

Glasgow City Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



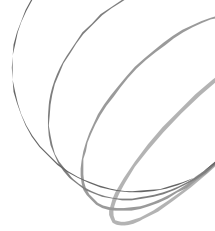
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Key Messages

We have given an unqualified opinion on the financial statements of Glasgow City Council, which give a true and fair view of the financial position and expenditure and income of the council and its group for the year. As part of our work in reaching this opinion we considered the council's net liability position and whether "best consideration" had been achieved in the transfer of investment and surplus properties to a wholly owned subsidiary. This year's financial statements include changes required to how the council accounts for PFI and leasing transactions and changes to the group boundary on the basis of materiality.

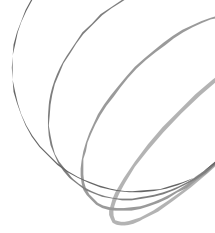
In 2009/10 the council spent £3.0 billion on the provision of public services, with more than £2.8 billion on revenue services and the remainder on its capital programme. In delivering these services, the council reported an income and expenditure accounting deficit of £0.3 billion. However after taking account of statutory adjustments, including one off capital receipts, £7.2 million was added to the general fund balance during the year. The council was able to make contributions to its unallocated reserves in line with its budget.

The council's financial forecast for 2010-11 recognises the increasingly challenging climate, and identifies a funding gap of £30.3 million. On 28 January 2010, the council approved a budget to meet this gap. Measures adopted include improvement in staff attendance, phasing out of non-contractual overtime, middle-management reductions, increased fees and charges, savings from arms length external organisations (ALEOs) and reforms in education and social work.

Longer term financial forecasts (2011- 2013) identify that the net effect of the reduction in funding and increasing costs, is a forecast spending gap of £52.7 million in 2011/12 and £48.7m in 2012/13. The councils' Tomorrow's Workforce programme will offset some of this but the remaining gap of £90.4 million, will result in a reduction in planned expenditure of 3.6% each year (7.1% cumulative). This includes £35 million from education services and £31 million from social work services.

A key part of the Tomorrows Workforce programme has been the significant redundancy/ retirements announced in 2009/10. Typically affecting 15% of the workforce over the next three years and acting as a prompt for service redesign, the programme is expected to yield eventual annual savings of £44 million. The expenditure of £127 million has been met by income from the transfer of investment and surplus properties to City Property Glasgow (Investments) LLP (a wholly owned subsidiary).

Improved asset management is a significant element of the council's response to its financial pressures. Tomorrows Office is a business plan for the rationalisation of the council offices in the city centre. It is expected the number of offices will reduce from 18 to 6, reducing the office floor space by 63%. The council has procurement practices which are amongst the best in Scottish local government and contributed to in year savings of over £5 million.



Low interest rates and the rally in world markets provided Strathclyde Pension Fund with an improved investment position (up from £7.6 billion last year to £10.4 billion at 31 March 2010).

During the year there were political changes within the council which led to increased media coverage and correspondence received by Audit Scotland. The council's scrutiny arrangements responded effectively to the allegations that were made during this time.

Working with partners continues to be an increasing component of the council's working environment. During 2009/10, the council and NHS Greater Glasgow and Clyde could not reach agreement on how to progress the existing Community Health and Care Partnerships (CHCPs). Instead they have agreed to establish a single Community Healthcare Partnership for the City. Further joint working is being pursued through the council's approach to developing shared services in the West of Scotland and the multi-agency approach to community planning with single outcome indicators and reporting at the core.

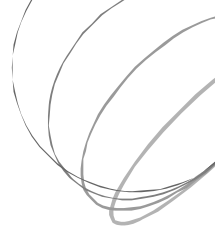
Overall performance of the council, as evidenced by the council's measures of improved performance, appears to have been maintained from last year. However there are still a number of areas identified within the wider Community Planning Partnership where adequate data does not exist to demonstrate improved performance against the national outcomes. Some of the outcomes anticipated before the current economic downturn may now appear optimistic.

In June 2010, we submitted our final shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. We are not proposing any best value work, but there are plans by other scrutiny bodies to carry out work on a number of areas. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

Outlook

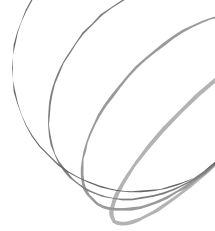
The most significant challenge the council faces is a reduction in funding in the years 2011 to 2014. Although the exact size of central government funding reductions will not be known until later in the year, the council is taking action now to anticipate significant cuts in its budget. The council has recognised the risks to its existing forecasts. In this challenging environment members need to continue to support clear and consistent strategic decisions against a background of good governance, scrutiny and strong financial management. We expect the council to take steps to mitigate the risk of poor morale and motivation amongst staff as well as dissatisfaction amongst some service users.

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



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Glasgow City Council (the council). A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks. The strategic risks are identified within the joint scrutiny bodies shared risk assessment and assurance and improvement plan (AIP) (www.audit-scotland.gov.uk/work/scrutiny/docs/Glasgow.pdf). The AIP gives a description of the council's context, including the challenges it faces and what it's trying to achieve. The AIP also sets out any areas of concern about the council.
2. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are:
 - Making an impact – overview of best value audits 2004 -09.
 - Scotland's public finances – preparing for the future.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Progress report on planning for the delivery of the XX Commonwealth Games 2014.
 - National scrutiny plan for local government 2010/11.
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
 - Getting it right for children in residential care.
3. These reports have been sent to the council for consideration and we do not consider them all in this report. They are available on our website www.audit-scotland.gov.uk.
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has management arrangements in place. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

6. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. This section summarises the results of our audit on the financial statements.

Audit Opinion

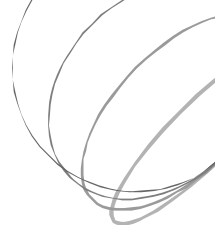
7. We have given an unqualified opinion that the financial statements of Glasgow City Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We have also certified that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Going concern

8. The council has prepared the financial statements assuming that the council and its group can continue to operate as a going concern into the future. The council's 2009/10 single entity balance sheet shows a net liability of £450 million primarily as a result of accounting for an FRS17 increase in pension liability of £713 million. This is the first year that the council has recorded a net liability in its balance sheet, although the group financial statements have reported a net liability for a number of years.
9. The council has considered the scale and reason for the net liability position and determined that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, pension liabilities will be funded as they fall due through employee and employer contributions, government grants and council tax.

Legality

10. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Director of Financial Services confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations.
11. On 29 March 2010 the council transferred a portfolio of investment and surplus properties with a net book value of £149 million to a wholly owned subsidiary, City Property Glasgow (Investments) LLP. The council received a capital receipt of £120 million resulting in a net loss on sale of £29 million. In



accordance with the Local Government (Scotland) Act 1973 we reviewed this transaction to determine whether the council achieved “best consideration” through this transfer. We have obtained the necessary assurances and evidence from valuation officers that the “best consideration” requirement was met.

Annual governance statement

12. We were satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances from service directors and the chief executives of the ALEOs.

Accounts submission

13. The council’s unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2010 and will then be available for presentation to members and publication.

Accounting issues

14. 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). We were satisfied that the council prepared the financial statements in accordance with the 2009 SORP.

Prior year adjustments

15. In accordance with the 2009 SORP and the decision to adopt early some IFRS accounting requirements, the council amended its opening balance sheet and comparative information in the financial statements. These changes to the prior year included:
 - PFI arrangements were accounted for in accordance with IFRIC12. The net impact on the income and expenditure account is an increase in expenditure of £12 million. The schools PFI valuation of £386 million is now included in the council’s balance sheet. With £281 million previously included in the balance sheet and the recognition of the liability to the PFI operator (£181 million), the net effect is an increase in the liability of £76 million.
 - **Non-domestic rates.** The 2009 SORP changed the accounting requirements. As an agency agreement the only requirement is to recognise the net debtor/creditor with the Scottish Government.
 - **Leases.** The council has adopted the IFRS requirements for lease arrangements early, resulting in a number of operating leases being reclassified as finance leases. The net impact on the income and expenditure account is minor but the impact on the balance sheet is an increase in assets of £49 million and an increase in liabilities of £56 million.



Post balance sheet events

16. In November 2009, the council approved a policy to offer all staff aged 50 and over the option of voluntary redundancy/ retirement over a three-year phased period. This is part of the council's wider change programme, 'Tomorrows Council', which includes projects to make better use of office space and improve workforce planning. The financial statements include accruals and provisions for redundancy/ retirement expenditure of £134 million, however a report to the Executive Committee on 12 August identified that the cost of meeting the requests for severance has now been revised to £127 million. We understand a number of staff have withdrawn their interest in the scheme, leading to a reduction in the estimated cost of around £7 million, with a corresponding reduction in projected savings. Whilst a change was not required to the financial statements, the council is to keep the level of the provision under review.

Financial guarantees

17. As noted in paragraph 11, the bank funding of City Property Glasgow (Investments) LLP requires the council to provide a financial guarantee that it would underwrite the debt payments over the next 20 years. The outline business case for the arrangement valued this at £45,000 per quarter (total £3.6 million). The situation is similar with City Parking (Glasgow) LLP. In this case the annual value of the guarantee is £100,000 for 30 years. The financial statements reflect the value of these guarantees as £0.4 and £0.1 million respectively, based on the council's assessment of the probability of the guarantee being called and we have accepted the council's view that this represents the fair value of the guarantee. The council is to keep the assessment of these guarantees under review.

Presentational and monetary adjustments to the unaudited accounts

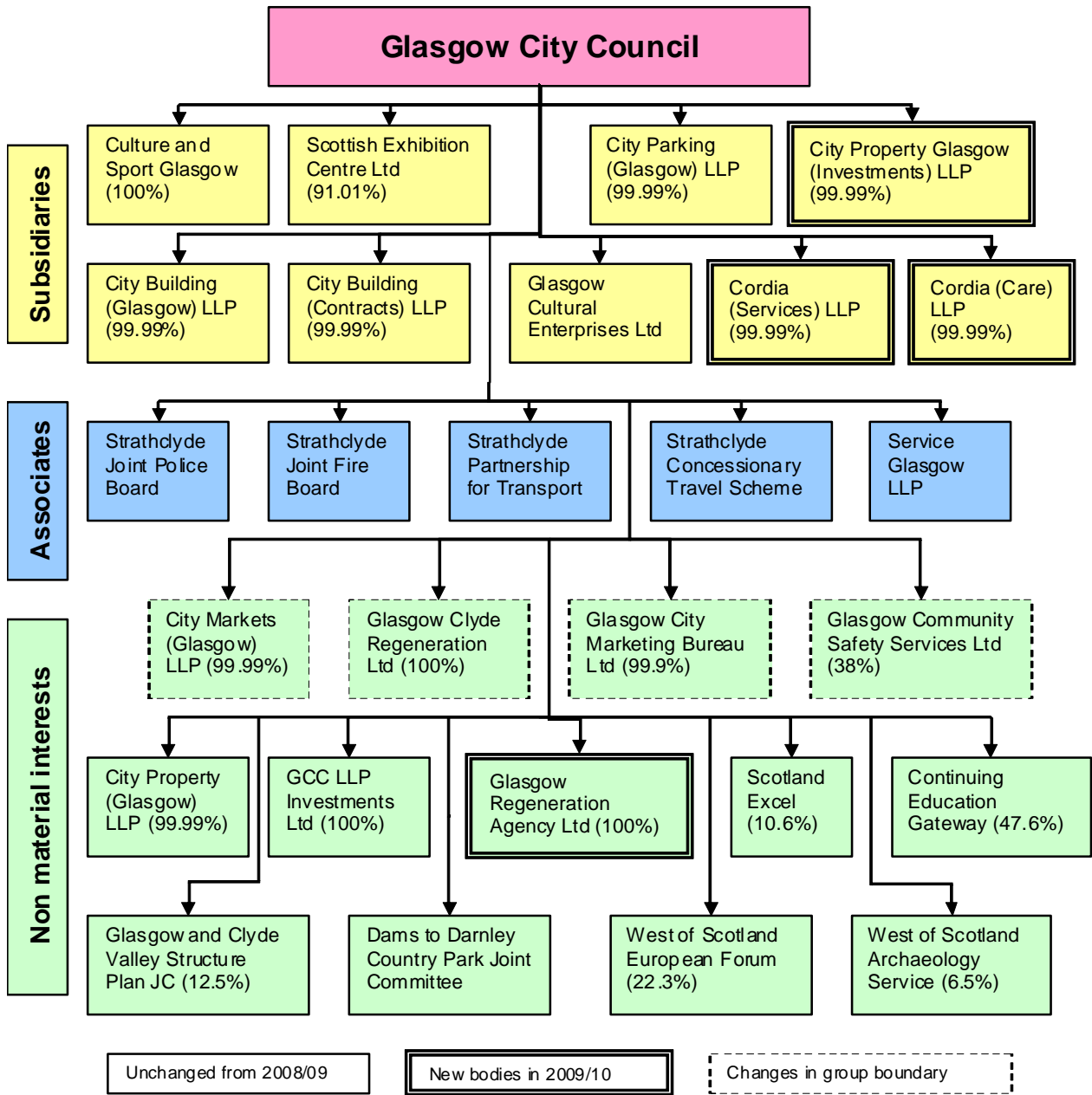
18. A number of presentational changes were required to the financial statements for Strathclyde Pension Fund as a result of audit's review of the disclosures required by the 2007 Pensions SORP. In addition officers identified two significant changes required to the financial statements, a £14 million adjustment to unpaid benefits (and additional contributions receivable) and a £12 million adjustment to net rents from properties (and investment management expenses). The audited financial statements have been adjusted to reflect these issues.
19. As is normal practice, less significant unadjusted errors have been reported to the Executive Director of Financial Service and the Finance and Audit Scrutiny Committee.

Group accounts

20. During 2009/10 the council revised its group boundary (refer to Exhibit 1 below). Subsidiary and associate bodies that represent less than 1% of the council's turnover or net assets are no longer consolidated into the group accounts. This has increased the number of "non-material interest" bodies disclosed within the notes to the group accounts from 7 to 12.

Exhibit 1.

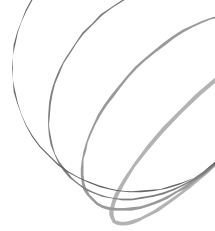
Glasgow City council Group Structure



21. The council created a further 3 new subsidiaries and 1 new "non-material interest". Two of the new bodies represent the transfer of welfare and facilities management services to Cordia (Care) LLP and Cordia (Services) LLP. The third new subsidiary is City Property Glasgow (investments) LLP, created to manage the council's investment portfolio.

22. We would like to highlight the following:

- all bodies within the group received unqualified audit opinions from their external auditors



- in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets, have been aligned with the council.

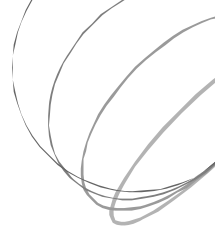
Trust funds

23. Glasgow City Council has 125 trusts and funds with 33 having charitable status. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. This means a full set of financial statements is required for each trust fund. However the Scottish Charities Regulator (OSCR) has deferred full implementation, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements supplemented with additional working papers.
24. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (10 councils), average (12 councils) and below average (8 councils). Glasgow City Council's submission fell into the "below average" category.
25. The feedback indicates that councils should be submitting separate independent examiner's reports, and these should not be from an employee of the authority. The "below average" assessments were attributed to situations where trustee annual reports were deficient or lacked specificity in relation to individual charities. The council does not prepare a trustee annual report as many of the funds are not active and do not have associated trustee meetings. The council is however, moving to a restructuring of trusts to four key funds with improved governance arrangements. We reported this in last year's members' report. The council is still in the process of organising this change, including consultation with OSCR. The council has made progress with around ten funds that will transfer to external bodies (for example the SSPCA), but still needs to approve and apply to OSCR for the four new council funds. A committee paper is expected in the next few months to further progress this.

Action plan no. 1

Common good fund

26. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements and maintains a fixed asset register with a list of assets published on the council's internet site.
27. The guidance note 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. 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 and prohibitively expensive.



28. Last year we drew attention to a failure to comply with the Local Government (Scotland) Act 1973. Although, Pollok Park was included as a fixed asset in the common good fund balance sheet, the estimated income and expenditure of the park was included in Glasgow City Council's income and expenditure account. Accounting for the income and expenditure within the common good fund would have significantly depleted the fund.
29. In 2009/10 the council agreed to an arrangement where the common good as a "managed fund" pays the council a nominal £1 fee (if asked) in return for the council using and managing any asset which is deemed part of the common good, either now or subsequently. Existing evidence indicates that the cost of managing such assets outweighs their associated income, but the council has recognised that where an asset is found to have a net income stream then these circumstances could be considered on a case-by-case basis. This now resolves the previous year's issue. Restrictions over the alienation or disposal of common good assets continue to be governed by the law of common good.

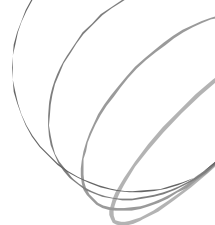
Pension fund

30. There have been pension overpayments made across public sector pension schemes as a result of an error in the uprating of the Guaranteed Minimum Pension (GMP) since 1978. The causes of the overpayments have been investigated by HMRC, DWP and central government pension administrators. The UK Government has concluded that there is unlikely to be any single cause. Prior to state pension age, public service pension schemes pay annual cost of living increases on the whole of a person's occupational pension. After state pension age, however, responsibility for paying increases on the GMP element is split between the pension scheme and the state. Overpayments occurred where pension schemes did not have GMP information recorded on their systems, and so continued to uprate the whole pension. The people affected therefore received part of the uprating in their GMP twice: once from the state as part of their state pension, and once from the pension scheme. The total number of people affected so far represents 6% of scheme members over state pension age. Overpayments are to be written off and the pensions involved adjusted to the correct level. The total for Strathclyde Pension Fund is an overpayment of £10 million.

Outlook

Compliance with International Financial Reporting Standards (IFRS)

31. The council has been working to prepare a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. Overall the council has made good progress in this area, in common with around half Scottish councils. The main issue to be further developed is the calculation of the employee benefit accruals. We will discuss the remaining timetable for preparing a shadow full set of 2009/10 IFRS-compliant statements and any audit input to this process as part of our audit planning for 2010/11.



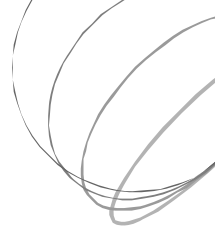
Pension funds

32. The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the existing arrangements where it is done as part of the administering council's audit. Audit Scotland, working with officers and committees, have already started to separate the internal and external planning for the pension fund from the administering authority and shall further refine our audit approach following the outcome of the consultation.

Action plan no. 2

Carbon trading

33. From April 2010 a new and complex system for charging for carbon emissions was introduced. The council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. In the council, an officers' working group was established during 2009 with reports summarising the Carbon Reduction Commitment (CRC) scheme and its potential impact. The council has a Carbon Management Plan and has registered for the CRC scheme within the required deadlines. Proposals for establishing carbon budgets and monitoring and reporting performance have been established. It is expected that the council will have to purchase around £1.7 million of carbon allowances in April 2011.



Use of resources

Financial results

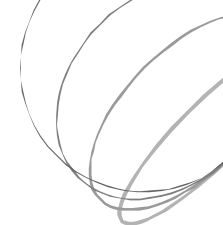
34. In 2009/10, Glasgow City Council spent £3.0 billion on the provision of public services, with more than £2.8 billion on revenue services and the remainder on capital. The council's net operating expenditure was £1.9 billion, this was met by central government and local taxation of £1.6 billion, resulting in an accounting deficit of £0.3 billion or 16% of the net expenditure for the year.
35. The budget for 2009/10 was based on Band D council tax of £1,213 with planned contributions of £5 million to the general fund, £1.5 million to the repairs and renewals fund and £1 million to the insurance fund. In fact, after taking account of statutory adjustments, £7.2 million was added to the general fund during the year.

Budgetary control

36. The total service expenditure across the council was £1.6 billion, or (0.1% above the budget of £1.5 billion). Early in 2009/10, the council reported overspends within education and social work services of around £2.2 million attributed to the general economic climate; the growing number of children in need of care placements and transitional staffing costs in schools. In period 11, these overspends were joined by land and environmental services, with an eventual overspend of £2.4 million. This was attributed to adverse weather conditions during January 2010, leading to additional winter maintenance costs. There was a recovery in the overspend in social work by the year end (£0.8 million overspend), but the education overspend deteriorated to £2.2 million. Other areas recorded an offsetting underspend of £3.8 million.

Financial position

37. Over a number of years the pressure on financing the council's services has increased. The income and expenditure account over several years shows an increasing accounting deficit. A similar trend is seen in the group income and expenditure account.
38. After taking account of statutory adjustments, £7.2 million was added to the general fund during the year. The council was able to report this general fund increase due to a number of significant non recurring items:
 - application of capital receipts, including the transfer of assets to City Property Glasgow (Investments) LLP (£128 million)
 - contributions to service costs from the capital fund (£49 million)
 - consent to borrow for equal pay (£12 million).



39. The council's future budgets reflect the one-off nature of these and similar transactions.
40. Exhibit 2 provides some information about the council's financial position compared to other Scottish councils.

Exhibit 2.

Key indicators

| Ratio | Description | Glasgow City | | Audited Range for all Scottish Councils |
|---|--|--------------|---------|---|
| | | 2008/09 | 2009/10 | 2009/10 |
| Working capital (Current assets as a ratio of current liabilities) | This is an indicator of the council's ability to pay its current liabilities in the short term | 0.69 | 0.54 | 0.33 to 2.48 |
| Useable reserves as a percentage of general revenue expenditure | This shows the proportion of revenue expenditure that could be met from reserves | 10.17% | 6.89% | 3.7% to 230.4% |
| Long term borrowing compared to tax revenue | This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt | 2.82 | 2.51 | 0 to 6.79 |
| Long term assets compared to long term borrowing | This gives an indication of the ability to borrow to replace or repair assets (excluding Shetland) | 2.27 | 2.33 | 1.78 to 38.12 |

Source: audited 2009/10 accounts.

41. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Reserves and balances

42. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. The council's funds at 31 March 2010 totalled £128 million, a decrease of £39 million on the previous year. The main reason for the decrease has been the application of the capital

fund (£50m) to offset service's expenditure on capital repayments. This decrease is partly offset by the increase in the cultural and recreational fund (a fund supporting cultural and events programme).

Exhibit 3.

Reserves

| Description | 31 March 2009 £ Million | 31 March 2010 £ Million |
|--------------------------------|----------------------------|----------------------------|
| General Fund | 38.0 | 45.2 |
| Repair and Renewal Fund | 19.0 | 16.7 |
| Cultural and Recreational Fund | 3.8 | 11.3 |
| Insurance Fund | 22.8 | 20.9 |
| Capital Fund | 83.8 | 34.3 |
| | 167.4 | 128.4 |

43. The general fund increased by £7.2 million during the year to £45.2 million (2% of the council's net operating expenditure). The council contributed to its "free" reserve in line with budget of £5 million. The total contribution of £7.2 million also includes £2.2 million of net underspends against earmarked elements of the fund including grants, which will be spent in future years.
44. Of this balance £17.1 million has been earmarked for specific purposes including equal pay, private sector housing grant and the zero waste fund. This leaves an unallocated balance of £28 million (1.5%) (£23 million in 2008/09), which is in line with the council's policy to restore free reserves to 2% of net expenditure over the medium term.

Capital performance 2009/10

45. The total capital programme increased by £90 million during 2009/10 to £1.5 billion, reflecting a reduction of £137 million in completed projects and an increase due to new projects approved of £222 million. These additional projects include the National Indoor Sports Arena and Velodrome (£106m), office rationalisation programme (£47m) and new primary school projects (£36m).
46. The in-year planned capital expenditure (2009/10) was originally £235 million (period 2), but this projection reduced by £53 million or 23% during the year, representing slippage on capital projects as noted in Exhibit 4. An element of this was due to enhanced controls being introduced to further challenge business case proposals. The actual financial statements outturn of £166 million is stated after removing non asset-creating expenditure as required under the SORP and is in line with the revised projection.

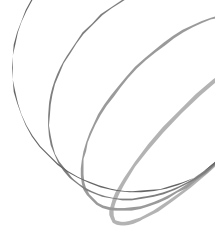


Exhibit 4.

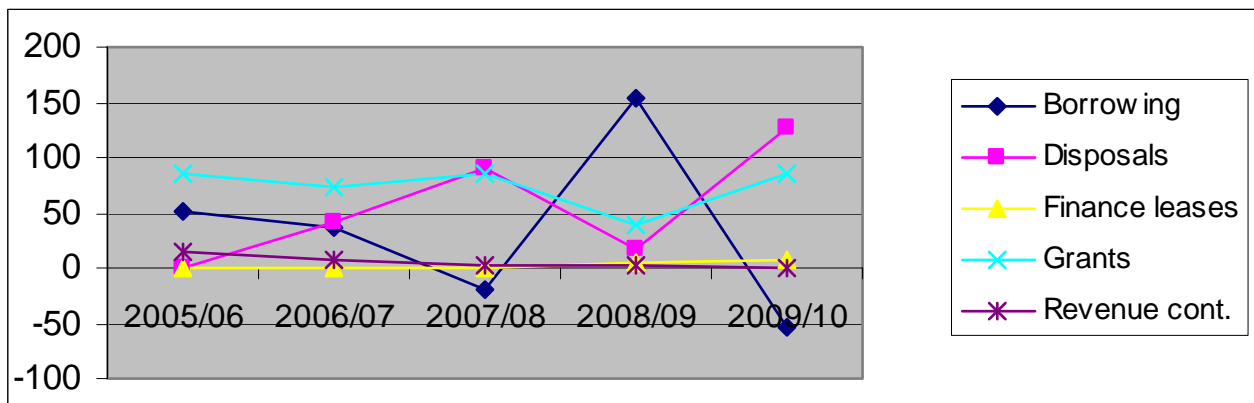
Capital projects, main areas of slippage

| Major project | Slippage (£m) |
|---------------------------------|---------------|
| Riverside Museum | 4.7 |
| Clyde Gateway | 6.7 |
| Blochairn Market | 4.7 |
| White Cart Flood Prevention | 6.5 |
| East End Land Initiatives | 6.0 |
| East End Regeneration Route | 13.7 |
| Children's Residential Strategy | 3.2 |
| All other projects | 7.5 |
| TOTAL | 53.0 |

47. As shown in Exhibit 5, in 2009/10 the council achieved capital receipts of £128 million (£17 million in 2008/09). The majority of this arose from the transfer of investment properties to City Property Glasgow (Investments) LLP a wholly owned subsidiary of the council. City Property Glasgow (Investments) LLP financed the payment to the council through a bank loan. In 2009/10 this receipt enabled the council to match the expenditure on its redundancy/ retirement programme and reduce the need to borrow for capital expenditure.

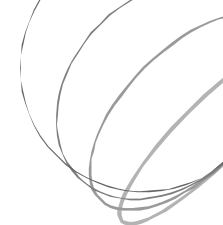
Exhibit 5.

Sources of finance for capital expenditure 2005/06 - 2009/10



Treasury management

48. As at 31 March 2010, Glasgow City Council held cash and temporary investments totalling £90 million (£159 million at 31 March 2009).



49. The current economic climate means that interest rates on investments are low and the council received £4 million in investment income this year compared to £9 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates and its average cost of borrowing over the year was 4.60% (5.71% last year). The council has taken advantage of the drop in interest rates to reschedule £54 million of debt (replacing an average interest rate of 4.44% with 2.89%) and has repaid a further £105 million, offset by new borrowing of £21 million (£84 million net). This has resulted in a saving of £4 million.

Pension funds

50. 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 of the twelve unitary authorities in the Strathclyde area, civilian employees within Strathclyde Police and Strathclyde Fire and Rescue plus over 220 scheduled and admitted bodies. Fund No. 3 is a closed fund representing employees of Strathclyde Buses pre-1993.

51. Investment assets for both funds are diverse and are managed by a range of external fund managers. The value of the investment assets are illustrated in Exhibit 6.

Exhibit 6.

Pension Fund Investments

| Value of investments (£m) | 31/03/06 | 31/03/07 | 31/03/08 | 31/03/09 | 31/03/10 |
|---------------------------|----------|----------|----------|----------|----------|
| Fund | £m | £m | £m | £m | £m |
| No. 1 | 8,952 | 9,686 | 9,467 | 7,598 | 10,417 |
| No. 3 | 96 | 103 | 103 | 91 | 118 |

52. By the end of 2009/10, indications were that the worst of the global financial and economic crisis had passed. Low interest rates supported a rally in markets. All major asset classes rose significantly and improved manufacturing, economic and consumer confidence data suggested the world economy was recovering, but concerns remain over the sustainability of the recovery.

53. Exhibit 7 identifies that Fund No. 1 produced a total annual return of 36.3% for 2009/10, the benchmark return was 41.3%. The fund's ranking for the year rose to 23rd and the fund finished the year above the average UK pension fund return of 30.1%. The fund has achieved a 10-year annualised return of +4.0%. Outperforming the median UK fund over 5 and 10 years.

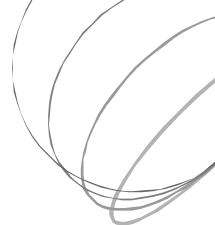


Exhibit 7.

Pension Fund returns 2000 - 2009

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | | 3Yr | 5Yr | 10Yr |
|--------------|------|------|-------|------|------|------|------|------|-------|------|--|-----|-----|------|
| | % | % | % | % | % | % | % | % | % | % | | % | % | % |
| Fund Return | -8.6 | -0.2 | -20.8 | 26.6 | 12.4 | 27.2 | 7.4 | -2.9 | -20.8 | 36.3 | | 1.6 | 7.4 | 4.0 |
| Fund B/mark | -9.5 | -1.1 | -22.2 | 28.0 | 12.9 | 26.6 | 8.1 | -3.8 | -21.0 | 41.3 | | 2.4 | 8.0 | 4.0 |
| WM All Funds | -6.8 | -1.0 | -18.5 | 22.6 | 11.6 | 24.2 | 7.0 | -1.0 | -18.1 | 30.1 | | 1.8 | 7.0 | 3.8 |
| Fund Ranking | 56 | 23 | 34 | 25 | 18 | 10 | 30 | 8 | 71 | 23 | | 57 | 34 | 33 |

Strathclyde Pension Fund (Main Fund) – 2009/2010 Performance Review

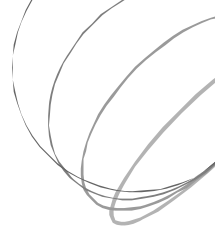
54. The Fund is ahead of its benchmark over 10 years. Over the last 3 years of financial crisis and recovery, it has performed better than benchmark on the way down but lagged behind on the way back up.
55. The effect on the asset values of the pension fund and the future outlook for employers' contributions was assessed at the triennial valuation of the pension fund at March 2008 and again in an inter-valuation report at 31 March 2010. The Hymans Robertson report showed that the No. 1 Fund funding position had reduced from 95% in March 2008 to 90% in March 2010 (but this is an increase from the estimated 84% last year).

Exhibit 8.

Projected Funding Position - Fund No. 1

| | 31Mar2005 | 31Mar2008 | 31Mar2009 | 31Mar2010 |
|-----------------|-----------|-----------|-----------|-------------|
| | Actual | Actual | Actual | (Projected) |
| | £m | £m | £m | £m |
| Assets | 7,005 | 9,493 | 9,943 | 10,712 |
| Liabilities | 7,235 | 9,979 | 11,801 | 11,925 |
| Surplus/Deficit | (230) | (486) | (1,858) | (1,213) |
| Funding Level | 96.8% | 95.1% | 84.3% | 89.8% |

56. The No. 3 Fund funding position has also reduced to 86% (from 88%) since 2008.
57. On the basis of the valuation at March 2008, contribution rates of the No.1 fund are to increase from 17.3% in 2009/10 to 18.2% in 2010/11 and to 19.3% in 2011/12. The funding position and employer contribution rates will be reviewed during the next formal actuarial valuation at 31 March 2011.



Asset Management

58. Our 2009 study *Asset Management in Councils* found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.
59. The council's own assessment indicated that the number of operational properties could be categorised as follows (29 properties were not able to be surveyed at that time):
- A – suitable for retention – 140
 - B – suitable for retention with some investment – 174
 - C – dispose or retain with significant investment – 158
 - D – dispose unless service requirement; re-provision with capital investment. – 108.
60. As we reported last year, Glasgow, with its joint venture partner Serco, prepared a strategic operational property asset management plan in August 2009 covering the council's operational property portfolio, with the exception of schools. In total the plan covers 609 council buildings and suggests that by implementing a 'corporate landlord' approach it may be possible to reduce this number to 546. The Plan refers to other areas of asset management activity in the council including the school estate management plan and office rationalisation plan (Tomorrows Office).
61. Tomorrows Office is a business plan for the rationalisation of the council offices in the city centre. It is expected the number of offices will reduce from 18 to 6, reducing the office floor space by 63%. Annual property cost savings are estimated at £6 million, following capital investment costs of £23 million. A payback period of 4 years. It is also anticipated that the proposed changes will deliver 16% of the council's annual carbon reduction target.

Procurement

62. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
63. Glasgow City Council is a conforming council with an overall score of 47%. This assessment represents a higher level of performance than other Scottish councils. The areas of noticeably stronger performance included practices and processes (61%), collaboration (67%), benchmarking (67%) and EU legislation (67%). The weaker area of performance compared to the overall score was in connection with supplier strategy and policy (33%).



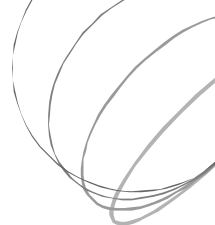
64. In 2009/10, the council set a target of saving £3 million for buying goods and services. The actual saving was £5 million, mainly achieved as a result of changing the way the council buys goods and services.

Managing People

65. As noted in paragraph 16, the council approved a policy to offer all staff aged 50 and over the option of voluntary redundancy/ retirement over a three-year phased period. This had a projected cost of £60 million and estimated savings of around £20 million per annum, based on 1,500 redundancy/ retirements. This is part of the council's wider change programme, 'Tomorrows Council'.
66. In July 2010, we issued a report on the council's management of retirement/ redundancy. The report found that the council had a clear policy on redundancy and early retirement and these policies have been applied appropriately to the sample of staff packages selected for audit testing. We recommended that the council considers a small number of issues including how the costs associated with a wider restructuring/ re-provisioning are included in any decision making or reporting process and how the potential risks and impact of significant changes in the workforce on a service by service basis would be reported.
67. On 12 August 2010, a report to the Executive Committee identified that the number of staff who have indicated that they would wish to take voluntary retirement/ redundancy is 2,653, with a projected cost of £127 million. The gross annual salary saving of £76 million, is to be partially offset by proposed investments in services and this could reduce the saving to £44 million. After allowing for these investment costs the payback is 2.8 years.
68. A breakdown of the effect of the retirement/ redundancy programme by service, job family and grade was also provided to committee. The impact ranges from 33% of staff in development and regeneration services to 9% of educational support staff. The overall impact is 15%, with the largest effect on technical services and leadership jobs (in terms of numbers and percentage). We will continue to monitor the workforce planning proposals and impacts in 2010/11, as part of the general risk identified as part of the AIP process.

Action plan no. 3

69. By March 2010 the council had completed all but two of the 102 actions it had in response to the staff survey of 2007. A second staff survey was completed in March 2009, and service specific action plans have been introduced to respond to the survey findings. Implementation of these plans is tracked quarterly to ensure implementation and delivery.
70. The roll out of personal development plans (PDP) includes all services, but coverage in services ranges from 18% to 99% of staff. Results from the staff survey show that the process needs to be simplified and is being considered as part of the council's BV improvement plan.



Outlook

71. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value, it is likely to face a severe reduction in resources.

2010/11 budget

72. The council's initial financial forecast for 2010/11, identified a potential funding gap of £68 million, however financial settlement details, inflation and the full-year effect of 2009/10 savings reduced this to £30 million. On 28 January 2010, the council approved a budget to meet this gap. This included a continued freeze on council tax, contributions to balances/ funds of £7.5 million and a net expenditure budget of £1.6 billion. This was further refined and the detailed revenue estimates for 2010/11 were agreed on 1 April 2010.

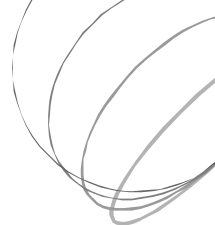
73. Some of the key service reform and efficiency savings included in this budget were:

- improvement in attendance (£6.9m)
- phasing out non-contractual overtime (£1.6m)
- 10% reduction in middle management (£3m)
- 20% reduction in grants to external bodies (£3.8m)
- increases in fees and charges (£1.2m)
- education reforms (£3.1m) - revised school transport policy; review of cluster support service
- social work reforms (£4.8m) - practice team reviews and reductions in middle management; discontinuing non statutory services)
- savings/ efficiencies from ALEOs (Cordia £3m, City Building £2m, Glasgow Life £1.7m).

74. The council plans to redirect some existing resource toward increasing recycling rates, addressing social work budget pressures (particularly children's residential services) and a review of social work access.

2010/11 budget reporting

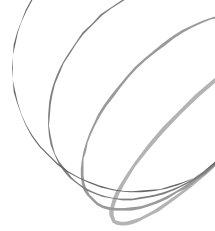
75. The 2010/11 budget monitoring report (to 9 July 2010) indicates an overspend of £2.4 million (100.6%). The reasons for this include the increasing number of children requiring purchased care, pressures in the learning disability budgets and shortfalls in workforce planning reductions. As part of the councils response to these pressures a formal action plan is being developed by social work and ongoing actions are also being taken in social work and education services to mitigate any potential overspend including reviewing the release dates of staff as part of Tomorrow's Workforce.



2011 - 2013 financial forecast

76. The council's financial forecast for 2011-13 was provided to political groups in June 2010, before the Westminster budget. The forecast was a 3.8% reduction in funding in 2011/12 and a further reduction of 1.3% in 2012/13. This would result in a reduction in central government grant of £38 million in 2011/12 and £15 million in 2012/13. The forecast also takes into account inflationary pressures, spending pressures (superannuation increases and operating costs of new facilities) and financing costs associated with the investment programme.
77. The net effect of the reduction in funding and increasing costs is a forecast spending gap of £53 million in 2011/12 and £49 million in 2012/13. The council's Tomorrow's Workforce programme will generate savings of £11m over the two years which will be used to offset some of this. The remaining gap of £90 million will result in a reduction in planned expenditure of 3.6% each year. This includes £35m from education services and £31m from social work services.
78. The forecast also recognises the following key risks:
- the reduction in grant support is uncertain and is subject to national and Scottish government budget decisions
 - the local government settlement is assumed to be consistent with other Scottish sectors
 - the council's settlement is assumed to be in-line with other Scottish local government bodies
 - pay awards and the cost of purchased services will affect the inflation assumptions
 - 2010/11 net expenditure will be contained in budget
 - planned service reforms will achieve their targets.
79. The council's settlement from the Scottish Government will be known within the next couple of months and the council will then revise its financial forecasts.

Action plan no. 4



Governance and accountability

Introduction

80. Corporate governance is about direction and control of organisations. Councils are large complex organisations, so good governance is critically important. The council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. Our AIP assessed that the council had no significant risks in this area.

Scrutiny

81. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Glasgow City Council has extensive and well-defined scrutiny structures, with open reporting and debate. These are subject to periodic review. The council now has three scrutiny committees with distinct areas of responsibility. Each scrutiny committee has 14 elected members, split equally between the administration and opposition and chaired by a member of the opposition.

82. The Finance and Audit Scrutiny Committee is responsible for monitoring the financial performance of the council and its trading operations, reviewing the performance of audit and inspection within the council and promoting the observance by councillors of standards of conduct. The committee is well attended by service department officers who respond to member queries.

83. The External Governance Scrutiny Committee is responsible for scrutinising the performance of the arms length external organisations (ALEOS) established by the council. The committee is attended by representatives of the ALEOS on a rolling basis and councillors are able to question performance.

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

Roles and relationships

85. During 2009/10 we have noted a change in the attendance of some councillors at committees, occasional tensions between the political groups and increased media reporting of issues. We expect that the council would continue to make, often difficult, strategic decisions and that the effectiveness of the scrutiny arrangements would be maintained. A recent Audit Scotland report *Role and working relationships: are you getting it right?* (www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf) includes a tool for councillors and officers to assess their relationships.



86. During the year, six members were reported to the Standards Commission and we note that no action was taken by the Commissioner in response to any of the complaints.

Media coverage and correspondence

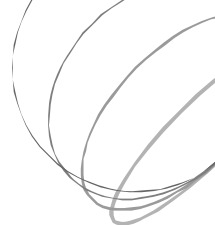
87. This year, there has been a significant increase in the correspondence we have received in connection with Glasgow City Council, there has also been significant media coverage of issues. These have covered a range of topics including the resignation of the leader of the council, remuneration paid to councillors, allegations relating to ALEOs, etc. There have been a number of actions taken by the council and other bodies related to these areas including:
- The council's internal auditor reported to the External Governance Scrutiny Committee (21 April 2010) and Finance and Audit Scrutiny Committee (13 April 2010); resulting in improvements to ALEO governance arrangements including prohibiting political donations, restricting attendances at dinners and ensuring vacancies are externally advertised.
 - The financial statements include additional disclosure of remuneration paid to members on boards of related companies.
 - The Scottish Local Authorities Remuneration Committee (SLARC) has corresponded with the council on its review of councillors salaries.
 - We will consider issues raised as part of our planned review of the preparations for the Commonwealth Games.
88. In our opinion the council's scrutiny arrangements have responded effectively to the allegations that have been made during this time.

Partnership Working

89. Glasgow City Council demonstrates good partnership arrangements and a commitment to partnership working. Community planning structures are well developed at council and local levels with appropriate political, official and community representation.

CHCPs

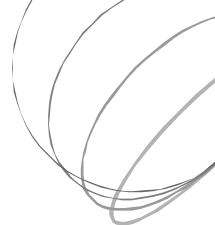
90. Last year's Annual Audit Report, identified issues between the council and NHS Greater Glasgow and Clyde (NHSGG&C) over the management of Community Health and Care Partnerships (CHCPs). During 2009/10, the two partners did not concur on the budgeting and governance arrangements for the CHCPs. In addition, the future financial challenge facing the public sector has become clearer and resources are becoming constrained.



91. On 30 June 2010 the written advice of Sir John Arbuthnott, an independent third party, commissioned by the council, recommended a fully mandated Joint Partnership Board, a formal partnership agreement, a dedicated chief officer and a single Financial Director, a joint annual strategic agreement, Financial Framework and scrutiny and monitoring arrangements. However following consideration of Sir John's recommendations, in August, the council and NHS GG&C decided to concentrate on strengthening the proposals developed by NHS GG&C for a move to a single CHP (Community Healthcare Partnership) for the City. The proposals were to:

- move quickly to establish a single CHP in the City, to manage community health services supported by management structures in three geographical areas, with a parallel management structure to manage locally-based social care services by November 2010
- discuss, as a matter of priority, the future involvement of elected members at a local level
- work to ensure that joint working is continued on frontline service delivery and provide continued opportunities for the co-location of staff
- establish a Joint Partnership Board to promote future joint working
- accelerate plans to explore the "Total Place" initiative.

Action plan no. 5



Shared Services

92. The eight councils (including Glasgow) forming the Clyde Valley Community Planning Partnership (CVPP) commissioned Sir John Arbuthnott to undertake a review of joint working and shared services. The review identified 10 areas or work streams where it was felt there was scope for joint working and shared services. A phase 1 programme was agreed in January 2010 and this prioritised seven of the work streams, as indicated in Exhibit 9.

Exhibit 9.

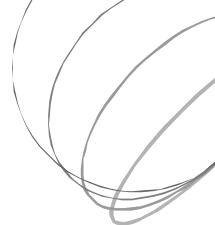
Shared services work stream leads

| Works Stream | Lead Council |
|---|---|
| Integrated waste management | North Lanarkshire Council |
| Integrated health and social care | Renfrewshire Council |
| Social transport and fleet management | Glasgow City Council |
| Property sharing and management in hubs | South Lanarkshire Council |
| Joint Approach to support services | East Renfrewshire and Inverclyde Councils |
| Common charging framework | East Dunbartonshire Council |
| Joint economic strategy | West Dunbartonshire Council |

93. The programme is managed and monitored by Leaders and Chief Executives of the CVPP and each work stream has an agreed project remit and plan and is supported by a task group from across the constituent authorities. Each project has an outcome or output target of March 2011, at latest. Four of the work streams (waste management, social transport, support services and health and social care) are preparing outline business cases for submission to the CVPP on 26 November 2010. Target savings are 10-20% in each service area.

Community engagement

94. A household survey is conducted twice a year to monitor levels of service use and satisfaction, with a sample of 1,000 households and additional interviews with Black, Minority and Ethnic groups. The surveys explore broader issues such as how people feel about their neighbourhood and specific services. Around 90% of users are either very or fairly satisfied with a range of services, but a number do fall below this level including community centres (84%), social work services (81%), children's play parks (79%) and refuse collection (77%). The areas that residents are least happy with are pavement and road maintenance (63% and 43%).



Public performance reporting

95. The council produces an annual performance report and this is published on the council's website. The community planning partnership also prepares a performance report based on the national outcomes and indicators.

Governance and internal control

96. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
97. As part of our work, we took assurance from key controls within the council's financial systems, with around 25% of the controls being tested by Internal Audit. The results of our review of key controls were reported to the council in June 2010. The identified weaknesses were taken into account in our approach to the audit of the financial statements, resulting in additional audit testing of payroll, debtors and non-domestic rates. Our financial statements work also identified a few areas where key control improvements could be made. These have been discussed with officers and will be implemented in 2010/11.

Data handling and security

98. The Data Protection Act 1998 is the main legislation that governs the use of personal information by business and other organisations. Public and media attention continues to focus on data handling and security. In July 2009 a council employee from Social Work Services lost an unencrypted memory stick which contained sensitive personal data relating to registered sex offenders, victims, witnesses and case officers. Following investigation the Information Commissioner served the council with an enforcement notice in December 2009. The enforcement notice listed a series of actions, agreed by the council. A second loss of a memory stick, also from Social Work Services, was investigated in 2009 but no further action was necessary in light of the steps the council was already undertaking.
99. The council is taking steps to improve its data handling activities. The Information Security training is one of the core training areas required for all staff. The Information Security Board is monitoring take up of the courses to ensure that it is rolled out to every member of staff. Specialised training courses on data protection and data security have also been launched and are mandatory for all staff in Social Work services. In the last financial year, the council also took action to reduce the risk around the storage of personal information by accelerating the encryption of laptops. Guidance was issued to all staff to ensure that personal data was not held on any mobile device that was unencrypted.



100. A draft information classification scheme based on the Government Protective Marking System / Scheme (GPMS) has been produced. The council plans to pilot the information classification scheme in Internal Audit and a social work area office.

Prevention and detection of fraud and irregularities

101. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a whistleblowing and response policy that incorporates information previously contained in the council's anti-fraud strategy. Every 2-3 years the policy is relaunched. The council also has a code of conduct for employees and elected members and adheres to the nationally prescribed code of conduct for members.

NFI in Scotland

102. The National Fraud Initiative (NFI) helps participating bodies to identify possible cases of fraud, and to detect and correct any consequential under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud.

103. The most recent data matching exercise for the National Fraud Initiative was carried out in October 2008 and helped participants to identify £21 million of outcomes since the previous exercise.

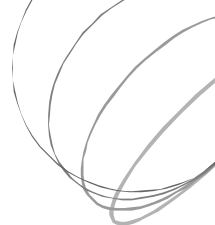
104. The council continues to undertake a review of single person's discount granted to council tax payers using credit agency references through a third party (Experian). During 2009/10 the review resulted in the vast majority of discounts being confirmed as valid, but also led to the withdrawal of discounts to the value of £1.6 million.

105. Organisations now need to actively plan for the submission of the data for the 2010/11 data matching exercise. This includes the following key steps:

- considering the 2008/09 national report and completion of the self appraisal checklist
- confirming that fair processing notes are issues in line with the 2010/11 instructions
- considering risk-based data sets
- ensuring the upload of all relevant data on time (4 October), or shortly thereafter.

Housing benefit inspections

106. Audit Scotland undertook a risk assessment of Glasgow's benefits service in May 2009 and a detailed report was issued. The council has developed an action plan in response to the risks identified and officers meet on a 4-5 week cycle to update progress against the plan.



107. Internal audit assessed progress against the actions and reported this to the Finance and Audit Scrutiny Committee in September 2010. Progress shows that against the 23 actions, 15 have been completed and a further 3 are no longer applicable. Of the remaining 5 actions that are outstanding, one is partially complete and the remaining 4 are still being progressed.

108. There is one “high” priority action still to be completed relating to the development of an action plan with local targets to minimise the volume of re-work arising from errors in benefits processing identified during the management checking process. Audit Scotland will be reviewing the council’s assessment evidence in March 2011.

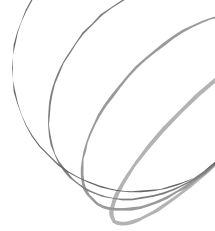
Outlook

109. Governance and accountability issues are likely to be prominent as the council’s operating environment and economic position becomes more difficult and the development of working in partnership with others increases.

Commonwealth games

110. We reported in July 2009 on the council’s progress with its Commonwealth Games preparations. We found that governance processes were in place and that many of the projects were at an early stage. As part of our ongoing commitment to audit coverage in this area we intend to provide an updated position statement by the end of 2010. Audit Scotland completed a national report on Commonwealth Games progress and a copy can be found at:

www.audit-scotland.gov.uk/docs/central/2009/nr_091119_commonwealth_games_progress.pdf.



Performance management and improvement

Introduction

111. We believe that an effective council has a clear and ambitious vision for what it wants to achieve to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. The council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that the council did not have any significant weaknesses in this area.

Vision and strategic direction

112. The administration is prepared to take difficult decisions and is supported by a strong corporate management team. The council is aware of its operating environment and responds appropriately to challenges, often in a proactive and innovative way. Examples include child protection, schools pre-12 strategy, commonwealth games, responding to the economic downturn, improvements in financial management, creation of arms length external organisations, service reform, promoting diversity and office rationalisation. There is a clear and consistent commitment to priority programmes.

Performance management

113. There are good corporate structures for assessing and reporting performance. The council has reviewed the consistency and links between the Council Plan and Single Outcome Assessment (SOA) and service plans (“Golden Thread” exercise) and made improvements as a result. The number of single outcome indicators in use by the Community Planning Partnership (CPP) is being reduced for 2010/11, to provide a more focused approach to outcome monitoring.

114. The council’s internal “measures of improved performance” or MIPS are reported to the corporate management team quarterly. In line with the approach adopted by the CPP the number of MIPS is being reduced next year to 90. Of this total, 32 are also single outcome indicators.

Overview of performance in 2009/10

115. At the end of March 2010 the MIPS report identified that performance could be summarised as shown in Exhibit 10 (104 total indicators). The achievement of 80% was a slight decline on the 2008/09 figure of 81%.

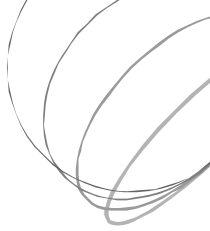
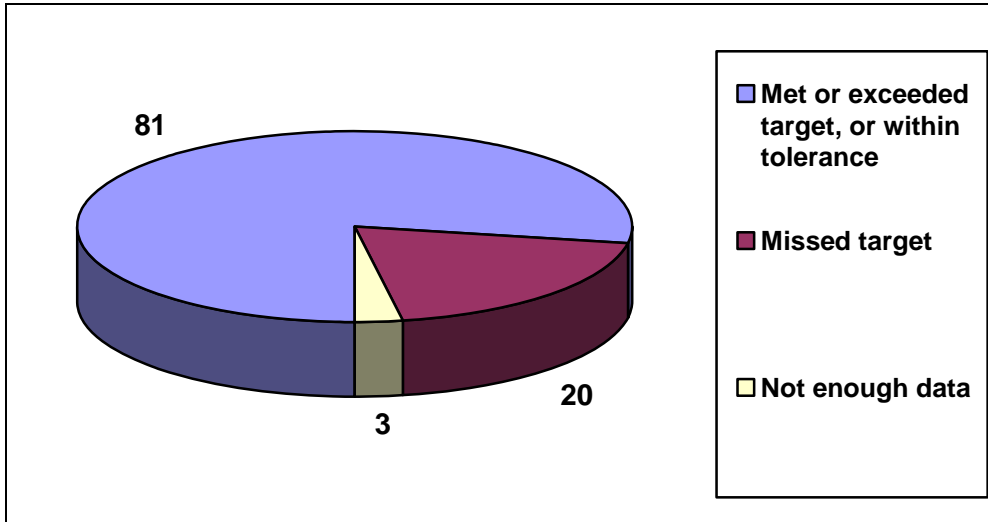


Exhibit 10.

Achievement of measures of improved performance 2009/10



GCC corporate management team report 8 June 2010

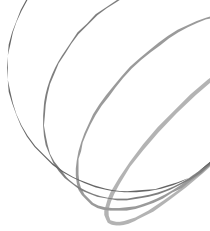
116. Some of the measures of performance **achieved** in 2009/10 include:

- energy consumption targets
- schools attendance and reductions in exclusions
- increase community safety officer patrol hours.

117. Some of the measures of performance **not achieved** in 2009/10 include:

- proportion of young people leaving care service who are going on to employment, education or training (there has been a reduction in performance by most larger local authorities)
- percentage of household and commercial waste recycled and landfill diversion (affected by industrial action, severe weather and the delay in the upgrading to recycling centres)
- the number of adult social care service users in work/ voluntary work (targets will be revised for 2010/11 to reflect the economic downturn)
- children subject to a supervision order seen within 15 days of issue.

118. The council's existing MIPS information includes 8 statutory performance indicators



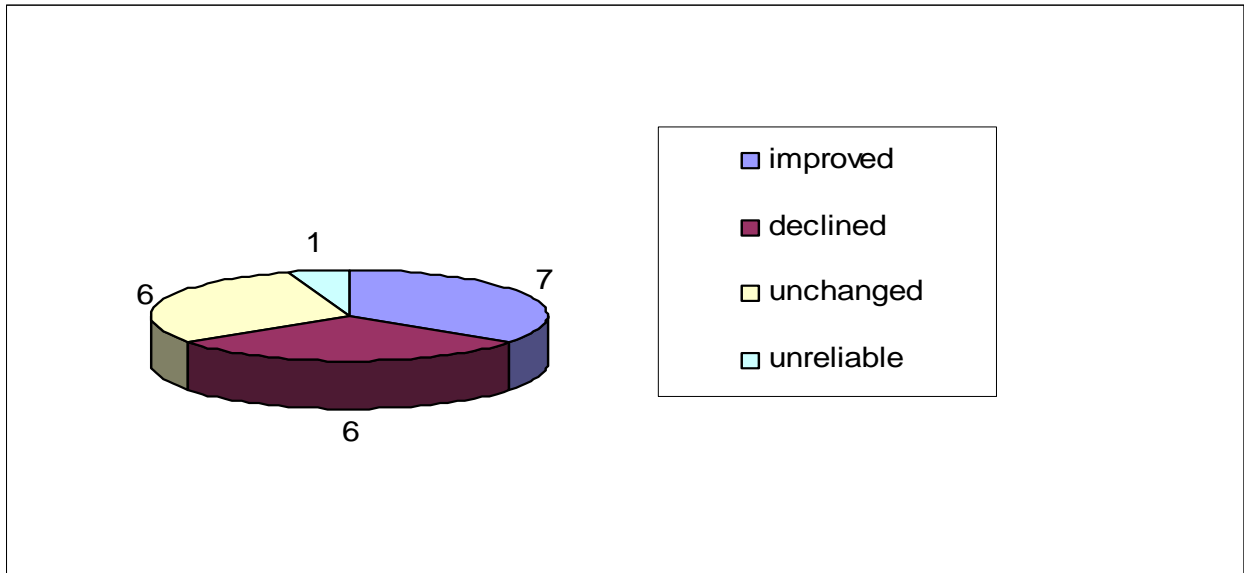
Statutory performance indicators

119. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The SPI information is published on the council's website and within the "Glasgow" magazine.

120. In 2009/10, a total of 20 SPIs were required and these indicate a more mixed picture of performance than has been the case in Glasgow in the past.

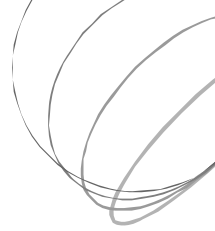
Exhibit 11.

Improvements demonstrated by SPIs (Total 20 indicators)



121. The improved indicators include sickness absence levels, waste recycling and homelessness applications processing times. The declines were observed in cost of collecting council tax, planning applications processing times and carriageway condition. The decline in carriageway condition was caused by a combination of factors including static budget commitments, the effect of the severe winter and the timing of the condition survey.

122. One indicator, covering the suitability of operational buildings, was classified as unreliable as a number of properties had not been included.

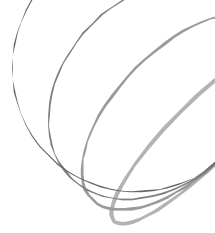


Progress against audit risks identified in the AIP

123. As noted in the introduction, this report includes any significant findings that have arisen from our review of the management of strategic risks contained within the AIP.
124. The AIP contains audit and scrutiny risk assessments prepared by a local area network with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of Glasgow City Council.
125. This assessment included areas of uncertainty, where associated audit and scrutiny activity was identified, in many cases we said that we would monitor key service developments and further evidence of performance and comment within this report. The following paragraphs note the position against each of the areas identified. In many cases we used the information taken from the CPP's single outcome performance report for 2009/10, which will be submitted to the Scottish Government at the end of September 2010. The council, together with its CPP partners is responsible for evidencing performance and each partner will have varying degrees of influence over each area.

Healthy

126. As part of the LAN shared risk assessment we identified the council's "Healthy" theme within the council plan as an area to be monitored. The AIP noted that more data is required to support the direction of travel in key indicators of drug deaths, childhood obesity, activity levels, smoking rates and the extent of improvement for city areas.
127. We note from a review of the single outcome performance report and the council's annual report that some measures have seen improvement. This includes breastfeeding rates, dental registrations, increased MMR vaccinations, uptake of school meals in primary schools and increased provision of care at home for older people. Some of these, although improved, remain below the targets set. It is also noted that school meal uptake in secondary has fallen significantly.
128. This theme has strong links to national outcomes 6, 7 and 8 and progress against these is described by the CPP as either "incremental steady progress in many areas" or "good progress". An example of this is the life expectancy of Glasgow's residents. These have steadily increased since 1999 when the average age was 68.7 years for men and 76.2 years for women. However, we consider that some of the indicators will require longer periods of monitoring to demonstrate significant improvements. For example drinking, smoking and physical activity rates. Any improvement will also need to be viewed in the context of the pace of national improvement and taking into account local variations between communities. Figures released in 2007/08 showed that men in the most deprived areas lived 5.9 years and women lived 3.6 years less on average. New figures will be published in November 2010,



which will further determine whether or not progress has been made towards this outcome. There remains a significant uncertainty over the achievement of this area.

Working

129. This council plan theme was noted as an area for monitoring within the AIP. The LAN considered that more data was required to support the direction of travel in key indicators of relative population, employment rates, relative earnings and business demography.

130. The CPP identifies an increase in the amount of support provided to get people back into work through education and training opportunities although outcomes anticipated before the recession now appear optimistic. The number of benefit claimants in Glasgow has increased. This theme links to national outcomes 1 and 2, and progress has either not been made or has been limited by the recession. Some of the indicators that show progress towards this outcome will not be available until later in 2010. A number of economic and labour market targets outlined in the city's Step Change economic strategy were revised for 2009/10.

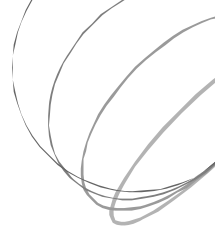
131. While there is indication of improvement in the amount of developed land and worklessness figures, residual risks remain to the outcomes in this area.

Learning

132. In our AIP assessment we noted the improvements achieved in educational attainment, but stated that more national comparative data was required to support the long term relative improvement. The information to show that Glasgow is narrowing the gap either with the rest of Scotland or between communities within Glasgow was not yet available.

133. The CPP has prioritised children in their early years to provide them with the best start in life with the aim of redressing the inequality of life chances that result from deprivation and poverty. In September 2008, the council agreed a five-year early childhood and extended services strategy, this included:

- a higher priority to supporting employability by meeting the needs of working parents
- additional extended nursery capacity across the city of 266 with more in development
- a programme of modern apprentices across the early childhood and extended services
- a "Triple P" parenting programme launched citywide during the summer of 2010
- a programme of employability awareness training to specific parents of school-age children
- funded access to a BA degree in childhood practice for early education and childcare staff.



134. SOA annual progress report indicators for 2009/10, indicate good progress with educational attainment levels in secondary schools, although continuous improvement in the primary sector was not achieved this year. Significant improvements were also noted in the educational attainment of looked after children. Attendance in secondary schools has increased over the last 11 years and exclusions are continuing to decrease at a faster rate than other comparable authorities.
135. The "learning" theme links to national outcomes 3, 4 and 5 with the CPP generally noting good progress against each. The direction of travel in key indicators is generally positive but recent evidence is not available on whether the educational attainment gap is closing on the rest of Scotland (*we are awaiting HMIE confirmation of this text*).

Safe

136. This was noted as an area for monitoring within the AIP. The CPP notes that against national outcome 9, progress during 2009/10 was mixed. Some areas are improving but little progress was reported in others. Violent crime, particularly gender-based or domestic violence, has not significantly improved. The proportion of people who had a positive perception of the general crime rate in their local area has decreased since 2006/07. There have been improvements in the number of road accident deaths/ serious injuries and reductions in the number of domestic fires and related casualties. There is a mix of outcomes and an absence of recent data at a community level. Uncertainty remains over the demonstration of key outcomes and we note that Her Majesty's Inspectorate of Constabulary Scotland and Audit Scotland are to complete joint BV audits of all police authorities, with the Strathclyde Police BV audit scheduled for 2010/11.

Rising to the challenge - council plan 2008-2011 supplement

137. The AIP noted that this plan supplement represented a leading response in comparison to other councils. However, it was too early at the time for the council to make an assessment of performance against this plan supplement, which dates from May 2009. In the latest draft council annual performance report (June 2010), performance against the major initiatives has been recorded.
- Tomorrow's Office - (refer to earlier in this report under "asset management").
 - Tomorrow's Workforce - just over 2,600 staff have accepted voluntary severance. A workforce planning strategy is being prepared to tackle a phased reduction in staffing levels.
 - Service Reform - strategic and cross cutting proposals designed to redesign how services are delivered. The programme is expected to save £91 million between 2009 and 2012.
 - Council Grant Integration Programme. This has achieved a saving of £4 million for 2010/11.
 - Glasgow Living Wage - this benefited nearly 700 staff in the council and its ALEOs and over 140 companies and organisations within the city have also adopted it.



- The Commonwealth Apprenticeship Initiative (CAI) - During 2009, around 1,000 young people were offered apprenticeships, or access to programmes.
- Business Support Services (BSS) - prioritised support to small and medium sized businesses within the city.
- Financial Inclusion Strategy (FIS) / Debt Management - housing information and advice services have helped claimants access over £4 million in additional benefits. A 'First Time Claimant' project has also helped 5,000 claiming benefits for the first time.

Development and Regeneration Services

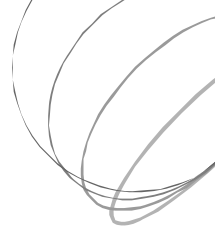
138. This service was noted as an area for monitoring within the AIP. The economic downturn has had a significant effect on development and regeneration services (DRS), including reductions in development activity and capital receipts. The council is committed to bringing vacant and derelict land back into productive use. Unfortunately in 2009/10, the levels rose by more than 18 hectares, as a result of Glasgow Housing Association (GHA) demolition programmes, even though the council redeveloped 71 hectares. The council predict that this trend will continue in the short term due to reductions in development activity from the economic downturn. The council are developing a greening programme to address the environmental impact of vacant and derelict land in the city.

139. The key uncertainty for DRS in the AIP was the expected reduction in capital receipts. As noted previously the council transferred a portfolio of investment and surplus properties to a wholly owned subsidiary, City Property Glasgow (Investments) LLP. The council achieved a receipt of £120 million from this transfer.

Land and Environment Services

140. Following the review of land and environment trading operations in April 2008 the council approved a major programme of service reform. This was an area of uncertainty noted in our AIP for follow up. The area neighbourhood structure is now in place responsible for the delivery of frontline services for roads, grounds maintenance and cleansing operations to each of the five strategic areas and is on target to deliver £6 million of savings.

141. During 2009/10 the council increased its recycling rate from 19.9% to 20.4% which is less than the target rate of 23% and significantly below the national average (34.3% in 2008/09). It is also unlikely that the council will be able to achieve the national target rate of 31% by 2010/11. The council has been examining options to help meet waste diversion and recycling targets, including seeking a private sector partner to undertake the extraction of recyclable elements from commercial waste, introducing the expansion of household glass and cardboard collection arrangements and the



introduction of residual waste treatment technologies. This is expected to make a significant contribution to achieving the council's target.

Progress on delivery of the council's best value improvement plan

142. The audit of Glasgow's best value and community planning was completed in December 2005 with a follow-up report published by the Accounts Commission in April 2009. Since then the council have reported progress to committee as part of its own corporate self assessment process. The latest update was presented to the Finance and Audit Scrutiny Committee on 1 September 2010.

143. Of the 18 improvement actions identified in the council's own Best Value self-assessment, 2 are now complete, 10 actions are on schedule for completion, 5 are experiencing some delays and 1 action has been delayed significantly.

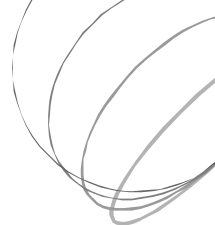
144. There has been slippage in the key matters identified in the Accounts Commission's 2009 follow-up report, with only the asset management plan having been completed. The main areas still outstanding include achieving improvements in absence rates and embedding personal development plans across the council.

Outlook

145. The long term and complex nature of many of the outcome targets, pose challenges for performance management. We recognise the challenges and we continue to review the systems Glasgow City Council has in place to monitor progress and take remedial action.

146. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk/work/scrutiny/index.php. The timing of Glasgow City Council's best value audit will be determined by a risk assessment. There are currently no plans for any best value work in Glasgow City over the next three years. However, the AIP does include activity by other scrutiny bodies over the next three years including:

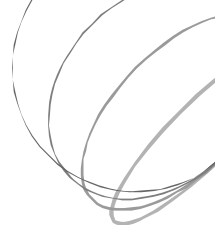
- HMIE – Joint inspection of services to protect children and young people (2010/11)
- HMIE – Educational Psychology Service inspection (2010/11)
- HMIE – “How good is our culture and sport” voluntary pilot (2010/11)
- SWIA – Initial Scrutiny Level Assessment (ISLA) review (2010-2012)
- SWIA – Inspection of prison-based social work services (2010/11)
- Care Commission – Review of adoption and fostering services(2010/11)
- Assessment of progress towards meeting 2012 homelessness targets (2011/12).



Appendix A: Audit Reports

External audit reports and audit opinions issued for 2009/10

| Title of report or opinion | Date of issue | Date presented to Finance and Audit Scrutiny Committee (or Strathclyde Pensions Fund Committee -SPFC) |
|---|-------------------|---|
| Annual Audit Plan – Glasgow City Council | 9 February 2010 | 24 March 2010 |
| Annual Audit Plan – Strathclyde Pension Fund | 10 April 2010 | 9 June 2010 (SPFC) |
| Shared Risk Assessment/ Assurance and Improvement Plan | 3 June 2010 | 16 June 2010 |
| Key financial controls assurance report | 16 June 2010 | 16 June 2010 |
| Review of opening IFRS balance sheet as at 31 March 2009 | 26 July 2010 | 1 September 2010 |
| Review of the management of redundancy and early retirement | 27 July 2010 | 1 September 2010 |
| Report on financial statements to those charged with governance | 17 September 2010 | 29 September 2010 |
| Audit opinion on the 2009/10 financial statements | 17 September 2010 | 29 September 2010 |



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|---|------------------|
| 1 | 25 | <p>OSCR compliance</p> <p>The Council's submission to OSCR for charitable Trusts was "below average" and the council has not made significant progress since last year in rationalising its arrangements.</p> <p>Risk. Compliance with OSCR requirements will create a significant additional burden on the council's resources.</p> | <p>The council is moving to a restructuring of trusts to four key funds with improved governance arrangements.</p> <p>The council is still in the process of organising this change, including consultation with OSCR.</p> <p>A committee paper is expected in the next few months.</p> | Executive Director of Financial Services/ Executive Director of Corporate Services | 31 March 2011 |
| 2 | 32 | <p>Pension Funds Audit</p> <p>The Scottish Government may decide, following consultation to introduce a separate audit requirement for Strathclyde Pension Fund.</p> <p>Risk. The arrangements to support this change may not be in place within the SPF.</p> | <p>The council and SPF will respond to the consultation.</p> <p>SPF has produced an annual report since 2004.</p> <p>The audit planning process is already separate for the pension fund.</p> <p>The SPF is considering the need for an audit committee with an appropriate meeting timetable.</p> | Executive Director of Financial Services | 31 March 2011 |
| 3 | 68 | <p>Workforce planning</p> <p>The effect of the retirement/ redundancy programme is beginning to be assessed through the council's workforce planning mechanisms</p> <p>Risk. The changes in workforce might result in unexpected service disruption and deterioration.</p> | <p>A breakdown of the effect of the retirement/ redundancy programme by service, job family and grade was also provided to committee.</p> <p>Service areas have prepared impact assessments which are considered as part of the approach to workforce planning.</p> | Executive Director of Corporate Services | 31 December 2010 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|--|------------------|
| 4 | 78 | Financial forecast 2011 - 2013 Current forecasts present significant spending gaps in 2011/12 and 2012/13. <i>Risk: The achievement of spending reductions present a significant challenge to the council</i> | The redundancy/ retirement programme and the other initiatives within the Tomorrow's Council programme are key to meeting spending gaps. We recognise the risks associated with the forecasts and will monitor the progress of these. | Executive Director of Financial Services | 31 December 2010 |
| 5 | 91 | Community Healthcare Partnership The council and NHS GG&C agreed to move to a single CHP model from the existing five CHCPs by November 2010. <i>Risk: Services to users and staff morale is adversely affected during the transition</i> | A transitional group has been established to manage the identified proposals and the new management arrangements will be in place by 1 November 2010. | Executive Director of Social Work Services | 1 November 2010 |