

West Lothian Council

Annual report on the 2011/12 audit



Prepared for Members of West Lothian Council and the Controller of Audit
October 2012

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

Contents

Key messages	4
2011/12 audit findings.....	4
Outlook	5
Introduction	6
Financial statements	7
Audit opinion.....	7
Accounting issues.....	8
Financial position	12
Financial results.....	12
Capital investment and performance 2011/12.....	16
Treasury management.....	17
Financial planning to support priority setting and cost reductions.....	17
Outlook.....	19
Governance and accountability	21
Corporate governance	21
Prevention and detection of fraud and irregularities	23
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	24
Outlook.....	25
Best Value, use of resources and performance	27
Management arrangements.....	27
Overview of performance in 2011/12	29
Local performance reporting	31
National performance reports.....	31
Progress against audit risks identified in the SRA	34
Outlook.....	36
Appendix A: audit reports	37
Appendix B: action plan	38

Key messages

2011/12 audit findings

This report summarises the findings from our 2011/12 audit of West Lothian Council. As part of the audit we assessed the key financial and strategic risks being faced by the Council. We audited the financial statements and reviewed the Council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion on the financial statements of West Lothian Council for 2011/12. We have, however, drawn attention in our audit report to the fact that the council's significant trading operation, Economic Development Properties, has failed to break even, on a cumulative basis, over the three year period ending 31 March, 2012. This was due to the requirement to recognise a £10.735m decrease in property asset valuation in the 2010/11 financial statements.

The general fund recorded a net surplus for 2011/12 of £3.465 million, thereby increasing the fund balance to £19.574 million as at 31 March 2012. This balance includes earmarked commitments of £16.285 million and an unallocated general fund balance of £3.289 million which is above the council's target balance of £2.5 million.

The planned capital expenditure for 2011/12 was £80.45 million, but the eventual outturn was £77.30 million across the housing and general services programmes, representing slippage of £3.15 million.

The council has one of the highest capital funds in Scotland at £68.108 million. The use of the fund has been deferred to enable the council to take advantage of low external borrowing rates. Total council borrowing stands at £470.832 million as at 31 March 2012. The council's borrowings and overall treasury management strategy should be kept under review to ensure that it continues to represent best value.

The council has been particularly active in recent years in preparing financial plans and identifying savings to reflect the reduced local government financial settlements. A contingency strategy was developed detailing a range of modernisation programmes and corporate led initiatives to deliver efficiency savings over the period 2011/12 to 2013/14. These efficiency targets for 2011/12 have been delivered in full.

During 2010/11, the council undertook a consultation process, *Tough Choices*, to seek the views of stakeholders on future revenue budget options. This partnership approach has been continued within a major public consultation, *Delivering Better Outcomes*, which commenced 11 October, 2012, and aims to inform setting of priorities, and allocation of resources, whilst ensuring balanced budgets for the five year period to 2017/18.

As at 31 March 2012, 469 staff had left the council, under its voluntary severance scheme, at a total cost of £12.735 million. The scheme operates through the assessment of key criteria in every case,

to ensure that the costs of individual packages are recoverable within two years and provide future savings.

When setting the 2012/13 budget the council identified a potential funding gap of £6.407 million, but approved a balanced budget by incorporating budget reduction measures of £8.756 million, therefore forecasting a budget surplus of £2.349 million. The 2012/13 budget monitoring report (to 31 July 2012) predicts an annual underspend of £2.575 million, principally across Education and CHCP/Social Policy.

The council has robust performance monitoring and 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. Overall performance has continued to improve with 98% of the council's indicators being achieved with strong performance across all objectives in the corporate plan.

Outlook

Scotland's public bodies continue to face increasing demand for their services and this is likely to continue into the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when budgets are reducing.

For the five year period 2013/14 to 2017/18, the council has identified a potential budget shortfall of around £34 million, and difficult decisions will need to be made about prioritising resources towards service delivery priorities. To this end the council are developing a new Corporate Plan, which will be underpinned by a 'Strategy and Activity Map' logically linking council priorities, outcomes, strategies, performance and financial activity budgets.

To aid the process of prioritising how the council deliver better service outcomes, the council are undertaking a major consultation exercise – *Delivering Better Outcomes*. This is a wide ranging consultation involving everyone who lives in West Lothian, council staff, local organisations and voluntary groups. The council is consulting about its priorities and how these can be delivered within a balanced budget over the next five years.

All councils will face challenges from the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service.

The Police and Fire reform (Scotland) Act 2012 received royal assent on the 7 August 2012. As a result, responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies from 1 April 2013. It is important in this transition period that elected members continue to oversee effective governance

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of West Lothian Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 21 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 we 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 West Lothian Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with audit committees, 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. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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, annual governance statement 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 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of its income and expenditure for the year then ended.
11. We have, however, drawn attention in our audit report to the fact that the council's significant trading operation, Economic Development Properties, has failed to break even, on a cumulative basis, over the three year period ending 31 March, 2012. This was due to the requirement to recognise a £10.735m decrease in property asset valuation 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.

Going concern

13. The council's balance sheet at 31 March, 2012 discloses a net current liabilities position of £6.048 million, however, this should not be read as indicating any going concern issue for the council. This has resulted from a change in the accounting rules for disclosing Lender Option Borrower Option

(LOBO) loans, where the lender has the option, at predetermined future call dates, to propose or impose a new fixed rate for the remaining term of the facility. The borrower, in this case the council, has the option to either accept the new rate or repay the loan. Under the new accounting rules, these council borrowings are now deemed to be maturing at the date of their next interest rate review, which will often be within 12 months of the financial year, however, it would only be in exceptional circumstances, and at the council's discretion, that any repayment would be made at that point.

Annual governance statement

14. We are satisfied with the disclosures made in the annual governance statement, which we have found to be consistent with other information we are aware of from our audit work, and can confirm that its content complies with *Delivering good governance in local government*.

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 2011/12 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 2011/12 (the 2011 Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the 2011 Code with the exception of the inventories valuation methodology. This is a departure from the 2011 Code, however it does not have a material impact on the values 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, 2012. A comprehensive working papers package was also available to our audit team by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2012. The financial statements are now available for presentation to members, and for publication.

Matters arising

18. In our *'Report to those charged with governance on the 2011/12 audit'* presented to the Audit and Governance Committee on 11 September 2012 we highlighted issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. The resolutions for these issues, agreed with the Head of Finance & Estates, are documented in the report. As such the issues are reported here for information purposes but no action plan points have been raised.

Voluntary Severance Scheme

19. The council's comprehensive income and expenditure statement includes, as an exceptional item, £3.669 million of expenditure incurred as a result of the voluntary severance scheme during 2011/12. A number of staff have left the council since 1 April 2012 under the scheme, however, given the uncertainty over numbers and costs, the council has not created a provision for future payments within the financial statements. The scheme is employee driven by request, subject to payback criteria being met and at the discretion of management, and we concur that it would be difficult for a reliable estimate of future payments to be made. The council has disclosed a contingent liability in the financial statements in relation to the voluntary severance scheme, which we consider to be reasonable and appropriate.

Asset register

20. The implementation of a new asset register for 2012-13 generated a number of accounting adjustments to Fixed Assets, Capital Adjustment Account and Revaluation Reserve arising out of necessary housekeeping arrangements. A number of revaluation reserve adjustments (£5.685 million) and asset consolidation adjustments (£6.867 million) were disclosed incorrectly as elements of Gain or Loss on Disposal within 'Other Operating Expenditure' instead of being included within 'Surplus on revaluation of property, plant and equipment'. The net effect of these adjustments (£1.182m) was therefore included in the Comprehensive Income and Expenditure Statement as a loss on disposal, rather than as a deficit on revaluation. The council amended the incorrect disclosures relating to the establishment of the new Fixed Asset Register.

Presentational and monetary adjustments to the unaudited accounts

21. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. These adjustments were not material in total to the overall financial statements, and mainly related to reclassifications within the balance sheet and comprehensive income and expenditure account. They did not result in changes to total income and expenditure amounts, or to the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements. As noted in the *ISA 260 – Report to those charged with governance on the 2011/12 audit*, all errors identified were corrected in the accounts, and there were no unadjusted misstatements requiring to be brought to the attention of the Audit and Governance Committee.

Prior year adjustments

22. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has been amended to require authorities to account for tangible heritage assets in accordance with *FRS 30 Heritage Assets*. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits the value of heritage assets to be measured by any method that is appropriate and relevant.
23. The Council have complied with the amended requirements of the Code and recognised artworks, sculptures and civic regalia to the value of £0.677 million, based on insurance values. Other

categories of heritage asset such as archives, archaeological collections, memorials, monuments and public art have not been recognised in the balance sheet due to the absence of reliable cost or valuation information. As the recognition of heritage assets represents a change in accounting policy, previous year figures have been restated to reflect heritage assets held as at 1 April, 2010 and 31 March, 2011.

Post balance sheet events

24. The impact of known events after the balance sheet date has been considered in the preparation of the financial statements. There were no such events identified which required any adjustments to be made to the financial statements, however, it has been noted that the Police and Fire Reform (Scotland) Act 2012 received royal assent on 7 August 2012. Responsibility for the Police and Fire and Rescue Services will transfer from local government bodies to central government from 1 April, 2013. The full impact of these reforms on local authorities is still being assessed.

Pension costs

25. 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 2012 provided by the scheme's actuaries increased the council's share of those net liabilities from £120.1 million last year to £135.7 million this year, reflecting general unfavourable movements in investment markets.

Whole of government accounts

26. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. We are pleased to say that the Council submitted their consolidated pack to the Scottish Government by the statutory deadline of 30 July. No material errors were identified in the Council's submission, and the audited return was completed by the audit deadline of 5 October.

Group financial statements

27. 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.
28. 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 £368.581million. The group entities are:
- Lothian and Borders Police Joint Board
 - Lothian and Borders Fire and Rescue Joint Board
 - Lothian Valuation Joint Board
 - West Lothian Leisure Ltd

- West Lothian Recycling Ltd (joint venture).

29. We would highlight the following:

- All bodies within the group received unqualified audit opinions from their external auditors
- In accordance with recommended accounting practice, key policies for component bodies have been aligned with those of the Council. Where there are differences these have been disclosed in the financial statements.

Trust funds

30. 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.
31. OSCR's feedback on the 2010/11 submissions from each local authority allocates councils to one of four categories, fully compliant (one council), above average (12 councils), average (14 councils) and below average (3 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

32. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognised the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements with common good asset registers, supported by title deeds. 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).

Carbon Trading

33. 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.
34. The 2011/12 provision was calculated as £0.374 million (£0.375 million in 2010/11) based on a baseline annual carbon footprint of 31,173 tonnes CO₂ (31,279 in 2010/11). Whilst 2010/11 was a practice year and the charge was not actually incurred, the 2011/12 amount represents a real charge to the council, which will have to purchase £0.374 million worth of carbon allowances in April, 2012.

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. 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.
37. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

38. In 2011/12, West Lothian Council spent £648.794 million on the provision of public services, resulting in an income and expenditure account deficit of £51.005 million. Following normal adjustments, in accordance with statute, between the accounting figures and the funding basis figures, this resulted in an increase in usable reserves of £12.154 million. The budget for 2011/12 was based on Band D council tax of £1,128 and did not assume any use of the general fund. Gross expenditure is down £57.255 million on 2010/11, however, this reduction is due primarily to exceptional council housing stock impairment charges, offset by exceptional pension cost credits, occurring in the previous year.
39. Capital expenditure for the year was £77.325 million, with spending of £38.460 million incurred on the Housing programme and £38.865 million on the General Services Programme. Funding of this investment was via asset sales £30.785 million, revenue contributions £14.737 million and borrowing £31.803 million.

Budgetary control

40. The 2011/12 outturn report shows that net service expenditure across the council was £424.656 million, being an underspend of £9.152 million (2.1%) against the budget.
41. Key factors contributing to the overall underspend were as follows:
 - Education, planning and area services reported a net underspend of £4.098 million, primarily due to receipts of additional teachers and probationers funding of £1.238 million, and to early realisation of staff savings planned for future years
 - Community health and social policy underspend was £2.013 million, primarily due to one off savings in staffing costs planned to achieve future year budget reductions

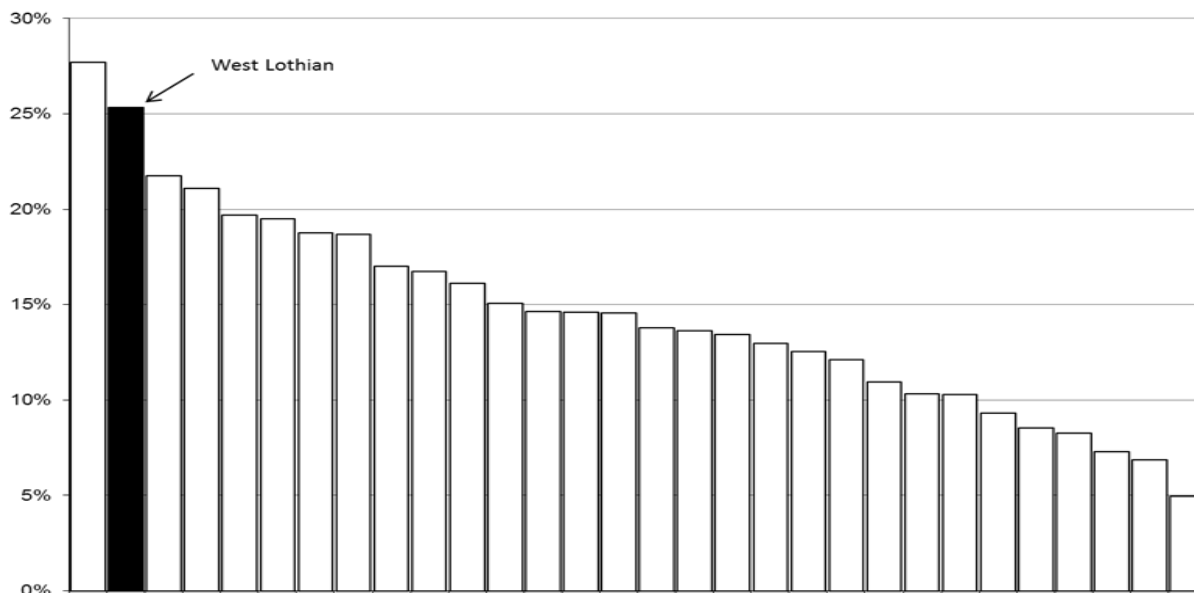
Financial position

- Corporate, operational and housing services reported an underspend of £2.112 million, principally in operational services due to savings in staff costs and the winter maintenance budget arising from the eventual relatively mild weather
- An underspend of £1.032 million was achieved in chief executive, finance and estates services, and in joint boards, due to property cost savings, including utility costs, and to the return of £0.569 million of Police and Fire Board reserves to constituent councils.

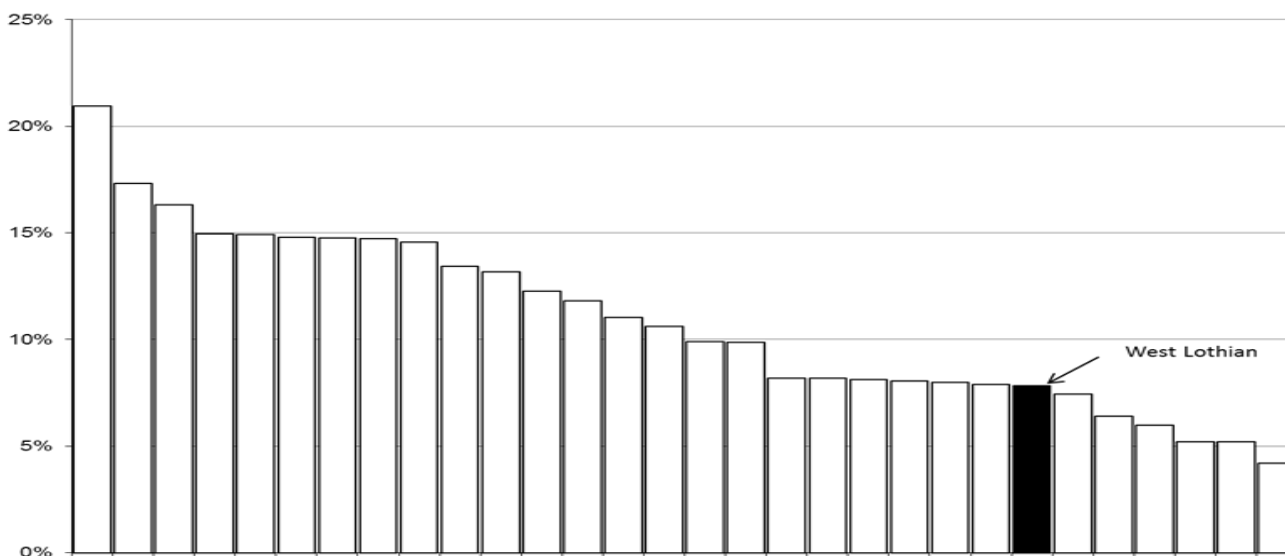
Financial position

42. The general fund recorded a net surplus of £3.465million for 2011/12. This is comprised of a net service underspend of £9.152 million, an overspend of £5.796 million on non-service expenditure and an over-recovery of income of £0.109 million. The general fund balance has therefore increased to £19.574 million as at 31 March 2012. This balance is made up of earmarked commitments of £16.285 million leaving an unallocated general fund balance of £3.289 million, which exceeds the council's target minimum uncommitted general fund balance of £2.5 million.
43. Earmarked balances represent 83.2% (2010/11: 79.4%) of general fund. These commitments on the fund comprise mainly of amounts designated to meet staffing change costs (£4.673 million) and specific time limited development projects (£7.754 million). The Council has, however, been able to maintain its balance of uncommitted funds at a stable level over recent years despite the financial challenges being faced.
44. There are a number of key financial ratios which can be considered as measures of the financial health of the council. Some of these ratios are represented below in a bar chart form, showing where the council position lies in relation to other councils in Scotland.

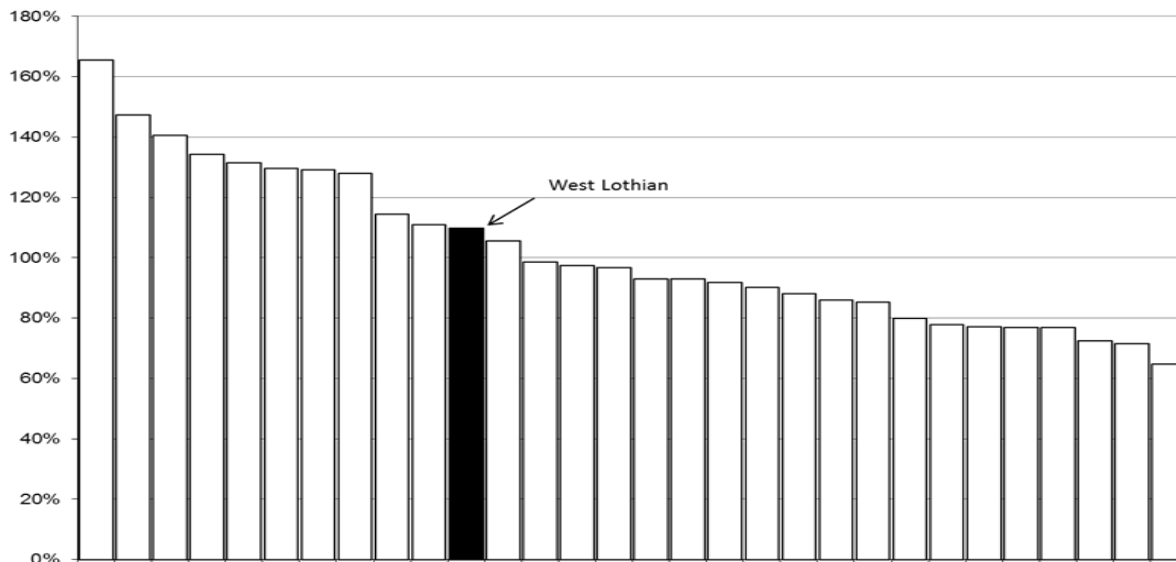
- Total usable reserves as a percentage of net revenue spend**, where net revenue spend can be considered a reasonable measure of the relative size of a council. This demonstrates the council's strong overall financial position, including a substantial capital fund. We have noted elsewhere that retention of this large capital fund, while borrowing to meet capital expenditure, must be closely monitored to confirm it remains best value for the council.



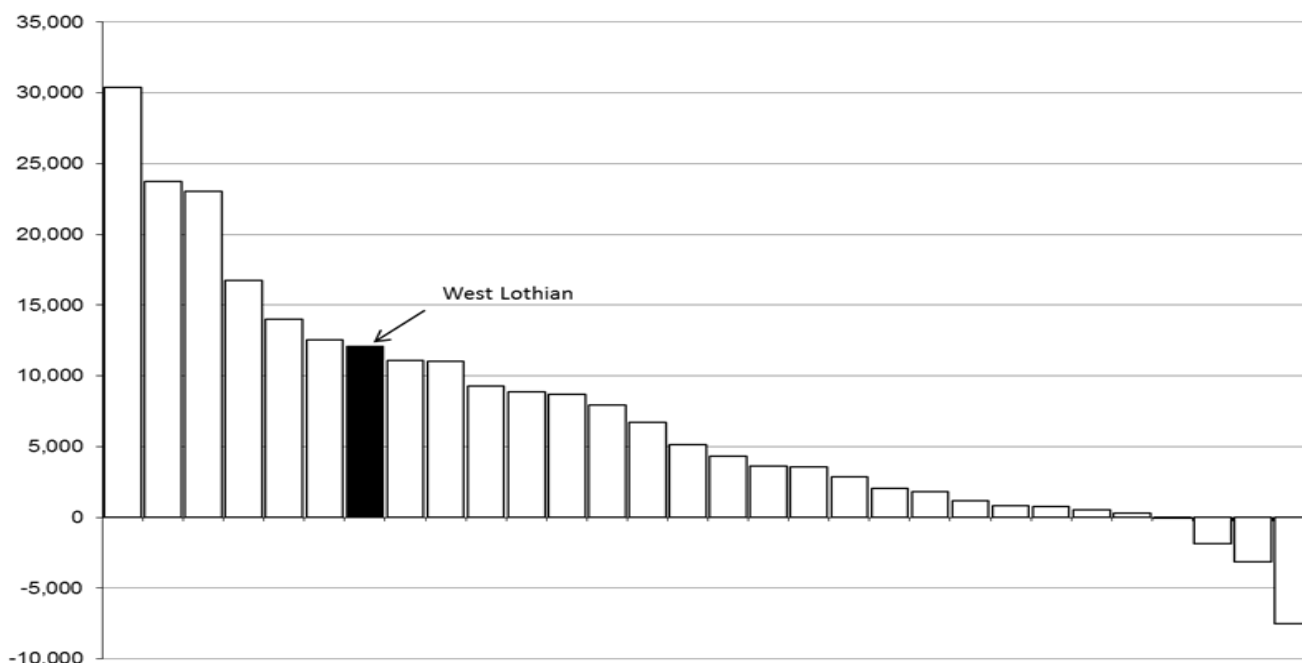
- Usable revenue reserves as a percentage of net revenue spend**, which excludes the council's substantial capital fund and consequently shifts its position into the lower half of the range. As noted above, these reserves, which amount to just over £30 million, include an element earmarked for specific purposes, however, the balance of uncommitted funds remains in excess of target levels.



- Net external debt as a percentage of net revenue spend**, shows the council to be reasonably representative of councils nationally. Given the level of capital fund being carried forward, the council is in the favourable position of being able to reduce future borrowing levels in response to future interest rate rises.



- Increase/(decrease) in total usable reserves**, indicates good performance, in a national context, generating a 14% (£12.15 million) increase in reserves available for future investment.



It would be helpful to readers of the financial statements if this type of analysis were included as an integral part of the financial information provided in the explanatory foreword.

45. Exhibit 1 shows the balances in the council's funds at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and an insurance fund covering insurance liabilities which is subject to independent valuation every three years. The repair and renewal fund is a statutory fund established to provide for infrastructure investment. The council's funds at 31 March 2012 totalled £98.459 million, an increase of £12.154 million on the previous year.
46. The Council has continued to defer utilising its capital fund, in order to take advantage of low external borrowing rates (see Treasury management; para 50). The 2011/12 treasury management strategy originally proposed the use of £25.165 million of the capital fund in the general services capital programme, however, this has again been deferred into 2013/14. The council's capital fund continues to be one of the highest in Scotland and should be kept under review to ensure that the use of external borrowing continues to provide best value in the funding of capital projects.

Exhibit 1: Reserves

Description	31 March 2011 £ million	31 March 2012 £ million
General Fund	16.109	19.574
Housing Revenue Account	0.926	0.926
Repair and Renewal Fund	0.065	-
Capital Fund	60.557	68.108
Insurance Fund	8.648	9.851
Total	86.305	98.459

Source: West Lothian Council 2011/12 financial statements

Capital investment and performance 2011/12

47. The 2011/12 financial statements detail capital expenditure of £77.32 million, split between the housing programme and the general services programme:
- The housing programme final outturn of £38.44 million includes new house building of £14.037 million and works undertaken in meeting the Scottish Housing Quality Standard of £13.978 million. The overall outturn position was an overspend of £1.172 million, resulting from delays and programme adjustments resulting from legal and technical issues
 - The general services programme final outturn of £38.865 million includes investment on improving primary and secondary schools, open space and sports facility projects, roads and footways and ICT projects. Bathgate Partnership Centre was completed during 2011/12 at a final cost of £3.7 million. The overall outturn included net slippage of £4.32 million, mainly across a variety of property asset projects.
48. The council realised capital receipts of £5.1million (£4.2 million in 2010/11), £2.2 million of which arose from council house sales. The council has also benefited from the receipt of £9.2 million government grants in relation to new build housing projects, and has been able to reduce the borrowings element of funding accordingly. As noted previously the council has not utilised its capital fund for capital expenditure.

Treasury management

49. As at 31 March 2012, West Lothian Council held cash and short term investments totalling £118.909 million (£120.649 million at 31 March 2011). Interest rates on investments were 1.65% overall (2010/11; 1.8%) The council's borrowing has increased by £2.99 million to £470.832 million as at 31 March 2012. Average interest rate on borrowings was 4.20% (2010/11:4.17%).
50. The current economic climate means that interest rates on borrowings continue to be low. The Council's borrowings strategy is based on base rates remaining unchanged through to September 2013. Advice received by the council is that Public Works Loan Board (PWLB) rates will rise over the longer term, therefore confirming that best value for the council is achieved by external borrowing for short term capital requirements, taking advantage of low rates, and enabling the capital fund to be maintained at its current level for use in future years when rates eventually rise.
51. The council are therefore continuing with a policy of incurring interest costs on additional borrowing in the short term, to enable them to make savings on future borrowing requirements. The council have received professional advice on their treasury management strategy from the council's treasury advisors, Sector, who have agreed that this is a sound financial approach, based on latest available estimates for the timing of interest rate rises. This should be kept under review to ensure that it continues to represent best value.

Refer Action Plan no. 2

Financial planning to support priority setting and cost reductions

52. The council has been particularly active in recent years in preparing financial plans and identifying savings in response to reduced local government settlements. A contingency strategy was developed to aid in preparing for the unprecedented financial pressures, while also meeting service delivery expectations. The strategy was based on a range of modernisation programmes and corporate initiatives designed to deliver efficiency savings over the period 2011/12 to 2013/14. For 2011/12 the agreed efficiency savings of £15.222 million were delivered in full, as per the council's 2011/12 Efficiency Statement submission to COSLA.
53. In addition, the council undertook its *Tough Choices* consultation process during 2010/11 to seek the views of stakeholders on future revenue budget options. This exercise sought to identify options for future savings of £45 million while continuing to deliver services. The information from that process has been used in identifying and prioritising revenue budget decisions for 2011/12 and beyond.
54. The council has formally agreed the requirement for integration of future financial strategy with corporate planning. On 11 October, 2012 the council approved new proposals for a major public consultation, *Delivering Better Outcomes*, to inform setting of priorities, and allocation of resources to have the greatest impact, whilst ensuring balanced budgets for the five year period to 2017/18. The consultation process will take place over the nine weeks from 11 October until 14 December with results to be reported in January, 2013. Consultation responses will be used by the council to

plan and prioritise services delivered. Specifically, its results will shape the development of the Community Plan, Single Outcome Agreement, Corporate Plan and Budgets.

Asset management

55. 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.
56. 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.
57. 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 2012/13 is now £2.2 million, reflecting a more realistic assessment of what can be achieved.

Workforce reduction

58. 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 are recoverable within two years. The scheme was introduced in 2010/11 in order to meet the council's estimate that it may need around 1,000 fewer staff over the medium term. As at 31 March 2012 469 staff had left the council at a total cost of £12.735 million, including £4.629 million payable to the Lothian Pension Fund in the form of strain on the fund and lump sum costs.

Partnership working

59. West Lothian Community Planning Partnership (CPP) was established in 1999 and consists of seventeen partner organisations. The current 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.
60. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission, assisted by Audit Scotland, has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships.
61. Based on the approach formulated, Audit Scotland will be carrying out CPP audit work for 2012/13 at three councils initially, these being Aberdeen City, North Ayrshire and Scottish Borders, and will continue to develop this area of scrutiny for application across all councils.

62. Partnership centres, including the £53m Civic Centre, have now been successfully established, providing services across health, social work, education and community facilities from one location, sharing services and costs, and making access easier for customers. Plans are being developed to extend this model of community facility.

Outlook

2012/13 budget

63. The council prepared the budget for 2012/13 based on the provisional funding allocations for individual local authorities received from Scottish Government in December, 2011. The 2012/13 revenue grant allocation for West Lothian Council was £321.514 million, representing an increase of £3.469 million (1.09%) over 2011/12. The balance of the council's recurring revenue funding for 2012/13 i.e. council tax, was estimated to be £68.275 million (2011/12; £68.106 million), giving a total for recurring funding of £389.789 million.
64. Recurring expenditure increases of £10.045 million, were included in the 2012/13 Revenue Budget approved on 11 January, 2012. When set against the increases in recurring funding noted above, a funding gap of £6.407 million was identified. The council approved a balanced budget incorporating budget reduction measures of £8.756 million. The resulting budget surplus of £2.349 million was allocated, along with additional one off funding of £1.069 million, to meet a range of time limited investments over the ensuing three year period.

2012/13 budget reporting

65. The 2012/13 Budget, Month 4 Monitoring Report (to 31 July 2012) predicts a net underspend of £2.575 million for the full year, principally from Education (£0.470 million) through savings in staffing budgets, and CHCP & Social Policy (£1.560 million) through expected underspends on Early Years and Early Intervention, Residential Schools and staffing. Good progress is being recorded on the budget reductions included in the 2012/13 budget, with all of these in the "green" category i.e. already achieved, or will be achieved. The Council has already agreed to earmark £0.600 million of the underspend for future years' Early Years and Early Intervention costs, and retain the balance to cover future costs arising from welfare reform, workforce planning and a modernisation programme.

Financial forecasts beyond 2012/13

66. Given likely expenditure pressures, and figures for grant funding for the next two years already received from Scottish Government, the council has identified a potential budget shortfall of around £34 million for the five year period 2013/14 to 2017/18. To help meet this, the council has already approved efficiency measures for 2013/14 of £5.8 million, leaving further efficiencies of around £28 million still to be found. Despite these projections, the Council still plans to deliver increasing expenditure on council services over the period.

Refer Action Plan no. 3

Significant financial risks

67. Major risks, uncertainties and potential cost pressures which may impact on achievement of budget targets include:

- The ongoing impact of the economic downturn on planning and building warrant income, council tax income, school stay-on rates and benefit claims
- Financial impact of changes resulting from Welfare Reform Act 2012
- Demographic and needs led pressures on Social Policy e.g. volume and cost of care packages
- Impact of new legislation, for instance waste strategy
- Energy, food and fuel inflation.

Governance and accountability

68. 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.
69. 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.
70. 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.
71. In this part of the report we comment on key areas of governance.

Corporate governance

Roles and relationships

72. Following the May 2012 elections, the council administration changed, from a Scottish National Party led coalition, with SNP holding 13 of the 32 council places, to a minority Scottish Labour Party administration, with Labour holding 16 of the 33 available places. In response to its increased population, Ward 8 - Bathgate returned an additional elected member.
73. Along with changes in direction and policy, the new political administration has introduced some changes in governance. The number of elected members on the Education Executive has been increased from 12 to 18, and the Audit Committee has been redesignated as the Audit and Governance Committee, with an expanded remit and increased powers.

Processes and committees

74. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance and hold management to account. The council's Policy Development and Scrutiny Panels (PDSPs) also allow existing policies and new proposals to be subject to consideration and discussion by members.

75. 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.
76. A key responsibility of the Audit and Governance 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 and Governance 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.
77. The Local Government (Scotland) Act 1973 established the role of the Chief Financial Officer (commonly referred to as the Section 95 Officer) as being the key officer responsible for the financial affairs of the council. The expectation is that the Chief Financial Officer will be professionally qualified, report directly to the Chief Executive and be a member of the Corporate Management Team, all of which is confirmed in relation to the role at West Lothian Council.
78. The section 95 officer was appointed Head of Finance and Estates in August 2010 as part of the service structure review where there have been a number of changes in key officers. As part of a structured and planned approach the council have made good progress on achieving sustainable budget reductions through a voluntary severance scheme, which has assisted the council in achieving a good reserves position.

Internal control

79. 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.
80. 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.
81. 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 i.e. Main accounting (including the financial ledger), Payroll and Treasury Management. Our review of their files confirmed that their work was of a high standard and that we could place reliance on their review of the adequacy of internal controls.
82. The results of our review of key controls were reported to the Audit and Governance Committee in September 2012. 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 Annual Governance Statement.

83. The council has strengthened its system of internal control by investing in new systems. A new asset register has been operational since April. In addition, a new accounts payable module of Cedar e5 has been operational from 1 April 2012.

ICT data handling and security

84. We carried out a review of the Information and Communication Technology (ICT) controls within West Lothian Council. The overall conclusion is that IT is a well-managed service. It is providing access to information systems and corporate resources such as email used by the whole organisation whilst continuing to expand on the skills and technology available for the benefit of West Lothian Council. A small number of action plan points were identified for implementation.

Prevention and detection of fraud and irregularities

85. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
86. 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. During 2011/12 internal audit conducted a review of the council's anti-fraud and corruption arrangements and concluded that control was effective. Internal audit recommended that the council's anti-fraud and corruption policy be reviewed and updated to reflect the provisions of the 2010 Bribery Act. This has been done.

NFI in Scotland

87. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012.
88. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
89. In March 2012 NFI notified the council of a further batch of around 200 matches to be investigated based on a match between council tax records and Electoral Registration. The council also, on an annual basis, uses Call Credit to check single person discounts and a further 1600 cases were reviewed prior to the NFI matches. As part of its investigation the council will also use the services of a credit reference agency called Experian, which has previously been able to provide additional information on financial activity by address.

90. The next round of NFI is due to commence in June 2012, with an expanded range of data sets and bodies. The council will submit their data in the autumn of 2012 with the output from the matches expected early in 2013.

Housing and council tax benefits performance audit

91. Audit Scotland undertook a follow-up risk assessment audit of housing and council tax benefit in June, 2012, and reported its findings in August, 2012. Good progress has been achieved to date in implementing the January 2010 action plan with ten actions out of fifteen completed, three in progress and two outstanding.
92. The council has demonstrated awareness of what constitutes an effective, efficient and secure benefits service and has delivered a consistently good level of performance in claims processing and in-year recovery of overpayments. The benefits service has also developed a comprehensive performance management framework, shown a strong commitment to delivering excellent customer service, and been involved in several joint-working initiatives.
93. Improvement is still required however in call handling, appeals, all debt recovery, analysis of intervention outcomes and some aspects of performance management. The council recognises that more work is required and has responded positively to 12 potential risks to continuous improvement and has agreed an action plan to tackle them.

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

94. 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.
95. 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

96. 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 minimised any impact on service delivery.
97. Arising out of the Audit Scotland's report "Roles and relationships: are you getting it right?" published in 2010, the Corporate Governance Working Group conducted a survey of elected members and officers on their understanding of their respective roles. The outcome was reported to the Partnership and Resources PDSP on 2 December 2011 with the main areas of improvement concerning the need for more training on the different roles of members and officers to assist the maintenance of good working relationships.

98. The council's immediate focus after the May 2012 council elections was to establish effective working relationships within the council and with local partners and to provide strong leadership and direction which will drive improvements in services, resulting in better outcomes for people and communities.
99. Induction training for members following the 3 May council elections included specific training on the roles of members and officers, and training on corporate governance as a whole. Similar training was also given to Heads of Service and their senior managers. As part of this process of clarifying roles within the council, the Council Executive has agreed role descriptions for the four statutory officers highlighted in Audit Scotland's report, i.e. the Head of Paid Service, Monitoring Officer, Chief Social Work Officer and Chief Financial Officer.

Complaints Handling Procedures

100. The council has developed a new complaints handling procedure, in consultation with the Scottish Public Services Ombudsman (SPSO), which was approved by the council in August and submitted to the SPSO by the agreed target date. The council are planning full implementation of the council's complaints handling procedure by March 2013.
101. The Scottish Government Councillors' Code of Conduct clarified the rules on registering and declaring interests, and the decision-making procedures for planning applications. After the 3 May 2012 council elections, comprehensive induction training was provided for all members. This covered all aspects of the Councillors' Code of Conduct, and in particular producing fresh registers of interest for all councillors elected on 3 May, and making oral declarations of interest at meetings. The Standards Commission gave assistance with delivering training sessions following the elections.
102. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Public Standards Commissioner (PSC) who determines whether, in his view, there has been a breach. If no evidence is found the matter is closed, however if the PSC concludes that there has been a breach of the Code, he reports to the Standards Commission which then decides whether to hold a hearing.
103. During 2011/12 six complaints were made to the council in respect of councillors with two being referred to the PSC in relation conduct at a meeting and key principles. In both cases the PSC found that there had been no breach of the Councillors' Code of Conduct. Firstly, the case did not merit investigation and secondly, was not upheld. The Chief Executive reviewed the other cases and found that no breach of the Councillor's Code of Conduct was found and so they were not upheld.

Outlook

104. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact

on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

105. The council has established a corporate Welfare Reform Working Group, chaired by the Head of Finance and Estates, and it has been agreed that quarterly update reports on welfare reform will be presented to the Partnership and Resources PDSP.
106. As part of our work on the 2012/13 audit, we will consider the council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.
107. The Police and Fire reform (Scotland) Act 2012 received royal assent on the 7 August 2012. As a result, responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies from 1 April 2013. It is important in this transition period that elected members continue to oversee effective governance.

Best Value, use of resources and performance

108. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
109. 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 specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
110. As part of their statutory responsibilities, the Auditor General and 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.
111. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
112. 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.
113. This section includes a commentary on the Best Value/ performance management arrangements within the Council. We also note any headline performance outcomes/ measures used by the Council and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

114. 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 the plan which was compiled in response to that report and, based on the continuous improvement demonstrated by the Council, there are no plans for a Best Value (BV2) review over the period 2011/12 to 2013/14. This position was noted and agreed by the Local Area Network (LAN) during its shared risk assessment process, and reported accordingly in the 2011/12 Assurance and Improvement Plan.

Performance management

115. West Lothian Council has robust self-evaluation arrangements in place. In 2004 the Council developed a framework for assessing performance and improvement called the West Lothian Assessment Model (WLAM). WLAM 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.
116. The WLAM framework is supported by the Covalent Performance Management System which monitors performance indicators, initiatives and risks across all of the Council's service units. The council has around 4,400 performance indicators on Covalent, 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.
117. 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 review of all public performance reporting (PPR) indicators is scheduled for October 2012.
118. The Improvement Strategy 2011-13 has been developed to sustain continuous improvement in services, covering the period from 2011-14. The new strategy maintains the same principles of the 2008 version (i.e. Performance Management; Self Assessment Consultation & Engagement; and External Assessment) promoting further integration of performance and improvement activity, while providing more practical guidance for users across the council.
119. As part of the Improvement Strategy 2011- 13, a full audit of PI's, across the council, took place to evaluate the quality, categorisation and management of the information contained in the system and assess the relevance of performance data on a service-by-service basis. Overall the number of PIs on Covalent reduced from over 5,000 to around 4,400. This was supported by Performance workshops targeted at Heads of Service and Service Managers in February/March 2012.
120. The Performance Committee conducts a continuous assessment of reviews of the units included in WLAM. Services report their performance to the committee on the key activities and are provided with recommendations on how to improve their performance information. Our review of council minutes suggests the Performance Committee operates well and there is evidence of effective scrutiny. External challenge is also provided by the annual Customer Service Excellence assessment that has a particular focus on customer results and indicators.
121. A new 'Corporate Plan' is being developed by officers, which will be underpinned by a 'Strategy and Activity Map', logically linking in a matrix council priorities, outcomes, strategies, activities, objectives, services, WLAM units, calibrated scores, current staffing, revenue budget (activity) and future revenue budget (activity). Furthermore the mapping exercise drills down from community planning, through the corporate plan into management and employee planning.
122. This mapping exercise has identified areas of strategy duplication and determined strategy gaps, which were not obvious from normal analysis of activities. This will enable services to be

streamlined and service gaps to be covered. As part of the process the council has developed a clear understanding of what forms a strategy across the council, ensuring consistency between services.

123. The council is also reducing working groups and boards, freeing up scarce management time, and is establishing ownership of strategies to ensure that there is a clear focus on accountability for council's activities. The council has also been consulting with the public over strategies to ensure that they have strong public buy in. It is also proposed that there will be regular monitoring of corporate plan and activity plan.

Community/user engagement

124. The Council launched a Citizen Led Inspection (CLI) programme during 2011. Citizen Inspectors, who are residents and volunteers from the West Lothian community evaluate the way services are delivered, assess if they are achieving the expected outcomes and encourage feedback on how they can be improved. Two pilot exercises were carried out on the 'winter maintenance programme' and 'pupil placements'.

125. The first of the CLI reports, on the winter maintenance programme 2010/11, rated the service as good in five areas and adequate in two. Feedback from the CLI team and the outcome of the council's winter service review was incorporated in the Council's planning for winter 2011/12. The second CLI report, on Pupil Placement, described the service as "professional, knowledgeable and customer focused", rating them as good in five of the seven categories considered, and adequate in the remaining two. The feedback provided has helped target areas for improvement in the future.

126. In February 2012 the Council's CLI programme won the Convention of Scottish Local Authority (CoSLA) "One to Watch" award and the Council have started the process of identifying services to be included in the inspection programme for 2012.

127. In March/April 2011, all service areas (excluding Education Planning) carried out a customer satisfaction survey with approximately 200 responses received (a 20.3% response rate). Results, which are published on the Council website, indicated that in all areas service improvement was achieved.

128. The Council will undertake a Public Consultation 'Delivering Better Outcomes', during the last quarter of 2012. Best Value duties establish the council's requirement to understand the needs of its different communities and involve them in setting priorities and shaping service. The public consultation will help to inform and set the priorities of West Lothian Council for the next planning period (2012-17) and will also help to shape the Single Outcome Agreement for the next three years. The consultation will particularly seek engagement with groups which have traditionally been under represented in response to consultations.

Overview of performance in 2011/12

West Lothian Council Performance measurement outcomes

129. Continuous improvement in performance can be seen in 2011/12, against approximately 1650 indicators and initiatives which support seven objectives in the council's corporate plan. These

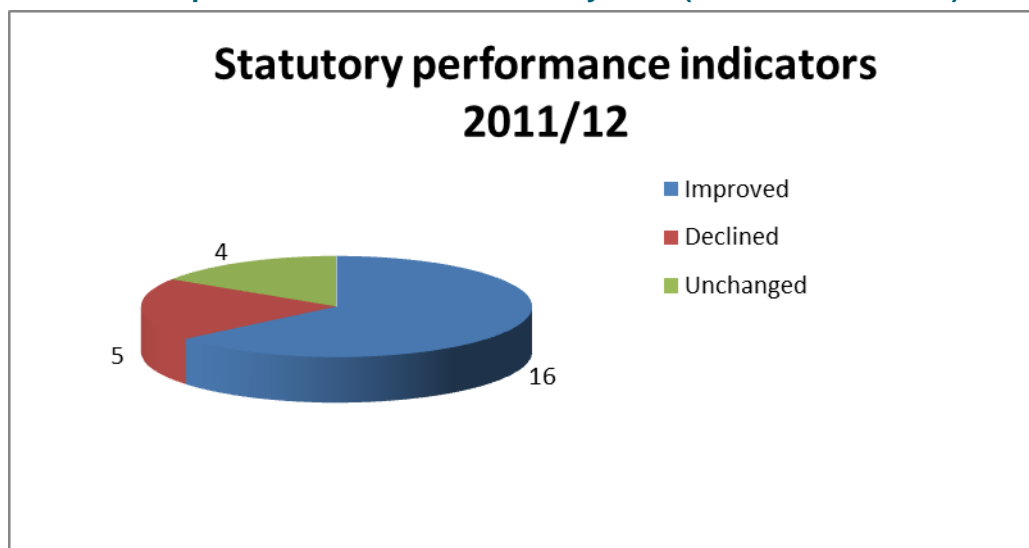
indicators form part of the council's public performance reporting framework. The achievement of 98% of targets is an improvement on last year when 97% of the targets were achieved. The targets which were not achieved during the year are not significant and do not affect the overall performance against any of the corporate priorities.

130. 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.

Statutory performance indicators

131. In 2011/12, a total of 25 Statutory Performance Indicators (SPIs) were required and these show that performance has continued to improve as illustrated in Exhibit 2 below.

Exhibit 2: Improvements demonstrated by SPIs (Total 25 indicators)



Source: [Client] SPI data returns

132. The improved indicators include sickness absence levels, payment performance and asset management. Sickness absence levels in particular have continued to improve significantly. A revised Policy & Procedure on Sickness Absence Management was introduced in May 2010 with further revisions approved by Council Executive in December 2011. The continued low absence levels have been achieved through a rigorous process of monitoring both the application of the policy and individual absence patterns.

133. The declines were observed in number of homecare hours provided, swimming pool attendance, library visits, housing repairs and rent voids. The significant decline in swimming pool attendance is due to the closure of Whitburn Swimming Pool in July 2011 due to fire damage. The replacement pool is estimated to open in financial year 2013/14 so next year's target will take account of this. We note that a change in the way information on homecare hours is collated means it is considered unlikely that this reflects a real dip in performance, although this will be monitored.

134. The indicator for "percentage of municipal waste collected that was composted or recycled" has been replaced with "The percentage of household waste collected that was composted or recycled" to ensure consistency with the Scottish Governments reporting waste and recycling targets.

Local performance reporting

135. In February 2011, Audit Scotland published a national report entitled '*Maintaining Scotland's Roads, a follow-up report*'. The report examined progress on implementing the recommendations contained in *Maintaining Scotland's Roads* published by the Accounts Commission in November 2004. The follow-up report found limited progress had been made to improve the maintenance of Scotland's roads since the original report was published.

136. In 2011-12, we carried out a targeted review to assess what progress had been made subsequent to the publication of the 2011 follow-up report. The review highlighted that there remains scope for improvement in a number of areas, mainly:

- addressing information gaps in the road asset management plan (RAMP)
- agreeing on a future long term investment strategy to address the significant backlog in repairs & maintenance and ensuring that information on the roads maintenance backlog is regularly reported to members or the public
- making better use of Society of Chief Officers of Transportation in Scotland (SCOTS) performance indicators; and
- ensuring that members receive timeous information on what is being done locally to address key issues and recommendations set out in Audit Scotland's national performance reports.

137. The formal report on this review is in the stage of being finalised with the council and will be issued shortly.

National performance reports

138. 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 3 below:

Exhibit 3: A selection of National performance reports 2011/12

- | | |
|---|---|
| <ul style="list-style-type: none">• Commissioning social care• The National Fraud Initiative in Scotland• An overview of local government in Scotland - challenges and change in 2012• Scotland's public finances: addressing the challenges | <ul style="list-style-type: none">• The role of community planning partnerships in economic development• Modernising the planning system |
|---|---|

Source: www.audit-scotland.gov.uk

Follow up on national reports

139. During 2011/12 intelligence was gathered in relation to the action taken by the Council and impact of the following Audit Scotland reports:

- *Scotland's public finances - addressing the challenges* - Report considered by the Council's Partnership and Resources PDSP in April 2012, including completed self assessment checklist. Detailed consideration of longer term financial planning was necessarily postponed until after finalisation of 2012/13 budget.
- *Transport for health and social care* - Report was not directly considered by any council committee. Findings were acknowledged by public transport management as being relevant and timely in relation to their ongoing efforts to provide co-ordinated transport services across council, NHS and other healthcare and social care transport providers.
- *Community health partnerships* - Report was considered in August 2011 by the West Lothian CHCP Board. Provided a detailed response to each recommendation as it was felt the report did not reflect the good practice and close working relationships established in West Lothian. Additional positive assurances and evidence of ongoing action were provided for each recommendation, and were included in a Lothian wide response. A completed self assessment checklist was submitted along with the responses. Council response noted that necessary arrangements were in place in all 20 finding areas, with 14 working well and 6 requiring improvement.
- *Modernising the planning system* - Report presented to the Development and Transport PDSP in December 2011. Recommendations relating to local government planning authorities were broadly supported, and had already been recognised as issues at WLC. The council continues to look at options for improving performance further and is well advance in addressing issues raised by the report. Any proposed changes to procedures to address the report findings will be progressed through the Development and Transport PDSP and thereafter to the Council Executive for approval.

140. The following Audit Scotland reports were presented to the Audit and Governance Committee in September 2012:

- *Using cost information to improve performance: are you getting it right?;* previously presented to Partnership and Resources PDSP in August 2012, where it was agreed that it would go to the Audit and Governance Committee with the results of the attached checklist circulated to elected members.
- *An overview of local government in Scotland - challenges and change in 2012;* previously presented to Partnership and Resources PDSP in April 2012, where it was agreed that it would go to the Audit and Governance Committee with the results of the attached checklist circulated to elected members.

Modernising the planning system

141. The Planning etc. (Scotland) Act 2006 (the 2006 Act) started a modernisation programme to change the way the whole planning system works and the way that everyone involved in planning engages with it. Modernisation aimed to make the system more efficient and effective; more encouraging and enabling of development; and easier to understand.

142. This performance audit aimed to assess whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. We evaluated the overall progress made

by public bodies in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications. The private sector also has a role to play in the planning system but we did not look at this.

143. Key messages from the report include:

- The Scottish Government, key agencies and planning authorities have made progress in modernising the planning system and are working better together. However, more progress is needed to realise the full potential of modernisation
- Despite modernisation and falling numbers of applications, few councils are performing well against timescales set for processing planning applications. However, time is only one indicator of performance and a more comprehensive performance measurement framework is needed. The Scottish Government and Heads of Planning Scotland are working together to develop a new framework for measuring and reporting performance
- The funding model for processing planning applications is becoming unsustainable. The gap between income and expenditure is widening, leading to greater dependence on already constrained council budgets.

144. The report made six recommendations relating to the Local Government planning authorities. These were broadly supported and had all, to varying degrees, already been recognised as issues by West Lothian Council. The Council continues to look at options for improving performance further and was already well advanced in addressing the issues raised by the report. Any proposed changes to procedures to address the report findings will be progressed via the Development & Transport PDSP and thereafter to the Council Executive for a decision.

The role of community planning partnerships in economic development

145. Community planning is the process by which councils and other public sector bodies work together, with local communities, the business and voluntary sectors, to plan and deliver better services and to improve the lives of people who live in Scotland. All councils have established a community planning partnership (CPP) to lead and manage community planning in their area. CPPs are not statutory committees of a council, or public bodies in their own right. They do not directly employ staff or deliver public services.

146. The overall aim of our audit was to assess whether CPPs have made a difference to local communities. As CPPs cover a wide range of activity, we focused our audit work on examining CPPs' contribution to economic development. Using this specific focus allowed us to look in more depth at how CPPs operate in practice in one policy area. While the findings highlighted in our report relate primarily to CPPs' role in economic development, there are some messages which can be applied more generally to all CPP activity.

147. Key messages from the report include:

- Economic development covers a wide range of activity from local training initiatives to major inward investment. CPPs have an important role in planning and coordinating improvements to local economies. Other aspects of economic development are better planned at a national or

regional level. This means a more joined-up approach is needed to deliver the Scottish Government's overall purpose of achieving sustainable economic growth

- The economic development component of SOAs and local economic development strategies need to be better aligned and based on good information about local economies. They should include outcomes and indicators that enable progress to be assessed and managed. SOAs and economic development strategies should also be developed in close consultation with local businesses. While there are examples of CPPs performing well in these areas, this is not consistent across the country
- CPPs have supported successful local economic developments. However, the reduction in ring-fenced funding and the current economic climate increase the need for CPPs to improve their understanding of the costs of delivering agreed outcomes and what this means for individual partners' budgets. The introduction of SOAs led to improvements in how CPPs monitor and report performance. However, partners need to share responsibility for managing performance against the SOAs
- Existing accountability arrangements should be used to hold all statutory partners to account for their contribution to delivering SOAs. However, the tensions between national and local priorities mean this does not always happen in practice. These tensions, and the differences in accountability, mean there are limits to the extent to which CPPs can hold partners to account for their contribution to agreed outcomes or be held to account themselves for delivery of their SOA.

148. West Lothian Community Planning Partnership Board is supported by a Strategic Performance Group, and by a Community Planning Working Group. Feeding into these groups are a Community Safety Forum, the CHCP sub-committee and an Economic Partnership Forum. Matters of economic development are discussed and progressed in this structure within the Economic Partnership Forum, which has three primary remits; (1) Business and Enterprise, (2) Learning, skills and employability, and (3) Communities, connection and location.

149. The report was reviewed by the Economic Partnership Forum, and an update on its findings was presented to the council's Development and Transport PDSP in April 2012. Whilst West Lothian was not one of the council areas reviewed in detail, the report highlighted its strong economic development services, which appeared to be better developed than in most other parts of Scotland. The PDSP were satisfied that the recommendations of the report would be addressed by building on current practice.

Progress against audit risks identified in the SRA

150. The Local Area Network of scrutiny partners conducted a Shared Risk Assessment (SRA) which reviewed progress in the attainment of the objectives in the Single Outcome Agreement. This assisted in the identification of future audit and scrutiny activity. In the Assurance and Improvement Plan (AIP) update 2012-15 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

151. The AIP update noted that this strategic priority remains an area of uncertainty. There has been a significant improvement in performance but a number of health performance indicators are still below the national average, although satisfaction with local health and social services is good. The council is continuing to develop its Telecare programme supporting people to remain independent in their own homes.

Making the economy stronger

152. The AIP update noted that this strategic priority remains an area of uncertainty. Given the current economic climate, the council is performing relatively well and, in some cases, better than the national average, such as in relation to employment rates and business survival rates. However the % of householders feeling that they are coping well financially, and that have savings, is below the national average. Wage level indicators improved significantly; however, they are still lower than the Scottish average.

Performance management and improvement

153. This was previously flagged as an area for monitoring, however the AIP update noted that there are no longer any scrutiny risks identified in this area. New performance management and reporting arrangements introduced during 2010/11 have functioned well. Service area management plans contain strong links between performance targets/corporate planning priorities/single outcome agreement. In future, strategy mapping will be used to ensure that performance indicators fully reflect service priorities. As mentioned in paragraph 116, an improvement strategy 2011/13 has also been developed.

Financial position

154. Our AIP update noted that no scrutiny risks were identified with the council's financial management processes. The Council takes a proactive approach to financial planning and identifying savings; a contingency strategy is in place including staff reduction proposals.

155. 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. The council has identified a potential budget shortfall of around £34 million for the five year period 2013/14 to 2017/18. £5.8 million of efficiency measures have been identified for 2013/14, further efficiencies of around £28m still to be found.

Customer and support services - Homelessness

156. Our AIP update noted no significant concerns, however, clarification is required on outcomes in relation to meeting 2012 homelessness requirements. This will be addressed by self-assessment to be arranged by Scottish Housing Regulator.

Outlook

157. There are currently no plans for any best value work in West Lothian Council over the period 2011/12 to 2013/14. However, the Assurance and Inspection Plan does include activity by other scrutiny bodies over the next three years including:
- Scottish Housing Regulator – Homelessness Self-Assessment –with onsite follow up
 - Education Scotland – Validated Self Evaluation.
158. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.
159. In April 2011, the Equality Act 2010 introduced a new public sector ‘General Duty’ which encourages equality to be mainstreamed into public bodies’ core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of ‘Specific Duties’ which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the ‘General Duty,’ including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Council in implementing these requirements as part our 2012/13 audit.
160. A new ‘Corporate Plan’ is being developed, which will be underpinned by a ‘Strategy and Activity Map’ logically linking council priorities, outcomes, strategies, performance and financial activity budgets.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of adequacy of internal audit	24 November 2011	6 December 2011
Annual Audit Plan	14 February 2012	21 February 2012
Shared Risk Assessment/Assurance and Improvement Plan	18 April 2012	29 May 2012
Internal controls management letter	11 July 2012	11 September 2012
Maintaining Scotland's roads - follow-up review	10 September 2012 (draft)	TBC
Report on financial statements to those charged with governance	4 September 2012	11 September 2012
Audit opinion on the 2011/12 financial statements	4 September 2012	11 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	3 October 2012	N/A
Annual Report on the 2011/12 audit	16 October 2012	TBC

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	44	<p>Financial Performance Reporting</p> <p>The explanatory foreword to the financial statements does not include key financial ratios, which is considered to be best practice in reporting financial performance.</p> <p>Risk - The council may fail to clearly demonstrate its financial performance to readers of the financial statements.</p>	Will consider inclusion of appropriate financial ratios as a separate statement, outwith the foreword, in 2012/13 financial statements.	Head of Finance and Estates	June 2013
2	51	<p>Borrowing</p> <p>The council are incurring interest costs on additional borrowing in the short term to enable them to make savings on future borrowing requirements.</p> <p>Risk - The forecasted interest rate rises may not occur and the council has incurred unnecessary expenditure.</p>	Full review reports to council on an ongoing basis.	Head of Finance and Estates	Ongoing
3	66	<p>Financial Sustainability</p> <p>The council has identified a potential budget shortfall of £34 million for the five year period 2013/14 to 2017/18, based on provisional Scottish Government financial settlements. These</p>	<i>Delivering Better Outcomes</i> consultation, followed by development of a robust corporate plan and medium term financial strategy.	Head of Finance and Estates	January 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>projections increase the need for the council to achieve further efficiencies to continue with planned activity levels.</p> <p>Risk - The council may be unable to meet its expenditure budget targets.</p>			