

West Lothian Council

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

October 2010



 **AUDIT SCOTLAND**



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Key Messages

We have given an unqualified opinion on the financial statements of West Lothian Council, which give a true and fair view of the financial position and expenditure and income of the council and its group for the year.

In 2009/10 the council spent £678.76 million on the provision of public services with £569.26 million spent on revenue services and £109.50 million spent on capital projects. The general fund reported an underspend of £2.15 million for the year. This contributed to the council being able to add a total of £5.54 million to the general fund balance in the year. The general fund balance has therefore increased to £10.14 million at 31 March 2010.

This balance is made up of earmarked commitments for specific projects of £7.51 million leaving an unallocated general fund balance of £2.63 million. This amount remains above the council's target minimum uncommitted general fund balance of £2 million. The target level of unallocated balance has remained constant since it was agreed in 2004. As the net operating expenditure has increased each year the council is to keep the level of this balance under review in light of increasing financial pressures on the council.

The council recognises that reductions in expenditure will be required to cope with the ongoing economic situation and has been consulting on a contingency strategy produced by officers. Priority has been given to agreeing budget reduction measures for 2011/12 and 2012/13 prior to the local government election in 2012. The council's contingency strategy assumes savings of £32 million are required from 2011/12 to 2012/13. The implementation of the council's contingency strategy will involve a significant reduction in staff numbers of up to 1,000 full time equivalent staff. To assist in facilitating the required workforce planning and associated termination costs, a total of £5.89 million was earmarked from the general fund balance for a staffing change fund in 2009/10 and a further £4.11 million was earmarked in June 2010. While this fund of £10 million is expected to be less than the potential one-off costs, it is intended to be used flexibly in conjunction with funds from service budgets. .

The council also aims to minimise its borrowing costs through active treasury management. The council's total debt increased by £69.04 million in 2009/10 (20% increase on 2008/09) due to its decision to preserve the capital fund for future years and maximise borrowing in 2009/10 to take advantage of what the council considers to be attractive medium and long term borrowing interest rates during the period. At the same time the council's cash and temporary investments rose to £94.31 million at 31 March 2010, an increase from £80.50 million at 31 March 2009.

In this climate it is important that the council makes best use of all of its resources. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and



continuous improvement. West Lothian Council's assessment indicated that along with the majority of councils, they could achieve better value across their procurement activities. The council is now planning a full review of all of the council's procurement and commissioning activity.

The council is making progress in reducing sickness absence. Continuing reductions in sickness absence are essential if future planned efficiencies are to be achieved.

A review of the council's surplus assets has been undertaken by officers to assess the impact of the economic downturn on the ability to generate previously anticipated receipts. This review identified a projected resources shortfall. In response, the council has agreed revisions to the capital programme to ensure it continues to be affordable and sustainable.

In this difficult financial climate it is challenging for the council to demonstrate continuous improvement in its outcome measures and service delivery. We are pleased to note that the council now publishes progress against corporate objectives on the website. However the format of this information could be refined to make it more assessable to citizens.

In June 2010, a shared risk assessment and assurance and improvement plan (AIP) was reported to the council by a local area network of scrutiny bodies (LAN). This plan reflects the fact that the council has good self awareness and demonstrates a clear commitment to Best Value and Community Planning. It is characterised by effective leadership and a strong culture of continuous improvement that is well embedded throughout the organisation. The council has a number of ambitious programmes which demonstrate vision. As no significant scrutiny risks were identified in the council by the LAN no best value audit 2 is planned in the current three year audit plan published in the AIP.

Outlook

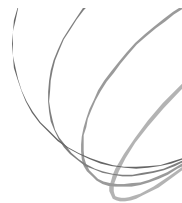
The most significant challenge the council faces is a reduction in funding in the four years 2011 to 2014. Although the exact size of the reduction will not be known until November 2010, the council has taken action to anticipate significant cuts in its budget. The council has brought forward consultation on its contingency plans demonstrating real reductions in planned expenditure. The likely scale of the reductions means the council faces the risk of poor morale and motivation amongst staff as well as dissatisfaction amongst some service users and proactive measures will be required to mitigate this risk. Never has the case been stronger for sound governance and good financial management.

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



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of West Lothian Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) www.audit-scotland.gov.uk/work/scrutiny/docs/West_Lothian.pdf. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Making an impact – overview of best value audits 2004 -09.
 - Scotland's public finances – preparing for the future.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Getting it right for children in residential care.
 - National scrutiny plan for local government 2010/11.
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.



6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

7. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. This section summarises the results of our audit on the financial statements for 2009/10, comments on the significant accounting issues faced, and provides an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of West Lothian Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We are satisfied with disclosures made in the statement of internal financial control and the adequacy of the process put in place by the council to obtain assurances on systems of control. The statement reflects the fact that both internal and external audit identified significant weaknesses in a number of systems during 2009/10. We are satisfied that the council has a process in place to address the weaknesses and we will review the results of any follow up work performed by internal audit.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication.
11. The working papers provided to support the financial statements were mostly adequate. However, those provided to support the fixed asset figures and related notes in the financial statements were unsatisfactory. The figures on the working papers provided did not agree to the accounts or to the asset register and the audit of fixed assets was delayed as a result of this. There are errors in the asset register which the council has not resolved and this is a concern going forward. The council needs to ensure all errors in the asset register are resolved prior to preparation of the 2010/11 financial statements. This matter has been considered by the audit committee and the Head of Finance and Estates is to report to the next audit committee meeting in December 2010 on how these issues will be addressed.
12. We are continually working in partnership with staff in finance to clarify our requirements and help improve the processes for the preparation and audit of the financial statements. We note that next



year will be particularly challenging as there will be a reduction in experienced council staff involved in preparing the financial statements.

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). We are satisfied that the council prepared the accounts in accordance with the 2009 SORP.
14. Following the audit the council has adjusted the financial statements to reflect audit findings. As is normal practice, unadjusted errors have been reported to the Head of Finance and Estates and the Audit Committee. Details of significant accounting issues arising in the course of our audit are summarised below.
15. With effect from 20010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but there are still significant issues to be addressed. In line with good practice, West Lothian Council requested that we review their opening balance sheet in advance of our audit of the 2010/11 financial statements. Overall the council has made good progress to date in the transition to implementing IFRS. The main issue to be further developed is the calculation of the employee benefit accruals. We will continue to monitor the council's progress in moving towards full IFRS implementation.

Audit testing

16. As part of our work, we took assurance from 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 (with the exception of the weakness identified below)
 - Housing rents
 - Main accounting system
 - Accounts receivable
 - Cash income and banking
 - Treasury management
 - Accounts payable (with the exception of the weakness identified below)
 - Council tax billing and collection
 - Non-domestic rates billing and collection
 - Budgetary control
 - Housing repairs
 - Housing benefits



17. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We relied on the work of internal audit in the following areas to support our audit:
- Budgetary control – (controls testing)
 - Main accounting system – (controls testing)
 - Accounts receivable
 - Cash income and banking
 - Treasury management – (controls testing)
 - Housing benefits – (controls testing)
 - e-Procurement.
18. Issues identified during our review and the testing performed by internal audit were included in our review of internal controls report in June 2010. The key issues are:
- **Payroll:** The pay control team within Human Resources performs a 100% check of all new starters forms in order to ensure that the information submitted for payroll is proper and accurate. However, as those starters are identified from documentation that has already been processed, rather than from the CHRIS system, there is a risk that not all starters have been identified for testing.
 - **Accounts Payable:** Staff working on the accounts payable system can amend payee details and can also authorise those payments. The lack of segregation of these responsibilities increases the risk of erroneous or fraudulent payments.
19. To improve controls in these areas the council has agreed to select new starts and leavers from CHRIS and has implemented segregation of duties in accounts payable.
20. During the audit of the financial statements we performed additional focussed audit testing in these areas but no significant errors were identified as a result of the weaknesses identified above.

Prevention and detection of fraud and irregularities

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



National Fraud Initiative in Scotland

22. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
23. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The national report included a self-appraisal checklist which the council has completed. No issues were highlighted and the council has confirmed that data is being prepared for release of the 2010/11 data within the specified timescale.
24. The following table details the total number and progress on main categories of NFI data matches in the council. Matches are followed up according to council and national priorities.

Exhibit 1

Number and progress on main categories of NFI data matches

Category	Total matches	Processed	In-progress	Fraud identified	Error identified	Amount saved (£)
Blue Badge Parking	757	757	0	0	0	0
Housing benefit	1847	616	7	17	8	142,190
Housing Rents	39	10	0	0	0	0
Pensions/DWP Deceased	3	3	0	0	0	0
Rent Arrears/Payroll	1	1	0	0	0	1,754
Right to buy	225	26	0	0	0	0
Payroll	161	161	0	1	0	587
Private residential care homes to deceased	1	1	0	0	0	0
						144,531

www.nfi.gov.uk management information for West Lothian Council 16 September 2010



25. In addition the council has received 1879 matches council tax to electoral register. These matches identified addresses where the householder is claiming a council tax single person discount on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over. The checking and verification of these matches is being undertaken independently. Decisions on each case will be made by staff within the Revenues Unit. As agreed with Audit Scotland last year, a summarised position will be supplied at the end of the process because of the extent of the matches.

Housing Benefit

26. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.
27. The risks to the council's service were assessed in 2009 and a detailed report was issued in January 2010. The council has responded to the risks we identified by agreeing improvement actions. We believe the actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle.

Group accounts

28. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

Joint ventures and companies

29. The council has interests in four associates and one joint venture. They have been included in group accounts in accordance with the SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts.
30. We would like to highlight the following issues:
- all bodies within the group received unqualified audit opinions from their external auditors
 - in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets at market value, have been aligned with the council.



31. The overall effect of inclusion of the council's subsidiaries and associates is to reduce net worth by £181.3 million, mainly because of pension liabilities. However, the group accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Trust funds

32. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
33. Financial statements are currently prepared for each of the Trust Funds and the council is preparing for full implementation in 2010/11.

Common good fund

34. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
35. A separate account for the common good is disclosed in the council's financial statements and common good assets are separately identified in the council's asset register, which is satisfactory given the low number and value of such assets.

Legality

36. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Finance and Estates confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Financial reporting outlook

37. A number of changes to financial reporting are expected to apply from 2010/11:

- As reported above, full compliance with IFRS. This is not simply a technical accounting matter: the Scottish Government is in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.
- Pension funds. Separate statements for pension funds will be required. The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the audit which is done as part of the administering council's annual audit.
- Carbon trading. From April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. In 2010 the charge was calculated as £0.44 million for the council based on a baseline carbon footprint of 36,763. This charge was not actually incurred as 2010 is a practice year.
- Charity accounts. As reported above full compliance with OSCAR's reporting requirements is likely to be required.



Use of resources

Financial results

38. In 2009/10, West Lothian Council spent £678.76 million on the provision of public services with £569.26 million spent on revenue services and £109.50 million spent on capital projects.
39. The general fund reported an underspend of £2.15 million for the year. The underspend comprised a net service underspend of £1.08 million and a one off VAT refund of £1.07 million. In addition £2.06 million was retained from the treasury surplus (which would ordinarily transfer to the capital fund) and £2 million was transferred from the insurance fund to the general fund. After deducting £0.06 million for expenditure against earmarked balances, a total of £5.54 million was added to the general fund balance in the year. The general fund balance has therefore increased to £10.14 million at 31 March 2010. This balance is made up of earmarked commitments of £7.51 million leaving an unallocated general fund balance of £2.63 million.
40. The following table provides some information about the council's financial position compared to other Scottish councils.

Exhibit 2

Key indicators

Ratio	Description	West Lothian Council		Unaudited Range for all Scottish Councils*
		2008/09	2009/10	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	0.6 109,293,000/ 166,828,000	1.9 123,507,000/ 64,600,000	0.24 to 2.53
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	14.34% 58,698,000/ 409,194,000 (net exp)	17.11% 69,922,000/ 408,536,000 (net exp)	3.33% to 248%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	1.75 229,521,000/ 131,013,000	2.89 399,624,000/ 137,998,000	0 to 6.79
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	6.09 1,399,758,000/ 229,521,000	3.79 1,515,312,000/ 399,624,000	1.78 to 8.12



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

Reserves and balances

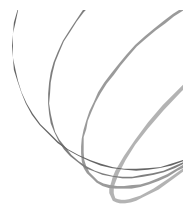
42. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2010, the council had total funds of £80.02 million, an increase of £11.03 million on the previous year.

Exhibit 3

Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	10.14	4.60
Housing Revenue Account	0.92	0.92
Repair and Renewal Fund	0.06	0.09
Capital Fund	58.85	53.17
Insurance Fund	10.05	10.21
TOTAL	80.02	68.99

43. As noted above the general fund increased by £5.54 million during the year to a balance of £10.14 million which equates to 3% of the council's net annual expenditure. £7.51 million of this balance has been earmarked for specific purposes: Education – Delegated Schemes, Energy Efficiency Fund, Development Plan Project Team and Staffing Change Fund. This leaves an unallocated balance of £2.63 million, which remains above the council's target minimum uncommitted general fund balance of £2 million. Despite this increase in general fund balances the uncommitted balances equate to only 0.5% of the council's net operating expenditure in 2009/10. This highlights the importance of the council continuing to maintain its strong record of financial management and monitoring, and



delivering within budget. Moving forward the council needs to keep under review the target level of unallocated general fund balance, originally agreed in 2004, to ensure it remains adequate for the council's future needs particularly with the spending gaps forecast in 2011/12 to 2013/14.

Action plan no. 1

44. The council is consulting on a contingency strategy for 2011/12 to 2013/14 that is designed to address the forecast budget gap. The strategy consists of three workstreams which are service led proposals, a modernisation programme, and corporate led initiatives. The implementation of the contingency strategy will involve a significant reduction in staff numbers of up to 1,000 full time equivalent staff. In 2009/10 a staffing fund was created to assist in funding the termination costs. A total of £5.89 million was earmarked from the general fund balance for the staffing fund in 2009/10 and a further £4.11 million was earmarked in June 2010. . While this amount of £10 million is expected to be less than the potential one-off costs, it is intended to be used flexibly in conjunction with funds from service budgets.

Group balances and going concern

45. The overall effect of inclusion of all of the council's associates and its joint venture on the group balance sheet is to reduce net assets by £181.26 million, mainly because of significant pension liabilities of the joint boards. However, accounts of all group bodies have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
46. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. 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 2010 due to the accrual of pension liabilities. In total their pension deficits amounted to £2.13 million (2008/09 £1.40 million), with the council's share being £190.9 million (2008/09 £129.1 million).

Treasury Management

47. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.



48. At 31 March 2010, West Lothian Council held cash and temporary investments totalling £94.31 million (£80.50 million as at 31 March 2009). The council's total debt increased by £69.04 million in 2009/10 (20% increase on 2008/09).
49. The increase in investments from last year is mainly due to the £11.88 million increase in the general fund and capital fund balances. The council budgeted to fund £23.6 million expenditure from the capital fund in 2009/10 but the use of the capital fund was deferred following the identification of risk that the UK government could place future restrictions on prudential borrowing as part of a strategy to reduce public sector debt.
50. The council took advantage of what it considers to be attractive medium and long term borrowing interest rates during 2009/10 to replace £100.71 million of variable debt with PWLB debt at fixed interest rates. A further £71.78 million was borrowed from PWLB at fixed rates, bringing the total new fixed rate borrowing in 2009/10 to £172.50 million.
51. We received representation from the Head of Finance and Estates that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation and in the interests of prudent cash management.

Capital performance 2009/10

52. Capital expenditure in 2009/10 totalled £109.5million, a drop of £11.9 million from 2008/09 and was split between; the housing programme and the general services programme. Expenditure on the housing programme covered areas such as new house building, external upgrading and meeting the Scottish housing quality standard. Expenditure on the general services included investment on improving three secondary schools and building the new civic centre in conjunction with partners.
53. The housing capital outturn for 2009/10 was £30.40 million against a budget of £34.70 million, resulting in an underspend of £4.30 million for the year. The underspend relates to project slippage which will now be delivered in 2010/11, with the relevant budgets rolling forward to 2010/11.
54. The general service capital outturn for 2009/10 was £79.10 million against a budget of £84.07 million, representing an underspend of £4.97 million which is attributed to slippage in programme. The slippage has been carried forward and incorporated in the 2010/11 general services capital budget.
55. The trend in capital investment and sources of funds is reflected in exhibit 4.

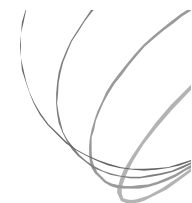
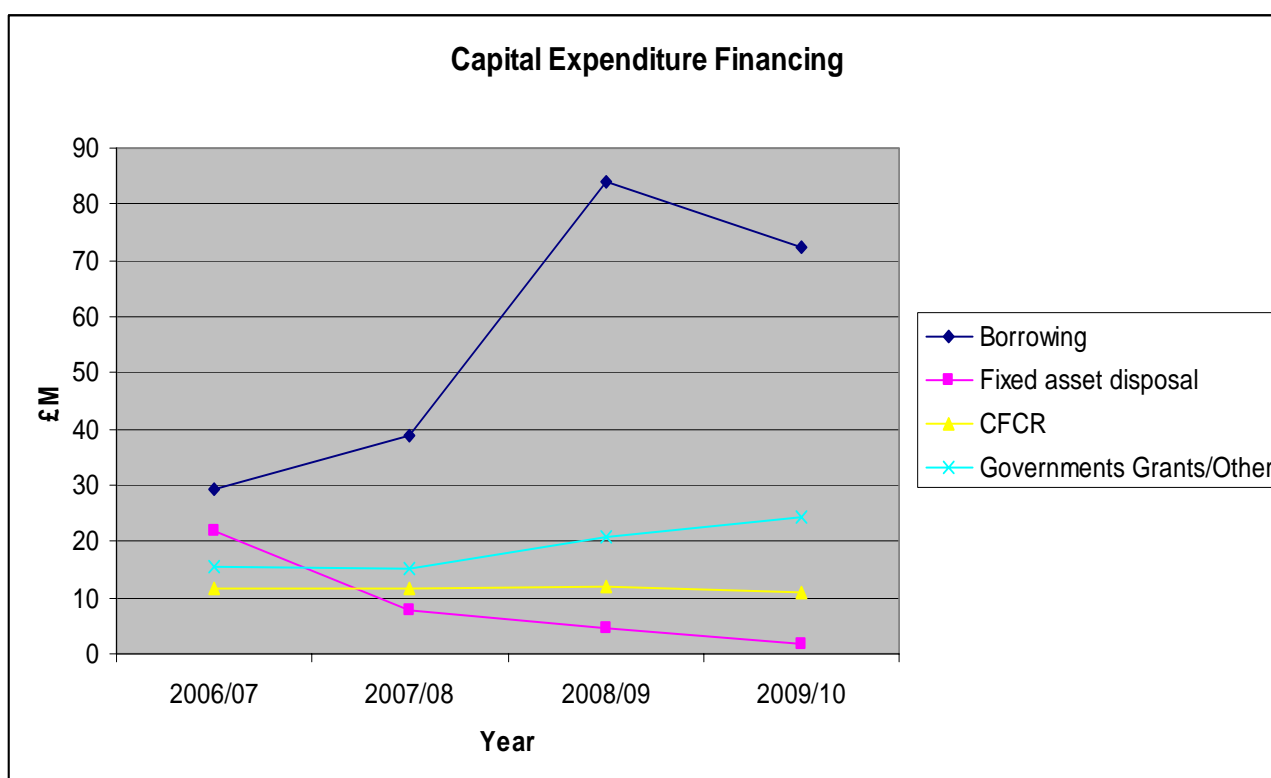


Exhibit 4

Sources of finance for capital expenditure 2006/07 to 2009/10

	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M
Borrowing	29.4	38.8	84.0	72.4
Fixed Asset Disposal	21.8	7.9	4.5	1.8
CFCR	11.6	11.8	12.0	10.8
Government Grants/Other	15.7	15.1	20.7	24.5
Total	78.5	73.6	121.2	109.5



Asset Management

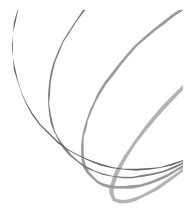
56. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property and other assets. The current economic situation has implications for the management of the council's property assets. Capital receipts from asset sales were £7.93 million in 2007/08 but only £1.88 million in 2009/10.



57. A review of the council's surplus assets has been undertaken by officers to assess the impact of the economic downturn on the ability to generate previously anticipated receipts. This revaluation exercise resulted in a projected resources shortfall of over £20 million compared to assumptions in the ten year programme. A number of budgetary pressures also exist in relation to the approved programme. These include the budget shortfalls at Meldrum and Pumpherston and Uphall Station primary schools and the reduction in the 2010/11 general capital grant. In response to the projected receipts shortfall, officers have reviewed the capital programme to identify options to ensure it continues to be affordable, sustainable and compliant with the Prudential Code.
58. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.
59. Following publication of our report, officers in property services prepared a submission to the Council Executive detailing the position of the council against all the key messages in the report. The paper also highlighted progress made and planned to improve the condition and suitability of properties.
60. The council has a ten year office accommodation strategy which is dependent on mobile and flexible working to enable rationalisation of council office properties. The successful implementation of mobile and flexible working represents an opportunity to make cash savings while protecting service provision and reducing the council's carbon footprint.

Procurement

61. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
62. All councils have been assessed by Scotland Excel and most scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:
 - the role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation
 - getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader



- adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price
- embedding new systems and processes
- conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.

63. West Lothian Council scored 22% which is classified as non conformance. The council currently lets contracts amounting to £40 million per annum and needs to address the areas of non conformance to demonstrate that it is working to achieving best value across its procurement activities.

Action plan no.2

Managing People

64. As reported above, to deliver a package of sustainable budget reductions the council has estimated it needs around 1,000 fewer staff. This represents a reduction in staff numbers of approximately 14%. Actions have been agreed to minimise the need for compulsory redundancies. The council revised its policy for managing the employment implications of organisational change to ensure that all required changes are handled with equity, fairness and consistency and that all plans are affordable to the council.

65. On top of this the council needs to make best use of its remaining staff resources. In our report in October 2009 we advised that the council needs to continue to closely monitor sickness absence across the council as it is key in delivering future efficiencies. There were indications then that sickness absence was improving slightly. However in 2009/10, the average number of working days per teacher lost due to sickness absence increased from 2008/09 by 0.5 day to 6.9 days, while there was no change in the average number of working days lost per employee due to sickness absence over the same period. A new sickness absence policy has been in place since May 2010 in addition to a rigorous process of monitoring both the applications of the policy and individual absence patterns. We will monitor the effectiveness of the revised policy and process. Initial indications are that sickness absence is reducing.

Action plan no.3

66. The council had 163 equal pay cases outstanding at the end of March 2010 and has made a suitable provision in the annual accounts. There is the potential for the council to face further liability for equal value claims. This will be influenced by the outcome of cases in other councils which are currently awaiting appeal hearings. Further provision may require to be made in relation to these cases.



ICT

67. The council is maintaining good progress in establishing a sound information management environment. Sound management is being achieved through the implementation of policies, guidance, standards and training needed to improve information governance. An ICT strategy has recently been developed and approved to incorporate all the changes to infrastructure and systems currently underway and to provide the direction going forward.
68. Good use is made of Information Communication Technology (ICT) to support and deliver services. The council also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. As part of that investment the delivery of IT services has undergone some radical changes with the move to the civic centre and the transfer of backup systems from Lindsay House to the Caird Centre, managed by South Lanarkshire Council.
69. As part of good governance the council has established an information asset register (IAR) and has incorporated the register into the electronic record management system.
70. The council is working closely with the Improvement Service as the lead council for implementing aspects of the Customer First Programme and chairs one of four Customer First programme boards. The council has purchased a customer relationship management system (CRMS) in collaboration with other councils and it is estimated that moving to this common platform has saved each council around 46% on the standard cost of buying, installing and maintaining a CRMS.
71. The council now has business continuity plans (BCPs) in place for all services, including an ICT BCP but it is recognised by the council that planning in this area is a continuous process especially with the regular changes to technology. With the move to the civic centre which involved some radical changes to working arrangements and the provision of IT services it is essential that all service area BCPs are reviewed regularly.

Data handling and security

72. Data handling and security continues to receive public and media attention as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.



73. The council's information security policy was approved in December 2008. This policy along with the planned changes to the council's information management regime is expected to ensure data security is robust and reliable within the council.
74. Further work being carried out to progress the council's information management plans, include:
- encryption of e-mail messages
 - a project is underway for laptop encryption on all council laptops
 - a training and awareness programme has been developed to support the new security policy and this has now been rolled out across the council
 - the draft policy for third party access to council computer systems and data has been accepted by the information management working group (IMWG). It is being progressed through wider consultation to the ICT Programme Board and the council executive for final approval
 - the IMWG has approved the charter on information management responsibility within the council. It is now out for consultation with the ICT Programme Board prior to seeking approval from the CMT.
 - ensuring that all systems registered as part of the IAR also include information on data sharing with other organisations
 - information risks are being reviewed as part of the normal review cycle by the risk manager.

Shared Services

75. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. The report recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency.
76. West Lothian Council can demonstrate examples of shared services including:
- the agreement with South Lanarkshire Council for the provision of a shared facility for back up systems for IT services as part of the move to the Civic Centre
 - the National Customer Relationship Management (CRM) Programme which now involves 18 councils is co-ordinated by the improvement service. West Lothian Council is a lead council
 - the National Gazetteer – a single database of land and property for Scotland
 - the National Entitlement Card – a single, customisable card and management system providing access to a range of local government services.



77. West Lothian Council has also been in discussion with five other councils on an approach to collaboration, joint working and potential sharing of services. The activities identified and considered by the councils (ELBF Forum) are mobile/flexible working, payroll, procurement, road maintenance and audit. It is recognised that the collaboration and shared service agenda requires a long term commitment but it has the potential to deliver financial and service benefits. ELBF Forum last reported on progress to the council executive in November 2009.

Outlook

78. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a severe reduction in resources. The council is planning for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way.

Financial planning

79. The council recognises the need to take immediate action to reduce costs for future years and key decisions are imminent. In 2010/11, the council again froze the council tax in accordance with the concordat with Scottish Government. The net revenue budget includes savings of £5.40m, and the latest budgetary control report suggests that the council is on target to break even in 2010/11. However, in common with other councils, West Lothian is forecasting a significant budget gap over the next four years. The position will become clearer when the outcome of the spending review is known in November 2010. At the time of writing this report, council officers had produced a contingency strategy and the council is consulting citizens in a series of meetings of policy development and scrutiny panels.
80. Priority has been given to agreeing budget reduction measures for 2011/12 and 2012/13 prior to the local government election in 2012. The council's contingency strategy assumes savings of £32 million are required from 2011/12 to 2012/13.
81. Although the council's use of resources shows elements of good practice, it still has scope for improvement. In particular, we would suggest that the council needs to continue to closely manage and monitor sickness absence across the council as it is key in delivering future efficiencies.



Governance and accountability

Introduction

82. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework. The assurance and improvement plan assessed the council as having no significant risks in this area.

Scrutiny

83. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The policy development and scrutiny panels (PDSPs) allow new policy proposals to be subject to discussion and allow input whilst policies are still developing and before they are presented for decision. They also give members an opportunity to apply a critical eye to existing policies and their performance.

84. The consultation arrangements in relation to the contingency strategy place the PDSPs at the heart of the consultation and scrutiny process. PDSPs are tasked with giving detailed consideration to all of the officer led proposals and considering evidence and comments from stakeholders in relation to the proposed measures. PDSPs will also examine any other initiatives they believe the council should consider to reduce costs or increase income.

Roles and relationships

85. This year and the next two years are years of significant change in the management structure of the council. The council has a new Chief Executive and Head of Finance and Estates. The Director of Environment and Development left in July 2010 and has not been replaced. The next few years are challenging for the council and we will observe the impact that the changes in the management team bring.

86. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. Since the elections in May 2007, the council has been successful in implementing a role description, a training needs assessment and a personal development plan for each member. All of these are reviewed in conjunction with members on a regular basis.



87. An elected members training plan was in place for 2009/10 with a more formalised structure and approach to training and development. The plan was identified following consultation with elected members and comprised of generic/refresher training, PDSP specific learning on service topics/areas i.e. Adult Protection, and personal development. The seminar structure was run in parallel to the ongoing provision of individual ad-hoc learning and development to elected members during the year.
88. The revised multi-member ward protocol which was approved in January 2009 details members rights to information and includes guidance on member liaison officers.
89. A recent Audit Scotland report *Role and working relationships: are you getting it right?* (www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf) includes a tool for councillors and officers to assess their relationships.

Partnership Working

90. West Lothian Council shows evidence of good partnership working. Community planning structures are well developed at council and local levels with appropriate political, official and community representation on each. During 2009 the Community Planning Partnership (CPP) worked effectively to develop a revised community plan for 2010-2020.
91. West Lothian Community Health and Care Partnership (CHCP) was formed in 2005 when NHS Lothian and West Lothian Council joined forces to bring community based health and social care services closer together wherever possible. A permanent director of the CHCP was appointed in 2009 and terms of reference have been agreed for CHCP sub-committees. A revised governance framework is also now in place.
92. A good practice example is working with partners in the civic centre. The council has established the West Lothian Multi Agency Integration Project which assesses inter agency working practices and identifies potential efficiency and service benefits through improved, joined up working in the following areas: Licensing, Management of Sexual Offenders, Child Protection, Adult Protection and Criminal Justice.
93. The Community Safety Strategy for 2008 – 2011 is designed to guide partnership work and resource allocation on shared priorities for joint work. The key aims of the Strategy are to achieve reductions in:
 - antisocial behaviour
 - preventable injuries and deaths
 - violence and crime.



Community engagement

94. West Lothian council engages effectively with its communities to ensure that services are provided in ways that suit their needs and preferences.
95. The locality planning process with locality plans and locality planning officers ensures that local priorities are discussed with members, officers and the local communities. Minutes reviewed of some meetings indicate the system is working well.
96. Additionally, consultation arrangements on the contingency strategy are wide-ranging. The arrangements encompass citizens, community councils and representative groups, staff and trade unions.

Public performance reporting

97. The council now publishes progress against corporate objectives on the website. Although the information does present a balanced picture of the council's performance against its corporate priorities, it is not easily assessable to all citizens due to its length and complexity. All relevant data is not on one site and some of the data published does not align to the statutory performance information.

Action plan no. 4

98. The council also publishes progress against the single outcome agreement (SOA) on its website. The last progress report is dated October 2008. In future, SOA's will be used to monitor performance and it is therefore important that the council accelerates progress on standardising public and management reporting against the SOA.

Action plan no. 5

Outlook

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



Performance management and improvement

Introduction

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

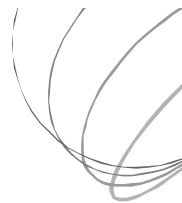
Vision and Strategic Direction

101. Overall, the council has good self awareness and demonstrates a clear commitment to Best Value and Community Planning. It is characterised by very effective leadership and a strong culture of continuous improvement that is well embedded throughout the organisation. Focused on the needs of its communities, the council has a track record of delivering modern, integrated services through good partnership working. It is creative in designing services around the needs of users. Where the need for improvement is identified, action is taken quickly.

102. The council has defined its priorities as:

- Improving opportunities for young people.
- Making the economy stronger.
- Improving the health and wellbeing of communities.
- Protecting the environment and communities.
- Planning for population growth.
- Making services as efficient as possible.

103. These priorities clearly reflect its operating context. While the council has made some progress in a majority of outcomes, challenges remain in the improvement of health of individual groups of people and in protecting communities.



104. The council has a number of ambitious programmes which demonstrate vision. These include:

- undertaking a major review of the senior school curriculum to meet the requirements of a Curriculum for Excellence and ensure that all young people have valuable and appropriate 16+ learning choices
- the Life Stage Outcomes planning programme. The Life Stages approach will see reshaped services targeting individuals, families and communities in most need and evidencing the impact they make against a set of short, medium and long term outcomes
- delivering more than 800 new high quality affordable homes by 2012.

Performance management

105. The performance committee conducts a continuous assessment of reviews of the units included in the West Lothian Assessment Model (WLAM), and the chief executive and the council review each of the WLAM units on a cyclical basis. The purpose of these reviews is to establish current performance and identify services which require improvement. Our review of council minutes suggests the performance committee operates well and there is evidence of effective scrutiny. A monthly review panel was also established in April 2009 to scrutinise the performance of service units which are not performing well against the WLAM.

Overview of performance in 2009/10

106. The Accounts Commission has significantly reduced the range of statutory performance information (SPI) that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The council publishes SPI data on it's website, in addition to performance against 90 targets which are integral to the WLAM.

107. Exhibit 5 summarises progress in 2009/10 against the 90 targets measured through the balanced scorecard.

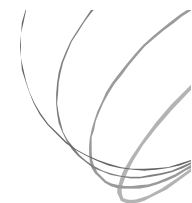
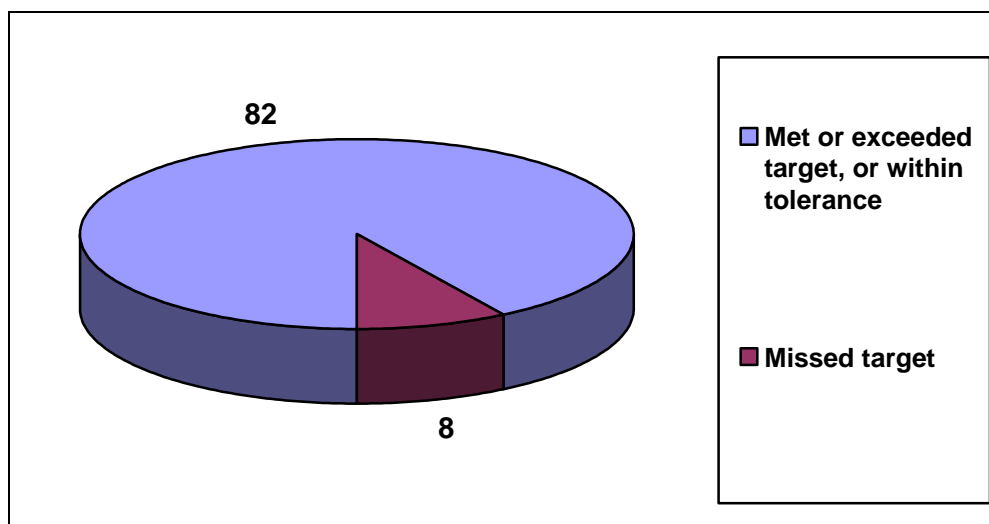


Exhibit 5

Achievement of West Lothian council's targets 2009/10

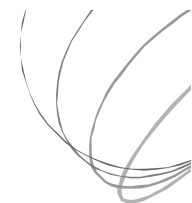


108. The targets which were not achieved during the year are not significant and do not affect the overall performance against any of the corporate priorities.

Statutory performance indicators

109. In 2009/10, a total of 25 SPIs were required. In overall terms, Exhibit 6 confirms that the council has made improvement in a number of areas. Some of the areas in which performance has improved are:

- the number and proportion of the council's housing stock meeting the Scottish Housing Quality standard has increased by 10%
- the condition and suitability of internal area that is in a satisfactory condition has increased by 15.1% to 94.5%
- the gross administration cost per benefit case decreased by £2.64 per case against a caseload of 50,154
- the number of council buildings where all areas are accessible to disabled people has increased by 4.3%
- the number of attendances per 1,000 population for pools and leisure centres has increased overall by 582 visits
- the overall number of housing repairs completed during the year has increased by 1153 and the repairs completed within the target time increased by 2125.

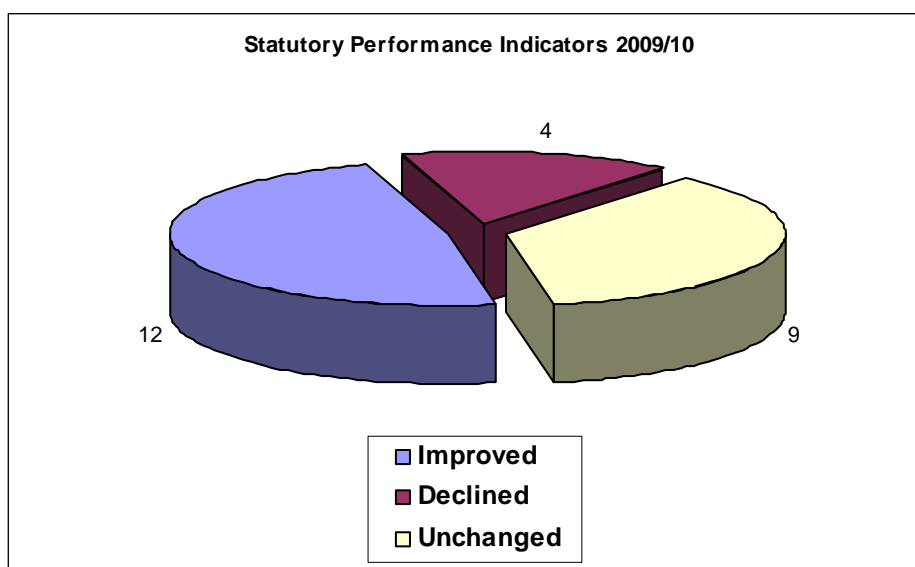


110. There were other key areas where performance declined. Some of these areas are:

- the percentage of planning applications that were dealt with within two months decreased by almost 5% even though the total number of planning applications had decreased by 13.75%
- the cost of collecting council tax per dwelling increased from £8.33 to £9.23
- the average number of weeks rent owed by tenants leaving in arrears increased from 4.7 in 2008/09 to 6.7 in 2009/10.

Exhibit 6

Improvements demonstrated by SPIs (Total 25 indicators)



111. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was good and no indicators were classed as unreliable in 2009/10.

112. The SPIs were published by 30 September 2009 and a report was submitted to the performance committee in October 2010 highlighting the improvements and reductions in performance during 2009/10.

Progress against audit risks identified in the AIP

113. As noted in the introduction, this report includes any significant findings that have arisen from our review of the management of strategic risks contained within the AIP. The AIP contains audit and scrutiny risk assessments prepared by a local area network (LAN) with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of West Lothian Council.



114. This assessment identified one area of uncertainty, relating to the council's outcome indicators on improving the health and wellbeing of communities. In the AIP it was reported that a number of programmes aimed at improving outcomes in this area are new and we agreed to monitor the council's development of outcomes in this area as part of the 2011 shared risk assessment process. At the time of writing this report the council was preparing an up to date SOA progress report. We will use this report to assess progress against agreed outcomes for this theme, as part of next year's audit.
115. In addition we reported in the AIP that in relation to the council's outcome indicator on protecting the environment and communities, we would liaise with the Audit Scotland BV/HMICS team regarding the performance on crime statistics and the scheduling of joint BV studies on police authorities. It has now been confirmed that the joint study on Lothian and Borders police will start in Spring 2011. With regard to crime statistics we note that the number of serious crimes reported has reduced in 2009/10. We also note that West Lothian does not differ significantly from the Scottish average for the total number of crimes reported per thousand population or for the percentage of crimes detected.

Equality and Diversity

116. The council has policy statements on equal pay, and disability equality. It also has an equality impact assessment toolkit, a disability equality scheme and a policy, gender equality scheme. Action plans are planned for 3 schemes: the disability discrimination act, employment act and race relations act. The council regularly monitors compliance with the policies and there is evidence of action taken on results of reports.

Risk Management

117. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
118. The council's risk management policy and strategy requires that an annual report be submitted to the council executive. The report for 2009/10 was submitted in May 2010. The report advised on the objectives of the risk management plan for 2010/11 and also highlighted the new work that would be undertaken including economic risks and property risks. The report also stated that the management of risk was a continuous process and that with the support of elected members the risk management steering group would keep the council's risk management strategy under review and monitor the effectiveness of the risk management process.

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

119. The findings from the first best value and community planning audit in West Lothian Council were published in 2005. The 2005 best value report highlighted that the council demonstrated a clear



commitment to best value and community planning. Since this time the council has implemented its plan compiled in response to this report. Improvements made include:

- establishment of a monthly review panel in April 2009 to scrutinise the performance of each service unit
- a development programme for members
- launch of a web based public reporting system based on the Covalent system
- approval of a three year procurement strategy for the period 2008-2011 in April 2008.

120. The LAN noted the continuous improvement being made by the council and has not included any best value audit work in the three year audit plan published in the AIP.

Outlook

121. We have already mentioned the importance of developing the performance management aspects of the SOA. The long term and complex nature of many of the outcome targets, pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems West Lothian has in place to monitor progress and take remedial action.

122. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk/work/scrutiny/index.php. The timing of best value audits will be determined by a risk assessment. As noted above, there are currently no plans for any best value work in West Lothian over the next three years. However, the AIP does include scrutiny activity by other scrutiny bodies over the next three years:

- HMIE – Joint inspection of services to protect children and young people (2010/11)
- SWIA – Initial Scrutiny Level Assessment (ISLA) review (2010-2013)
- SWIA – Inspection of prison-based social work services at Addiewell prison. (2010/11)
- Care Commission – Review of adoption and fostering services (2010/11).



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	26 February 2010	16 March 2010
Review of Internal Audit	30 March 2010	8 June 2010
Shared Risk Assessment/ Assurance and Improvement Plan	1 June 2010	8 June 2010
2009/10 Review of internal controls	30 June 2010	21 September 2010
Review of opening IFRS balance sheet as at 31 March 2009	23 August 2010	21 September 2010
Follow up ICT service review 2009/10	25 August 2010	21 September 2010
Follow up information management review 2009/10	25 August 2010	21 September 2010
Report on financial statements to those charged with governance	15 September 2010	21 September 2010
Audit opinion on the 2009/10 financial statements	28 September 2010	21 September 2010



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	43	<p>Financial forecast</p> <p>Current forecasts present significant budget deficits in 2011/12 to 2014/15.</p> <p><i>Risk: The achievement of spending reductions present a significant challenge for the council.</i></p>	<p>Contingency planning and decisive decision making are key to meeting spending gaps. The consultation process will be complete by November 2010 and a report on the 2011/12 budget presented to Council early in 2011.</p> <p>We are continually reviewing the level of unallocated general fund balance to ensure it is sufficient for the council's needs.</p>	Head of Finance and Estates	<p>Early in 2011 for approval of the 2011/12 budget.</p> <p>The 2012/13 budget will be agreed prior to the local election in 2012.</p>
2.	63	<p>Procurement</p> <p>In December 2009, West Lothian Council completed the procurement capability assessment and scored 22% which was classified as non conformance.</p> <p><i>Risk: This level of score suggests the council is open to risk of legal challenges due to the lack of visibility and control over procurement.</i></p>	<p>A full review is being undertaken of all of the council's procurement activity and it is anticipated that this will draw on all potential for procurement efficiencies through collaborative purchasing including Scotland Excel and Procurement Scotland – and through more effective council contracts.</p>	Head of Finance and Estates	June 2011.



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	65	<p>Sickness absence</p> <p>In 2009/10, the average number of working days per teacher lost due to sickness absence increased from 2008/09 by 0.5 day to 6.9 days, while there was no change in the average number of working days lost per employee due to sickness absence over the same period.</p> <p>Reducing sickness absence across the council is key in delivering future efficiencies.</p> <p><i>Risk: Future efficiencies may not be achieved and the council may not be able to balance it's budget.</i></p>	A rigorous process is now in place to monitor both the application of the new policy and individual absence patterns.	Head of Corporate Services	Complete
4.	97	<p>Public performance reporting</p> <p>The council now publishes progress against corporate objectives on the website. All relevant data is not on one site and some of the data published does not align to the statutory performance information.</p> <p><i>Risk: The information is not easily assessable to all citizens due to its length and complexity.</i></p>	The council will refine the performance information on the website to ensure it is easily accessible to all citizens and to ensure that it is accurate.	Best Value Manager	March 2011.
5.	98	<p>Performance reporting</p> <p>SOA's will be used to monitor performance and it is therefore important that the council accelerates progress on standardising public and management reporting against the SOA.</p> <p><i>Risk: The current performance monitoring and reporting system does not align to the SOA.</i></p>	The council has confirmed this is the case and work is in hand to standardise public and management reporting against the SOA.	Community Planning manager	March 2011.