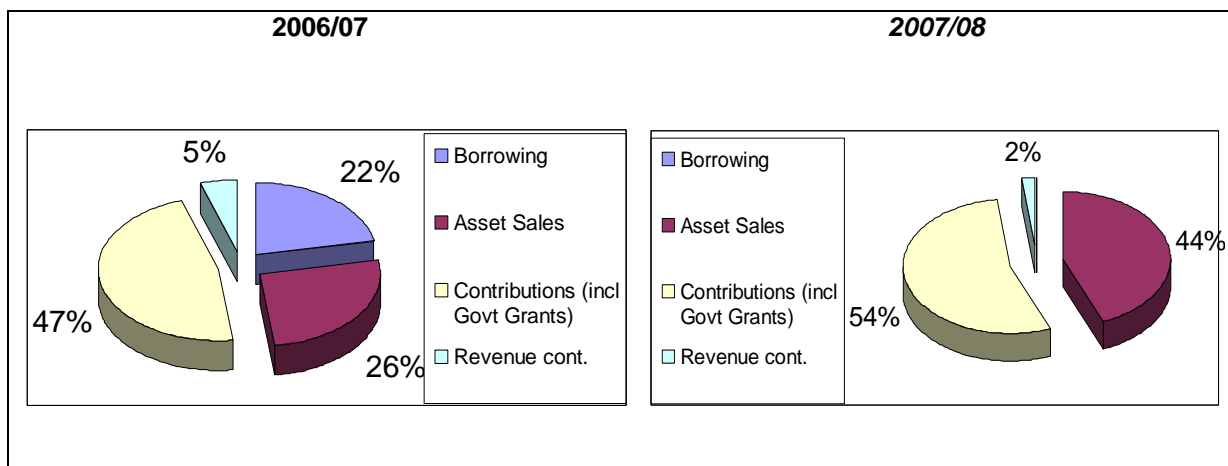


35. Glasgow City Council has carried out a workforce pay and benefits review, with the council approving its implementation in October 2006. 2,000 individual or collective requests for outcome reviews were submitted affecting 9,000+ staff, with 75% of these resulting in review hearings. This process was completed in January 2008 and was followed by a hearings appeal process, which is almost now complete. Glasgow City Council has made significant progress and the process would appear to be nearing completion with the remaining workforce pay and benefits review provision of £4.5 million expected to be paid out in 2008/09.

Capital performance 2007/08

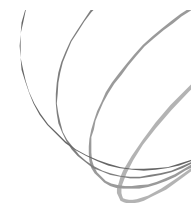
36. Capital expenditure in 2007/08 was £159.7 million, (£158.5 million in 2006/07). Capital investment in the last two years was funded as shown below.

Chart 1: Sources of finance for capital expenditure 2007/08



37. Overall, the total capital programme of around £1 billion did not change significantly, but the timing of projects did change. 2007/08 capital expenditure of £159.7 million and non-enhancing expenditure of £13.7m are in total 30% less than the planned outturn for the year. There is a risk that systematic slippage in projects might have a critical effect on key projects and planned achievements.

Key risk area 2



38. The majority of slippage can be attributed to the following projects:

Table 2. Significant slippage in the capital programme for 2007/08

Service	Project	Slippage £m
Culture and Sport	Maryhill Leisure Centre	3.5
	National Indoor Sports Arena	2.5
	Glasgow Museums Resource Centre	1.3
	Scotstoun Stadium	3.5
Land and Environmental	River Clyde Regeneration	4.7
	White Cart Water	5.0
Development and Regeneration	SECC	5.0
	Clyde Gateway	10.5
Other	South West CHCP	2.5
	Pre-12 Phase 4	8.0
	M74	4.7
	Finnieston Bridge	1.7
	Parks Development Programme	2.0
	Total	54.9

Significant trading operations

39. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break-even over a rolling three year period.
40. At the end of 2007/08, Glasgow City Council was required to report the three year financial results for seven significant trading operations against the three year break-even target. Two of these significant trading operations, Care and Community Services and Facilities Services, failed to meet this three year rolling target. This was due to deficits reported in 2005/06. Due to the failure to meet the statutory breakeven target in two significant trading operations, an explanatory paragraph is included in the 2007/08 auditor's report. All seven significant trading operations returned an in-year surplus in 2007/08.
41. In June 2007 the council agreed a framework for reviewing its significant trading operations over an 18-month period, building on the 2004/05 best value review. Grant Thornton UK LLP was commissioned to support these reviews. The recommendations of the reviews were approved on 18 April 2008. The recommendations include the reconfiguration of four significant trading operations (roads maintenance, grounds maintenance, cleansing and refuse collection) into a single significant trading operation; the creation of a combined trading operation for fleet management and transport services and the formation of a limited liability partnership for direct and care services. This will result



in only two significant trading operations in the future, which it is anticipated will report a surplus. The effectiveness of the new structures will be monitored to ensure they deliver best value for the council.

Key risk area 3

Pension funds

42. The council is responsible for the management and administration of two pension funds – Strathclyde Pension Fund No. 1 and Strathclyde Pension Fund No. 3. The main fund (Fund No. 1) is open to employees and pensioners of the twelve unitary authorities in the Strathclyde area, civilian employees and pensioners within Strathclyde Police and Strathclyde Fire and Rescue plus over 220 scheduled and admitted bodies including many West of Scotland colleges. Fund No. 3 is a closed fund representing employees of Strathclyde Buses pre-1993.
43. Investment assets for both funds are diverse and are managed by a range of external fund managers. The total investment value has been increasing steadily since 2005 but has recently declined in line with the global economic downturn and the “credit crunch”, with its origins in the US sub-prime mortgage market. In the quarter to 31 March 2008 the FTSE all-share index fell by 9.9% and the MSCI all-country world index fell by 9.0%. Officers of the council do not consider any reduction in asset valuation to be a permanent diminution. In the last month further uncertainty in world financial markets has resulted in significant movements in share prices particularly in the banking sector. The short term volatility of investments in this sector will affect the investment asset valuation, but the dynamic nature of the current markets does not lend itself to a reliable estimate of any long term effect. The council proposes that the long term impact of these fluctuations will be monitored on an ongoing basis.

Table 3. Pension fund investments

	31/03/05	31/03/06	31/03/07	31/03/08
	£m	£m	£m	£m
Strathclyde Pension Fund No. 1	6,687	8,844	9,609	9,363
Strathclyde Pension Fund No. 3	75	94	100	99

44. The pension fund financial statements show the transactions with members and employers, returns on investments and the value of net assets, in accordance with accounting requirements. The long term pension liabilities of the fund are reflected in the triennial actuarial valuation. The last actuarial valuation at 31 March 2005 was reported in April 2006. In the valuation the funding level for the Strathclyde Pension Fund, calculated as the ratio of fund assets to past service liabilities, was 97%. Between the triennial valuations, intervaluation reports are prepared but these have been volatile (31 March 2007 108%, 31 March 2008 89%). Employer contributions are increasing (as a percentage of employee contributions) from 270% in 2007/08 to 280% in 2008/09. The next triennial valuation, as at



31 March 2008, is due to be reported early in 2009 and future employer contribution rates for 2009/10 and the following two financial years will be considered at that time.

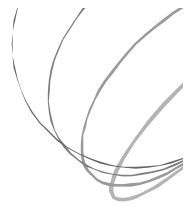
Group balances and going concern

45. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net worth by £1,115 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
46. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Of these boards Strathclyde Joint Police Board and Strathclyde Fire and Rescue had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £3,539 million, with the council's share being £1,301 million.

Financial outlook

Council tax freeze and 2008/09 budget

47. The council has approved a 0% increase in council tax for 2008/09. This will be the third consecutive year that council tax levels have not been increased. The financial settlement for 2008-2011 is underpinned, for the first time, by a concordat between Scottish government and COSLA, which represents Scottish Local Government. The financial settlement has reduced ring-fencing and given inflation based increases and extra funds if a council sets a 0% council tax increase.
48. The 2008/09 council budget identified specific service pressures (£4.5 million), service developments (£3.6 million) and efficiencies (£35.0 million). Efficiencies are expected from across the council.
49. The financial monitoring statements for period 5, show that net expenditure is operating at 100.8% of profile, representing an overspend of £3.1 million. The main areas of overspend are:
 - development and regeneration - £0.5 million due to lower rental income and planning fees
 - education - £0.9 million for energy fuel costs, higher SQA costs and increased transport costs for Additional Support for Learning
 - land and environmental - £0.7 million from lower fees from crematoria and cemeteries, higher energy and fuel costs, lower fine income from parking and the delayed introduction of automated public toilets



- social work - £1.4 million due to higher residential school placements
- community health and care partnership (CHCP) overspends of £2.0 million. This is a high risk to the council's overall financial stability and a review has been initiated.

50. In summary the key emerging pressures on the council's 2008/09 budget include energy costs, income shortfalls, falling capital receipts, fuel costs, residential schools and CHCP overspending. A broad assessment has indicated that the overall impact for the council could be an increased cost base of £11 million in 2008/09. To assist executive directors, an additional £5.0 million has been provided to partially offset these increases. This additional £5.0 million is available this year only due to a successful appeal to the VAT tribunal in relation to the treatment of VAT on hostel income prior to 1996. Some of these financial pressures will continue beyond the current financial year. The council will consider these pressures alongside its review of ring fenced funding initiatives during the 2009/10 budget planning process.

Key risk area 4

Future capital programme

51. The capital investment programmes for 2008/9 and 2009/10 anticipate annual capital expenditure of £330 million and £118 million respectively. This is expected to be funded by a number of sources including capital receipts (£71 million) and grants and other contributions (£84 million) with the remainder being funded by further increases in borrowing over the two years. This funding will be more difficult in the future in the context of a market where asset values are falling, contractors are struggling and the access to private finance is being squeezed.



Governance

Introduction

52. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

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

Political governance

54. In 2007 the political context for local government changed significantly, with a new Scottish government and a shift to more coalition and minority administrations at councils. Almost half of the councillors elected across Scotland in May 2007 were new to local government.
55. In Glasgow, the elections in May 2007 brought about a change in the political representation across the City. The Labour Party now has 46 of the 79 members. As well as representation from the Liberal Democrat, Green, and Conservative parties, the main opposition group is the Scottish National Party with 22 members. The wider political distribution, together with the introduction of an executive committee and policy, development and scrutiny committee structure, has increased scrutiny and debate. The council has developed role profiles for the leader, lord provost, executive members, convenors and leader of the opposition and has introduced a business bureau, with representation from all parties, led by an experienced member from the Labour group. The bureau reviews and considers all proposals relating to political governance processes prior to presentation to the executive committee.

Political leadership

56. The political leadership and vision within the council is expressed within the council plan 2008-2011. Tangible examples of the evidence of the council's vision can be identified: the success in bringing the Commonwealth Games 2014 to the city, the development of the skills academy, multi-agency approach to the introduction of the SOA and the schools' rationalisation and modernisation programme.



Audit and ethics committee

57. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account and support the reform and modernisation agenda. The new audit and ethics committee was established following the May 2007 elections and has had two convenors in the year. The audit and ethics committee adheres to CiPFA guidance on Audit Committee Principles in Local Authorities in Scotland and provides a sound contribution to the overall control environment. The policy, development and scrutiny committees provide a focus for scrutiny of performance and policy within each service area, with the audit and ethics committee taking an overview of internal audit reporting and service implementation of audit action plans.

Member training

58. The council provided induction training to all new members of the council following the May 2007 elections. A self-assessment training questionnaire was rolled-out, and was used to inform both current and future training needs. Recent uptake of training opportunities by members within the council and within the wider Clyde Valley area, was less than expected. Audit Scotland is currently gathering information from councils in order to obtain a fuller picture of member training.

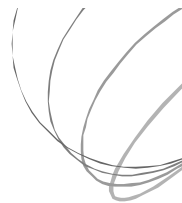
Arms length external organisations

59. In recent years the council's service delivery structure has seen significant change through the establishment of arms length external organisations (ALEOs) including the:

- establishment of a social enterprise company with charitable status to delivery cultural and recreational services
- delivery of off-street parking through a limited liability partnership
- transfer of building services trading operations to the City Building (Glasgow) limited liability partnership
- completion of ACCESS joint venture contract for IT and property services.

60. In response to the number of ALEOs, a report clarifying the reporting mechanisms and scrutiny arrangements for ALEOs has been agreed by the executive committee. The process of reporting ALEO performance and governance arrangements to the finance, corporate and trading services policy, development and scrutiny committee commenced in 2007/08. In 2008/09 this good practice has been extended with a programme established for ALEOs to report risk and business continuity planning to the audit and ethics committee.

61. Glasgow City Council is one of two authorities developing models of best practice through a 'pathfinder project' to identify the potential for the formation of shared service arrangements. The



council are currently looking at the design of an operating model covering front/middle/back office, strategic services and direct service delivery. The model will look at the standardisation of processes and supporting technology with a view to enabling a capability to share across organisations in the future.

Internal audit

62. Internal audit provides 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 against CiPFAs revised Code of Practice. We reported the satisfactory outcome of this review to the audit and ethics committee in August 2008.
63. As part of our development of reporting of key internal controls we have been working with internal audit to develop a clearer understanding of the key controls in major systems and of our respective coverage. We were clearly able to identify the areas of reliance on the work of the internal auditor in 2007/08. Going forward this will ensure that maximum benefit is gained from the systems work undertaken by internal audit and ourselves.

Systems of internal financial control

64. A Statement on the System of Internal Financial Control for the council and its group is included within the financial statements, in accordance with the Code of Practice on Local Authority Accounting. Following receipt of a range of assurances from managers across the council (including the head of audit and inspection) and self-assessment questionnaires from subsidiary and associate companies, the executive director of financial services concluded that she was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal financial control operated by the council and its group. The statement notes the on-going development of a compliance unit to monitor the council's e-procurement systems.

Strathclyde pension fund

65. Strategic decisions affecting the long-term future of the fund are made by the Strathclyde Pension Fund Committee (SPF committee) which is made up entirely of Glasgow City councillors in accordance with Glasgow's role as administering authority. The committee has a statement of investment principles. Day-to-day management of pensions is carried out at the Strathclyde Pension Fund office, which is part of Glasgow City Council's financial services department.
66. The pension fund has a Representative Forum of a cross-section of stakeholders. The forum consists of representatives of 12 local authorities, 4 scheduled bodies, 2 admitted bodies, 5 trades unions and



1 pensioner. It also includes 2 members of the SPF committee, one of which acts as the chairperson. The forum meets quarterly, in public, in advance of the committee.

67. An investment advisory panel provides advice to the SPF committee and undertakes investment monitoring on its behalf. The panel consists of three independent advisors: a representative from the fund's investment consultants and actuary, the executive director of financial services, the head of pensions and the chief pensions officer. The investment advisory panel meets quarterly and produces a report to the committee.
68. The investment assets of the fund are externally managed by sixteen fund managers with cash balances managed by the fund's global custodian, Northern Trust.
69. A full actuarial valuation of the fund is undertaken every three years by an independent actuary, with the results of the latest valuation at 31 March 2008, expected in the next four to six months. This valuation determines future contribution rates.
70. From April 2009, the rates of contributions made by employees and the calculation of benefits payable on retirement are changing. This will provide additional challenges to the pension fund as the governance and control arrangements will need to be developed to collect and take account of the changes in contribution rates. In particular, each authority/ scheduled or admitted body will need to ensure it has reviewed its payroll systems to ensure that the changing contribution rates will be actioned and accurate deductions made and remitted. The pension fund staff will also have to adapt to changes in the calculation of pensions payable.

Prevention and detection of fraud and irregularities

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

NFI in Scotland

72. In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from public bodies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
73. In June 2008 we reported to the audit and ethics committee, following the publication of Audit Scotland's NFI in Scotland 2006/07 report. This report identified that the 2006/07 NFI exercise had identified fraud and errors of £9.7 million. Around 30% of this total was attributable to Glasgow. This



reflects the commitment and effort afforded to NFI data matches within Glasgow City Council. The report also contained a number of case study examples taken from Glasgow.

74. The main areas of progress within Glasgow resulted in savings in housing benefit of £0.5 million and pension payments of £0.3million. The council has been particularly active in these areas, with over half of the Scottish recorded caseload. A key development in the approach to NFI within Glasgow City Council has been the creation of a joint team with Department of Work and Pensions staff.
75. However the council has been less active than some other councils in pursuing NFI cases relating to blue badges and residential care payments. Internal audit reviewed a sample of 40 of the identified residential care matches and found 12 cases of overpayments – most of which covered a short period of time and had been recovered by the issue of a credit note from the provider. A review of the process for dealing with blue badges has also been carried out by internal audit using the NFI data. The council has made a number of recommendations to relevant bodies to try and tighten up on procedures for the issue of badges and to clarify the restrictions and penalties on use.
76. Thirteen councils took part in a council tax exercise for NFI in 2008. The national progress recorded against this exercise has been limited. One aspect of the exercise was to highlight where single person discounts may be potentially invalid. In Glasgow around 5,900 potentially invalid cases were identified. The council sent letters to a sample of all households from the matches and commissioned a report by Experian. Officers are developing a strategy for taking this issue forward based on the findings of these pilots.
77. The 2008/09 data matching exercise is due to commence in October 2008.

Housing benefit inspections

78. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. This will lead to risk-based inspections on a cyclical basis over an 18-month period. The timing of any planned involvement of Glasgow City Council will be notified as the timetable becomes apparent.

Data handling and security

79. Data handling and security has received increased public and media attention recently due to a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. The council has undertaken a review of arrangements to allow them to identify their exposure to these risks. In addition policies and procedures are being reviewed and developed, such as the information security policy, to ensure the appropriate control environment is in place.



Payment card standards

80. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. The council is working with ACCESS, its joint venture partner for ICT and property services, on the action needed to address the risks they have identified and to achieve compliance.

Governance outlook

Single outcome agreement

81. The concordat between the Scottish government and COSLA sets out the terms of a new relationship between the Scottish government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the Single Outcome Agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat.
82. Glasgow community planning partnership's community plan 2005-2010 was the starting point for the development of the SOA. Many other council and partner strategy documents were also considered and these are noted within the introduction to the SOA. The community planning partnership appointed five thematic champions and it was agreed that the thematic champions should have a role in populating the SOA. Each thematic champion was allocated a primary role in a number of national outcomes to achieve a co-ordinated and inclusive approach to the development of the SOA. This was supplemented by a series of five independently facilitated workshops to consider the strategies and action plans currently in place impacting upon the national outcomes.
83. The SOA contains 24 local outcomes supported by a number of performance indicators which will be used to demonstrate the progress made. Performance management will be led by the council and although governance arrangements are still being established, a six-monthly performance management cycle is being developed to review progress against the targets within the SOA. In addition an annual performance report will be prepared across the activities of all partners within the community planning partnership. The effectiveness of these reporting arrangements will be crucial to demonstrating that community outcomes are being achieved.

Key risk area 5



Annual governance statement

84. The council is encouraged (but not required) to include an annual governance statement within the financial statements. Historically the council has included a separate corporate governance statement and statement on the system of internal financial control. Discussions with internal audit have established that they are currently reviewing the council's compliance within the new CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The expectation is that the council will be in a position to move to an audited annual governance statement within the 2008/09 financial statements, if resources allow.



Performance

Introduction

85. In this section we summarise how the council manages its performance. We set out the council's corporate objectives before looking at performance management arrangements to measure their achievement. We comment on the council's performance as reported through the annual performance report, statutory performance indicators and best value improvement plan. We give an outlook on future performance, including our views on the current status of identified risks from our SARA which have not been addressed elsewhere in this report. Finally, we identify the main findings from Audit Scotland's national performance studies, relating them to the situation within the council.

Corporate objectives and priorities

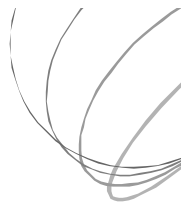
86. Glasgow City Council's vision is to create a prosperous city for all Glaswegians. A 'prosperous city' is defined as a healthy, clean and safe city, with a strong economy, where citizens of all ages and backgrounds can work, learn and thrive. The council plan 2008-2011 was approved at a council meeting in February 2008. It contains five key objectives for the council over the next three years:

- improving the efficiency and effectiveness of services
- increasing access to lifelong learning
- making Glasgow a cleaner and safer city
- building a prosperous city
- improving health and wellbeing.

87. The council plan 2008-2011 also sets out five major themes that are reflected in the work across all services. These are social renewal, equal opportunities, early intervention, sustainability and efficiency and effectiveness.

88. Each key objective is supported by individual outcomes and targets. Where these targets are linked to a major theme this is clearly marked by appropriate symbols within the plan. The outcomes within the plan include:

- reducing energy usage by 10% in 2008 to 2009, 3% in 2009 to 2010 and 2% in 2010 to 2011, as part of the council's carbon-management programme
- increasing the percentage of young people going into higher or further education, or employment, voluntary work or training from 84% to 87%



- increasing the weight of waste diverted from landfill to over 89,000 tonnes (23%), from 47,423 tonnes and organic waste diverted from landfill from 31,420 tonnes to 40,000 tonnes by 2010
- continuing to narrow the gap between Glasgow and the rest of Scotland in the level of worklessness from 8.5% to 6% through a 10-year city economic development strategy.

89. Glasgow's single outcome agreement (SOA) for 2008/09 was developed from the key partnership strategy documents already in place including the council plan 2008-2011 and the community plan 2005-10. The SOA is discussed further within the governance section of this report and we will comment on this further in future years.

Overview of performance in 2007/08

Performance management

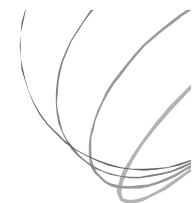
90. The council has an integrated performance management framework which is linked to the objectives and outcomes contained within the council plan 2008-2011. The arrangements in place include:

- three-monthly reports on each service's 'measures of improved performance' to the corporate management team
- regular reports to the relevant policy development and scrutiny committee
- yearly service and annual performance reports
- new local performance reports which will report performance locally to the 10 community planning areas.

91. One method the council adopts to identify performance issues is the performance working group. The chief executive meets with executive directors to consider performance levels and to identify and discuss areas of improvement. The council also raises staff awareness of performance issues through a twice-yearly seminar called 'Delivering for Glasgow' for around 80 senior council staff.

92. To ensure that council services meet the needs of Glasgow residents a household survey is undertaken every spring and autumn covering 1,000 households. The outcomes are compiled and reported via newsletters and feature within service and council performance reports. In the most recent survey in spring 2008 the council interviewed an extra 200 people from black and ethnic minority communities to gain a better understanding of the issues within these communities. The three areas residents identified as being 'very important' for the council are:

- making sure services are good value for money
- making sure services are good quality
- telling residents how council tax is spent.



Annual report

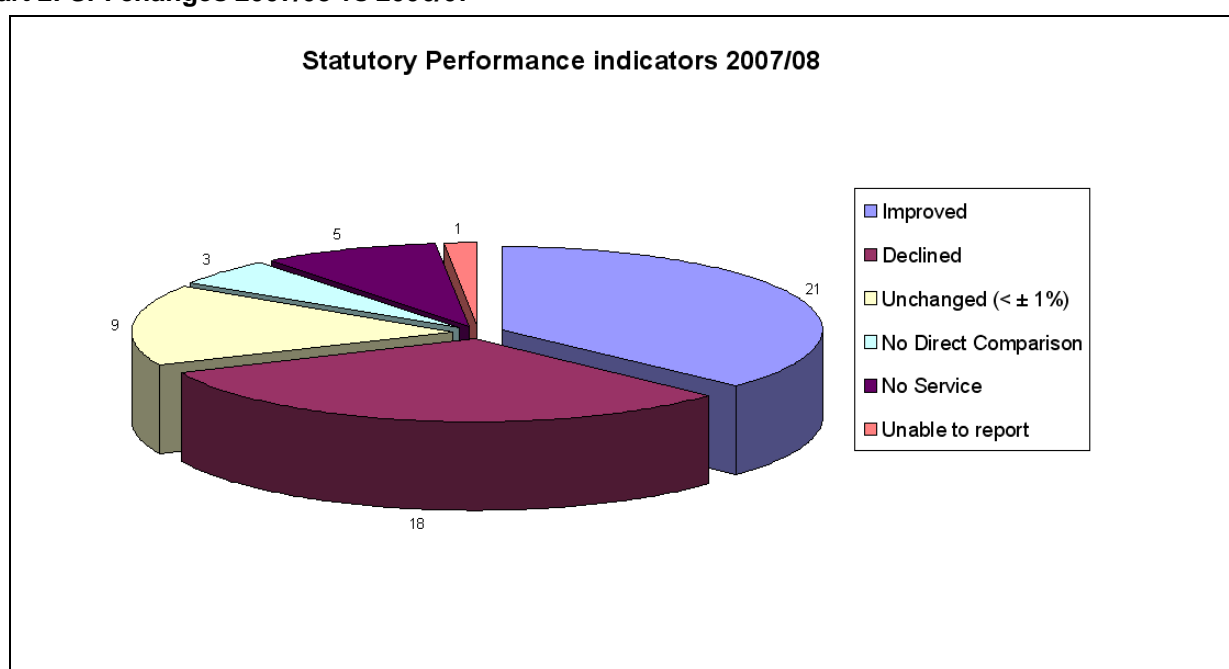
93. The council's annual performance report was published in September 2008 providing information on performance against the five main aims contained within the council plan 2008 - 2011. The annual performance report provides a balanced view of the council's achievements for the period. The council is continuing to investigate other mechanisms for reporting performance to stakeholders in a more digestible form. The council's performance report notes:

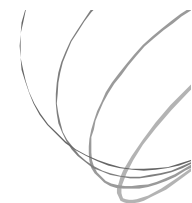
- More efficient working practices allowed the council to save 9.9 million kW hours of electricity and 6.2 million kW hours of gas. The council also produced 1,500 less tonnes of carbon dioxide, however this was less than the council target of 3,600 tonnes.
- From 2006 to 2007, there was a small improvement in the number of school-leavers going on to further education, training or a job. 48% of school-leavers went to higher or further education and 11% began some form of training (the national average is 5%). The number of school-leavers who found jobs increased (23% to 25%), but this is below the national level of 28%.
- The council recycled 18 % of household and business waste, exceeding the council target of 17%. However this is still below the national average recycling rate of 25%.
- The number of households assessed as homeless/ potentially homeless fell from 8,049 to 6,367.

Statutory performance indicators

94. One of the ways of measuring council performance is through the 57 statutory performance indicators (SPIs). In 2007/08, Glasgow City Council has seen an improvement in just over a third of its SPIs.

Chart 2: SPI changes 2007/08 vs 2006/07





95. Some of the areas of improvement were:

- new probationers seen by a supervising officer within one week increased by 26.7%
- daytime respite hours provided not in a care home increased by 18.9%
- time to process new benefit claims has been reduced from 25.3 to 12.5 days.

96. However performance fell in the following areas:

- cost of waste collection per premise has risen by 31.2%
- overall processing of planning applications within two weeks has dropped by 20%.

97. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall the quality of working papers provided to support the SPIs was good and 56 of the indicators were concluded to be reliable. The council was unable to report one indicator (adult social work 1 – community care assessments). This was agreed with Audit Scotland early in the SPI process.

Best value audit

98. In January 2006 the Accounts Commission published the report on the best value audit of Glasgow City Council. The report and findings identified a number of areas for action.

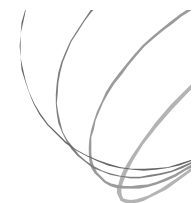
Table 4. Conclusions from the best value audit – [January 2006]

The Commission acknowledges that the council faces significant and complex social and economic challenges. The council demonstrates vision and strategic direction, a positive attitude and commitment to radical change and clear leadership from members and officers. This gives the council a solid foundation to build on. The Commission is encouraged by the rate of improvement which the council has made in recent years on many indicators and urges the council to maintain its focus on:

- Improving performance in key areas
- Getting the right political and managerial structures in place
- Developing Community Planning arrangements
- Further developing more balanced public performance reporting.

The council has a good level of self awareness and recognises the areas in which it needs to improve. The Commission lays particular emphasis on the following areas:

- Good mechanisms and arrangements are not an end in themselves but tools to secure optimum impact and thus improved outcomes for the people of Glasgow, whose health, educational attainment and employment levels remain low compared with the rest of Scotland. For example, educational attainment has, in general, been poor across Glasgow's schools and while there have been improvements in some areas over recent years, attainment levels remain below the Scottish average. The council has set ambitious targets and faces a significant challenge in achieving them. It will be important for the council to sustain its focus on improved outcomes for its citizens.
- The council employs over 38,000 people each of whom can be a key ambassador for the council's ambitions. While the modernising employment agenda has already produced some results the council needs to place greater emphasis on corporate workforce planning, more effective human resources systems and improving how it manages and engages with its staff.
- In order to deliver the outcomes which they set out to achieve, the council must also ensure that the full value of effective partnership working is realised.
- The council has an extensive portfolio of assets. It needs to have comprehensive asset management plans in place in order to demonstrate efficient use of its assets as well as identifying clear and risk based priorities for future investment.



99. In response to the best value audit report, the council produced a best value improvement action plan in March 2006. The plan contains fourteen improvement themes and forty four associated improvement actions and these closely match the best value report recommendations. To date, the council's monitoring reports indicate that good progress has been made, with twelve of the theme areas either implemented or on target for implementation.
100. In its findings the Accounts Commission noted that the council had good mechanisms and arrangements in place, but that the value of these would be seen through a contribution to positive outcomes for the people of Glasgow. The commission highlighted the need to improve educational attainment, reduce worklessness and improve health.
101. Since publication of the best value audit report, improvements in performance have been recorded in education. A continued increase has been recorded in levels of attainment in reading, writing and mathematics from P1 to S2 and an increase in Scottish Qualification Authority (SQA) attainment in all performance outputs. The difference between Glasgow's performance and the national performance has narrowed for a number of SQA attainment measures.

Table 5. Relative educational attainment

		2005	2007	Improve ment
English and mathematics at SCQF Level 3 (Foundation) or better	GCC Scotland	82% 90%	86% 91%	4% 1%
5 or more awards at SCQF Level 3 (Foundation) or better	GCC Scotland	83% 90%	86% 91%	3% 1%
5 or more awards at SCQF Level 4 (General) or better	GCC Scotland	63% 76%	66% 75%	3% (1%)
5 or more awards at SCQF level 5 (Credit) or better	GCC Scotland	21% 34%	22% 32%	1% (2%)

102. The educational achievement of looked after children has also improved with 39% now achieving one SCQF level 3 qualification and 23% achieving English and Maths at that level. This is compared to 36% and 20% in 2006/07.
103. In terms of achieving reductions in worklessness, the council has reported that the percentage of people of working age in Glasgow who are claiming state benefits has continued to fall, from 30.3% in 2003 to 25.6% in 2007, with the gap between Glasgow and the rest of Scotland narrowing from 11 percentage points to 8.5.
104. The council has identified that it is to use health impact assessments to look at the effect of its policies and plans. This is to be applied to a number of key plans including the Commonwealth Games and the 10-year economic strategy to determine how these can improve the health of people in Glasgow.



105. We also note that the Social Work Inspectorate (SWIA) reported in June 2007 that the council's social work services managed their budget well and that the long established relationship of working with partners had developed a number of integrated services. Concerns however were raised about the condition of some of the social work premises, low staff morale, the limited opportunities available to people with learning disabilities and the consistency of practice across the city. In September 2007, the executive committee approved the action plan developed by social work services in response to the 16 recommendations outlined in the SWIA report. Regular updates on progress are provided to the education and social work policy development and scrutiny committee.
106. In the best value report, the Accounts Commission also highlighted the need for the council to improve how it manages and engages with its staff. A staff survey was undertaken in spring 2007. The survey response rate was 27%. Overall the levels of job satisfaction are broadly in line with other local authorities, with 55% of staff satisfied in their present job, but with a relatively low sense of pride in working for the council (33%). The council recognises that there are variations in satisfaction across services and grades. Most staff express satisfaction with working hours, sense of accomplishment and job security, but not with the extent of training and career development. The number of employees who felt they were treated fairly was relatively low (37%) and almost a third of respondents say they have experienced bullying in the workplace over the last two years, mainly by their line manager or service users. One of the main messages to emerge was that communication with staff needs to improve across the council. Using the results from the survey and the subsequent staff focus groups, an action plan was drawn up and a people strategy prepared. The staff survey provides a benchmark against which efforts to improve staff management can be assessed in future. The council is committed to undertaking a second staff survey in 2009/10.
107. The council's people strategy and detailed action plan are supported by a monthly change programme and a cross-service working group. The council also ran a pilot leadership programme between January and August 2008.
108. The commission also noted that 'the council must also ensure that the full value of effective partnership working is realised'. The development of the SOA demonstrates a significant step forward in working with partners. The council, NHS Greater Glasgow & Clyde, Strathclyde Police, Glasgow Housing Association and Strathclyde Fire and Rescue have taken joint ownership and responsibility for their contributions to agreed outcomes. Five thematic champions from across the partner organisations took forward the development of the outcome agreement under the headings of "Healthy", "Working", "Safe", "Learning" and "Vibrant".
109. There has been slippage in some areas of the council's best value improvement plan, including:
- Implementation of Personal Development Plans (PDP): Rollout to all services was not met with delays in social work services, education services and direct and care services. Training



sessions are being arranged in education services and social work services to aid senior managers in delivering PDP briefing sessions and progress will continue to be reported to the corporate management team. The council has developed its business software (SAP) to allow PDP discussions and reviews to be recorded and this will be fully rolled out to services by December 2008.

- Developing a change and modernisation agenda: Slippage has occurred as a result of the 'Best Managed Local Authority' information progressing at a slower pace than anticipated.
- Asset management planning. This was originally planned for December 2006, but will now be completed in March 2009. Key to this was the completion of ACCESS joint venture contract in April 2008. The joint venture has been examining property condition and IT provision and the corporate asset management plan will be delivered by April 2009. The office improvement plan will be produced by November 2008.

110. The council has identified that it will undertake a 'shadow audit of Best Value' during the course of 2008/09 to review improvement requirements in the context of local and national developments and to build an agenda for further improvement prior to the next Best Value Audit by Audit Scotland.

111. The shadow audit will be based on principles of self assessment and external challenge, and will be a catalyst for reviewing and, where necessary refocusing, the council's improvement activities in line with service reform objectives. The outputs will include an assessment of the effectiveness of the council in driving improvement, the rate of improvement and the likelihood that improvement will continue. It is anticipated that the finance, corporate and trading services policy development and scrutiny committee will have a significant role in providing oversight and scrutiny of these outputs.

Performance outlook – opportunities and risks

112. In the course of our audit work we identified some of the strategic risks to Glasgow City Council in delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA. Many of these risks are discussed within other sections of this report. In the following paragraphs, we comment on those outstanding risks not addressed elsewhere in the report.

Community planning and partnership working

113. The most significant development in community planning within the city is the development of the SOA, which was agreed in June 2008. The Glasgow community plan 2005-2010 demonstrates the links between local, city-wide and national priorities and was the starting point for the development of the SOA. The council has acknowledged that whilst the community plan remains relevant, the targets have been subject to some revision through the development of the SOA and a review/ update is therefore likely.



114. The community planning partnership board has commissioned a review of the options for future management and delivery of the support structures for Glasgow due to the significant changes that have taken place since 2004. A report presented to the executive committee in September 2008 proposed the transfer of staff to the council.
115. Community reference groups have been established in each of the ten local community planning partnership areas. These groups consist of nominated or elected individuals from a wide range of community based organisations.
116. As part of the council's drive to improve services through partnership working, community health and care partnerships (CHCPs) were set up in April 2006 to reduce bureaucracy and devolve responsibility and decision making to the frontline for healthcare and social services. In 2006/07 we reported that CHCPs are at an early stage in their development and a number of improvements are being implemented by the council moving forward. The internal audit service within Glasgow City Council is completing a joint exercise with health internal auditors to review financial management control arrangements within two of the community health and care partnerships. This work is ongoing and the findings will be considered in the context of our 2006/07 report once they are available. In the financial outlook section of this report we have identified that in 2008/09 the CHCP's are experiencing large overspends and costs pressures. This will be considered further as part of our 2008/09 audit.

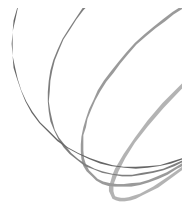
Procuring and managing assets

117. As discussed in paragraph 109, the council is to implement a corporate asset management plan by April 2009. This will enable the council to ensure assets are used effectively and to realise any efficiencies. As at 31 March 2008 the council held almost £134 million of surplus assets. In December 2007 the executive committee approved the commencement of a procurement process to identify a suitable joint venture commercial partner to manage surplus property. Due to the current market, where property prices are falling and the market has slowed down, the council are currently reconsidering whether this approach would represent best value.

Key risk area 6

Workforce management

118. Some key workforce planning initiatives, including progress with the people strategy and personal development plans, are reported in the best value section of this report. Single status and equal pay issues are also reported in the financial position section of the report. In addition the council has a corporate policy on absence management and indicators are reported to the policy development and scrutiny committees throughout the year. A new SAP software module will further improve monitoring arrangements. In 2006/07, the average absence rate per council employee was 11.8 days. The council has targeted a reduction to 9 days per employee by 2009, however during 2007/08 absence



rates within the council rose to 12.9 days. The corporate absence management team are sharing best practice with services to help achieve the identified reduction.

119. The council has agreed an equalities framework for the monitoring and reporting of equality in employment areas through the equality working group, an officer group with responsibility for progressing equality issues across the council. An Audit Scotland report on race equality is due for publication on 13 November 2008, which will be considered by the council.

National studies

120. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are considered below. Further information on these studies can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

121. In recent years significant new investment has been made to reduce the amount of household waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted:

- Significant progress has been made in recycling, but the rate varies considerably between councils. Recycled and composted waste increased from 7% in 2001/2 to 25% in 2005/6.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directives might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress.

122. The percentage of waste recycled/ composted in Glasgow continues to improve slowly from 15.7% in 2005/06 to 18.1% in 2007/08, although this remains one of the lowest rates within Scottish councils. With the support of the strategic waste fund, Glasgow met the recycling targets set by the Scottish government and these reflect the inherent challenge of providing a recycling service to a large proportion of flatted properties and areas with significant social deprivation. The increase has been achieved mainly through the extension of recycling facilities to tenemental properties, with funding from the Scottish government's strategic waste fund. 50 public recycling sites were also established in the year, bringing the total to 370. The council estimates that recycling facilities are now available to 63% of all properties in the city.



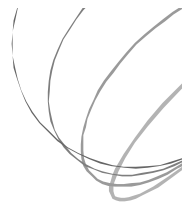
Table 6. Properties with recycling facilities

Properties	Number citywide	Properties with recycling facilities
Tenements	140,000	87,000 (62%)
Multi-storey	35,000	5,000 (14%)
Kerbside (singles, semis, 4-in-a-block)	120,000	95,000 bins for paper/plastic bottles (79%) (58,000 bins for garden waste (48%))
Total	295,000	187,000 (63%)

123. The number of blue/ brown bins issued to households did not change during the year. Future targets include an increase in the recycling rate to 20.7% in 2008/09. One related action is an increase of 20,000 in the number of blue bins to single and flatted properties for co-mingled paper and plastics.
124. One community recycling facility was upgraded in the year bringing the total to two. A further two sites are planned for upgrading as funding becomes available. The council is part of a “Glasgow Recycles” project in partnership with four other organisations. This will include introducing recycling banks at various sites in the city centre aimed at workers and visitors and has helped to raise the profile of recycling in the city centre. The council has also awarded a start-up grant to the Glasgow Furniture Initiative. This will divert 1,200 tonnes annually of furniture and white goods from landfill and provide a furnishing service for households on low incomes.
125. The council has identified an autoclaving solution as the preferred option for municipal waste treatment and is preparing an outline business case for sites at Polmadie, Dawsholm and Easter Queenslie including a bid for funding from the Scottish government’s Zero Waste Fund.
126. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils. CoSLA and the Scottish government have a working party looking at the role of landfill allowances and associated penalties. In 2007/08 the council was within its landfill allowance and was therefore not liable for landfill allowance penalties.

Free personal and nursing care

127. Since July 2002, all councils have had systems to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in January 2008, found that:
- Individual councils have interpreted the legislation and guidance for food preparation differently.



- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with health partners to evaluate the consequences of reducing domestic homecare services.

128. The council considered the Audit Scotland report at its meeting of the education and social work policy development and scrutiny committee on 8 April 2008. The council identified that for the last ten years the number of people over 65 has been falling. The main concern for the council is the percentage of older people with personal care needs, as this is not taken account of in any funding allocation.

129. In terms of each of the specific recommendations, Glasgow concluded that:

- Service users have always been charged for meal preparation. Any clarification/ change in the law would have serious financial consequences to the council unless fully funded.
- There is a need for complete and clear guidance as to what should be reported, but this needs to be considered against the greater flexibility afforded by the SOA.
- The council has always had clear public information on the policy and publishes information on eligibility criteria and charging policies. It does not operate a waiting list for free personal and nursing care.
- Glasgow continues to provide cleaning, shopping and laundry services and is not one of those listed in the report as having raised its eligibility criteria to exclude such services.

130. The committee was also provided with an update in August 2008, which confirmed that the Scottish government was committed to new legislation to clarify which parts of meal preparation would count as free personal care and that existing charging policies would only change when the new legislation takes effect. COSLA and the Scottish government have agreed to set up a working group to oversee developments in this area.

Scotland's school estate

131. A major programme of school building renewal started at the end of the 1990s. The programme aims to create a school estate that is well designed, well built and well managed. Our national study, published in March 2008, concludes that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends that the Scottish government and councils improve arrangements and support future achievements, including:

- better planning to set specific, measurable and meaningful targets for the school estate strategy
- greater use of the Scottish government guidance by councils on future school design



- making environmental sustainability a key element of school design
- identifying and sharing good (and bad) practice in school design and estate management
- estimating pupil rolls for at least ten years ahead with a minimum annual review.

132. Glasgow has an ambitious programme to improve the school estate. The programme was developed within the context of rapidly decreasing school rolls and includes all school/ nursery sectors.

133. The number of secondary schools was rationalised, using a PFI approach, from 38 to 29, through the Project 2002 programme. This provided 11 new-build and 18 refurbished schools. The project has delivered an improved learning environment, a quality ICT service and leisure and recreational facilities that contribute to lifelong learning initiatives and other community developments.

134. The Pre-12 strategy was developed to rationalise and improve the primary sector. Over four phases, the strategy will create 35 new campuses, to replace 88 primary, 46 nursery and 7 special educational needs centres. The demand for school places has been anticipated for the next 20 years. The increase in school-building activity has helped to reinvigorate design and build expertise in this area, with the council's subsidiary company – City Building Partnership LLP being a major contributor.

Overview of sport in Scotland

135. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities and programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of SOAs is an opportunity to clarify and align the links between national and local strategies.
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- Arrangements to deliver the 2014 Commonwealth Games are still being developed.

136. The chief executive met with representatives of Audit Scotland in August 2008 to discuss the overview report including the variation in sports participation rates across Scotland and the difficulties associated with measuring this. The council has identified and agreed a number of initial projects for the 2014 sports development legacy focusing on athletics, swimming, gymnastics, cycling, badminton and netball.



137. The governance structure for delivering the Commonwealth Games involves the Scottish Government, the Commonwealth Games Federation, Glasgow City Council and the Commonwealth Games Council for Scotland. The Scottish Government is funding 80 per cent of the cost and Glasgow City Council is funding 20 per cent. Operational delivery is the responsibility of the Organising Committee, which operates through a company, Glasgow 2014 Limited. The Minute of Agreement between the Commonwealth Games Council for Scotland, the Scottish Government, Glasgow City Council and Glasgow 2014 Limited states that the agreed level of funding provided by the Glasgow 2014 Organising Committee, the Scottish Government and Glasgow City Council will be up to £298 million (2007 prices). Any increase in the budget must be agreed by the Glasgow 2014 Strategic Group and this will also be split 80/20.
138. The responsibility for delivering the majority of the Commonwealth Game's sport venues lies with Glasgow City Council. The major exceptions are the Royal Commonwealth Pool (City of Edinburgh Council), Hampden Stadium upgrade (Scottish Football Association) and the SECC new Arena (SEC Ltd). Apart from the land acquisitions, the cost of the Games Village is to be funded by a private developer partner. An update on the major venues is included in the following paragraphs.
139. **National Indoor Sports Arena (NISA) and Velodrome (Badminton, Track Cycling):** The original bid timescale envisaged that this project would start in summer 2008 with completion by summer 2010. The enabling works contract (£12m) was awarded in June 2008 and the main works contract (£89m) advertised in August 2008. The next phase of the tender process (identification of bidders to proceed to restricted negotiations) will be completed, at the earliest, in December 2008. There have been initial delays in the design process and the expected construction time of 27 months, will lead to an earliest completion date of summer 2011. This is later than initially thought, although still within the overall delivery deadline of 2014. The cost of the project remains in line with the initial estimate.
140. **SECC Arena (Netball, Gymnastics):** The new SECC arena forms part of the Queens Dock development. This project is delivered by SEC Ltd, of which Glasgow City Council is the major shareholder. The council has completed associated land disposal and planning consents and expects to contribute £10m in 2008/09 and £5m in 2009/10.
141. **Toryglen Football Centre:** The upgrading work began in June 2007 and this is almost complete.
142. **Scotstoun Stadium (Table Tennis, Squash):** The previous stadium has been demolished. The main contractor was appointed in March 2008 and construction work commenced in July 2008. The project is expected to be complete by the end of 2009.
143. **Tollcross Pool (Race Swimming):** This is in its early stages, with construction works expected to start in autumn 2010 with completion early 2012.



144. **Kelvin Hall Arena (Boxing):** Upgrading works are expected to start in May 2011.

145. **Games Village:** The development of the games village is being taken forward by the multi-agency games village steering group and the games village project team within the council. After the Commonwealth Games 20% of the houses will be made available for socially rented housing. In total, 1,500 residential units will be constructed. The Games Village is to be delivered through a public-private development partnership, led by Glasgow City Council. The partnership is expected to include a profit share arrangement, with land being made available to the partner at no cost. Developers will fund the building of the residential units. Land acquisitions related to the Village have been completed by Glasgow City Council and expressions of interest were submitted by six organisations in August 2008. It is anticipated that four development consortiums will progress to the 'invitation to participate in dialogue' with appointment of preferred partner in July 2009.

146. **Infrastructure:** The Commonwealth Games is integrated with a number of infrastructure projects being taken forward by Glasgow City Council and others. This includes a £445 million contract to provide the M74 extension by autumn 2012. Construction work on this project has recently begun.

147. According to Glasgow City Council's reporting, the financial slippage in Commonwealth Games related capital projects was £27.2 million in 2007/08. This represents 65% of the relevant capital budgets. With significant public interest in this area, it is important that the council clarifies its project timetables and expenditure phasing and introduces reporting mechanisms as part of the overall governance arrangements.

148. The council has commissioned Ernst & Young LLP to provide an "infrastructure report" on the Commonwealth Games. This is currently in draft and includes details of the proposed governance arrangements which the council will adopt.

Key risk area 7



Final remarks

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

150. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.

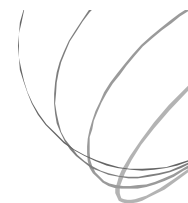
151. The co-operation and assistance given to us by Glasgow City Council members and staff is gratefully acknowledged.



Appendix A: action plan

Key risk areas and planned management action

Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	<p>Capital receipts and their impact on council tax</p> <p>The benefit of capital receipts are taken into the general fund on a profiled basis, typically over about 3 years. This contrasts with the cost of principal repayments for capital borrowing which affects the general fund over a much longer period. This means that over the short term council tax levels are benefiting from significant capital receipts.</p> <p>Risk: This may not be sustainable and any decrease in the extent of capital receipts or restriction through statutory changes will have a significant impact on general fund or council tax levels.</p>	<p>Revised estimates of capital receipts and the impact on general fund balances/ council tax levels will continue to be monitored.</p> <p>Any proposed statutory changes will be reviewed and a response provided to any consultation.</p>	Executive Director of Financial Services	31 March 2009
2.	<p>Capital programme slippage</p> <p>The council's capital programme in 2007/08 experienced slippage, in financial terms, of 30%.</p> <p>Risk: Systematic slippage in projects might have a critical effect on key projects and planned achievements.</p>	<p>The council will consider whether slippage in capital projects could be reduced by specific project management actions or whether the extent of slippage represents optimism bias (the tendency for public sector projects to underestimate timing and cost). In the latter case this will then be considered at project inception.</p>	Executive Director of Financial Services	31 March 2009
3.	<p>Significant Trading Operations (STOs)</p> <p>Two STOs did not achieve their statutory financial target to break-even over the three year period to 31 March 2008.</p> <p>Risk: The STOs may not achieve their statutory financial target in the future and may not be providing best value in service delivery.</p>	<p>The council has been reviewing the STOs and plans are in place to reconfigure them.</p> <p>Achievement of the statutory target and delivery of best value will be monitored.</p>	Executive Director of Financial Services	31 March 2009



Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	<p>Financial pressures Key emerging pressures on the council's 2008/09 budget include energy costs, income shortfalls, falling capital receipts, fuel costs, residential schools and CHCP overspending. Risk: The council's efficiency savings may not cover the financial pressures in future years.</p>	<p>The council will continue to budget for emerging financial pressures.</p> <p>A review of previously ring fenced initiatives is planned.</p>	Executive Director of Financial Services	31 March 2009
5.	<p>Single Outcome Agreement (SOA) Performance management arrangements for the SOA outcomes are being developed. Risk: If arrangements are not effectively aligned to the SOA planned community outcomes may not be achieved.</p>	<p>SOA governance arrangements are being developed by the council.</p> <p>A six monthly reporting cycle of performance is planned.</p>	Chief Executive	31 March 2009
6.	<p>Asset management Asset management processes are under review. A comprehensive asset management plan is not yet in place across the council. Risk: Assets may not be utilised to their full potential and efficiencies realised.</p>	<p>The management of surplus property is under review.</p> <p>A corporate asset management plan is being implemented.</p> <p>The office improvement plan will be produced by November 2008</p>	Director of Development and Regeneration Services	31 March 2009
7.	<p>Commonwealth Games projects and governance arrangements The council needs to clarify its project timetables and expenditure phasing and introduce reporting mechanisms as part of the overall governance arrangements for the Commonwealth Games. Risk: Commonwealth Games venues are not delivered on time or budget.</p>	<p>Governance arrangements being developed will report progress on key projects.</p> <p>Planned timescales and associated cost phasing will be identified by project managers.</p>	Chief Executive	31 December 2008