West Lothian Council

Annual report on the 2010/11 audit

Prepared for Members of West Lothian Council and the Controller of Audit

September 2011

Contents

Key messages

2010/11

We have given an unqualified opinion on the financial statements of West Lothian Council for 2010/11. We have, however, drawn attention to the fact that the Economic Development Properties significant trading operation has failed to break even, on a cumulative basis, over the three year period to 2010/11. This is due to the accounting treatment required to recognise the decrease in value of the associated assets of £10.735 million.

The general fund recorded a net surplus for 2010/11 of £5.963 million, therefore increasing the balance to £16.109 million as at 31 March 2011. This balance includes earmarked commitments of £12.787 million and an unallocated general fund balance of £3.322 million which is above the council's target balance of £2.5 million.

The planned capital expenditure for 2010/11 was £88.3 million, but this was reduced by £10.4 million or 12% during the year, representing slippage on capital projects.

The council has one of the highest capital funds in Scotland at £60.557 million. The use of the fund has been deferred to enable the council to take advantage of low external borrowing rates. Total council borrowing is £467.842 million as at 31 March 2011. The treasury management strategy has been discussed with the council's treasury advisors, Sector, who has agreed that this is a sound financial approach. This should be kept under review to ensure that it continues to represent best value.

The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. A contingency strategy was developed detailing a range of modernisation programmes and corporate led initiatives to deliver over £9 million of efficiency savings over the period 2011/12 to 2013/14.

To help drive improvement the council completed a review of procurement activity resulting in an improvement plan which should now be implemented to achieve efficiency savings.

As at 31 March 2011 332 staff had left the council, under the voluntary severance scheme, at a total cost of £9.776 million. Key criteria were established and assessed to ensure that the costs of individual packages were recoverable within two years and provided future savings.

When setting the 2011/12 budget the council identified a potential funding gap of £15.403 million but approved a balanced budget by incorporating budget reductions of £16.745 million. The 2011/12 budget monitoring report (to 31 August 2011) predicts an annual underspend of £4.254 million, with an underspend being forecast in all service areas.

Performance has improved in 2010/11 with 97% of the council's indicators achieved with strong performance across all objectives in the corporate plan. The council has robust self-evaluation arrangements in place. They include the West Lothian Assessment Model, which is a corporate tool for self-assessment and has been adopted by other councils.

Outlook

It is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. It is also recognised that continuing to realise efficiencies will become more challenging in all councils over the longer term. Difficult decisions will need to be made about prioritising resources towards service delivery priorities.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

Looking ahead West Lothian Council will consider a long term financial plan for 2013/14 onward with the focus on an outcome based approach to service delivery.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of West Lothian Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of West Lothian Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.

4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of West Lothian Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

11. We have however, drawn attention in our audit report to the fact that the Economic Development Properties significant trading operation has failed to break even, on a cumulative basis, over a three year period. This is due to the requirement to reflect a decrease in the asset valuation of £10.735 million in the 2010/11 financial statements. If the downward revaluation had not occurred the significant trading operation would have achieved the statutory breakeven requirement. Whilst this is a failure to comply with the Local Government in Scotland Act 2003, it does not impact on the fairness of the financial statements or affect the overall opinion on the financial statements.

Legality

12. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Finance and Estates has 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 legality issues arising from our audit which require to be brought to members' attention.

Statement on the systems of internal financial control

13. We are satisfied with the disclosures made in the statement on the systems of internal financial control and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement reflects the fact that internal and external audit identified significant weaknesses in procurement, payroll and accounts payable. We are satisfied that the above weaknesses did not impact on the financial statements and that the council has processes in place to address these weaknesses and we will review the results of any follow up work performed by internal audit.

14. In accordance with good practice the council is developing internal processes to enable them to disclose an annual governance statement in the 2011/12 financial statements.

Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010 Code with the exception of the inventories valuation methodology. This is a departure from the 2010 Code, however it does not have a significant impact on the value in the financial statements.

Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

18. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments primarily relate to reclassifications within the balance sheet and have not had any impact on the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements.

Prior year adjustments

19. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £793.462 million to £861.258 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

20. In addition a prior year adjustment has been required for the consolidation of Lothian and Borders Police Board in the group financial statements. When determining the percentage for inclusion the council had incorrectly included the central grant from the Scottish Government as a contributing authority. The council has therefore been consolidating 7.27% of the police board's financial statements when the correct percentage is 15.71%. Due to the net liability position this has a significant impact on the group balance sheet increasing the net liability from associates and joint ventures as at 31 March 2011 from £159.558 million to £289.812 million in 2010/11 (2009/10 movement from £181.265 million to £317.118 million).

Post balance sheet events

21. The 2010/11 financial statements contain the necessary post balance sheet event disclosures for the Whitburn Swimming Pool which was partially destroyed by fire on Saturday 9 July 2011. The pool is leased to and insured by West Lothian Leisure Ltd. The pool building is in the process of being inspected by the insurer's structural engineers to establish the extent of the damage, therefore the level of any impairment cannot currently be quantified. The council will continue to monitor the position during 2011/12 and the asset will be revalued for inclusion in the 2011/12 financial statements.

Pension costs

22. West Lothian Council is a member of Lothian Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £228.3 million last year to £120.1 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Whole of government accounts

23. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and we expect that the audited return will be completed by the audit deadline of 30 September.

Group financial statements

24. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards. West Lothian Council does not have any subsidiaries, however it consolidates the results of four associates and one joint venture into the group financial statements. The overall effect of inclusion of these group entities is to reduce net worth by £289.812 million.

Trust funds

25. West Lothian Council has 39 charitable trusts and mortifications. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council’s financial statements, supplemented with additional working papers.

26. OSCR’s feedback on last year’s submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). West Lothian Council’s submission fell into the “average” category and the council is currently reviewing arrangements to enable full compliance by 2013/14.

Common good fund

27. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements, however the common good assets are not separately identified in the council's asset register due to the insignificant amounts involved (£5k).

Outlook

Carbon Trading

28. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is now required to purchase and account for carbon credits to cover all of its non

transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council has a Carbon Management Board with a Carbon Reduction Commitment (CRC) sub-group where energy issues are discussed and performance against the energy consumption performance indicator is monitored. A carbon management plan has also been prepared and is currently being updated for new initiatives such as cavity wall insulation.

29. The 2010/11 charge for the council was calculated as £0.375 million (£0.441 million in 2009/10) based on a baseline annual carbon footprint of 31,279 (36,763 in 2009/10). Whilst 2010/11 was a practice year and the charge was not actually incurred, it is now expected that the council will have to purchase £0.375 million worth of carbon allowances in April 2012.

Audit appointment for 2011/12

30. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for West Lothian Council but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

31. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

32. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

33. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

34. In 2010/11, West Lothian Council spent £706.049 million on the provision of public services, resulting in an income and expenditure account deficit of £128.153 million. Following the required adjustments, in accordance with statute, between the accounting figures and the funding basis figures, this resulted in an increase in usable reserves of £6.269 million. The budget for 2010/11 was based on Band D council tax of £1,128 and did not assume any use of the general fund.

Budgetary control

35. The 2010/11 outturn report shows that net service expenditure across the council was £400.318 million, an underspend of £1.310 million against the budget.

36. Education, planning and area services reported a net underspend of £1.172 million, primarily due to an increase of £0.708 million in school carry forward balances as they aim to maximise savings to utilise in the future. The social policy outturn was a £0.711 million underspend, primarily due to one off savings from staff vacancies, however demand led pressures remain a significant risk across client groups. Corporate, operational and housing services reported an overspend of £0.919 million, primarily as a result of the exceptional costs associated with winter maintenance which exceeded the budget by £3.310 million. This overspend was partially offset by savings from staff vacancies. Finally an underspend of £0.346 million was achieved in joint boards, chief executive, finance and estates services due to of one off staff savings and property cost savings, particularly electricity where the council received a one off refund of £0.170 million from the provider.

Financial position

37. The general fund recorded a net surplus of £5.963 million for 2010/11. This is comprised of a net service underspend of £1.310 million, an underspend of £4.441 million on non-service expenditure and an over-recovery of income of £0.212 million. The general fund balance has therefore increased to £16.109 million as at 31 March 2011. This balance is made up of earmarked commitments of £12.787 million leaving an unallocated general fund balance of £3.322 million. This is above the council's target minimum uncommitted general fund balance of £2.5 million.

38. Exhibit 1 shows the balances in the council’s funds at 31 March 2011 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 assets. The council's funds at 31 March 2011 totalled £86.305 million, an increase of £6.269 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010 £ million	31 March 2011 £ million
General Fund	10.146	16.109
Housing Revenue Account	0.926	0.926
Repair and Renewal Fund	0.064	0.065
Capital Fund	58.850	60.557
Insurance Fund	10.050	8.648
Total	80.036	86.305

Source: West Lothian Council 2010/11 financial statements

39. In the last couple of years the council has deferred the use of the capital fund to take advantage of low external borrowing rates (see paragraph 49). The 2011/12 treasury management strategy originally included the use of £25.165 million of the capital fund for the general services capital programme, however the council has again deferred this until 2012/13.

40. The council's capital fund is one of the highest in Scotland and should be kept under review to ensure that the use of borrowing instead of the capital fund continues to represent best value for the council.

41. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness

of the financial management arrangements. In future years the Head of Finance and Estates is to consider reporting these indicators as part of the financial statements.

42. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with this report, as they are based on the audited financial statements for all council. The indicators will be issued to the council separately for consideration.

Capital investment and performance

43. The 2010/11 financial statements detail capital expenditure of £66.991 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. The general services programme includes investments on improving primary and secondary schools, open space and sports facility projects and building Bathgate partnership centre.

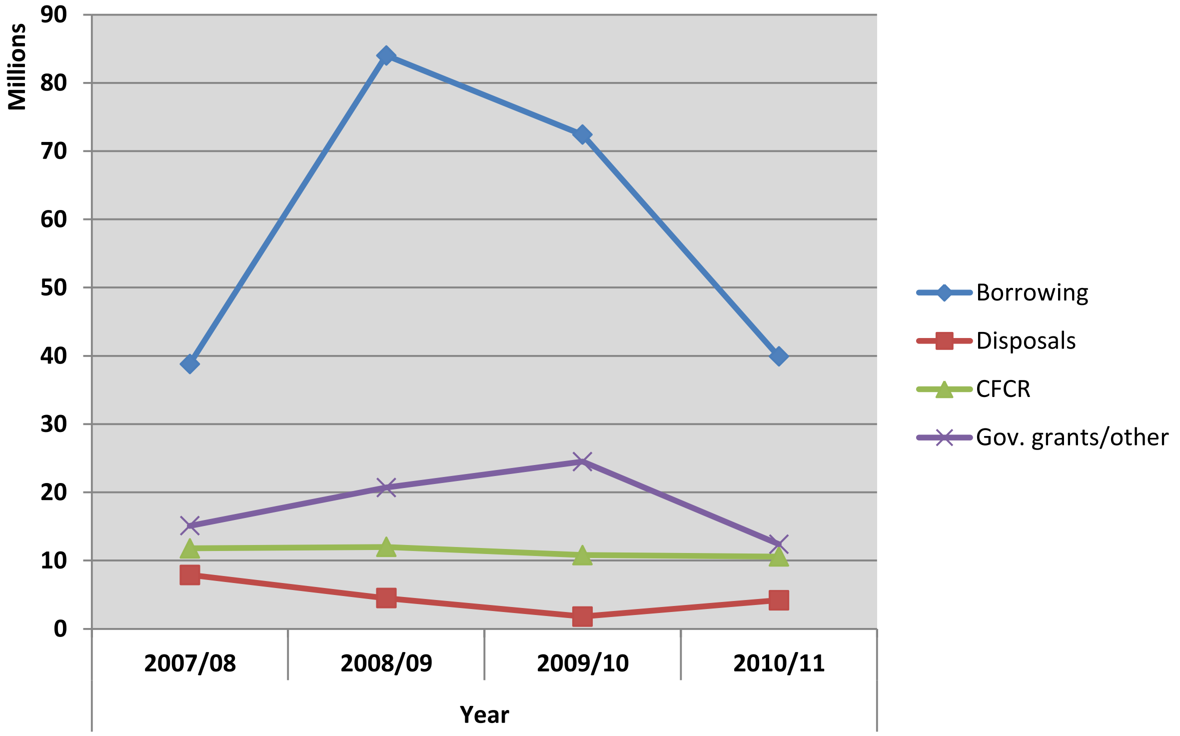
44. The planned capital expenditure for 2010/11 was originally £88.3 million, but this was reduced by £10.4 million or 12% during the year, representing slippage on capital projects.

45. The housing capital outturn for 2010/11 was £20.0 million against the revised budget of £22.6 million, an underspend of £2.6 million. This relates to project slippage largely as a result of revised start dates on phase 2 of the new house building projects and the severe winter weather. The slippage will be incorporated into the 2011/12 housing capital programme.

46. The general service capital outturn for 2010/11 was £46.7 million against the revised budget of £55.4 million, representing an underspend of £8.6 million. The slippage occurred across a variety of projects including primary schools refurbishment and Disability Discrimination Act compliance investments along with the parks, cemeteries and road programmes. The slippage is mainly a result of the adverse winter weather conditions which impacted upon site access and ground conditions. In response to material underspends within the capital programme and identification of other other one off funding, there will be additional capital investment in 2011/12.

47. Exhibit 2 shows the sources of finance for capital expenditure in 2010/11. The council achieved capital receipts of £4.2 million (£1.9 million in 2009/10), the majority of which arose from council house sales. As noted previously the council has not used its capital fund for this expenditure.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11



Source: West Lothian Council 2010/11 financial statements

Treasury management

48. As at 31 March 2011, West Lothian Council held cash and temporary investments totalling £120.649 million (£97.422 million at 31 March 2010). The council's borrowing has increased by £61.865 million to £467.842 million as at 31 March 2011.

49. The current economic climate means that interest rates on borrowing are low. The council's 2011/12 treasury management strategy includes early borrowing to take advantage of these low interest rates enabling the capital fund to be maintained at the current level. The council are therefore incurring interest costs on additional borrowing in the short term to enable them to make savings on future borrowing requirements. The treasury management strategy has been discussed with the council's treasury advisors, Sector, who agreed that this is a sound financial approach. This should be kept under review to ensure that it continues to represent best value.

Refer Action Plan No. 1

Financial planning to support priority setting and cost reductions

50. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. The council developed a contingency strategy to help prepare for the unprecedented financial pressures whilst also meeting service delivery expectations. The contingency strategy includes a range of modernisation programmes and

corporate led initiatives which are estimated to deliver over £9 million of efficiency savings over the period 2011/12 to 2013/14.

51. In addition, the council undertook a Tough Choices consultation process during 2010/11 to seek the views of stakeholders on the future revenue budget options. This exercise sought to identify potential options for future savings of £45 million while continuing to deliver services. The information has been used in identifying and prioritising revenue budget decisions.

Asset management

52. The council has in place a strategic approach to capital planning, which is integrated with asset management planning. Progress against the corporate asset management plan is reported annually by asset lead officers to elected members through the relevant policy development and scrutiny panels.

53. As we reported last year, the council has a ten year office rationalisation strategy aimed at reducing the number of council office buildings which will result in lower overall running costs. In addition to a reduction in office accommodation, officers have identified that in the future they will have to consider the use of other operational buildings.

54. A review of the council’s surplus assets was undertaken during 2010/11 to assess the impact of the economic downturn on the ability to generate previously anticipated receipts. This revaluation exercise resulted in a projected resource shortfall of over £20 million compared to assumptions in the ten year programme. The capital receipts budget for 2011/12 is now £1.5 million to reflect a realistic assessment of what can be achieved.

Procurement

55. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. In 2010 the council scored 27% which is classed as 'conformance' and demonstrates improvement on the 2009 score of 22%. The main improvement areas were in procurement leadership and governance and key purchasing processes and systems. Gaps in capability were again identified in management of demand, contracts and suppliers.

56. To drive further improvements, the council performed a full evaluation of its procurement activity. A comprehensive set of recommendations was prepared to enable future procurement activities to be more efficient and effective. One of the outputs of the procurement review was an improvement plan for issues identified during the 2010 PCA. The improvement plan contains clear actions which are directly aligned to the gaps shown by the PCA. It is important that the recommendations from the review are now translated into actions if the council’s procurement processes, procedures and practices are to meet challenges in the years ahead.

Refer Action Plan No. 2

57. In recognition of the external pressures, including the current financial climate, a new Corporate Procurement Strategy 2011 – 2014 was prepared and aligned to the council's Financial Strategy to secure cashable savings and other efficiencies. The council had a £3 million cash savings target and at the time of writing this report, £1.43 million of procurement cashable savings have been achieved.

Workforce reduction

58. To deliver a package of sustainable budget reductions the council has estimated that it may need around 1,000 fewer staff over the medium term. The council has a voluntary severance scheme in place with key criteria that need to be satisfied prior to approving the severance package, including the establishment of a business case to ensure that the costs of releasing the individual employee were recoverable within two years.

59. As at 31 March 2011 332 staff had left the council at a total cost of £9.776 million, including £3.286 million payable to the Lothian Pension Fund in the form of strain on the fund and lump sum costs. From 1 April 2011 to 30 June 2011 a further 47 members of staff left the council under the voluntary severance scheme with the associated costs in the region of £2.5 million.

Use of consultants / overtime

60. In times of reducing staff numbers in councils, there is a risk that consultancy and employee overtime costs increase to maintain service delivery. The council has been monitoring these costs and reporting progress to members.

61. Since 2008/09 the consultancy costs have decreased from £1.183 million to £0.558 million in 2010/11. Further controls over consultancy services have been put in place during this financial year, including approval from the Chief Executive for all consultancy contracts.

62. The overtime costs have also decreased from £4.818 million in 2008/09 to £4.209 million in 2010/11. However the overtime reduction is less than originally planned due to the impact of the severe winter weather which required additional overtime to ensure roads and pavements were passable. In addition, internal audit's review of the overtime payments in operational services in April 2011 concluded that "control is unsound". Critical weaknesses were found in exception reporting, authorisation procedures within fleet services and standardisation of processing timesheets. We are satisfied that the above weaknesses did not impact on the financial statements and an action plan has been implemented to strengthen the controls in place.

Partnership working

63. West Lothian Community Planning Partnership was established in 1999 and now consists of seventeen partner organisations. The new Community Plan "Towards 2020" was published in December 2009. The aspirations in the community plan are linked to national outcomes and the single outcome agreement to enable a joined up approach to delivering key outcomes. To ensure that progress is maintained and focused on key areas, a review of the plan is scheduled to take place in 2014.

64. The council is actively examining the scope for shared service provision with public sector partners in a range of areas such as payroll and procurement. In addition road services have played a lead role in developing a shared services working group with other councils to share best practice, expertise and procurement of plant and equipment.

Outlook

2011/12 budget

65. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

66. When setting the 2011/12 budget the council identified a potential funding gap of £15.403 million. On 11 January 2011 the council approved a balanced budget incorporating budget reductions of £16.745 million, allocated across services.

67. The budget reduction measures included within the budget were extremely detailed for each services and included specific service programmes and corporate savings activities. Some of the budget reduction themes include:

- staffing - removal of vacant posts, review of management and staff structures, the Worksmart initiative and review of car user allowance and training provision (£5.2 million)
- improved procurement arrangements (£1.2 million)
- service redesign (£3 million).

2011/12 budget reporting

68. The 2011/12 budget monitoring report (to 31 August 2011) predicts an annual underspend of £4.254 million, with an underspend being forecast in all service areas. The largest underspends are projected in schools (£0.772 million), area services (£0.902 million), WLCHCP and social policy (£1.444 million) and operational services (£0.751 million).

69. The underspend forecast is mainly due to proactive workforce planning which is resulting in savings in staffing costs. WLCHCP and social policy has also achieved a £0.700 million saving from the restructure of domiciliary care services which will be required in future years to fund the introduction of a re-ablement service. The underspend forecast for operational services assumes that individual cost areas will not exceed their budgets, however another year with severe winter weather could significantly change the projected outturn.

70. Heads of Service are required to complete a monitoring return for the budget reductions to enable progress to be assessed. As evidenced by the forecasted underspend position all budget reductions have been assessed as green, representing that fact that they have either already been achieved or will be achieved.

Financial forecasts beyond 2011/12

71. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 3

Governance and accountability

72. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

73. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

74. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

75. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

76. 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 existing policies and new proposals to be subject to consideration and discussion by members.

77. The Partnership and Resources PDSP has oversight of the financial resources and functions of the council, including revenue budget, capital plan and treasury management. It is also responsible for corporate asset management planning and property disposal.

78. A key responsibility of the Audit Committee is to undertake a corporate overview of the council's control environment and to review the adequacy of the policies and practices in operation to ensure compliance with relevant statutes, directions, standards and codes of corporate governance. The Audit Committee is also responsible for evaluating the arrangements in place for securing the economical, efficient and effective management of the council's resources and for considering internal and external audit reports and ensuring management implement the agreed recommendations.

79. The committees within the council are generally well attended by members and service department officers who respond to queries.

Internal control

80. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

81. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

82. As part of our work, we took assurance from key controls within the council's financial systems, with the controls of three key systems being tested by internal audit. The results of our review of key controls were reported to the Audit Committee in September 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements, resulting in additional audit testing of payroll and other income and expenditure transactions. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course. All significant weaknesses are reflected in the SSIFC as noted in paragraph 13.

83. The council will further strengthen its system of internal control by investing in new systems. A new asset register has already been purchased and will soon be operational. In addition, a business case has been prepared for replacing the Smartstream system with the accounts payable module of Cedar e5 with a target implementation date of 1 April 2012. This will address the weaknesses in the trade payables system identified during our review of key controls and disclosed in the SSIFC.

ICT data handling and security

84. The council has established a sound information management environment through the implementation of policies, guidance, standards and training including the establishment of a high level strategy.

85. A Your Business @ Risk (YB@R) review has recently been completed. YB@R is a web-based survey that helps assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of information governance policies. The results show that there is good awareness in the council, primarily due to the security training provided during 2010. The review identified that areas such as password storage and equipment loss need further work to help improve staff awareness of information security. The council has agreed to communicate the outcomes from the survey with staff.

86. A recent internal audit review of disaster recovery concluded that the arrangements for financial systems have evolved over time based on the technology in place when the systems were implemented. It notes that the successful progression and completion of the Disaster Recovery Project Phase 2 is critical to the future management and operation of the council's systems.

Prevention and detection of fraud and irregularities

87. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

88. West Lothian 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 whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees. A recent internal audit review of anti-fraud and corruption arrangements concluded that the arrangements were effective and no critical weaknesses were identified.

National Fraud Initiative in Scotland

89. 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. The council has made good progress in reviewing the NFI reports and taking appropriate action. The council has identified £0.035 million in overpayments from the recent NFI exercise.

Housing benefit inspections

90. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the council in 2009 and a detailed report was issued in January 2010 including agreed improvement actions. The progress on these actions will be followed up in due course.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

91. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in West Lothian Council are satisfactory and we are not aware of any specific issues that we need to report.

Roles and relationships

92. During 2010/11 the council reviewed the service structure and reduced the number of directorates from four to three. In addition there were a number of changes in key officer roles including the Chief Executive and Head of Finance and Estates. The council adopted a structured and planned approach to ensure that these changes were well managed and to minimise any impact on service delivery.

93. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and

the new decision-making procedures for planning applications. To assist in complying with the revised procedures for registering and declaring interests, council members have been provided with additional training and guidance.

94. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Chief Investigating Officer (CIO) who determines whether, in his view, there has been a breach. If no evidence is found the matter is closed, however if the CIO concludes that there has been a breach of the Code, he reports to the Standards Commission which then decides whether to hold a hearing.

95. During 2010/11 one complaint was made to the CIO in relation to a council member failing to declare an interest in a committee decision. The CIO found that there had been no breach of the Councillors' Code of Conduct and deemed the complaint inadmissible due to lateness and lack of information.

Best Value, use of resources and performance

96. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

97. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

98. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

99. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

100. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

101. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

102. The first Best Value report in 2005 highlighted that the council demonstrated a clear commitment to best value and community planning. Since this time the council has implemented its plan which was compiled in response to this report. The timing of West Lothian Council's next Best Value audit (BV2) will be determined by a risk assessment performed by the Local Area Network (LAN). In 2010/11 the LAN again noted the continuous improvement being made by the council and there are currently no plans for a Best Value review of West Lothian Council over the next three years.

Self-evaluation arrangements

103. The council has robust self-evaluation arrangements in place. In 2004, the council developed West Lothian Assessment Model (WLAM) which had subsequently been adopted by other councils and is now known as Public Service Improvement Framework (PSIF). As an originator of PSIF, the council is a member of the PSIF board and implementation group along with the Improvement Service, Quality Scotland and Investors in People Scotland. WLAM is a corporate tool for self-assessment and is used in all services to evaluate and challenge performance and improvement through the Review Panel process. Every service is required to complete the assessment and attend a review panel at least once every three years.

104. Some service management teams supplement this activity by using other professional frameworks such as Quality Management in Education (QMIE) in education services or Social Care and Social Work Improvement Scotland (SCSWIS) Performance Improvement Model (PIM) in social policy services to ensure compliance with inspectorate requirements and professional good practice. There is also an evaluation against professional standards to ensure services are meeting specific, required levels of professional practice.

Community/user engagement

105. The council established the “Tough choices” website to enable all interested parties to be involved in assessing the proposed cost saving options identified to address the council's future funding gap.

106. A new pilot programme of citizen led inspections has commenced in the council. The aim is to provide training to members of the public to enable them to inspect council services and generate ideas that could lead to improvements. The council is conducting two pilot exercises on the winter maintenance programme and pupil placements. This will enable the council to assess the further role out of this initiative.

107. A key indicator of the impact of community engagement is the single outcome agreement indicator which details the percentage of residents who feel they can influence decisions. The 2010/11 single outcome agreement and community plan annual report confirms that this indicator has improved from the 38% in 2008/09 to 43% in 2010/11.

Overview of performance in 2010/11

Performance management

108. The council has over 5,000 performance indicators on the Covalent performance management system, providing a wide range of detailed management information on the efficiency and effectiveness of services. Each service in the council has a suite of indicators that provide a multi-faceted view of performance, including the level of customer satisfaction, quality of service provision against service standards, efficiency and effectiveness.

109. In addition to the management of performance at a corporate and service level, services evaluate the quality and categorisation of their PIs as part of their improvement activities,

specifically during WLAM assessments. A separate evaluation of all efficiency indicators collected by services has also recently taken place and an action plan is currently being developed to ensure services collect and report on meaningful information on their capability to drive efficiency and deliver value for money. Furthermore, a review of all public performance reporting (PPR) indicators is scheduled for September 2011.

110. The Performance Committee conducts a continuous assessment of reviews of the units included in WLAM. As mentioned in paragraph 103, services are assessed on a cyclical basis. The purpose of these reviews is to establish current performance and identify service improvements. Our review of council minutes suggests the Performance Committee operates well and there is evidence of effective scrutiny.

West Lothian Council performance measurement outcomes

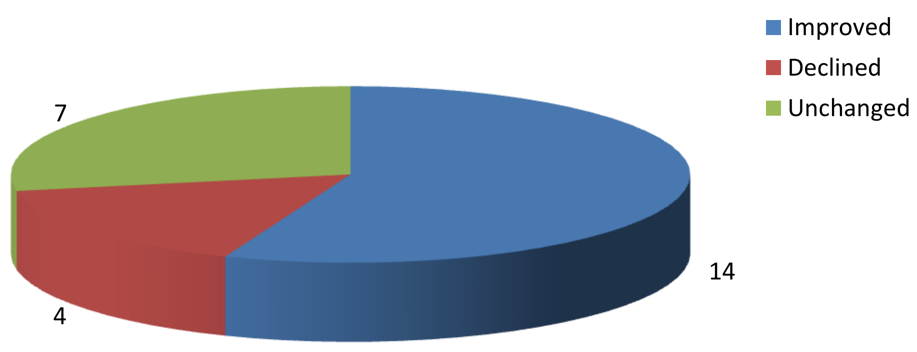
111. Overall improvement in performance can be seen in 2010/11, against approximately 2,000 indicators and initiatives which support seven objectives in the council's corporate plan. These indicators form part of the council's public performance reporting framework. The achievement of 97% of targets is an improvement on last year when 95% of the targets were achieved. 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.

112. Strong performance can be seen across all seven objectives in the corporate plan. Most notably there are no measures or initiatives which have not been started yet whilst this was the case for 5% of measures in 2009/10.

Statutory performance indicators

113. In 2010/11, a total of 25 Statutory Performance Indicators (SPIs) were required and these show that performance has continued to improve as illustrated in Exhibit 3 below.

Exhibit 3: Improvements demonstrated by SPIs



Source: West Lothian Council SPI data returns

114. The improved indicators include public access, asset management, sport and leisure management, housing quality and refuse recycling. Sickness absence levels have improved

significantly. There were over 16,000 fewer days of sickness absence than in the previous 12 months. The improved performance has been achieved due to new arrangements for monitoring and managing absence levels.

115. The indicators which have declined relate to the payment of invoices, use of libraries, rent management and refuse collection costs. The reductions in performance are being investigated by the council to establish the most appropriate action.

National performance reports

116. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 4.

Exhibit 4: A selection of National performance reports 2010/11

- The cost of public sector pensions in Scotland
- How councils work: an improvement series for councillors and officers - Arms-length external organisations
- Scotland's public finances: responding to the challenges
- Maintaining Scotland's roads: a follow-up report
- Physical recreation services in local government
- An overview of local government in Scotland 2010
- Community Health Partnerships
- Improving energy efficiency: a follow-up report
- Transport for health and social care

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

117. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.

- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

118. As noted in paragraph 130, the council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. In recognition of the difficult financial climate faced by the council, a contingency strategy was developed to help ensure that the council prepared for unprecedented financial pressures whilst also meeting public expectations regarding the quality of services. The contingency strategy includes a range of modernisation programmes and corporate led initiatives which are estimated to deliver over £9 million of efficiency savings over the period 2011/12 to 2013/14.

119. The key contingency strategy measures include procurement savings, the Worksmart West Lothian initiative to generate savings through a move to flexible working in specific areas of the council, shared services, buildings rationalisation and a leaner senior management structure. Staff were also briefed about the council's voluntary severance scheme which increased the uptake during 2010/11. Most of these measures have already been explored throughout this report. Overall we can conclude that the council is well placed to cope with the future challenges of the current financial climate.

Maintaining Scotland's roads: a follow-up report

120. This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
- The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

121. The report, however, highlights the council's 'considerate contractor' scheme as an example of good practice. The 'considerate contractor' scheme was established in 2007 to promote partnership working between the council and all public utility companies and contractors. All main utilities have signed up to the principle of working together and the scheme's demands for quality and customer consideration. In addition they abide by a code of practice that aims to improve the coordination of works on the public road network, improve public safety and minimise inconvenience and disruption to residents, businesses and road users.

122. As noted in paragraph 106 the council are currently piloting a programme of citizen led inspections to give members of the public the opportunity to inspect and help improve council services. The council's winter maintenance programme is part of this pilot exercise.

Progress against audit risks identified in the Shared Risk Assessment

123. The Shared Risk Assessment (SRA) includes areas of scrutiny uncertainty, where associated audit and scrutiny activity was identified. In the Assurance and Improvement Plan (AIP) update 2011 - 14 we said that we would monitor key service developments and further evidence of performance during the annual audit process and comment within this report. The following paragraphs note the position against the areas of uncertainty identified.

Improving the health and wellbeing of communities

124. The AIP update noted that this strategic priority remained an area of uncertainty as a number of the council's initiatives were at an early stage and the impact was not yet known.

125. We note from a review of the single outcome agreement and community plan report 2010/11 that more data is required to support the direction of travel in national outcome 5 (Our children have the best start in life and are ready to succeed). The report also shows mixed progress against other relevant national outcomes. Improvement can be seen towards about two thirds of the indicators under the national outcomes 6 (We live longer, healthier lives), 7 (We have tackled significant the inequalities in Scottish society) and 8 (We have improved the life chances for children, young people and families at risk). The remaining indicators are still below the target level therefore the positive impact of some council's initiatives has not yet been demonstrated.

Making the economy stronger

126. In 2010/11 we reassessed this strategic priority as an area of uncertainty as the economic downturn may constrain the council's ability to achieve the agreed outcomes.

127. The single outcome agreement and community plan report 2010/11 shows that again more data is required to assess progress towards the national outcome 1 (We live in Scotland that is the most attractive place for doing business in Europe) whilst progress towards the national outcome 2 (We realise our full economic potential with more and better employment opportunities for our people) is still mixed. In this difficult financial climate it is challenging for the council to demonstrate continuous improvement in its economy-related outcome measures. Whilst there are improvements in qualifications and earning levels, two out of five indicators are showing negative trends due to the impact of the adverse economic climate, i.e. the proportion of working age adults in work and the percentage of claimants in receipt of key out of work benefits.

Performance management and improvement

128. The council has introduced new performance management and reporting arrangements. An improvement strategy 2011/13 has been developed and the use of strategy mapping to link the national outcomes in the single outcome agreement to the council's key service activities is currently being piloted. The council also plans to use members of the Citizens Panel to identify improvements in the public performance reporting information, which is currently not easily accessible due to its length and complexity.

129. This was an area for monitoring within the AIP update and we have noted some progress in this area in the last three months. A strategy mapping process was piloted for one of the health and wellbeing outcomes in the single outcome agreement, resulting in a set of indicators that fully reflect service priorities. Strategy mapping for other key areas is now scheduled over the improvement cycle. In addition, as already mentioned in paragraph 109, a review of all public performance report indicators is scheduled for September 2011.

Financial position

130. Our AIP update stated that no scrutiny risks were identified with the council's financial management processes. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. However, in the context of the lean financial position and the level of savings to be delivered by all councils, we considered that it would be difficult for the council to maintain its financial position and this was therefore an area of uncertainty for us.

131. Audit Scotland's recent report Scotland's public finances - responding to the challenges, noted that the Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011. This should establish a framework that the council will be able to use for making more medium-term decisions about future spending plans.

Outlook

132. There are currently no plans for a best value review of West Lothian Council over the next three years. However, the Assurance and Improvement Plan update 2011 - 14 does include activity by other scrutiny bodies over the next three years including:

- SCSWIS – Adoption and Fostering (2011/12)
- SCSWIS – Initial Scrutiny Level Assessment (ISLA) review (2011/12 to 2013/14)

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – West Lothian Council	3 February 2011	15 March 2011
Review of adequacy of internal audit	4 February 2011	15 March 2011
Review of IFRS shadow financial statements	1 April 2011	7 June 2011
Shared Risk Assessment / Assurance and Improvement Plan	19 May 2011	7 June 2011
Improving public sector purchasing follow-up	28 June 2011	13 September 2011
Review of internal controls	4 July 2011	13 September 2011
Report to those charged with governance on the 2010/11 audit	2 September 2011	13 September 2011
Audit opinion on the 2010/11 financial statements	2 September 2011	13 September 2011

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	49	Borrowing The council are incurring interest costs on additional borrowing in the short term to enable them to make savings on future borrowing requirements. Risk - The forecasted interest rate rises may not occur and the council has incurred unnecessary expenditure.	The council's treasury advisors, Sector, agreed that this is a sound financial approach. The treasury management strategy is reviewed annually and reported to committee for approval.	Head of Finance and Estates	Ongoing
2	56	Procurement Responsibility and accountability for each of the details actions in the procurement improvement plan have not yet been clearly allocated to named individuals. Risk - Recommendations from the procurement review may not be progressed in an efficient manner.	The Head of Finance and Estates has overall responsibility for the delivery of the action plan. The council is currently in the process of filling posts in the Corporate Procurement Unit. Accountability for all of the detailed actions in the plan will be allocated to named individuals once this process is complete.	Head of Finance and Estates	31 October 2011
3	71	Financial Uncertainty Future finance settlements are predicted to be lower than current levels presenting a challenge to the council is delivering key services. Risk - The council may be unable to delivery key public services.	Significant work has been undertaken on preparing the 2012/13 revenue budget. Development and approval of a longer term financial plan will be considered for 2013/14 onwards.	Head of Finance and Estates	Ongoing