West Lothian Council

Report to Members on the 2005/06 Audit

October 2006

AUDIT SCOTLAND

www.audit-scotland.gov.uk

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

Contents

Key Messages

Introduction

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

Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of West Lothian Council for 2005/06.

The Council had corporate governance systems in place during 2005/06 that operated well within a sound control environment.

The Council's annual report was published in July 2006 and provided a brief round-up of the performance of services provided by West Lothian Council for 2005/06. It includes a joint statement from the Leader of the Council and the Chief Executive highlighting the most significant achievements and developments during the year, including the Council's success in winning the title UK council of the year 2006.

Historically, the Council has been well placed in national comparisons of Statutory Performance Indicators and has placed substantial emphasis in using targets to improve performance in these areas. In 2005/06, it has reported continued improvement and high performance for a substantial proportion of its SPIs. Once again this year we were able to assess the arrangements for each indicator as being reliable.

Overall, significant progress has been made against the Council's Best Value improvement plan, although there has been slippage against some action dates. Work is continuing to implement the remaining areas of the plan and progress is expected to be reported to committee shortly.

The Council experienced a net general fund deficit of £3.218 million in 2005/06. This was due to significant unplanned costs arising from the settlement of compensation claims in relation to the equal pay act and from the decision to repay amounts previously charged for assistance with food preparation. Savings made in a number of areas including interest costs offset these amounts to a certain extent, but overall the position was £1.189 million below that planned.

In setting its 2005/06 budget the Council's strategy was to maintain an unallocated general fund balance of £2 million. After allowing for earmarked amounts an unallocated general fund balance of £1.155 million was available going into 2006/07. Identified budget underspends in 2006/07 are to be maintained to restore the unallocated fund balance to the minimum level.

The Council prepared group accounts in accordance with new requirements. The overall effect of inclusion of the Council's associates and joint venture is to reduce net assets in the group accounts by £143 million. This is substantially as a result of liabilities arising from the pension funds of joint boards. These liabilities will be funded as they fall due through a combination of employee and employer contributions, government grant and council tax.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- Developing the improvement culture;
- Managing the workforce;
- Responding to customers, clients and communities.
- Refocusing resources on service delivery;
- Developing modern infrastructure;

Significant efficiency assumptions have been incorporated into the Council's revenue budgets for the next two years. The Council has recognised that substantial efficiency savings will be necessary every year until 2011/12 to release funding for improvements to service delivery and to respond to challenges of the Government's efficient government agenda. A strategy to deliver the required level of efficiencies over this period has been agreed – combining a rigorous approach to workforce planning with a general efficiency programme.

The Council has approached the efficiency agenda in a structured and systematic manner and overall it is well placed to meet challenges in this area. However, if it is unable to achieve the required level of efficiencies this will threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives. It also needs to develop its performance management information systems to allow it to track the delivery of efficiency initiatives against their objectives and confirm that there has been no loss of service quality.

Work is continuing on the introduction of a more systematic performance management system, with key performance indicators and targets being developed within each service. Current plans are to move to pilot a full outcome agreement during 2007/08. The Council has recognised that this is an ambitious and challenging approach which will require a rigorous and robust performance framework which provides evidence of achievement that all parties can rely upon. A key challenge faced is in establishing baseline performance across the range of its operations necessary to underpin a future agreement.

In common with many other Scottish Councils, West Lothian Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. While this helps to reduce the financial risk in this area to some extent, there are continuing risks while existing pay and reward structures remain in place. The risk of exposure to claims for possible contravention of the Equal Pay Act will be reduced when a revised pay and rewards structure based on equal pay principles is in place. The full implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

West Lothian remains to implement the Single Status agreement, however discussions are continuing with trades unions and certain employee groups over revisions to the pay structure. The Chief Executive has been authorised to work towards agreement of a revised pay structure. Amounts have been incorporated into the budget for the future costs relating to implementation, but until local agreements are in place these cannot be fully quantified. In securing a local agreement the Council should take account of the opportunity for service and job redesign to ensure that it achieves value for money from the investment in its staff.

Continuing development of performance management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements. Continued commitment to the National Fraud Initiative (NFI) exercise will ensure that the public purse is properly protected from fraud. The forthcoming elections will require significant input from the Council to ensure that its governance arrangements are fit for purpose, including committee structures, role/ remits of members and arrangements for the training of new members.

Changes to accounting rules will have a major impact on the presentation of the 2006/07 annual financial statements. The Council should take this opportunity to review the linkages between the Council's budget and summary financial results to members and the wider public to ensure transparency.

This is the final year of our current appointment to the audit of the Council. From 2006/07 Audit Scotland will remain as the Council's appointed auditor and the new engagement lead will be Fiona Kordiak. The co-operation and assistance given to us by West Lothian Council members and staff over the five years of our audit appointment is gratefully acknowledged.

Audit Scotland
October 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of West Lothian Council. The scope of the audit was set out in our Audit Risk Analysis and Plan, which was submitted to the Audit Committee on 20 June 2006. This plan set out our views on the key business risks facing the Council and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

3. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Council during the course of our audit work.

Performance

Introduction

4. In this section we summarise key aspects of the Council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the 2005 best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

5. The Corporate Plan for 2003 – 2007 sets out the key goals and priorities for the Council until 2007 and explains how it plans to achieve these. The plan is set out in six themes, which cut across a variety of services:

- A learning community;
- A prosperous community;
- A safer community;
- A caring community;
- A changing community;
- A healthy community.

6. A total of 44 priorities are established across these themes. These priorities include the following pledges by the Council's ruling group:

- raise educational standards by employing more teachers and improving school buildings;
- expand road and pavement maintenance and extend 20 mph zones to all residential areas;
- protect local communities, using neighbourhood environment teams to target dog fouling, litter and fly tipping;
- deliver a further 1,000 affordable quality homes to rent;
- enhance concessionary travel for pensioners and people with disabilities.

Overview of performance in 2005/06

Annual report

7. The Council's annual report was published in July 2006 and provided a brief round-up of the performance of services provided by West Lothian Council for 2005/06. It includes a joint statement from the Leader of the Council and the Chief Executive highlighting the most significant achievements and developments during the year, including the Councils success in winning the title UK Council of the year 2006.

8. The report describes aspects of performance and achievements across each of the corporate plan themes, including:

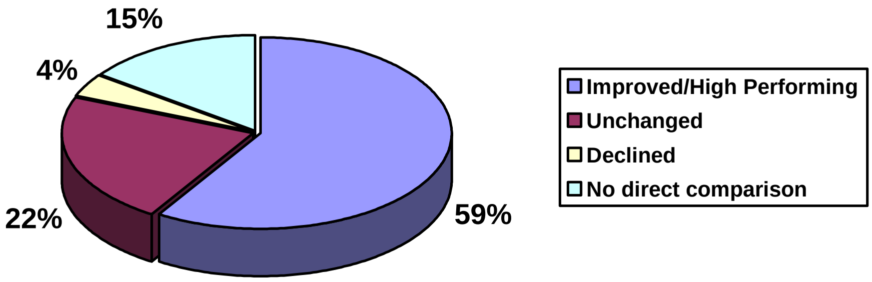
- ***Learning community*** - improvement has taken place in all S5 level indicators; expansion of Burnhouse campus and Ogilvie House campus to provide support to students with additional support needs;
- ***Caring community*** - a total of 2,280 household adaptations were carried out, enabling people to live in their own homes for longer;
- ***Prosperous community*** – some 60 businesses considering relocating to the area were given assistance and there were a number of high profile inward investments;
- ***Changing community*** - the introduction of kerbside recycling to 92% of households was completed six months ahead of schedule. New bus services have been provided for patients and visitors travelling to the royal infirmary and additional services for hospital visiting from Blackridge;
- ***Safer community*** – a new domestic abuse services team made up of community planning partners and the voluntary sector was set up. Test purchasing for fireworks and age restricted DVD’s was carried out at 28 premises across West Lothian;
- ***Healthy community*** - numerous promotions have taken place to improve health through supporting people ; the West Lothian Health and Care Partnership continued to progress throughout the year.

9. However, the annual report does not currently provided a rounded assessment of the extent to which the range of objectives and priorities set out in the corporate plan are being achieved. In the absence of performance targets and indicators directly linked to the key challenges and goals in the corporate plan it is difficult for members and the public to consider the extent to which resources are being used most effectively to address the corporate priorities.

10. This matter is being addressed as part of progress against the best value improvement plan with continuing development of a comprehensive performance monitoring system linked directly to service plans. From 2006/07 the Council will have access to information about 500 Key Performance Indicators from its Covalent system, enabling these to be monitored by the Performance Committee and underpinning future public performance reporting.

Statutory performance indicators

11. One of the ways of measuring the Council’s comparative performance is using statutory performance indicators. Historically, the Council has been well placed in national comparisons and has placed substantial emphasis in using targets to improve performance in these areas. In 2005/06, the Council has reported continued improvement and high performance for a substantial proportion of its SPIs:



12. Substantial improvements have been made and maintained in:
    - the proportion of probationers seen by a supervising officer within one week;
    - occupancy percentage levels of the ratio of pupils to places in secondary schools;
    - the percentage of children's hearing reports requested by the Reporter which were submitted within the target time;
    - looked after children academic achievement;
    - current tenant rent arrears as a percentage of net amount rent due in year.

13. However, performance has declined in two areas:
    - sickness absences;
    - successful planning appeals.

14. Each year we review the reliability of the Council's arrangements to prepare SPIs. Once again this year we were able to assess the arrangements for each indicator as being reliable.

Performance outlook – opportunities and risks

Introduction

15. In our audit risk analysis and plan we identified some of the strategic risks to West Lothian Council delivering on its stated objectives and priorities. These risks have been grouped into five risk areas which will drive and support service delivery. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Developing the improvement culture

16. The Council's commitment to best value is characterised by effective leadership and a culture of continuous improvement that is well embedded throughout the organisation. Continued development of the existing improvement culture in areas such as performance management and member scrutiny will further support the achievement of key aims and policy objectives. The Council has recognised and is addressing this agenda.

17. Member's scrutiny roles have been strengthened with the introduction of a Performance Committee, and a training programme for members' development. The Risk Management Steering group is responsible for embedding robust processes within the Council to address risk management, part of its role is to identify gaps in risk management and provide solutions e.g. cross Council operational risks to be allocated to nominated Heads of Service.

18. Work is continuing on the introduction of a more systematic performance management system, with key performance indicators and targets being developed within each service. Services are at different stages in this process. In some areas reporting has commenced with plans in place to roll out to all Directorates by May 2007. The principle being adopted is that service performance is generally reported using the West Lothian Assessment Model (WLAM) service structure and framework. The Performance Committee has commenced examining each Directorate's use of the Performance Management System.

19. Initial work has been completed on development of a single outcome agreement between the Council and the Scottish Executive. Current plans are to move to a full pathfinder pilot during 2007/08. The Council has recognised that this is an ambitious and challenging approach which will require a rigorous and robust performance framework which provides evidence of achievement that all parties can rely upon. A key challenge faced by the Council is in establishing baseline performance across the range of its operations necessary to underpin a future agreement.

20. The Council has developed and implemented its own comprehensive self-assessment tool (WLAM), which provides a structured framework for examining services' systems and processes, the resources used and what is achieved. However, the proposed programme of thematic reviews has yet to be agreed and implemented, having been delayed to allow full consideration of the Council's response to the efficient government initiative.

21. Full implementation of these initiatives will support both members and officers in actively managing the Council's performance and the risks it faces in delivering against its objectives and priorities.

Refocusing resources on service delivery

22. In seeking continuous improvement and responding to increasing demands for services the Council needs to work with its partners to promote efficiency, getting the most from available resources to enhance services to local people. Significant efficiencies are necessary to release funding for improvements to service delivery and to respond to the challenges of funding settlements and the government's efficient government agenda.

23. Current financial plans are predicated on achieving efficiency savings of £2.5 million in 2006/07 and additional savings averaging £3.0 million in each of the subsequent five years. If the Council is unable to achieve the required level of efficiencies this will threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives. Significant effort will be necessary to deliver sufficient savings while continuing to improve performance. The Council's efficiency programme and arrangements to respond to the Efficient Government agenda are discussed in detail in paragraphs 83 to 91 below. Overall, the Council is well placed to meet challenges in this area.

24. Effective medium and longer term financial planning will be necessary to support the Council's continuing programme of reinvestment in priority areas. Officers are currently working to deliver a medium term efficiency plan for the next five years.

Responding to customers, clients and communities

25. Increasingly, if the Council is to deliver effectively on the themes and objectives set out in its corporate plan it needs to ensure that services work more closely together to focus the design of services around the needs of individuals and communities. To do so it needs to work effectively with partners to engage with and respond to customers, clients and communities.

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

27. West Lothian Council is further developing community planning and the role of elected members through the development of locality plans. Senior officers are involved in linking community planning to the Council's strategic plan and cascading this down into service planning to ensure that community planning aims and objectives are being met.

28. A mid-point review of the Council's community plan has commenced, with a programme of consultation with partners and the wider community well underway. A new community plan is expected to be available for consultation by the end of 2006, incorporating an improvement plan, revised targets and a suite of new indicators linked with the Council's developing performance management systems.

29. The Council continues to be at the forefront of efforts to respond more effectively to its customers, clients and communities. Within West Lothian, community planning frameworks are well established and continue to be developed. A number of initiatives will help to transform the way in which the Council engages with individuals with the help of technology, particularly through developments associated with the Council's Customer Service Strategy. However, the Council remains to develop a fully coherent approach to public performance reporting ensuring that service users and the wider public receive balanced information about performance.

30. The Council in the development of partnerships has already well developed joint financial planning, but is now reviewing joint governance arrangements within its Community Health and Care Partnership. This has identified areas for improvement such as schemes of delegation from both the Standing Orders of both parties and the development of risk management strategies.

Delivering modern infrastructure

31. The Council requires physical infrastructure and assets that are suitable and sufficient to meet the requirements placed on them in delivery of the themes and objectives set out in the corporate plan. They need to support the provision of high quality services now and into the future in a sustainable manner. The Council has recognised that it needs better schools, housing and other assets, and plans are in place to achieve an ambitious programme of improvements.

32. Robust asset management planning processes will be essential to ensure that future capital investment decisions make the best fit to corporate objectives. Recognising that available capital funds have already been fully allocated until the period 2007/08, the Council has revised their original timetable for the development of a corporate asset management plan. A more comprehensive and integrated approach to capital investment strategy, corporate asset management planning and option appraisal is now expected to be implemented fully by 2008/09. It is proposed that this will support consideration of ten year capital investment options for all categories of capital investment.

33. There have been delays in progressing the Council's school investment programme as a result of the affordability of initial Private Public Partnership (PPP) proposals and its overall viability. Plans are now in place to provide two new schools under revised PPP arrangements and to refurbish 3 further schools using the Council's capital programme.

34. The Council has recently embarked on a 10 year investment programme aimed at ensuring that its housing stock meets the requirements of the Scottish Housing Quality Standard. Further work is aimed at expanding social housing provision in partnership with Communities Scotland.

35. A partnership with the other Lothian Councils and Borders Council is working to develop joint proposals for the operation of waste management services which will meet the requirements of the EU Landfill Directive and the needs of residents and businesses in each Council area. An Outline Business Case for a PPP project is being prepared to deliver the necessary investment required to meet these challenges, including increasing landfill diversion targets for 2010, 2013 and 2020.

Managing the workforce

36. People play the key role in delivering high performing services. The Council needs to make sure it has the right skills, in the right place, at the right time. This requires effective workforce planning, successful recruitment and retention practices and good industrial relations.

37. The Council is continuing to rollout its corporate people strategy. This work commenced in 2005, and will continue into 2008. However, it faces challenges in a number of areas including the significant administration effort needed to restructure the human resources database following changes arising from recently negotiated settlements and the future implementation of single status.

38. During 2005 and 2006, the focus of the Council has been the resolution of the equal pay arrangements, in conjunction with planning for the single status agreement within the Council. While there has been notable progress in some other aspects of workforce management, the Council has recognised a need to refocus resources to ensure delivery of overall strategies. As part of this process comprehensive five year workforce plans will be prepared showing how efficiencies will be delivered without an adverse impact on productivity and output.

Best value

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

40. West Lothian received a full best value audit in June 2005. The Council developed an improvement plan in response to the issues raised and our findings on the Council's progress against the plan are reflected throughout this report.

41. Overall, significant progress has been made against the improvement plan, although there has been slippage against a number of the established action dates. Key areas of progress include:

- continuous development of the performance management system. This now incorporates measurement and monitoring using over 500 Key Performance Indicators, with a programme to cover all service areas by May 2007;
- a Performance Committee has been established. Some initial training on the performance management system has been provided to members, but have commenced consideration of regular performance reports;
- the Council has approved an efficiency strategy which aims to further realign services and help ensure value for money in service delivery;
- governance arrangements for Community Health Care Partnership have been reviewed, resulting in the identification of areas for further improvement;
- a procurement policy has been established.

42. Work is continuing to implement the remaining areas of the improvement plan and progress is expected to be reported to committee shortly.

National studies

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

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

44. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the 'McCrone' report. The review found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment nationally. The study incorporated work at West Lothian Council and there was evidence of a streamlining of the teachers management structure and higher teacher numbers. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.

Council housing transfers

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

46. West Lothian Council has decided not to undertake a housing stock transfer at the current time following a financial option appraisal which identified insufficient financial benefit for tenants.

Following the public pound – a follow-up report

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

48. The Accounts Commission found that no Council fully complied with guidance which sets out best practice principles when Councils fund external organisations, although only five Councils had a low level of compliance. West Lothian Council was amongst 18 Councils demonstrating a moderate level of compliance with the code.

49. The report recommends that Councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of Council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the Council's objectives, have arrangements for scrutiny and explore joint working with other Councils.

50. Significant progress has been made by the Council in setting up a central register of funding to external organisations. An external contractor has been engaged to design a new database for the Council.

Financial position

Introduction

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

Council tax and the general fund

Revenue performance 2005/06

52. The Council's net revenue expenditure in 2005/06 was £282.575 million, after transfers of £2.272 million to the insurance fund, £0.148 million from the housing revenue account balance and £0.214 million from the capital fund (to defray the costs of loan principal repayments). This was met by government grants and local taxation of £279.357 million resulting in a net general fund deficit of £3.218 million.

53. The budget set for 2005/06 was based on a Band D Council tax level of £1,074. No contributions to or from the general fund were planned. In his Foreword to the financial statements, the Head of Finance highlights that, after allowing for £2.029 million earmarked for existing commitments at 31 March 2005, the overall results for the year were £1.189 million worse off than planned:

Overspends

- additional unplanned expenditure of £6.75 million required to meet the costs of equal pay compensation payments;
- additional costs of £0.544 million arising from the decision to repay amounts previously charged for assistance with food preparation;
- additional contributions of £0.9 million to the insurance fund;

Underspends

- £2 million previously set aside for the expected increased costs of the implementation of single status not required during the year;
- an underspend on treasury management costs of £3.779 million;
- improvements in tax collection releasing £0.83 million more than planned;
- a net underspend on services of £0.396 million.

Reserves and balances

54. At 31 March 2006 the Council had total cash backed reserves and funds of £39.118 million, including a capital fund established in 2004/05 to aid delivery of the capital programme and an insurance fund that underpins the Council's self-insurance arrangements.

Reserves and Funds 2005/06

Description	2005/06 £ Million	2004/05 £ Million
General Fund	3.598	6.816
General Fund – Housing revenue account balance	0.916	1.064
Capital Fund	29.671	29.766
Usable Capital Receipts Reserve	0.077	0.077
Repair and Renewal Funds	0.222	0.212
Insurance Fund	4.634	2.227
	39.188	**40.162**

55. In setting its 2005/06 budget the Council's strategy was to maintain an unallocated general fund balance of £2. million. The general fund balance of £3.598 million at 31 March 2006 had commitments of £1.874 million at that time, leaving an unallocated general fund balance of £1.724 million. Further commitments were earmarked by the Policy, Partnership and Resources Committee in June 2006 of £0.569 million which reduced the unallocated general fund balance to £1.155 million. Amounts previously earmarked for the costs of single status implementation have been used in funding unplanned equal pay costs. Significant earmarked amounts include:

- devolved school management balances of £0.953 million;
- anticipated future costs of local planning enquiry of £0.5 million.

56. The Council recognises that it is exposed to significant financial pressures in an environment of tight revenue budgets if any unforeseen expenditure emerges. The Council has identified budget under spends in 2006/07 and these are to be maintained to restore the unallocated fund balance to the minimum level. The Council faces a range of further issues which could significantly impact on its reserve position and this is discussed further in our Financial Outlook section at paragraph 71 below.

Rents and the housing revenue account

57. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2005/06 was based on an average weekly rent level of £48.30 for Council properties, an increase of 3.5% on the previous year. No contributions to or from balances were planned.

58. A small deficit of £0.057 million was experienced in 2005/06. This was funded by the HRA balance previously accumulated. The budget set for 2006/07 was based on further increase in rent levels of 3.5%. No contributions to or from balances have been planned.

Group balances

59. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue and Lothian Valuation) had an excess of liabilities over assets at 31 March 2006 due to the accrual of pension liabilities.

60. The overall effect of inclusion of the Council's share of subsidiaries, joint ventures and associates on the group balance sheet is to reduce net assets by £142.7 million, substantially as a result of these liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grant and Council tax.

61. The share of the results of all Council associates and joint venture are set out below.

Summary of result of group entities 2005/06

	Associates £ million	Joint Venture £ million	Total £ million
Gross Expenditure	26.699	0.379	27,078
Gross Income	(27.310)	(0.594)	(27,904)
Operating results	(0.611)	(0.215)	(0.826)
Net interest payable/ (receivable)	0.226	(0.001)	0.225
Share of corporation tax	-	0.050	0.050
Net (income)/ expenditure	(0.385)	(0.166)	(0.551)
Transferred to reserves	**0.385**	**0.166**	**0.551**

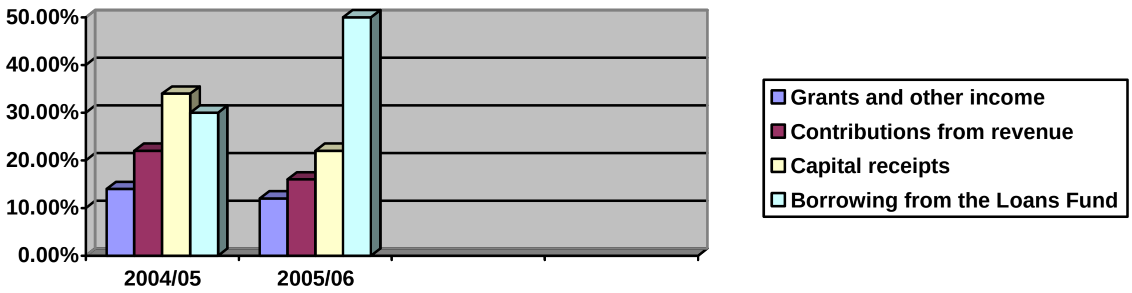
Spending on assets and long-term borrowing

Capital performance 2005/06

62. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2005/06 were set in February 2005 and significant increases in capital expenditure have been made under these freedoms as the Council seeks to improve its asset infrastructure.

63. Capital expenditure in 2005/06 totalled £84 million, rising from £72.8 million in 2004/05 and £52.2 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the Council has increased its capital spending, within the limits set within its prudential indicators, the proportion funded by debt has increased significantly with aggregate long and medium term borrowing at 31 March 2006 of £268.1 million, an increase of £77.5 million on the previous year.

Sources of finance for capital expenditure



64. As part of the Council's approved investment strategy the increased borrowing costs arising from the general fund capital investment plans were funded by a 1% rise in Council Tax in 2005/06.

65. Almost 99% of long and medium term loans at the year-end mature after more than 10 years. However, the Council has actively managed its exposure to variable interest rate movements with less than 1% of all debt exposed to variable rate risk - well below its prudential maximum exposure of 35%.

66. Budgeted capital expenditure for 2005/06 was £86.6 million. Once again slippage, amounting to £3.78 million, was experienced within the Council's housing new build, kitchen and bathroom and roads and footpath programmes. Additional funding of £1.7 million was received from Communities Scotland to meet land purchases and delays were experienced in relation to £1.7 million of Social Housing Quality

Standards work. The Council has planned to manage further slippages by programming additional projects to come on stream if delays occur. The Council has to complete a review of its capital management arrangements.

Forward capital programme

67. General services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £45.012 million and £73.398 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £62.639 million over the two years.

68. The updated housing capital plan for 2006/07 is proposing a budget of £34.6 million to meet Scottish Housing Quality Standards, external upgrading, energy efficiency projects and new build etc. Again this will be funded from capital receipts, other contributions and further increases in borrowing.

Significant trading operations

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

70. The Council has a single significant trading operation, commercial properties. In the three years to 31 March 2006 it made an aggregate surplus of £2.242 million meeting the statutory target. The organisation incurred a deficit of £0.106 million in 2005/06 due to increasing capital financing charges and central support charges. Notwithstanding this the Council expects a healthy trading position over the next three years, providing an ongoing contribution to its overall costs.

Financial outlook

Current budget

71. The 2006/07 budget was based on a Band D Council tax level of £1,101 an annual rise of 2.5%. No contributions to or from the general fund were planned.

72. General allowances for pay and cost inflation pressures were built into the budget together with allowances for demographic pressures on demand led services in education and adult and elderly services. Additional annual pay costs of £1 million resulting from the future implementation of single status were also allowed for. A number of efficiencies and other savings were built into the budget and spend to save budgets established.

73. A high level revenue budget for 2007/08 has also been set, based on an indicative Council Tax rise of 2.5%. A key assumption made in financial planning for this year is that additional income from the Scottish Executive will be made available in this year. While the Minister for Finance and Public Service Reform has indicated a willingness to consider any case made by local authorities for extra funding in that year, no firm commitment has yet been made. The Head of Finance has reported to Council that if extra funding is not forthcoming balancing measures will be required before setting the 2007/08 budget.

74. Local authorities have yet to be provided with details of provisional Scottish Executive Aggregate External Finance allocations for 2008/09 and subsequent years. The Council will not be in a position to complete a high level revenue budget or issue an indicative Council Tax level for 2008/09 until this information is provided by the Scottish Executive.

Equal pay

75. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English Councils, the extent of exposure of Scottish Councils arsing from individual pay claims began to emerge during 2005/06.

76. In common with many other Scottish Councils West Lothian Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. Having reviewed the extent of its potential liabilities the Council has estimated the total one-off cost of equal pay compensation as £6.8 million, with these costs being recognised as 2005/06 expenditure.

77. The extent to which the actual costs vary from current estimates will depend on a number of factors including take-up rates and level of awards of any cases taken to tribunal. Initial indications are that a substantial proportion of staff are taking up the Council’s settlement offer.

78. While moves to agree compensation payments to affected employees will help to reduce financial risk in this area to some extent, there remain significant risks in this area, particularly while existing pay and reward structures remain in place. The future implementation of the Single Status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

Single status

79. In 1999 a Single Status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and Administrative, Professional, Technical and Clerical workers (covering pay, working hours, leave and negotiating mechanisms).

80. The original national Single Status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions at national level to April 2004. This was further extended by authorities and trade unions to suit local circumstances. To date only one Council, South Lanarkshire, has implemented Singe Status. West Lothian Council remains to implement the agreement. Discussions are continuing with trade unions and certain employee groups over revisions to the pay structure. The Chief Executive has been authorised to work towards the agreement of a revised pay structure, which complies with equal pay law and principles after consultation with the workforce.

81. The Council included £1 million in its base revenue budget in 2004/05 to be applied to the costs of single status on an ongoing basis. As noted above, the £2 million accumulated to 31 March 2006 as an earmarked part of the general fund has been fully applied to help fund equal pay compensation payments. The Council expect that actions taken by the Heads of Service and existing core budget provision will contain any Single Status cost pressures within the 2006/07 budget.

82. Until a local agreement is concluded the additional costs of a new pay structure cannot be fully quantified. This represents a significant financial risk to the Council. The annual amount currently budgeted by the Council for Single Status represents around 0.5% of current total pay costs and will also require services to make efficiencies on an ongoing basis to fund the costs of implementing the new pay structure. In securing a local agreement the Council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Action point 1

Efficient government

83. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.

84. The Efficient Government Plan sets national targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified Councils of the efficiency savings they should achieve each year it is anticipated that West Lothian Council's contribution on a pro rata basis to the top-sliced target of £168.3 million will be £5.108 million over three years, equating to £1.623 million for 2005/06.

85. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided

86. Based on information supplied by Councils across Scotland, it is apparent that:

- few Councils have a system in place to properly monitor, measure and report efficiency gains and that effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
- the level of projected efficiencies varies significantly between Councils;
- the majority of planned efficiencies relate to areas and projects other than the SE's five key work streams of procurement, asset management, absence management, streamlining bureaucracy and shared support services;
- plans for projects to create time releasing efficiencies are not well developed and little in the way of efficiencies is expected to be generated by 2007/08 through shared support services. In both cases this is indicative of the time required to develop plans for fundamental service redesign.

87. In West Lothian Council following budget prioritisation measures of £1.3 million in 2005/06, efficiency measures of £1.6 million have been built into the 2006/07 budget with further savings of £2.5 million being planned for 2007/08. In June 2006 the Head of Finance reported that there will be a requirement for significant budget savings in each year from 2007/08 to 2011/12 and as an initial guide it would be reasonable to target minimum annual savings of 1% or £3.0 million each year during this period.

88. In line with its best value approach, West Lothian Council has approached the Efficient Government Challenge in a structured and systematic manner and has an Efficiency Working Group to control and monitor progress on efficiency projects. A strategy to deliver significant efficiencies over the next five years has been agreed combining a rigorous approach to workforce planning, involving local managers reconfiguring work and redesigning systems, with a general efficiency programme.

89. Good progress has been made in a number of areas, including plans for the creation of a civic centre proving a shared service facility for the public services in West Lothian, and in developing a more

strategic approach to procurement. The Council has established a procurement policy which aims to ensure that many of the best practices employed by the Council are consistently applied throughout the organisation in order to secure maximum benefit.

90. The Council is aware of the most challenging aspects of Efficient Government which requires mechanisms to ensure that outcomes and quality are not adversely affected by financial savings. However, until these mechanisms are fully established, the Council is not in a position to demonstrate the impact of efficiency savings on services. In common with other Councils, much work is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes efficiency and how it should be measured, monitored and reported.

Action point 2

91. The Improvement Service (established in agreement between COSLA and Scottish Executive) has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for Councils to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2006/07. The Auditor General for Scotland intends to publish a report around the end of 2006 to summarise the position across the Scottish public sector on the efficient government initiative. The Council should consider the findings and any recommendations included in this report when reviewing its own position.

Other cost pressures

92. The Head of Finance reported a number of further financial risks to the Policy, Partnership and Resources Committee in September 2006:
    - Energy costs remain subject to substantial price increases. Two energy contracts are likely to be re-tendered and it is estimated that these could result in additional costs of £1.7 million in 2007/08;
    - On the basis of the current offer by local government employers non-teachers' pay costs are likely to exceed current budgetary provision for 2007/08 by £0.255 million;
    - The Council's waste disposal contract will require to be retendered in 2007/08 and inflationary pressures are likely to lead to a project increase of costs of £0.7 million;
    - A sizeable proportion of public and school transport contracts are subject to retendering in 2007/08 with possible additional annual costs of £0.3 million.

Pension liabilities

93. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. There are proposals to amend the Local Government Pension Scheme, which are designed to reduce the ongoing cost, although these have not yet been implemented.

94. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

95. The Council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Lothian Pension Fund by £134.62 million, marginally up from the previous year. A full actuarial valuation of the Lothian Pension Fund was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 96% at 31 March 2002 to 85% at 31 March 2005.

96. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. Budgeted contributions from the Council are expected to rise from 305% of employee contributions to 320% by 2008/09.

97. The next triennial valuation is due to be reported in March 2008. The impact of this on future budgets is of course currently unknown. In addition there are increases due in respect of teacher's superannuation. While the Council expects additional funding from the Scottish Executive no confirmation of the level of additional funding has been announced. Budget pressures of £0.2 million in 2007/08 have been identified by the Head of Finance.

Governance

Introduction

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

Overview of arrangements in 2005/06

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

100. The Council has adopted a *Local Code of Corporate Governance* based on best practice identified by CIPFA and SOLACE. The management and review arrangements implemented include an annual review of effectiveness. A Statement of Assurance on Corporate Governance is included within the annual financial statements, with the aim is of providing assurance to stakeholders on the adequacy of arrangements. The Council concluded that governance arrangements were operating satisfactorily in 2005/06 and that the requirements of the local code of corporate governance continued to be substantially met.

101. At a corporate level the Council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees. The anti-fraud and corruption policy was revised in March 2006, the first revision since 1999.

102. The Council's Audit Committee adhered to CIPFA's guidance note A*udit Committee Principles in Local Authorities in Scotland* and provided a sound contribution to the overall control environment during the year.

103. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The role of the newly established Performance Committee is to monitor, review and challenge the Council's services and activities at corporate and service level to ensure the achievement of Best Value.

104. The Council's approach to risk management is well developed and continues to be improved. A risk management strategy is in place and a risk management steering group promotes risk management policy throughout the organisation. Following a self audit assessment during 2005/06, new policy and procedures were prepared in accordance with CIPFA guidelines. The risk management group currently report annually to Corporate Management Team but from 2006/07 will report annually to members through the Policy, Partnership and Resources Committee, in addition to reporting to both the Performance Committee and the Audit Committee. An electronic risk register is subject to significant ongoing development.

105. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Council's internal audit arrangements and found that the function continues to be well managed and operates to the highest standards. Staff are experienced and competent and the unit has successfully retained its quality management standard ISO 9001.The work programme for 2005/06 is comprehensive but we note that not all of the planned systems and best value audits were completed due to the increase in the level of reactive work required. We recommended that procedures are put in place to ensure that internal audit is consulted when systems, and their controls, are being designed or reviewed.

Systems of internal control

106. In his annual report for 2005/06 the internal audit manager provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the Council are, in the main, satisfactory.

107. Recommendations made in previous years' internal and external audit reports are monitored by management and internal audit, with progress reported to the Audit Committee annually. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. Although the majority of recommendations have been implemented, more work is required to:

- ensure that, in addition to year-end reconciliations, regular reconciliations take place between the non-domestic rates (NDR) system, the NDR debtors account and the financial ledger;
- fully develop and implement an asset management planning system;
- introduce records management and review storage arrangements for important paper documents.

108. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll;
- Non-domestic rates;
- Creditors payments;
- Main accounting system;

- Housing rents;
- Council Tax Income;
- Investments;
- Third Party Payments;
- Budgetary control;
- Debtors and income;
- Housing Benefits;
- Fixed Assets/ Capital Accounting.

Prevention and detection of fraud and irregularities

109. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy and response plan which was updated during the year.

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

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

111. In West Lothian Council, 38 Investigations have been instigated as a result of NFI 2004/05 and 34 cases have been concluded. There were £108,339 identified overpayments of housing benefit as a result of NFI and 2 Sanctions administered, giving additional subsidy of £2,600. Other investigations are ongoing which may identify further savings. Progress has been hindered due to initial lack of resources but additional staff have now been recruited to progress the initiative .

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

113. Each year Audit Scotland gathers information on actual cases of fraud identified by Councils. In 2005/06 the Council identified 1 case of non-benefit fraud experiencing a total loss of £17,556. A

further 30 cases of benefit fraud which were in excess of £2,000 were identified, with losses totalling £139,630.

Governance outlook

114. Continuing development of performance management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements. Continued commitment to the NFI exercise will ensure that the public purse is properly protected from fraud.

115. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the Council. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the Council to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.

116. Senior officers in the Council are heavily involved in linking community plans to the Council's strategic plan and cascading this down into service planning. It has been recognised however that there is a need to rationalise the community planning partnership framework to make partnership working more efficient. Audit Scotland's national study identified that the governance of Community Planning Partnerships needs to be improved by clarifying their accountability arrangements and developing more effective scrutiny and risk management arrangements.

Financial statements

Introduction

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

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

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

119. We also review the Statement on the System of Internal Financial Control by:

- considering the adequacy of the process put in place by the Head Of Finance to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Council.

Overall conclusion

120. We have given an **unqualified** opinion on the financial statements of West Lothian Council for 2005/06.

121. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

122. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). A number of accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. The net effect of these was to reduce the surplus for the year by £7.294 million.

Details of this adjustment and other significant accounting issues arising in the course of our audit are summarised below.

Provision for equal pay

123. Under accounting rules the total expected costs of equal pay claims had to be recognised in full during, 2005/06, because the Council had an obligation to pay the compensation and there was a reliable estimate of the amount. An adjustment was required to recognise expenditure of £6.75 million in the accounts and the related liability. As this amount was previously earmarked for this purpose, there has been no impact on uncommitted funds.

124. There remain uncertainties over the actual costs that will be incurred to settle these remaining cases and the estimated cost is very much a matter of professional judgement. We have requested and received a specific representation from the Head of Finance that actual and potential claims have been reviewed and the amount recognised as a provision is the best estimate of the expenditure likely to be required to settle these.

Provision for repayment of charges

125. An adjustment was required to recognise expenditure of £0.544 million and the related liability in relation to the repayment of charges previously levied for assistance with food preparation.

Debt restructuring costs

126. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.

127. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to Councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.

128. There is currently a debate over the appropriate accounting treatment of LOBOs, specifically whether the characteristics of a LOBO requires any premium arising to be recognised immediately rather than over the life of the replacement borrowing. The Council had LOBO debt totalling 50.7 million, of which £11.1 million at 31 March 2006 was borrowed as part of restructuring from PWLB borrowing. The Council's accounting policy is to recognise the cost of premiums arising from all debt restructuring, including that involving use of LOBOs, over the full life of the replacement borrowing. A total of £3.3 million of rescheduling costs relating to the use of LOBOs was being carried on the balance sheet.

129. We requested and received a specific representation from the Head of Finance that in his view the overall economic effect of the original and replacement borrowing is substantially the same. In reaching this view he has taken into account the definition of the term ‘overall economic effect’ offered by the SORP guidance notes, the expected stability of interest rates over the period of replacement borrowing and that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any changes.

Group accounts

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

131. The Council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures. The group accounts are primary accounting statements of the Council. While the background to their introduction and basis of their preparation is summarised in the Foreword to the accounts, no commentary is provided on the group results or financial position. The Statement on the System of Internal Financial Control also refers only to the Council itself. In future years there is an opportunity to take a wider perspective of the group as a whole both within the accounts and in information reported to members.

Legality

132. Each year we request written confirmation from the Head of Finance that the Council’s financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Head of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and Council Management Team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

133. There has been continuing press coverage surrounding Councils which have charged for the preparation of food which may contravene the terms of the Community Care and Health (Scotland) Act 2002 in relation to free personal care. The Council has previously charged for food preparation but, following consideration of the legal and policy position, decided in June 2006 to cease charging for these services and to repay amounts previously levied.

134. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the Council has provided for equal pay compensation payments in the financial statements. Until the single status agreement is implemented, however, there remains the possibility that the Council could be judged to have contravened the Act.

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

Financial reporting outlook

136. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting rules. Challenges ahead include a number of changes that have been made to the 2006 SORP:

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- similar changes to the housing revenue account and group accounts.

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

Change of external auditor

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

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

Fiona Kordiak. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.

Final Remarks

140. The members of West Lothian Council are invited to note this report. We would be pleased to provide any additional information that members may require.

141. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.

142. The co-operation and assistance given to us by West Lothian Council members and staff over the five years of our audit appointment is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	82.	**Single status and equal pay** The Council remains to implement the single status agreement. ***Risks: initial and continuing costs are considerably in excess of expected levels.*** ***Industrial relations difficulties restrict the ability to deliver on key objectives.*** ***The Council may be judged to be contravening the Equal Pay act.***	1. Issue formal 90 day consultation notice to trade unions on the Council's proposals to introduce a revised pay structure and working practices. 2. Ensure the proposed new pay and grading structure is fully and accurately costed and that plans are in place to accommodate these costs. 3. Introduce revised pay and grading structure based on equal pay principles with effect from 1 Feb 2007. 4. Issue revised contracts of employment to all employees affected by single status.	Head of Support Services Head of Finance / Head of Support Services Head of Support Services Head of Support Services	w/e 20 October 2006 1 February 2007 1 February 2007 Period 1 February to 31 March 2007
2	90.	**Efficiency programme** Significant efficiencies are required for the Council to balance its budget and to meet targets set out for the government's Efficient Government programme. ***Risks: the Council is unable to achieve the efficiencies necessary.*** ***It is unclear the extent to which savings comply with definitions of efficiency. Savings achieved impact on service quality and outputs to a greater extent than planned.***	The Efficiency Working Group will progress work on efficiencies for 2008/09 to 2010/11 in a structured and systematic manner, including a clear definition of efficiencies. An efficiency plan will be prepared in conjunction with the development of the Council's financial strategy. Proposed efficiencies will be incorporated into the Council's financial strategy for 2008/09 to 2010/11.	Head of Support Services / Head of Finance Head of Finance	31 March 2008 31 March 2008