

# Glasgow City Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

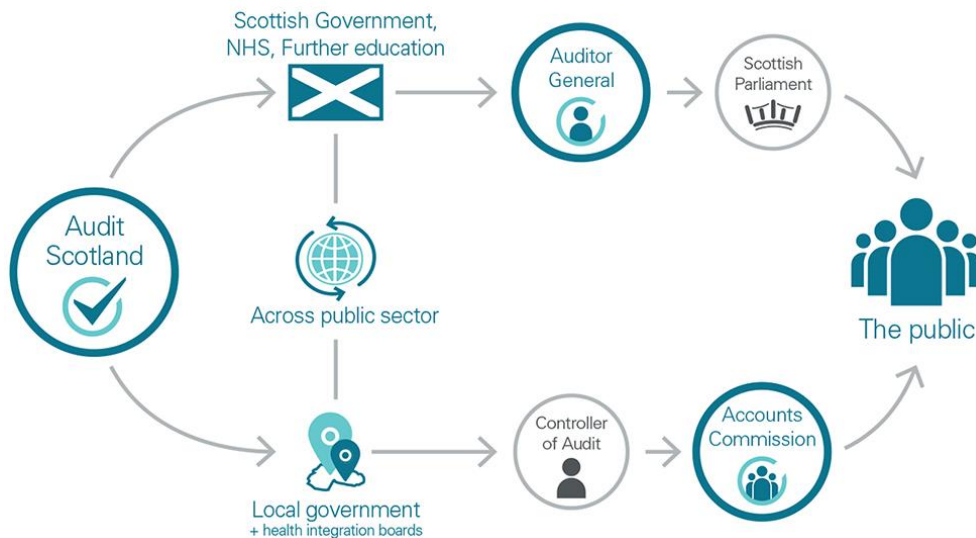
Prepared for the Members of Glasgow City Council and the Controller of Audit

26 September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual accounts

- 1** Glasgow City Council's (the council's) financial statements for 2018/19 give a true and fair view of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

## Financial management

- 3** The council continues to demonstrate a good track record of strong and effective financial management. The budget process remains focused on the council's priorities and the council consistently delivers services within agreed budgets.
- 4** Controls relating to financial systems and procedures are designed appropriately and operating effectively.

## Financial sustainability

- 5** The council has a forecast spending gap of £159 million over the next three years (2019/20 to 2021/22). Given the scale of savings in recent years, it will be increasingly difficult for the council to identify efficiencies in current service delivery arrangements. This will put a significant strain on the council's capacity to maintain current service delivery levels.
- 6** The council has implemented a funding strategy to address the cost of settling equal pay claims. This strategy spreads the cost of settlement over the long term, minimising the immediate budget pressures on service delivery.

## Governance and transparency

- 7** Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.
- 8** The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

## Value for money

- 9** The council continues to demonstrate steady progress in a number of areas. It has improved its performance management arrangements through the development of outcome-based performance measures.
- 10** Milestones have been reached in addressing a number of longer-term recommendations made in our 2017/18 Best Value Assurance Report.

**However, in a number of key areas, for example, homelessness, this has yet to result in the desired improvement in service attainment levels.**

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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of Glasgow City Council (the council) and its group.

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 13 March 2019 meeting of the Finance and Audit Scrutiny Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:

- an audit of the council and group 2018/19 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the council's key financial systems
- follow-up work on our 2017/18 Best Value Assurance Report (BVAR)
- consideration of the four audit dimensions.

## Added value through the audit

4. We add value to the council through the audit by:

- engaging at an early stage on equal pay matters, including arrangements for governance, financial management and reporting, and the proposed accounting treatment of funding options
- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements and financial position
- the arrangements for securing financial sustainability
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £633,650 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.



# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**Glasgow City Council's financial statements for 2018/19 give a true and fair view of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.**

**The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.**

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

### Audit opinions on the annual accounts

**16.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the City Administration Committee (CAC) on 26 September 2019. We reported, within the independent auditor's report that the:

- financial statements give a true and fair view of the state of affairs of the council and its group and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**17.** We are also required to report on a number of other matters by exception. We have nothing to report in respect of

- misstatements in information within the financial statements
- the adequacy of accounting records
- the information and explanations we received
- the achievement of prescribed financial objectives.

### Submission of the council and its group annual accounts for audit

**18.** We received the unaudited annual accounts on 13 June 2019 in line with the agreed timetable set out in our 2018/19 Annual Audit Plan.

**19.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

## Whole of Government Accounts

**20.** We received the whole of government accounts consolidation pack from the council in sufficient time allow us to conclude our audit work in this area by the required deadline of 27 September 2019.

## Risk of material misstatement

**21.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**22.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan. Our plan also identified risks from our wider responsibility under the Code of Audit Practice relating to:

- financial sustainability
- accounting for council funding strategies
- delivery of digital and strategic objectives.

**23.** We have commented on these in [Part 3](#) of this report and updates are included in the action plan at [Appendix 2](#).

## Materiality

**24.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**25.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**26.** On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they required to be updated to reflect the increased cost of services due to the transfer of Cordia and the provision of equal pay. The updated materiality levels are summarised in [Exhibit 2](#). The updated materiality for our audit of the financial statements had no impact on our planned audit approach.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Glasgow City Council Financial Statements</b>	
Overall materiality	£33.750 million
Performance materiality	£16.875 million
Reporting threshold	£250 thousand
<b>Group Financial Statements</b>	
Overall materiality	£34.750 million
Performance materiality	£17.375 million
Reporting threshold	£250 thousand

Source: Audit Scotland

### Significant findings from the audit in accordance with ISA 260

**27.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**28.** The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included. The findings include our views about significant qualitative aspects of the council's accounting practices (e.g. accounting policies, accounting estimates / judgements, significant financial statements disclosures, impact of uncertainties etc).

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Equal Pay Provision</b></p> <p>The council has made a provision of £504.789 million in relation to the assessment of equal pay obligations. This includes £35.055 million provided for pay protection settlement costs in 2017/18.</p> <p>There is a risk of misstatement if the provision is not properly determined.</p>	<p>We assessed whether:</p> <ul style="list-style-type: none"> <li>the amount is the council's best estimate of the expenditure required to settle the obligation at 31 March 2019</li> <li>the estimates of outcome and financial effect are reasonable, have been determined by the judgement of the authority's management, taking account of the agreement reached with claimants' representatives, supplemented by experience of similar transactions and, where appropriate, reports from independent experts</li> <li>the estimate reflects additional evidence provided by any events after 31 March 2019.</li> </ul> <p><b>We determined that the provision was a reasonable estimate based on the information available to the council, and reflects the post financial year end settlement experience.</b></p>
<p><b>2. Pension scheme valuation – amendments arising from legal judgements</b></p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19) based on valuations of pension fund assets and liabilities by the actuary.</p> <p>At the end of June 2019, the UK government were refused the right to appeal an age discrimination legal ruling (commonly referred to as the McCloud Ruling) relating to the transitional arrangement within firefighters and judges pension schemes. This ruling will impact on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.</p> <p>Following the decision, the council requested a revised IAS19 report from the actuary in order to quantify the increase in estimated liabilities as a result of the ruling. This revised report estimated the actuarial present value of promised retirement benefits as £1.449 billion, an increase of £49 million.</p>	<p>The accounts have been adjusted to reflect the increased estimate of council liabilities based on the revised valuation at 31 March 2019. This has the impact of increasing the pension fund liability and decreasing unusable reserves on the balance sheet by £49 million. This also results in a £49 million increase in the pension cost charges within the Comprehensive Income and Expenditure Statement. As this adjustment is fully mitigated by a statutory adjustment, it has no impact on the reported general fund reserve balance.</p> <p><b>We reviewed the adjustments and were satisfied that the updated net pension liability reflected in the audited financial statements was properly stated.</b></p>

### How we evaluate misstatements

**29.** It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

**30.** The council advised us of two adjustments required to the unaudited financial statements relating to the non-domestic rates income account. Firstly, a Business Rates Incentivisation Scheme (BRIS) accrual of £1,513,758 had been omitted from the account, and secondly £15,105 of discretionary relief had been incorrectly classified within the account. The council corrected these errors in the non-

domestic rates income account which also resulted in a reduction of £1,528,863 in the deficit on the provision of services in the comprehensive income and expenditure statement (CIES). The net assets and general fund reserve on the balance sheet increased by the same amount.

**31.** The council also highlighted amendments were required to the group disclosure note on property, plant and equipment. This note sets out the detailed movements during the financial year that support the group asset net book value of £3,366.377 million at 31 March 2019. The opening values of both the gross assets and the accumulated depreciation and impairment in the disclosure note presented for audit were understated by £98.598 million. In addition, asset disposals during the financial year, and the associated reversal of depreciation, were understated by £2.195 million. The council reflected these amendments in the audited accounts and updated the closing balances disclosed in the note. As the net impact on the carrying value of assets at 31 March 2019 is nil, there was no change required to the group CIES or balance sheet arising from this amendment.

**32.** We identified two further errors in the council's unaudited financial statements, one of which the council has corrected and the other has not been corrected.

**33.** The error which has been corrected relates to disclosures within the cashflow statement where net cash flows arising from investing activities were overstated by £4.234 million and net cash flows arising from operating activities were understated by £4.234 million. There is no impact on the CIES or Balance Sheet.

**34.** The error which has not been corrected relates to an education asset mistakenly revalued from £845,000 to nil. Correcting this error would result in an £845,000 increase in the value of assets within the balance sheet, and a corresponding reduction in the deficit on provision of services within the CIES. As this amendment would be mitigated by an adjustment between the accounting and funding basis, it would have no impact on the reported general fund balance. Therefore, the council intends to address it during the preparation of the 2019/20 accounts.

## Follow up of prior year recommendations

**35.** We have followed up the four actions raised in our 2017/18 annual audit report and assessed progress with implementation, these are reported in [Appendix 1](#). All four of these recommendations have been implemented.

## Integration Joint Board

**36.** The council reflects its share of the financial transactions of Glasgow City Integration Joint Board (the IJB) within its group financial statements. Our work on group disclosures included testing the accuracy and reliability of the IJB figures used in the group consolidation process. We also considered whether the council's share of the IJB's financial transactions had been properly accounted for. This provided us with the required assurances on the accuracy and completeness of IJB figures included in the accounts. Further information regarding the performance of services transferred to the IJB is included in [Part 4](#) of this report.

## Other findings

**37.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

## Objections

**38.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations.

**39.** Three objections were received for the 2018/19 financial statements of Glasgow City Council, all relating to Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long-term loan where the interest rate is initially fixed, but the lender has the option to propose or impose, on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

**40.** We determined that the points raised did not meet the criteria to be considered as an objection to the accounts and have therefore treated the matter as correspondence received. Our consideration of this correspondence and our findings are documented at paragraph [121](#).

# Part 2

## Financial management



### Main judgements

The council continues to demonstrate a good track record of strong and effective financial management. The budget process remains focused on the council's priorities and the council consistently delivers services within agreed budgets.

Controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

### Financial performance in 2018/19

**41.** In February 2018 the council approved its 2018/19 net service revenue budget of £1,372 million, which was aligned to the council's main priorities as set out in its Strategic Plan 2017-22. The budget included additional revenue investment of £20.6 million, along with an identified spending gap of £20.8 million.

**42.** As part of the budget process to address the revenue investment and spending gap, the council agreed a range of savings options totalling £29.2 million, a three percent increase to council tax rates to generate additional income of £6.3 million, and the application of £5.9 million pensions auto-enrolment funding.

**43.** During the year, a number of budget revisions were made to reflect changes in commitments and funding, resulting in a revised service revenue budget of £1,358 million for the year.

**44.** In recent years the council has had a strong track record in delivering services within budget. At 30 May 2019, the council was forecasting an underspend at year-end of £0.8 million against the revised budget. This was in line with the annual budget and expected expenditure (i.e. provisional outturn) submitted to the Scottish Government which projected a £0.5 million underspend.

**45.** While the council's spending has remained in line with its overall budget, there are variations in how different services have performed. The under and overspends are summarised in [Exhibit 4](#).

## Exhibit 4

### Summary of under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
<b>Underspends</b>		
Financial Services	£2.1	Lower level of commitment in respect of the Council Tax Reduction scheme and improved collection of housing benefit overpayments.
<b>Overspends</b>		
Neighbourhoods and Sustainability	£0.4	Lower commercial refuse and parking income offset by increased income in parks and open spaces due to events and underspends from vacancy management.
Education Services	£0.5	Employee costs and transport offset by savings in Additional Support for Learning external placements
Development and Regeneration Services	£0.4	Reflects overspends in the property and land services division due to overspends against repairs and utilities and within the building standards division due to additional costs incurred for emergency repairs on dangerous buildings. These overspends are partly offset by an underspend in relation to the Glasgow Guarantee scheme and increased income from planning fees and building warrants.

Source: Glasgow City Council 2018/19 Outturn Report

## Reserves

**46.** One of the key measures of the financial health of a local authority is the level of reserves held. The council has increased its general reserves from £47.8 million in 2017/18 to £71.0 million in 2018/19. The general fund is the largest reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

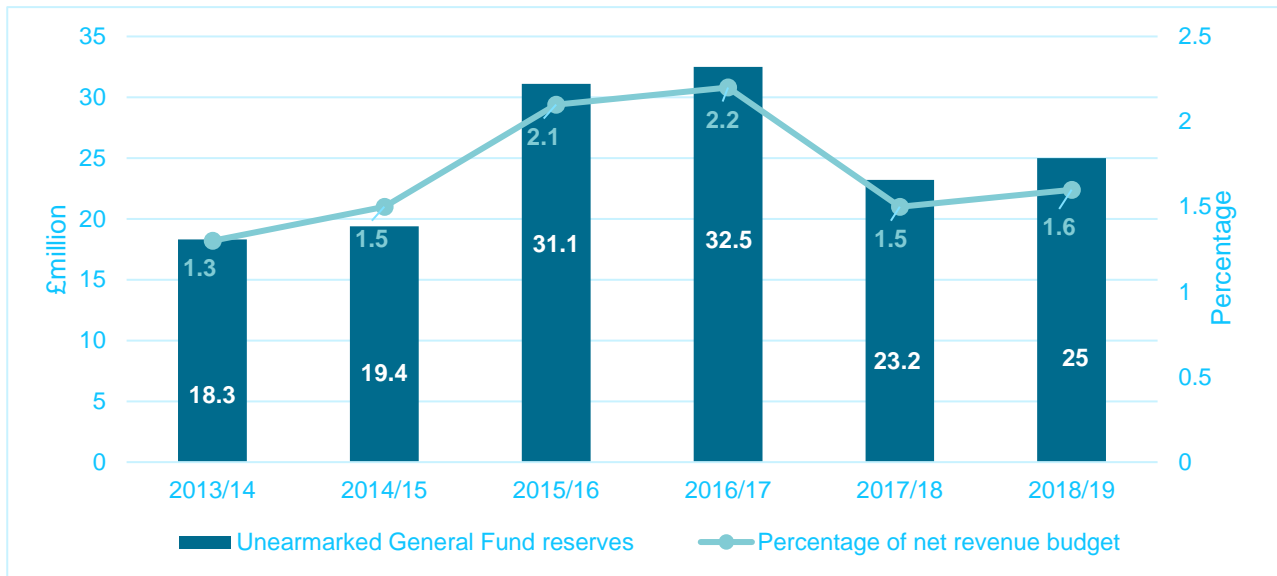
**47.** The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy specifies that uncommitted reserves should be maintained at 2% of net budgeted expenditure over the medium term. The level of uncommitted general fund reserves as at 31 March 2019 was £25.0 million which is 1.6% of net budgeted expenditure.

**48.** [Exhibit 5](#) shows that the level of uncommitted general fund reserves has been below the council's stated target of 2% in four of the last six years. The council's financial forecast assumes an annual contribution of £1 million to unearmarked reserves from 2019/20 onwards, to help build it back up towards the target. The council's planned annual contribution to reserves demonstrates its commitment to taking a prudent and sustainable approach to managing its uncommitted reserves.



## Exhibit 5

### The council's general fund reserve, 2013/14 to 2018/19



Source: Glasgow City Council financial statements

## Efficiency savings

**49.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments. There are two types of savings: recurring and non-recurring. Recurring savings are savings that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. The reliance on non-recurring savings is unsustainable in the medium/long term.

**50.** The council had planned to secure recurring efficiency savings of £29.2 million in 2018/19. The council achieved actual savings of £20.9 million (72% of this total). Although the shortfall in savings was offset by underspends elsewhere in the budget, the failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.



### Recommendation 1

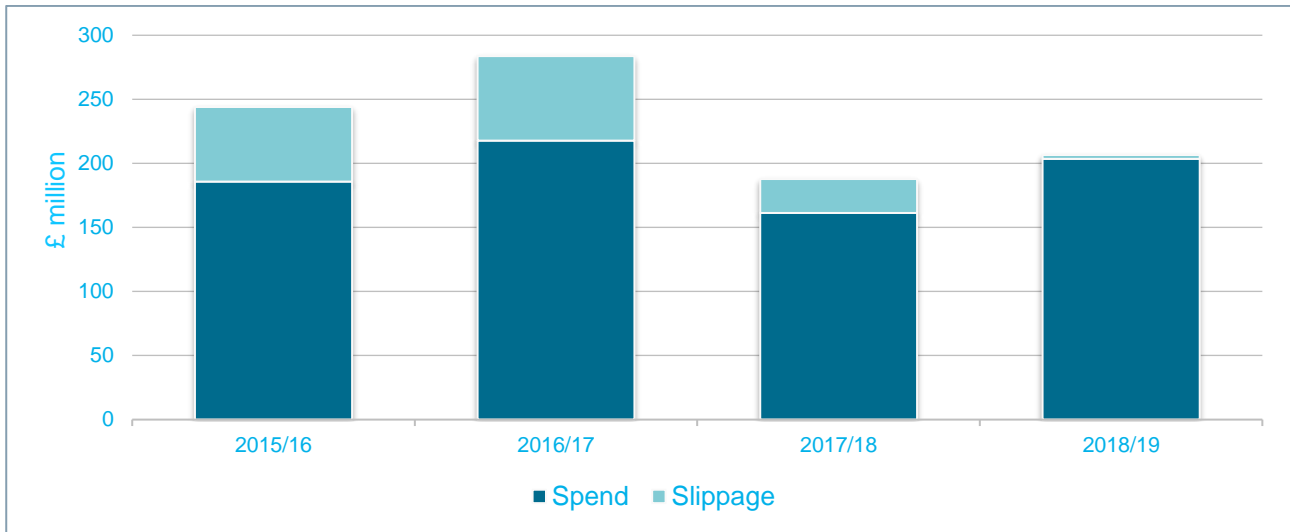
**The council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary (Appendix 1)**

## Investment programme 2018/19

**51.** Total investment programme expenditure in 2018/19 was £203.5 million which was in line with budget of £200.6 million. The council's record of capital spend in the last four years is outlined in [Exhibit 6](#). While slippage has occurred in recent years the council has managed the programme effectively and this year actual spend is in line with planned expenditure.

## Exhibit 6

### Capital slippage compared to planned expenditure



Source: Glasgow City Council financial statements

**52.** The council's 2018/19 Investment Programme expenditure was met through a combination of government grants and other receipts (£119.9 million), finance leasing (£0.8 million), revenue contributions (£1.2 million), and borrowing (£81.5 million).

### Borrowing in 2018/19

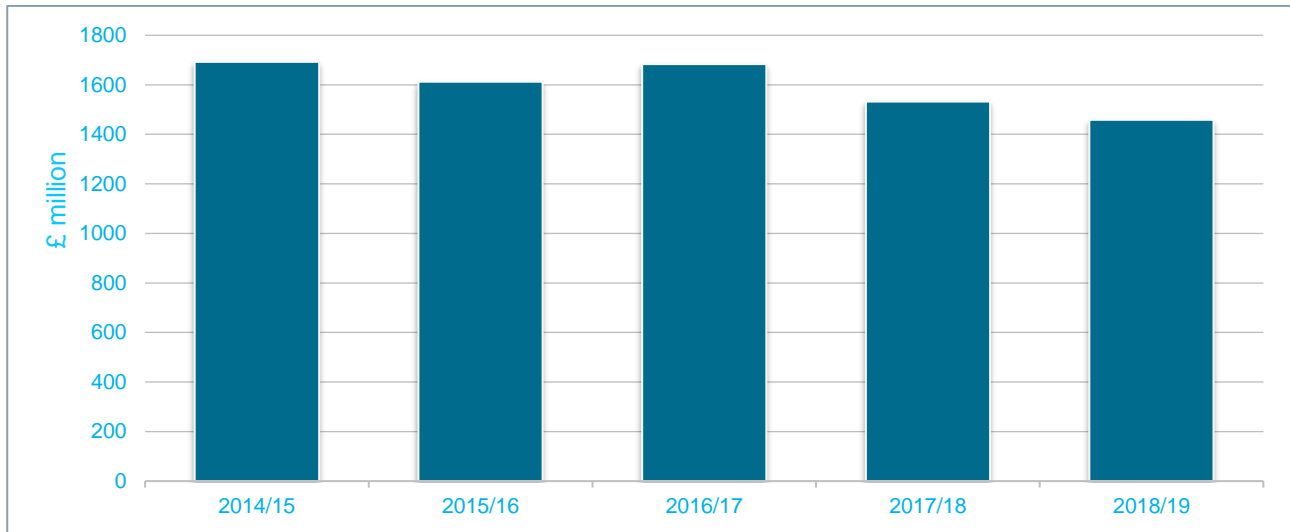
**53.** The council's level of indebtedness remains relatively constant in recent years. Outstanding debt as at 31 March 2019 was £1,458.7 million, a decrease of £73.8 million from the previous year.

**54.** Total external debt (which includes the council's long-term liabilities) is managed in line with the council's treasury management strategy. The council's policy is to borrow only for capital investment purposes and to meet short-term cash flow requirements. A total of £61.7 million of long-term loan repayments were made during 2018/19, with £100.0 million of new long-term loans taken out. [Exhibit 7](#) shows the council's debt levels since 2014/15. The council will continue to review the affordability of future borrowing.

**55.** Having reviewed the council's treasury management strategy and considered its approach to borrowing in light of guidance and good practice, we have concluded that the council continues to have a prudent approach to borrowing.

## Exhibit 7

### The council's debt levels since 2014/15



Source: Glasgow City Council financial statements

## Budgetary process

**56.** The *Local Government in Scotland: Financial overview 2017/18* (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. The council's budget and financial plans are clearly aligned to the council priorities as set out in its Strategic Plan and this is consistent with good practice.

**57.** In May 2019 the council agreed to settle outstanding equal pay claims at a total cost of around £505 million and have developed a funding strategy which will spread the cost of settlement over a number of years. This cost has been built into the council's baseline budget from 2019/20 onwards. We consider the impact of this on the council's strategic objectives in [Part 3](#) of this report.

**58.** Financial forecasting remains an embedded part of the council's financial management arrangements. The council continues to develop the use of scenario planning in its strategic financial forecasts to help ensure it is adequately prepared for different levels of income and expenditure over the longer term.

**59.** Within the council the detailed scrutiny of financial performance is delegated to the Finance and Audit Scrutiny Committee which receives bi-monthly revenue reports, quarterly capital monitoring reports and an annual outturn report. From our review of these reports and attendance at committees we concluded that they provided a good overall picture of the budget position at service level. The reports forecast outturn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the council's finances.

## Systems of internal control

**60.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**61.** Our findings were included in our management letter that was presented to the Finance and Audit Scrutiny Committee on 8 May 2019. We concluded that the key controls were operating effectively. No significant internal control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

## **ICT controls**

**62.** As part of our audit work in 2018/19, we have reviewed the ICT control environment within the council. This work included a review of access controls, SAP feeder system reconciliations and consideration of the business continuity and disaster recovery plans. We concluded that the council had adequate arrangements in place.

## **Internal audit**

**63.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could make use of the work of internal audit. For our 2018/19 financial statements audit we have used the work of internal audit in relation to SAP feeder system reconciliations and grants. We also planned to use Internal Audit's work on system user access controls and controls over NDR changes. However their work focused on different controls therefore we undertook our own testing in this area.

**64.** In respect of our wider dimension audit responsibilities we considered the findings of the work of internal audit in the following areas:

- Data Matching
- Risk Management
- Capital Project Management
- Effectiveness of SIT Team
- Service Governance Reviews
- Information Security.

## **Standards of conduct for prevention and detection of fraud and error**

**65.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**66.** We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

## **National Fraud Initiative**

**67.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**68.** NFI activity is summarised in [Exhibit 8](#). The council has made a good start in reviewing the matches from the 2018/19 exercise with 3,403 matches having already been processed during the year. This number will continue to increase as the year progresses and the outcomes of investigations will be recorded within each match. The council remains pro-active in investigating matches and reporting the outcomes of NFI activity.

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## Exhibit 8 NFI activity



25,447

Matches



23,183

High Priority



3,403

Processed / In progress

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**69.** Regular reports on NFI progress and outcomes are taken to the Finance and Audit Scrutiny Committee. This helps to ensure that members and senior managers are well informed on the progress and findings arising from the National Fraud Initiative. So far one fraud has been found, 110 errors identified and savings of £158,000 made from the 2018/19 exercise.

**70.** In addition to those matches identified in Exhibit 8, the council has also carried out checks of single person discount matches. This has resulted in the removal of 172 single person discounts and a £136,000 increase in council tax receipts for the council.

### Dependency on key suppliers

**71.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts, or disruption in the continued provision of vital services.

**72.** The council has identified a number of key suppliers, particularly around social care services and information technology. The risk of failure of these suppliers is identified in the council's corporate risk register as a high risk and reported regularly to members as part of the council's risk management arrangements.

**73.** The risk register itself highlights a number of arrangements to help mitigate the issue around key suppliers including:

- implementation of the council's procurement strategy
- oversight of contracts at strategic and operational level
- contract management and governance arrangements.

**74.** We concluded that the council has appropriate arrangements in place to manage the risk of a failure of a key supplier.

# Part 3

## Financial sustainability



### Main judgements

**The council has a forecast spending gap of £159 million over the next three years. Given the scale of savings in recent years, it will be increasingly difficult for the council to identify efficiencies in current service delivery arrangements. This will put a significant strain on the council's capacity to maintain current service delivery levels.**

**The council has implemented a funding strategy to address the cost of settling equal pay claims. This strategy spreads the cost of settlement over the long term, minimising the immediate budget pressures on service delivery.**

Financial sustainability looks forward to the medium and long term to consider whether the Council has effective planning arrangements in place to support the delivery of its services and to consider the way in which they should be delivered.

### Financial planning

**75.** The council's financial management arrangements remain strong. Last year we noted the recent improvements to these arrangements with the introduction of a five-year financial framework and more detailed three-year financial forecast. The council continues with development of scenario planning within these medium to longer-term financial plans.

**76.** It is important, however, that bodies have longer-term financial strategies (typically covering five to ten years) in place which link spending to the body's strategies, and which reflect the impact of future pressures on the organisation.

**77.** An example of where the council achieves this is through its ten-year property and land strategy which was approved in February 2019. This strategy aims to rationalise the council's current estate and deliver a more efficient, sustainable estate that supports the council's strategic objectives, whilst also delivering cost reductions and generating receipts.

**78.** In February 2019 the council's updated three-year financial forecast projected a total spending gap of £159 million for the period 2019/20 to 2021/22. This includes the financial impact of the equal pay settlement for 2019/20 and future years.

### Funding position and savings plans

**79.** The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, increasing cost of services and reductions in local government funding. The funding of the equal pay settlement places additional financial pressure on the council's ability to deliver its strategic objectives.

**80.** As in prior years, the council plan to bridge the spending gap through a combination of efficiency savings, income generation, partnership working, use of reserves and management of the investment programme. The council has also

taken the opportunity to reprofile its internal loan fund repayment schedule from 2019/20 onwards. In the shorter term, this will result in the council being required to set aside a smaller amount of revenue than planned to repay its debt, leaving them funds to utilise elsewhere. However in the medium to longer term, the amount of set aside required will increase beyond that currently budgeted, putting increased pressure on future funding plans.

**81.** Over the last six years the council has successfully delivered total savings of over £250 million. Having delivered these savings it will be much more difficult for the council to make similar savings in the future while maintaining the same level of service provision. It is likely that alternative solutions will be required to address identified funding gaps, and this may include taking some difficult decisions around service provision.



## Recommendation 2

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**The council should ensure that its longer-term financial strategy and plans support the development of future savings programmes ([Appendix 1](#))**

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### Equal pay settlement

**82.** Following the decision by the City Administration Committee (CAC) in January 2018 to address equal pay claims through negotiations, the council established a number of equal pay workstreams, covering both the proposed settlement and a funding strategy to meet the obligations. The project has been overseen by an Equal Pay board, chaired by the Chief Executive and comprising key officers including the Director of Corporate Governance and Solicitor to the council, the Executive Director of Finance and the Head of Human Resources. Cross-party group meetings have also been held on a fortnightly basis to keep members updated with progress.

**83.** In early 2018, the council reached an agreement in principle for settling the pay protection element of equal pay claims, and a provision of £35 million was included in the 2017/18 financial statements towards the cost of settling this aspect. Following ongoing negotiation between officers and claimants' representatives, terms were agreed for settling the main element of the claim and approved by CAC in February 2019.

**84.** After sign-off on the proposal by CAC, officers applied the methodology to circa 15,500 claims. Each claim was assessed up to 31 March 2018 on the agreed methodology, including payments for injury to feelings and backdated interest. Any outstanding debts owed to the council by claimants, such as council tax arrears, were offset against the settlement sums. A central settlement was also negotiated with HMRC to determine the rates of tax and national insurance contributions to be deducted.

**85.** Individual offers were then issued to claimants in May 2019, and, following receipt of signed agreements from claimants, settlement payments commenced at the end of June 2019. By the end of August 2019, over 98% of claims had been settled and payment made. The council anticipates the small number of ongoing settlement claims will be resolved by October 2019.

**86.** The February 2019 report to committee estimated the total cost of settling the claims at £548 million, although it also noted this could change when the methodology was applied on a case by case basis. Following the individual claim calculations, the final settlement cost to the council has reduced to £505 million.

**87.** The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.



## Equal pay funding strategy

**88.** In parallel to negotiations with claimants' representatives, the council developed a separate funding strategy to allow it to meet the obligations arising from settlement.

**89.** The funding strategy comprises two main elements to generate the revenue required to make settlement payments in 2019. Firstly, City Property, a council ALEO, is refinancing an existing loan with Barclays Bank that was taken out in 2010. The loan value has been increased and after settling the Barclays liability, the remaining balance has been remitted to the council, who is the sole shareholder, as a member contribution. The savings to City Property from refinancing the original loan will be offset by the costs of servicing this increased loan.

**90.** The second element of the funding strategy involves a sale and leaseback arrangement with City Property. The council is disposing of a number of existing assets to City Property to generate a capital receipt that can be applied to the equal pay settlement. The assets involved are predominantly culture and leisure properties that are currently leased to Glasgow Life for a nominal rent. None of the identified properties are common good or heritage assets. City Property will lease the purchased properties back to council, who will make annual rental payments on commercial terms to City Property over the length of the lease. This effectively spreads the costs of funding the settlement over a period of 30 years

**91.** City Property is securing the funding through three separate funding agreements. The largest of these, for £285 million, was agreed with Legal & General at the end of June 2019. A second deal with Canada Life for funding of £166 million was finalised in July 2019. The third deal has the most complex legal structure and the council has been working through due process with a view to finalisation in September 2019.

**92.** We assessed the council's overarching governance arrangements around the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

**93.** We will further review the funding arrangements, including accounting requirements, as part of our 2019/20 audit.

## Changing landscape for public financial management and medium to long term financial planning

**94.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

**95.** Last year a new Scottish budget process was introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of this process, the Scottish Government publish a five-year Medium-Term Financial Strategy (MTFS), which is updated every year. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**96.** The council uses the MTFS to help inform assumed changes to the future levels of Scottish Government funding settlement that are included in its financial plans.

## EU Withdrawal

**97.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have



implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**98.** The council has set up a Brexit working group that reports every month to the corporate management team (CMT). A Brexit action plan and a corporate Brexit risk register have been established and updates are included in the reports to the CMT. The council has also set up a separate Brexit Preparation Forum, attended by the Leader and Depute Leader of the Council, the Lord Provost, and the leaders of other party groups as well as the Chief Executive and relevant officers with the aim of providing cross-party oversight and planning input.

**99.** The council has considered Brexit within its Strategic Plan, Treasury Management Strategy and its Corporate Procurement and Commercial Improvement Strategy. In compiling the council's financial forecasts the implications of Brexit were considered but due to uncertainty were not specifically incorporated. The medium to longer-term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council.

**100.** The council provides updates on the impact of Brexit to its employees through the staff intranet service. On its web pages the council provides information for the public that includes information for EU nationals that work, study and live in Glasgow, equality and human rights and wider issues such as the risks of Brexit to the local economy.

**101.** It is clear that the council recognises the risk that Brexit will have on its ability to deliver its strategic objectives and the impact this may have on EU citizens that live and work in Glasgow. The council has taken appropriate steps to ensure it is prepared for EU withdrawal.

# Part 4

## Governance and transparency



### Main Judgements

**Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.**

**The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.**

Governance and transparency are concerned with the effectiveness of the Council's scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

### Governance arrangements

**102.** In our August 2018 BVAR report we concluded that the council's new committee structure and scrutiny arrangements were effective.

**103.** In September 2018 the council considered an independent, external review of its governance, decision making and scrutiny arrangements. The review found that the council's new committee structure and remits are sensible but had been introduced quickly with little preparation time and support and an investment was required to make sure the new system works well.

**104.** The report made a number of improvement recommendations and the council agreed an action plan to deliver these. A short life working group has been established to oversee the implementation of the action plan.

**105.** During 2018/19 we reviewed the council's governance arrangements including committees, schemes of delegation, standing orders, statutory officer roles, financial scrutiny and internal audit. We found committee papers to be of a good standard and that members provide effective scrutiny and challenge.

**106.** Overall, we have found that the governance arrangements are appropriate and effective and support good governance and accountability.

### Openness and transparency

**107.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**108.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**109.** There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, city administration and scrutiny committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

**110.** The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. Since 2014 the council has webcast council meetings and since September 2018 all the main committee meetings have been made available to view online.

**111.** Overall, we conclude that the council has demonstrated a commitment to openness and transparency.

## Transparent reporting of financial performance

**112.** The management commentary that accompanies the financial statements should explain the financial position of the council in simple terms and, provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.

**113.** The financial review within the 2018/19 management commentary clearly explains to readers how the council has performed against its revenue budget: showing the outturn against budget position for the year with the reason given for variances. In addition there is a reconciliation between the net expenditure and movement in the general fund balance.

## Integration of health and social care

**114.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

**115.** The Glasgow City Integration Joint Board (the IJB) is provided in partnership with NHS Greater Glasgow and Clyde and became fully operational on 1 April 2016. The IJB allocates the resources it receives from the health board and the council in line with its strategic plan. The IJB considered partner body financial allocations and budgets for 2019/20 in March 2019.

**116.** In September 2018, Glasgow City Council transferred services from Cordia LLP back into council services. The council funding offer of £433 million for 2019/20 did not include additional funding to address the cost pressures within homecare services associated with this transfer. However, in this funding offer, the council confirmed it would continue to engage with the IJB to identify a financially sustainable solution to address these cost pressures going forward.

**117.** Negotiations are still ongoing between the council and the IJB to ensure an appropriate resolution is identified to address the in-year pressures within homecare services during 2019/20, and to agree a longer-term solution that can be built into baseline budgets for 2020/21 onwards.

**118.** Since becoming operational, the IJB has made various developments to help move towards new models of care, including:

- agreement of transformational change programmes for Sexual Health services
- review of Learning Disability services to consider ways to improve joint working across health and social care learning disability teams and how to deliver services within an integrated model

- pilot of Glasgow Together Consortium which involves interacting with families when they are first referred to Social Work services to agree which services would be most appropriate to help them
- approval of a five-year Rapid Rehousing Transition Plan in response to the Scottish Government's Homelessness and Rough Sleeping Action Group's recommendations
- introduction of Glasgow Alcohol Court which aims to deliver sentences which are tailored to influence an individual's behaviour and hold them accountable, with progress being subsequently rigorously monitored.

**119.** In November 2018, Audit Scotland published a report [\*Health and Social Care Integration- Update on Progress\*](#). This report set out six areas it considers need to be addressed nationally to demonstrate integration is making a meaningful difference to the people of Scotland. The IJB has worked with its key partners to undertake a self-assessment against these areas and identify improvement actions.

**120.** Overall, we concluded that the council and its partners have realistic plans in place to make health and social care integration work effectively.

### Correspondence referred to the auditor by Audit Scotland

**121.** During the year we received correspondence on the council's use of Lender Option Borrower Option (LOBO) loans, highlighting matters similar to those raised in correspondence in previous years.

**122.** A LOBO loan is typically a longer-term loan at an initial fixed rate of interest, but with an option for the lender to propose or impose a new fixed interest rate on pre-determined future dates. The borrower has the option to either pay the revised interest rate or to repay the loan.

**123.** The council has around £449 million of LOBO loans within its market debt portfolio. These LOBOs were taken out during 2004-2007 in line with the council's treasury management strategy to mitigate the council's exposure to potential rising interest rates.

**124.** In following up the LOBO correspondence we considered our work in previous years and discussed the matter with officers. We also considered our current year's audit work on the council's current treasury management arrangements including the updated treasury management strategy and our financial statements audit work on financial instruments.

**125.** Based on this work we concluded that:

- the use of LOBOs has been undertaken in line with the council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the council as part of its treasury management arrangements.

**126.** There are no further issues for us to raise in this report.

# Part 5

## Value for money



### Main judgements

The council continues to demonstrate steady progress in a number of areas. It has improved its performance management arrangements through the development of outcome-based performance measures.

Milestones have been reached in addressing a number of longer-term recommendations made in our 2017/18 Best Value Assurance Report. However, in a number of key areas, for example, homelessness, this has yet to result in the desired improvement in service attainment levels.

Value for money focuses on how the council uses resources effectively and drives continuous service improvement.

### Best value

**127.** Best value is assessed over the five-year audit appointment, as part of the annual audit work and in August 2018 we published our BVAR report on the council. Overall, we reported that, over a period of substantial change, the council had made steady progress since our previous best value report in 2009.

**128.** Our BVAR made seven recommendations across a range of areas including performance management, homelessness, equal pay and partnership working. This year our best value audit work was focused on following up the progress made by the council in response to our recommendations.

**129.** In September 2018 the council established an action plan to address our BVAR recommendations. It agreed that delivery of the actions would be progressed by lead officers and through the Extended Council Management Team, with progress reported to the Finance and Audit Scrutiny Committee (FASC).

**130.** Progress reports were submitted to FASC in March 2019 and September 2019. [Exhibit 9](#) summarises the latest position reported by the council.

## Exhibit 9

### Progress against BVAR Recommendations

Recommendation	Council update September 2019
<p>The council should continue to refine its corporate performance framework to help measure the long-term outcomes in its Strategic Plan.</p>	<p>Status: <b>Complete</b></p> <p>A suite of outcome-based performance measures has been developed to monitor progress against the priority themes and commitments set out in Council Strategic Plan 2017 to 2022.</p>
<p>The council should agree its homelessness improvement plan with the Scottish Housing Regulator (SHR). It should also continue to work with partners to implement its homelessness strategy. This includes monitoring and reviewing the impact of its homelessness interventions on the homeless population.</p>	<p>Status: <b>Work is progressing to deliver this recommendation</b></p> <p>The SHR Improvement Plan and the Rapid Re-Housing Transition Plan 2018/19 to 2023/24 are being implemented. A performance framework for the plans is being considered and will be based upon guidance from the SHR and the Scottish Government which is expected by the end of 2019.</p> <p>Performance of interventions are monitored through a number of multi-agency structures e.g. the Housing Access Board, the IJB, and the IJB Performance Scrutiny Committee. Updates will be reported to the Operational Performance and Delivery Scrutiny Committee (OPDSC) as part of the annual thematic reports on A Healthier City.</p>
<p>The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider the potential impact on service delivery.</p>	<p>Status: <b>Complete</b></p> <p>In February 2019 the City Administration Committee approved the Equal Pay settlement proposal and funding strategy.</p> <p>The financial implications were incorporated into the 2019/20 Budget approved by Council on 21 February 2019.</p>
<p>The council should review lessons learned from its 2016-2018 Transformation Programme and ensure that it has appropriate monitoring arrangements in place to measure the non-financial benefits and long-term outcomes for its transformation activity.</p>	<p>Status: <b>Complete</b></p> <p>In October 2018, a report was presented to the Finance and Audit Scrutiny Committee setting out the outcomes of the Transformation Programme.</p> <p>The suite of outcome-based performance measures that monitor progress against strategic themes and commitments will also measure non-financial benefits and long-term outcomes.</p>
<p>Building on the success of its third-sector summit, the council should continue to work with third-sector partners to help strengthen relationships.</p>	<p>Status: <b>Work is progressing to deliver this recommendation</b></p> <p>Third Sector Concordat: The final plan, and arrangements for implementation, were endorsed by the Wellbeing, Empowerment, Community and Citizen Engagement City Policy Committee (WECCE) on 30 May 2019</p> <p>New Grants Fund: Following three stakeholder engagements in early 2019 the council has developed proposals for the new fund and in August 2019 CAC approved of the aims of the fund together with a three-year budget.</p>

Recommendation	Council update September 2019
<p><b>The council and its partners should apply lessons learned from its Thriving Places initiative to help make locality planning a success more widely. This would include encouraging communities to be more involved and considering the longer-term funding of staff and initiatives to support community engagement.</b></p>	<p>Status: <b>Work is progressing to deliver this recommendation</b></p> <p>Thriving Places / Locality Planning: The results of the review of locality planning will be shared initially with the HSCP and the Locality Planning Steering Group before being reported to WECCE in September 2019 and the Community Planning Partnership Executive Group and Strategic Partnership in October and December 2019 respectively.</p> <p>Participatory Budgeting (PB): A number of local PB events have taken place during 2019 and these will be evaluated with the aim of improving the process before expanding across other areas.</p>
<p><b>The council should closely monitor the financial and service implications of changes to its Council Family structure to ensure it delivers the anticipated benefits and to help it demonstrate best value.</b></p>	<p>Status: <b>Work is progressing to deliver this recommendation</b></p> <p>The operational performance of former ALEOs is now reported as part of the ongoing performance monitoring of merged Services.</p> <p>New Annual Service Plan and Improvement Reports (ASPIRs) also cover the former ALEOs transferred to council services. OPDSC monitors operational performance and impact and relevant Policy Development Committees consider ASPIRs, including annual planning and operational priorities.</p>

Source: Glasgow City Council

**131.** Our follow-up work on our 2017/18 BVAR included discussions with officers and review of supporting documentation. Overall, we have concluded that the council has made reasonable progress in addressing our BVAR recommendations. We note that work is ongoing around the implementation of the homelessness strategy, partnership working with the third sector and community engagement. In relation to homelessness, the Scottish Housing Regulator has previously noted concerns around the pace of improvement being delivered by the council.

**132.** We will continue to monitor the council's progress in these areas.



### Recommendation 3

**The council should continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans ([Appendix 1](#))**

#### Following the public pound

**133.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**134.** The council uses Arm's Length External Organisations (ALEOs) to provide many of the council's services. It is therefore essential that the council operates effective governance and performance management arrangements over its ALEOs.

**135.** The council continuously reviews its service/ALEO model (Council Family) to ensure it remains fit for purpose and delivers Best Value and takes account of new



and emerging issues. As a result of this process Cordia services transferred to the council in September 2018 and Community Safety Glasgow services were transferred to the council in February 2019. Our testing of the financial statements did not identify any issues with the financial reporting aspects of these transfers.

**136.** The council closely monitors ALEO budgets and performance through its financial governance and performance management arrangements. Any risks around ALEOs' failure to deliver services or return planned surpluses are managed through the council's risk management arrangements and financial reporting frameworks.

**137.** The council's 2018/19 savings target of £29.2 million included a total ALEO savings target of £5.3 million. ALEOs achieved savings of £3.0 million during 2018/19, £2.3 million less than planned. The main reason for this was shortfalls in Glasgow Life, City Parking and Cordia.

**138.** The actual ALEO contribution for 2018/19 was £10.4 million. This is £3.6 million below budget. The shortfall was mainly due to homecare costs within Cordia.

**139.** We concluded that the council has appropriate arrangements for ensuring monitoring of the performance of its ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

## Performance management

**140.** The council's performance management arrangements were considered in our BVAR issued in August 2018. We identified that the council has well-developed public performance reporting arrangements and continues to refine them, particularly around measuring progress against strategic objectives. In our follow-up of our BVAR recommendations we noted the council's progress in making improvements for measuring longer-term outcomes.

**141.** The Operational Delivery and Performance Scrutiny Committee (OPDSC) receives regular performance reports throughout the year. The annual performance report, that provided the basis for updating on progress against the council's Strategic Plan, has recently been replaced by the Council Strategic Plan Progress Report. This new report provides detailed performance against the 105 priorities under the council's seven strategic themes and the 233 commitments supporting these priorities. The first new report was submitted to committee on 21 August 2019 where members were asked to consider the adequacy and clarity of the new report.

**142.** In addition the council is developing a Public Performance report which will be a web publication in a graphic format providing a page per theme snapshot drawn from the Council Strategic Plan Progress Report.

**143.** The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**144.** Overall, we considered the council's performance management arrangements to be adequate, including their approach to reviewing and refining these.

## Overview of performance targets

**145.** The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service shows that the council compares favourably with other councils across a range of areas. However educational attainment is an area where council performance was below the Scottish average, although levels have been improving in recent years.



**146.** In August 2019 a report to the OPDSC showed that the council is on track to deliver its Strategic Plan 2017-22. Of the total of 233 commitments, 11 (5%) have been completed and 202 (87%) on target for completion.

**147.** Areas where progress has fallen short of planned outcomes include:

- Ongoing review of the City's Independent Living Strategy
- sustainable transport
- neighbourhood empowerment
- engaging with citizens on the City Charter
- rollout of superfast broadband
- delivery of a Glasgow Airport access link.

**148.** Overall, we have concluded that the council has made good progress with the delivery of its strategic priorities. As part of our BVAR follow-up work we will continue to monitor how the council measures its progress on strategic objectives.

### Statutory performance indicators (SPIs)

**149.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**150.** For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).

**151.** We reviewed the council's arrangements for collection, verification and reporting of the 2018/19 SPIs and concluded that these arrangements continue to be satisfactory.

### National performance audit reports

**152.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports which are of direct interest to the council. These are outlined in [Appendix 3](#).

**153.** The council has well established and effective arrangements in place to ensure that our national reports and their impact on the council are considered by members.

# Appendix 1

## Action plan 2018/19



### No. Issue/risk

### Recommendation

### Agreed management action/timing

1	<p><b>Efficiency savings</b></p> <p>The council achieved actual savings of £20.9 million in 2018/19, 72% of target.</p> <p><b>Risk</b> - the failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.</p>	<p>The council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary.</p> <p>Paragraph <a href="#">50</a></p>	<p>The council's financial management and reporting arrangements already provide for detailed scrutiny of savings options, reporting of progress and identification of mitigating actions. This process will continue to be applied in future years.</p> <p><b>Responsible officer</b></p> <p>Executive Directors / ALEO Managing Directors</p> <p><b>Agreed date</b></p> <p>Ongoing</p>
2	<p><b>Financial sustainability</b></p> <p>The council has implemented an equal pay funding strategy that spreads the cost of settlement into the future and helps to minimise the impact on service delivery. However the scale of required savings within the annual budget continues to grow, making it increasingly challenging to maintain current service delivery levels.</p> <p><b>Risk</b> - The council's medium/longer-term financial planning may not support the management and delivery of its strategic objectives.</p>	<p>The council should ensure that its longer-term financial strategy and plans support the development of future savings programmes.</p> <p>Paragraph <a href="#">81</a></p>	<p>As part of the council's financial planning spending gaps have been identified for the next three years. Work is currently ongoing to identify savings proposals to meet this challenge. Approved proposals will be incorporated within the council's annual budget process.</p> <p><b>Responsible officer</b></p> <p>Executive Directors / ALEO Managing Directors</p> <p><b>Agreed date</b></p> <p>March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Homelessness</b></p> <p>Although the service has made progress in developing and implementing its improvement plan and rapid re-housing transition plan, this has yet to translate into desired improvement in service attainment levels.</p> <p><b>Risk</b> - the pace of service improvement may be insufficient to meet the ongoing needs of service users.</p>	<p>The council should continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans.</p> <p>Paragraph <a href="#">132</a></p>	<p>The council will continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans. Quarterly progress meetings are in place with the Scottish Housing Regulator as part of the implementation plan which is targeted to complete in March 2024. Monitoring and reporting framework arrangements have still to be finalised with the Scottish Government as part of the Rapid Rehousing Plans, but are expected to be the subject of at least annual updates.</p> <p><b>Responsible officer</b></p> <p>Chief Officer, Glasgow's Health and Social Care Partnership</p> <p><b>Agreed date</b></p> <p>31 March 2024</p>

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Follow up of prior year recommendations

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4	<p><b>Pension Scheme Valuation</b></p> <p>The current timetable for producing IAS19 reports means the council's report does not reflect the most up to date estimate of Strathclyde Pension Fund's investment assets at the financial year end. Where there is volatility in the markets towards year end, this can lead to a material difference between values used to produce unaudited financial statements, and the most up to date estimates.</p> <p><b>Risk</b> - The pension fund assets and net liability disclosed in the financial statements are materially incorrect.</p>	<p>The council should review the current financial statements closure timetable, and engage with the actuary and external auditors, to agree an approach to producing IAS19 reports for future financial statements.</p>	<p><b>Complete:</b> The council has engaged with the actuary and Audit Scotland and agreed an approach to producing IAS19 reports for future financial statements.</p>
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**No. Issue/risk**
**Recommendation**
**Agreed management action/timing**

5	<b>Funding pressures</b> <p>The council is facing unprecedented financial pressure. In addition to projected funding gaps over the next three years (2018/19 to 2020/21) of £129.1 million, the council is facing the potential financial challenge arising from its commitment to settle outstanding equal pay claims.</p> <p><b>Risk</b> - The financial challenges result in the council being unable to deliver its strategic objectives.</p>	<p>The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider any potential impact on service delivery.</p>	<p><b>Complete:</b> The council has made provision for its outstanding equal pay claims and has included the funding of this within its financial plans.</p>
6	<b>Financial Planning</b> <p>The medium to longer-term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council (e.g. new financial powers, Brexit, ending of public sector pay cap).</p> <p><b>Risk</b> - The council's longer-term financial planning does not support the management and delivery of its strategic objectives.</p>	<p>The council should use a range of scenario planning and modelling when developing longer-term financial plans aligned to its strategic objectives</p>	<p><b>Complete:</b> The council's Financial Forecast 2019-22 includes scenario planning.</p>
7	<b>Best Value Assurance Report</b> <p>The BVAR includes a number of recommendations based on the findings set out in the report.</p> <p><b>Risk</b> - The council fails to meet the Accounts Commission's expectations in addressing the findings and recommendations in the BVAR.</p>	<p>The council should develop an action plan to address the recommendations set out in the BVAR.</p>	<p><b>Complete:</b> The full council agreed an action plan on 13 September 2018.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the council and the reasonableness of the estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested a sample of journal entries.</p> <p>We reviewed the estimation methodology and assessed the reasonableness of the estimates.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business.</p> <p><b>Our testing did not identify any evidence of management manipulating accounting records or overriding controls.</b></p>
<p><b>2 Risk of fraud over income</b></p> <p>Glasgow City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Particular areas of concern include council tax, non-domestic rates and income from sundry debtors.</p>	<p>Analytical procedures on income streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We carried out an analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</p> <p>We substantively tested a sample of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for income and tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p><b>The council has appropriate arrangements in place to minimise the risk of fraud over income.</b></p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public sector bodies are net expenditure bodies. Therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We carried out an analytical review of expenditure streams to confirm completeness and identify any unusual transactions or variations in expenditure.</p> <p>We substantively tested a sample of expenditure transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for expenditure.</p> <p>We tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p><b>The council has appropriate arrangements in place to minimise the risk of fraud over expenditure.</b></p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Evaluate the competence, capabilities and objectivity of both the professional valuer and professional actuary.</p> <p>Obtain assurances on the pension fund control environment.</p> <p>Assess the reasonableness and appropriateness of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non-current assets and of provisions, including provisions for equal pay claims.</p> <p>Review and assess the carrying value of assets identified for sale and leaseback, to ensure they have been properly valued.</p> <p>Sample check accruals and provisions in the 2018/19 annual accounts.</p>	<p>We completed a 'review of the work of an expert' for the professional valuer.</p> <p>We completed a 'review of the work of an expert' for the professional actuary, and reviewed the appropriateness of actuarial assumptions.</p> <p>We assessed the effectiveness of the pension fund control environment.</p> <p>We carried out focused substantive testing of key areas of non-current assets and of provisions, including provisions for equal pay claims.</p> <p>We reviewed and assessed the carrying value of assets identified for sale and leaseback.</p> <p>We tested a sample of accruals and provisions in the 2018/19 annual accounts.</p> <p><b>Estimates and judgements disclosed in the financial statements are reasonable and evidence based.</b></p>
<p><b>5 Provision for the cost of the equal pay settlement</b></p> <p>The council has reached an agreement in principle to settle historic equal pay claims and the total cost of settlement is likely to exceed £500m. Payments to</p>	<p>Assess the methodology used in determining cost of the equal pay settlement.</p> <p>Assess the reasonableness of any judgements or estimations made.</p>	<p>We assessed the methodology used in determining cost of the equal pay settlement.</p> <p>We assessed the reasonableness of judgements or estimations made in relation to equal pay disclosures.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>claimants are likely to be made in 2019/20.</p> <p>Provision for the settlement will be reflected in the 2018/19 financial statements.</p> <p>The complexities of historic pay claims and volume of claims presents a significant challenge in determining the likely overall cost, particularly as this will involve a level of estimation and judgement.</p> <p>This represents an increased risk of misstatement in the financial statements.</p>	<p>Evaluation of equal pay disclosures within the annual accounts.</p>	<p>We evaluated the equal pay disclosures within the annual accounts.</p> <p><b>The provision for equal pay has been properly measured and information on equal pay has been properly disclosed in the financial statements.</b></p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>6 Financial sustainability</b></p> <p>The council faces significant financial challenges, including:</p> <ul style="list-style-type: none"> <li>• a £129m funding gap for the period 2018/19 to 2020/21</li> <li>• meeting the cost of the equal pay settlement (likely to exceed £500m)</li> <li>• adoption of a new pay and grading system</li> <li>• rising demands for services</li> <li>• increasing cost of services</li> <li>• reductions in local government funding.</li> </ul> <p>In addition, there are a number of uncertainties that are likely to have a financial impact on the council e.g. EU withdrawal, ending of public sector pay settlement, new financial powers for the Scottish Government.</p> <p>Robust longer-term financial plans will be required to address the financial challenges the council faces and support the delivery of its strategic objectives.</p>	<p>Assessment of the adequacy of the council's longer-term financial management arrangements.</p> <p>Ongoing review of the financial performance and budget reports to assist in our assessment of the council's financial position.</p> <p>Meetings with officers.</p> <p>Ongoing consideration of the council's savings programme, including the robustness of future savings plans and the adequacy of progress reports to committee.</p> <p>Review and assessment of provisions and contingent liability disclosures as part of our financial statements audit.</p>	<p>We assessed the council's longer-term financial management arrangements.</p> <p>We reviewed the council's financial performance and budget reports.</p> <p>Our meetings with officers included discussions around the council's financial plans.</p> <p>We considered the council's savings programme and the robustness of future savings plans. We also considered the adequacy of progress reports to committee.</p> <p>As part of our financial statements audit, we assessed the provisions and contingent liability disclosures.</p> <p><b>The Council has strong financial management arrangements.</b></p>
<p><b>7 Accounting for council funding strategies</b></p> <p>The council has developed a separate funding strategy to address the cost of equal pay settlement. This includes:</p> <ul style="list-style-type: none"> <li>• generating capital receipts through the sale and lease back of a number of council properties to the council Arm's</li> </ul>	<p>Assessment of the proposed arrangements against legislative and accounting requirements.</p>	<p>We assessed of the proposed arrangements against legislative and accounting requirements.</p> <p><b>The council has complied with legislative and accounting requirements when accounting for the funding strategy to address the cost of equal pay settlement.</b></p>



Audit risk	Assurance procedure	Results and conclusions
<p>Length External Organisation (ALEO), City Property Glasgow Investments LLP</p> <ul style="list-style-type: none"> <li>the use of shareholder contribution from City Property Glasgow Investments LLP, following refinancing of existing ALEO debt.</li> </ul> <p>The council also intends to reprofile its internal loans fund repayment schedule to help address the wider medium-term financial challenges of the council.</p> <p>There is a risk that the council does not comply with relevant financial or statutory regulations and guidance when implementing its funding strategies.</p>		
<p><b>8 Delivery of digital and strategic objectives</b></p> <p>On 1 April 2018 the council entered into a seven-year contract with CGI for the provision of ICT services.</p> <p>In November 2018 the council agreed its Digital Glasgow Strategy which is aligned with its Strategic Plan.</p> <p>It is currently developing its Strategic Innovation and Technology (SIT) Strategy.</p> <p>The alignment of the SIT Strategy with the Digital Glasgow Strategy and Strategic Plan is key to the delivery of the council's strategic objectives.</p> <p>There is a risk that these objectives are not delivered.</p>	<p>Consider reports submitted to committee on the Digital Glasgow Strategy and SIT strategy.</p> <p>Assess the alignment of the SIT strategy with the council's strategic objectives.</p> <p>Consideration of Internal Audit's work on the effectiveness of the SIT team.</p>	<p>We considered reports submitted to committee on the Digital Glasgow Strategy and SIT strategy.</p> <p>We assessed the alignment of the SIT strategies with the council's strategic objectives.</p> <p>We considered internal audit's work on the effectiveness of the SIT team.</p> <p><b>The council's has developed SIT strategies which are aligned with both the Digital Glasgow Strategy and the Strategic Plan.</b></p>



# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Glasgow City Council

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