

West Lothian Council

Annual report on the 2012/13 audit



Prepared for Members of West Lothian Council and the Controller of Audit
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key messages

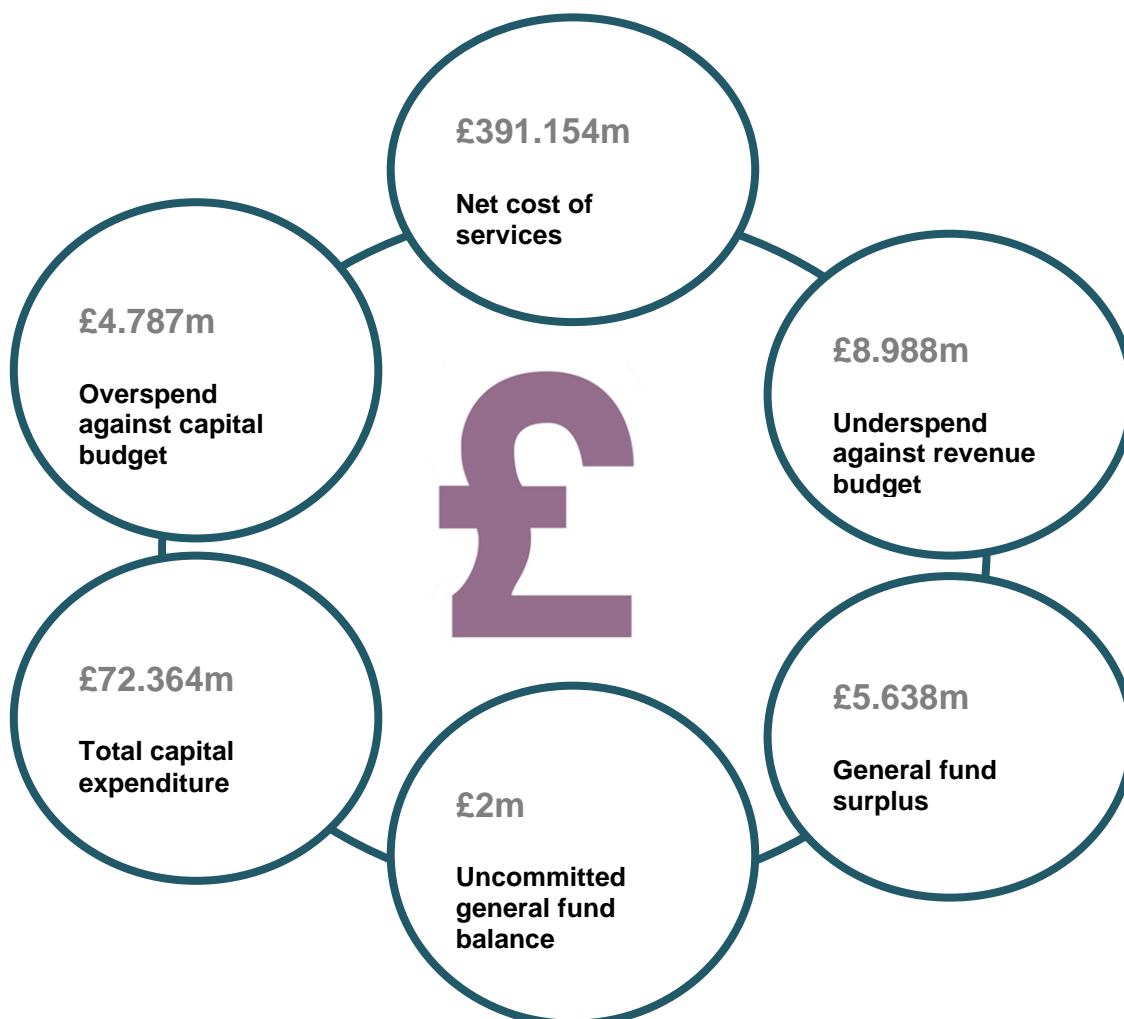
2012/13 Key Facts

This report summarises the findings from our 2012/13 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

Financial Statements

We have given an unqualified opinion on the financial statements of the Council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date. 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 2013.

Financial position



The variance against capital budget is as a result of accelerated spend in the housing (£2.522 million) and general services (£2.265 million) capital programmes on future years projects (refer to Capital Investment and Performance section). The £8.988 million underspend has been fully allocated to time limited investment.

Governance and accountability

Overall the Council's governance arrangements in 2012/13 were adequate. No material weaknesses in the accounting and internal control systems were identified during the audit although we agreed with management some areas for improvement in our internal controls management letter.

New appointments to committees were approved by the Council in May 2012 after the elections, as a result of the change from a Scottish National Party led coalition to a minority Scottish Labour Party administration. The Audit Committee was re-designated as the Audit and Governance Committee and was given an expanded remit and increased powers.

Performance

The Council has robust performance monitoring and self-evaluation arrangements in place. They include the West Lothian Assessment Model (WLAM), which is a corporate tool for self assessment and has been adopted by other councils. Overall performance has remained high with 98% of the Council's indicators being achieved with strong performance across all objectives.

Outlook

Scotland's public bodies continue to face increasing demand and cost pressure for their services in the foreseeable 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 had identified a potential budget shortfall of approximately £34 million, and difficult decisions are required to be made about focussing resources towards service delivery priorities; to this end the Council carried out a process of consultation and engagement with members of the public, employees and key stakeholders and this has informed the Corporate Plan for 2013 to 2017. The Council is using the results of this "Delivering Better Outcomes" consultation as part of the development of its financial strategy for the three years 2015/16 to 2017/18.

The Council's Corporate Plan for 2013 to 2017, which is underpinned by a 'Strategy and Activity Map', provides a clear link across Council priorities, outcomes, strategies, activities, objectives, services, WLAM units, calibrated scores, current staffing and revenue budget (activity). Furthermore this mapping exercise makes linkages down from community planning, through the corporate plan into management and employee planning.

In addition to the changes noted above, there is also the public reform agenda, particularly Welfare Reform, which is resulting in the biggest shake up in the UK welfare system in 60 years. There are early indications that welfare reform is resulting in increased rent arrears while research groups such as the Rowntree Foundation are warning of increasing poverty and homelessness amongst the poorer sections of society. We are already seeing increasing levels of rent arrears as a direct impact of welfare reform.

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of West Lothian Council. 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 the Audit and Governance 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 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 Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration 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 2012/13 give a true and fair view of the state of the affairs of the Council and its group as at 31 March 2013 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 2013. This was due to the requirement to recognise decreases in property asset valuations of £10.735 million and £6.382 million in the 2010/11 and 2012/13 financial statements respectively. If the downward revaluations 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 and Group Accounts

13. The Council has prepared the financial statements on the assumption that both the Council and its group can continue to operate as a going concern in future.
14. Local authorities are required to prepare group accounts in addition to their own Council's accounts where they have a material interest in other organisations. For the purpose of consolidation and incorporation within the group accounts the Council has four associates (West Lothian Leisure Ltd, Lothian and Borders Police, Fire and Rescue and Valuation Joint Boards) and a joint venture, West Lothian Recycling Ltd.
15. The overall effect of inclusion of all of the Council's associates on the group balance sheet is to reduce both reserves and net assets by £425.4 million. The group balance sheet as at 31 March 2013 discloses an excess of assets over liabilities of £270 million (2011/12 £388 million) due to the accrual of pension liabilities in accordance with International Accounting Standards.
16. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The group balance sheet position will improve, in future years, as the Council will no longer be required to accrue the pension liabilities of Police and Fire into its group accounts.

Annual Governance Statement

17. As part of our annual audit we review the disclosures made in the Annual Governance Statement, included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
18. We are satisfied that the disclosures in the Annual Governance Statement are in line with the guidance contained in the CIPFA publication Delivering Good Governance in Local Government. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Annual Governance Statement.
19. The Annual Governance Statement refers in outline to a number of areas where improvements are being progressed:
 - Identifying actions to further improve levels of compliance with the Governance code.
 - Better awareness of governance issues through further training of the Governance Champions to improve consistency of approach to available evidence.
 - Further refinement of the Code's standards to align them to the way the Council operates.

Remuneration Report

20. We are satisfied that the Remuneration Report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant Council officers and elected members under a number of categories including pension benefits.

Accounting Issues

21. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). We are satisfied that the Council prepared the 2012/13 financial statements in accordance with the 2012/13 Code with the exception of the inventories valuation methodology. Although this is a departure from the 2012/13 Code, it does not have a material impact on the values in the financial statements.

Accounts Submission

22. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. 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 2013. The financial statements are now available for presentation to members and for publication.

Presentational and Monetary Adjustments to the Unaudited Accounts

23. A small number of presentational and monetary adjustments were identified within the unaudited financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. As is normal practice the effect of the monetary adjustments were reported to the Head of Finance and Estates and included within our *ISA 260 – Report to those charged with governance on the 2012/13 audit* submitted to the Audit and Governance Committee on the 25 September 2013. As a result there were no unadjusted misstatements requiring to be brought to the attention of the Audit and Governance Committee.

Equal Pay

24. At 31 March 2013, the Council had a small provision of £0.018 million in respect of equal pay compensation claims outstanding at that date. We are aware that these outstanding compensation claims were settled in May 2013 and as a result, there are no quantifiable outstanding equal pay compensation claims against the Council. However, in June 2013 the Supreme Court ruled against Dumfries and Galloway Council in favour of Unison, the local authority workers union, which argued that the terms and conditions of female staff should be in line with male manual workers. The decision of the Supreme Court may have implications for all local authorities in Scotland, including West Lothian Council.
25. The Council acknowledges the contingent liabilities arising from the case, but has not created an additional provision due to the degree of uncertainty surrounding settlement levels. The Council has disclosed an un-quantified contingent liability in the financial statements in respect of future unknown equal pay claims with specific reference to the Supreme Court ruling.

Prior Year Restatement

26. During 2011/12 the Scottish Government (SG) undertook a review of the Local Financial Return (LFR) template which local authorities submit annually to the SG. As a result of the SG review, during 2012/13 finance staff undertook a comprehensive review of the Council's SeRCOP analysis.
27. The outcome of this internal review led to the removal of internal recharging amounts totalling £42.661 million from 2011/12 gross income and expenditure to ensure compliance with revised SG guidance and avoid overstatement of both income and expenditure. As both income and expenditure have reduced by the same amount, there has been no impact on the 2011/12 Net Cost of General Fund Services reported in the Comprehensive Income & Expenditure Statement.
28. We are of the view that the Council has been proactive in responding to the revised SG guidance and has made appropriate disclosures within the financial statements which reflect the outcome of the review carried out by finance staff.

Pension Costs

29. 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 2013 provided by the scheme's actuaries increased the council's share of those net liabilities from £135.7 million last year to £164.5 million this year, reflecting general unfavourable movements in investment markets.
30. However, it is important to note that this additional liability does not have any immediate impact on the Council's financing requirements. The Council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

Whole of Government Accounts

31. 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 August 2013. We anticipate having the consolidated pack audited and submitted before the deadline of 26 October 2013.

Trust funds

32. West Lothian Council has 39 charitable trusts and mortifications, of which 17 are registered charitable trusts. 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 registered charitable 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.

33. OSCR's feedback on the 2011/12 submissions from each local authority allocates councils to one of four categories, fully compliant (two councils), above average (21 councils), average (2 councils) and below average (4 councils). West Lothian Council's submission fell into the "below average" category and the Council has reviewed arrangements to ensure full compliance in 2012/13.

Carbon Trading

34. 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.
35. The 2012/13 provision was calculated as £0.415 million (£0.374 million in 2011/12) based on a baseline annual carbon footprint of 35,697 tonnes CO₂ (31,173 tonnes in 2011/12).

Asset Decommissioning Costs

36. In April 2013, Scottish Coal Company Limited (SCCL) which operated a number of open cast mine sites across Scotland went into liquidation. On 11 July 2013, the Court of Session in Edinburgh ruled that the liquidated company could abandon the sites and therefore was not liable for the cost of restoring these sites to their original condition. As a result of this ruling, potential costs may eventually fall to the relevant public sector bodies including Scottish Environmental Protection Agency, Scottish Natural Heritage, East Ayrshire Council and South Lanarkshire Council. The estimated cost of restoration of the sites at September 2013 was £161 million.
37. West Lothian Council have confirmed that two private limited companies operate under licences within the West Lothian boundary in relation to quarry sites. The land being quarried is not owned by the Council and it has no property interest in it. We have confirmed that West Lothian Council requires developers in various situations to obtain performance, restoration or guarantee bonds which are regularly monitored to ensure they are appropriate. We would therefore encourage the Council to continue to review these methods of securing performance and restoration in light of the recent Court of Session decision.

Outlook

38. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on 17 charities.

39. The Assistant Auditor General (AAG) wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of their relevant charities. This is likely to result in an increase in audit costs and will form part of the audit fee discussions as part of the 2013/14 audit planning process.
40. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation may want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils should consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR.
41. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an Audit Committee or similar to approve the accounts of charities by 30 September 2014.

Financial position

42. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
43. 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.
44. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial Results

45. In 2012/13, as recorded in the comprehensive income and expenditure statement, the Council spent £576.664 million on the provision of public services, resulting in an accounting deficit of £18.867 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Application of these adjustments resulted in an increase in the general fund balance of £5.638 million.

Budgetary Control

46. The 2012/13 outturn report shows that net service expenditure across the Council was £391.154 million, representing an underspend of £8.988 million (2.3%) against the budget.
47. Key factors contributing to the overall underspend were as follows:
 - Education, planning and area services reported a total net underspend of £2.250 million, £0.858 million of which relates mainly to savings in education staffing budgets including a reassessment of average salaries. The remaining underspend of £1.392 million within planning and economic development was mainly as a result of additional funding through Scottish Government grant re-derminations received in March 2013 to fund investment linked to employability and economic regeneration. This additional funding has been earmarked within the general fund for use in 2013/14.
 - Community health and social policy underspend was £1.632 million, which relates to an underspend in the Early Years and Early Intervention Change Fund earmarked against future year spend in the Fund. In addition, underspends were achieved in residential school costs through a reduction in client numbers and there was also a net saving in staff costs.

- Corporate, operational and housing services reported an underspend of £0.343 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 £3.536 million was achieved in chief executive, finance and estates services, and joint boards, due to property cost savings, including utility costs, and the return of £1.116 million of Police and Fire Board reserves to constituent councils.

Financial Position

48. The general fund recorded a net surplus of £5.638 million for 2012/13. This is comprised of a service underspend of £9.026 million, an overspend of £0.296 million on non-service expenditure, an over-recovery of income of £0.258 million and movement in reserves and accounting entries of £3.350 million. The net service underspend of £8.988 million has been approved for time limited investment. The general fund balance has increased to £25.212 million as at 31 March 2013. This balance is made up of earmarked commitments of £23.212 million leaving an uncommitted general fund balance of £2 million, which is the Council's approved minimum uncommitted general fund balance.
49. Earmarked balances represent 92.1% (2011/12: 83.2%) of the general fund balance. These commitments on the fund comprise mainly of amounts designated to meet costs associated with modernisation (£4.371 million) and specific time limited development projects (£14.245 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.
50. Exhibit 1 shows the balances in the Council's funds at 31 March 2013 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 Council's funds at 31 March 2013 totalled £112.745 million, an increase of £14.286 million on the previous year.
51. The Council has continued to defer utilising its capital fund, in order to take advantage of low external borrowing rates (see Treasury Management section below). The 2012/13 Treasury Management Strategy originally proposed the use of approximately £12 million of the capital fund in the general services capital programme. 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.

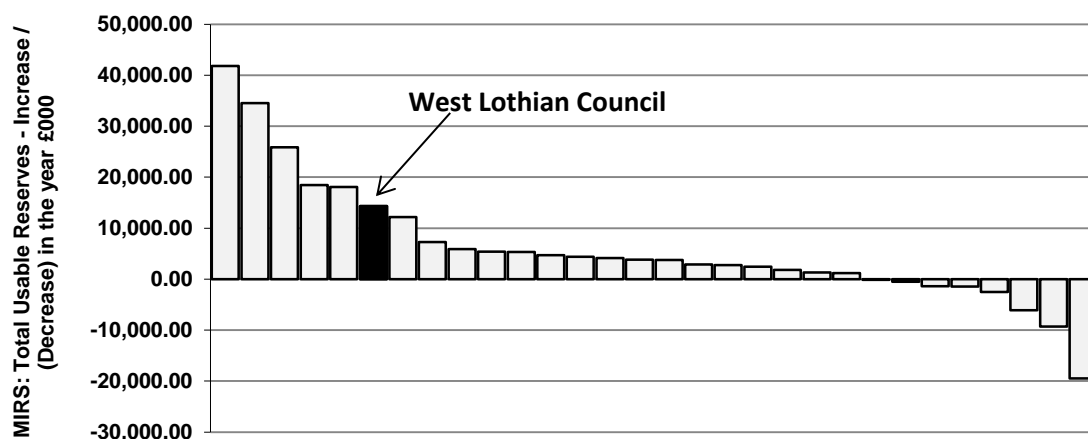
Exhibit 1: Reserves

Description	31 March 2012 £ million	31 March 2013 £ million
General Fund	19.574	25.212
Housing Revenue Account	0.926	0.926
Capital Fund	68.108	74.338
Insurance Fund	9.851	12.269
Total	98.459	112.745

Source: West Lothian Council 2012/13 financial statements

- 52. 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 presented in chart form below, showing where the Council lies in relation to other councils in Scotland.
- 53. The overall increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 2 below. West Lothian Council's usable reserves have increased by 14.5% on the previous year and this upward movement in usable reserves is a pattern being seen by the majority of Scottish local authorities as reported in their unaudited accounts. This indicates a stable financial position going forward into 2013/14. The balances held by the Council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.

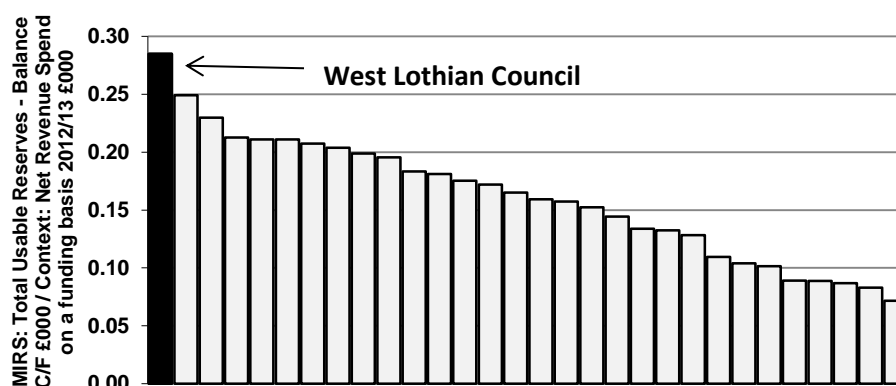
Exhibit 2: Movement in total usable reserves including earmarked, uncommitted and capital funds



Source: Local Authority Un-audited Accounts

54. Exhibit 3 below presents the Council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The graph shows that West Lothian Council is at the top of this financial ratio and demonstrates the Council's stable overall financial position, including a substantial capital fund. We have noted above 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.

Exhibit 3: Total usable reserves carried forward as a proportion of net value



Source: Local Authority Un-audited Accounts

Capital investment and performance 2012/13.

55. The 2012/13 financial statements detail capital expenditure of £72.364 million, split between the housing programme and the general services programmes:
- The housing programme final outturn of £41.750 million includes new council house building of £17.214 million and works undertaken to meet the Scottish Housing Quality Standard (SHQS) of £15.655 million. The overall outturn position was an accelerated spend of £2.522 million due to additional SHQS work and accelerated environmental improvement work.
 - The general services programme final outturn of £30.614 million includes investment on property assets, open space, roads and related assets and ICT projects. There was a variance of £2.265 million overall, due to accelerated spend on projects from future years.
56. The Council realised capital receipts of £5.982 million (£5.084 million in 2011/12), £1.660 million of which arose from Council house sales. The Council has also benefited from the receipt of £5.4 million of 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.
57. Exhibit 4 below shows the sources of finance for capital expenditure for the years 2010/11 to 2012/13. The table shows the continuing upward trend in funding from disposals. There has been a significant increase in government funding in recent years, which has been mainly

used for the new Council house building programme and works undertaken to meet the SHQS as mentioned above. The recent increases in government grant funding cannot be relied upon to continue as the Scottish Government faces the challenges of reductions in its own budget.

Exhibit 4: Sources of finance for capital expenditure 2010/11 – 2012/13

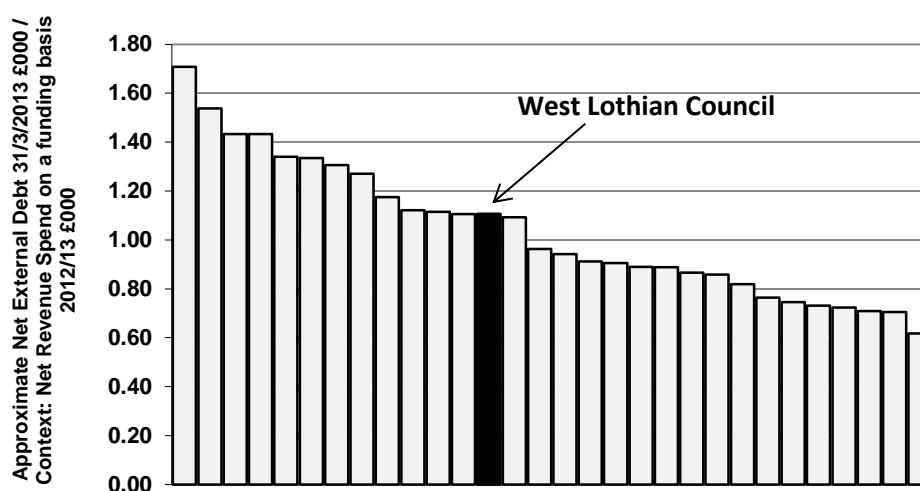
Description	2010/11 £ million	2011/12 £ million	2012/13 £ million
Capital receipts from asset sales	4.185	5.084	5.982
Capital financed from current revenue	10.553	14.737	13.487
Capital grants received	9.103	22.017	15.735
Other capital contributions received	3.269	3.618	2.520
Borrowing from loans fund	39.881	31.803	34.640
Transfer from repair and renewal fund	-	0.066	-
Total	66.991	77.325	72.364

Source: West Lothian Council 2011/12 and 2012/13 financial statements

Treasury management

58. Exhibit 5 below shows the Council to be reasonably representative of councils nationally. Given the level of capital fund being carried forward, the Council is in a favourable position of being able to reduce future borrowing levels in response to any future interest rate rises. The Council's level of borrowing in 2012/13 has increased slightly and at 31 March 2013 the Council had total borrowings of £478.391 million (2011/12 £470.832 million).

Exhibit 5: Net external debt as a proportion of net revenue spend



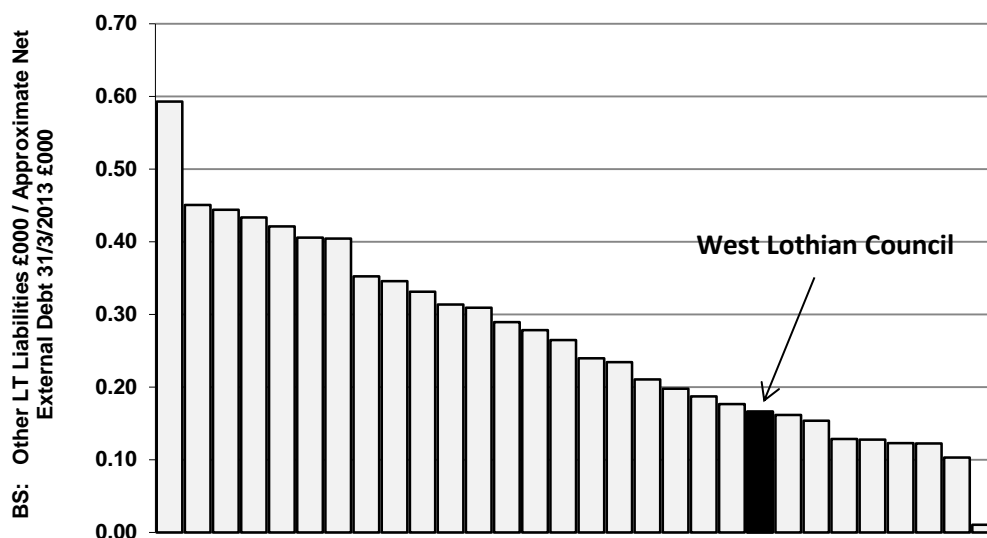
Source: Local Authority Un-audited Accounts

59. 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 March 2015. Advice received by the Council is that Public Works Loan Board (PWL) 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.
60. 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 its 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 to Action Point No. 1

61. The Council's exposure to other long term liabilities, including PFI, is not as high as many other Scottish local authorities as illustrated in Exhibit 6 below. West Lothian Council has two schools projects which have been delivered under PFI contracts. Under IFRS requirements, the Council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.

Exhibit 6 Long term PFI / PPP and lease debt as a proportion of net external debt



Source: Local Authority Un-audited Accounts

- 62. Going forward the Council approved a five year general capital programme for 2013/14 to 2017/18 with around £200 million of investment. This will be principally funded by borrowing, government grants and use of the Council’s capital fund. Major investment is aligned to the Council’s corporate Asset Management Strategy with significant investments in schools, Council operational property and roads and infrastructure.
- 63. In addition, the Council approved the housing capital programme for 2013/14 to 2017/18 with almost £197 million of investment. The majority of this investment is in relation to new build council houses and improvements to existing council houses in order to comply with SHQS.
- 64. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code’s objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Finance and Estates reviews the capital financing requirement on an annual basis and reports to the Council on a series of prudential indicators as recommended by the Prudential Code. The performance against these indicators is reported to Council and to the public via the financial statements. This helps the Council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
- 65. In the continuing period of economic instability interest rates on investments remain low, the Council received only £2.509 million in investment income this year (2011/12 £2.505 million). The situation is unlikely to change in the near future.

Financial planning to support priority setting and cost reductions

66. During 2012 the Council had identified a potential budget shortfall of around £34 million for the five year period 2013/14 to 2017/18 which informed the proposed approach to the Council's medium term financial strategy for the five years 2013/14 to 2017/18. Whilst we acknowledge the good practice followed to identify the budget shortfall, the shortfall is based on assumptions and projections that may fluctuate, perhaps significantly, as events unfold over the period 2013/14 to 2017/18 or if planned efficiencies are not achieved.

Refer to Action Point No. 2

Asset Management

67. The Council has in place a strategic approach to capital planning, which is integrated with asset management planning. Progress against the corporate Asset Management Strategy is reported annually by asset lead officers to elected members through the relevant policy development and scrutiny panels. The corporate Asset Management Strategy for 2013/14 to 2017/18 was approved by the Council in January 2013.

Workforce Reduction

68. 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 2011/12 after the Council had estimated that it may need around 1,000 fewer staff over the medium term. As at 31 March 2013, 495 staff had left the Council at a total cost of £13.997 million paid from the Modernisation Fund, which was set up in 2010/11 to assist in funding potential staff termination costs.

Partnership Working

69. The Scottish Government and Convention of Scottish Local Authorities reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond the challenges of reducing public finances while demand for services increases.
70. 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.
71. Partnership centres, including the £53 million 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.

72. Audit Scotland carried out CPP audit work in 2012/13 at three councils, Aberdeen City, North Ayrshire and Scottish Borders. The resulting Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland.
73. West Lothian Council has agreed to be the subject of a CPP audit during 2013/14, along with four other Scottish local authorities, which may assist the Council in determining whether some of the initiatives being implemented in West Lothian are delivering improved outcomes.

Outlook

2013/14 Budget and Beyond

74. The Council agreed a revenue budget for 2013/14 and 2014/15 in January 2014. In setting its budget for these two years the Council agreed to freeze its council tax. The net revenue expenditure budget set for 2013/14 and 2014/15 of £362.185 million and £362.190 million respectively, shows a decrease of 8% (£31.081 million) on that set for 2012/13 (£393.266 million). This decrease relates to the fact that Police and Fire joint boards are excluded from 2013/14 onwards.
75. The revenue budget for 2013/14 and 2014/15 identified funding gaps of £7.699 million and £7.155 million respectively. Savings proposals were produced for 2013/14 and 2014/15 to address these funding gaps. In June 2013, a report to the Council Executive from the Head of Finance and Estates provided an update on the progress of efficiency savings projects and highlighted that £6.243 million of the efficiency savings required in 2013/14 had been achieved or would be achieved with no issues anticipated. The remaining £1.426 million of required efficiency savings has been assessed as achievable with further ongoing review being required to ensure they are delivered.
76. The Council has established a Modernisation Board, which is chaired by the Chief Executive, the remit of which is to control delivery of each of the efficiency savings projects for 2013/14 and 2014/15 (see Local Performance Reporting section).
77. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the Eurozone and Scotland's changing population demographic. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the Council.

Refer to Action Point No. 3

Governance and Accountability

78. 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.
79. 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, in monitoring these arrangements.
80. 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.
81. In this part of the report we comment on key areas of governance.

Corporate Governance

Processes and Committees

82. 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 (PDSP) also allow existing policies and new proposals to be subject to consideration and discussion by members.
83. 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.
84. 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.

Internal Control

85. 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.
86. 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.
87. 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.
88. The results of our review of key controls were reported to the Audit and Governance Committee in May 2013. 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.
89. The Council has strengthened its system of internal control by investing in new systems. A new asset register has been operational since April 2013. In addition, a new accounts payable module of Cedar e5 has been operational from 1 April 2012.
90. Also, the Audit and Risk Management Annual Report presented by the Audit and Risk Manager to the Audit and Governance Committee in May 2013 concluded that substantial assurance can be placed on the Council's overall framework of controls for the year to 31 March 2013.

ICT Data Handling and Security

91. In our Annual Audit Plan, we proposed to carry out a review of the Council's business continuity provision, which is facilitated by the Audit and Risk Manager. However, work on the project did not progress as scheduled as it took the Council longer than anticipated to identify the supporting information e.g. that required IT (Information Technology) applications were accurate and there were realistic IT recovery times in place. The testing phase of the project is now underway and involves creating test plans and conducting the testing. We plan to examine this work during the 2013/14 audit.
92. In addition, we also planned to conduct the Your Business@ Risk Survey (YB@R) as part of this year's audit work. YB@R provides a snapshot of whether the Council's information governance policies are achieving their objectives. It can also aid the avoidance of data loss by highlighting the procedural, cultural and ethical risks that exist within the Council. The Council's ICT Programme Board has agreed to run the survey but has requested that the survey take place after refresher training for staff on online training titles has been concluded.

The first refreshed title on information security is available and refresh training is underway. However, the remaining three refreshed titles, including information management, are in development. Consequently, we have agreed to schedule the survey as part of our 2013/14 audit work.

Public Services Network

93. The Council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the Council shares benefit information with the Department of Works and Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's' Hearings.
94. The Government Secure Intranet (GSI) is the mechanism that allows the Council to share data and services. The Council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
95. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
96. The Council's initial application was not successful and it continues to work with Cabinet Office assessors to progress the transition to PSN. As there is a risk of interruption to the existing data-sharing arrangements, we suggest that the Council considers business continuity arrangements.

Refer to Action Point No. 4

Housing and Council Tax Benefits Performance Audit

97. During 2012/13, the Council's benefit system (Civica) was replaced with a new system (Open Revenues), which impacted upon the time taken to process benefit claims. This is reflected in the 2012/13 Quarter 4 benefits performance information from Department for Work and Pensions (DWP) regarding the speed of processing new claims and changes of circumstance at West Lothian Council. The DWP performance information shows the Council as taking 39 days to process new claims and 21 days to process changes when the Scottish average was 28 days and 10 days respectively.
98. This level of performance can be attributed to the fact that there was three weeks of downtime when converting from the previous system to the new system during which a processing backlog was created. In addition, six benefits processing staff and a team leader were seconded to the Scottish Welfare Fund team in March 2013, which exacerbated the processing backlog.
99. In July 2013, the Council employed eight new benefits processing staff who have been working to reduce the processing backlog. Benefits processing performance figures received

in August 2013, show 20 days for processing new claims and 16 days for changes in circumstance which demonstrates an improvement in performance.

Prevention and Detection of Fraud and Irregularities

100. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that 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 2012 the Council's anti-fraud and corruption policy was reviewed and updated to reflect the provisions of the 2010 Bribery Act.
101. The Council's Audit and Risk Management Unit has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
102. Overall, we have concluded that the Council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

103. West Lothian Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
104. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
105. NFI is co-ordinated by the Audit and Risk Management Unit, although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.
106. The current NFI data exercise identified 4,159 data matches of which 1,273 are considered high quality and recommended for investigation. Good progress has been made in the investigation of these data matches with 2,305 matches investigated to date, which includes all high quality matches. To date there have been no identified cases of fraud.
107. Overall, we have concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Standards of Conduct and Arrangements for the Prevention/ Detection of Bribery and Corruption

108. 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.
109. The Council has a Code of Conduct for both members and officers with specific sections for each group. This Code covers a number of areas including gifts and hospitality, expenses and allowances, use of Council resources and tendering.
110. 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.

Welfare Reform

111. The Welfare Reform Act 2012, as reported last year represents the biggest reform of the UK welfare system for 60 years. The Council receives regular reports on the potential impact of welfare reform on its communities and services. Some changes have already taken place since April 2013 particularly for those of working age.
112. The Council as part of a communications strategy has produced a series of summary papers entitled "Understanding Benefit Changes" which are published in its quarterly Bulletin newspaper sent to all households in West Lothian to help people understand the benefit changes. The summary papers provide details of:
- Under occupancy and reductions in benefit as a result (effective April 2013)
 - A cap on benefits (effective from September 2013)
 - Replacement of Disability Living Allowance by Personal Independence with a medical assessment needed to qualify for this benefit (from June 2013 for new claimants)
 - Replacement of Council Tax Benefit by a Council Tax Reduction scheme (from April 2013)
 - Scottish Welfare Fund - the Department of Works and Pensions no longer deals with Crisis and Community Care Grants from April 2013. The Council has put a scheme in place for dealing with payments covered by the Scottish Welfare Fund. Information about the fund is on the Council's website and has been widely publicised.

Outlook

113. Welfare reform will continue for several years to come and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age.
114. Research by the Rowntree Institute, and others, indicates that welfare reform will increase the number of families in poverty, lead to rising rent and council tax arrears and a growing homelessness problem. This will also increase the demand for social work services and put

greater pressure on the Council's resources. It is important therefore that the Council continues to monitor the situation closely and develop efficient and effective strategies that address the welfare reform agenda.

115. Rent arrears have been increasing in West Lothian Council. In 2011/12 arrears totalled £0.737 million and these had increased to £1.001 million at 31 March 2013 (an increase of 36%). We are aware that the value of housing rent arrears further increased to £1.725 million at the end of July 2013. In addition, we noted that the level of un-provided Council Tax debt at 31 March 2013 is £8.015 million, an increase of £1.135 million (16%) from 2011/12.
116. The Council has established a Welfare Reform Working Group (WRWG), chaired by the Head of Finance and Estates, which is considering the impact of the various welfare reform changes, in terms of both the financial impact on individuals affected and the Council's finances. The WRWG is monitoring the effects of the welfare reform changes on the Council's services, including council tax collection and rent arrears.
117. The Council Executive agreed that the WRWG should carry out a welfare reform impact assessment, along with reviews of the Council's corporate debt policy, housing policies and procedures, and financial inclusion. The completed impact assessment report and any recommendations were discussed by the Council's Partnership and Resources Policy Development and Scrutiny Panel (P&R PDSP) in September 2013 and will be reported to the Council Executive on 29 October 2013.

Refer to Action Plan No. 5

Best Value, use of resources and performance

118. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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 are also required to review and report on audited body's progress against its Best Value improvement plan.
119. Additionally, auditors of local government bodies 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.
120. Furthermore, 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.
121. 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 and the Council's response to these.

Management arrangements

Best Value

122. 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 2013/14 to 2015/16. This position was noted and agreed by the Local Area Network (LAN) during its shared risk assessment process, and reported accordingly in the 2012/13 Assurance and Improvement Plan.

Performance Management

123. 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.
124. 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.
125. 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 detailed review of all Public Performance Reporting (PPR) indicators was undertaken by the Council in June 2013. This review took into consideration the Accounts Commission June 2013 report which evaluated the progress being made by Scottish councils in implementing the relevant Statutory Performance Information (SPI) guidance in relation to PPR which applies from 1 April 2013 onwards.
126. 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.
127. During 2012, a new Corporate Plan for 2013 to 2017 was developed by officers, which is underpinned by a 'Strategy and Activity Map', and which provides a clear link across 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.
128. This mapping exercise identified areas of strategy duplication and determined strategy gaps, which were not obvious from normal analysis of activities. This should 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. Overview of performance in 2012/13

West Lothian Council Performance Measurement Outcomes

129. The Council's performance in 2012/13 is monitored against approximately 1650 indicators and initiatives which support the eight priorities in the Council's Corporate Plan. These indicators form part of the Council's public performance reporting framework. The achievement of 98% of targets across these indicators is the same as 2011/12. 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 eight priorities in the Corporate Plan. Most notably there are no planned measures or initiatives which have not been started.

Statutory Performance Indicators

131. In 2012/13, a total of 25 Statutory Performance Indicators (SPIs) were required and we have noted that a number of indicators have improved from the previous year, including:
- Use of libraries - this has significantly turned around a gradual decline since 2008/09. The reasons for the increase are because libraries are increasingly seen as community hubs due to the joint working undertaken to support people needing help with literacy and numeracy. People are accessing libraries for more than just books, and use of the network of public access computers has grown in particular.
 - Housing stock meeting the SHQS - the Council's extensive kitchen and bathroom programme over the last decade has provided modern facilities and services for tenants. This programme has been instrumental in working towards the SHQS required for 2015.
132. In addition, some indicators have declined from the previous year, including:
- Days lost per employee (excluding teachers) to sickness absence - this increase coincided with revisions to the Policy & Procedure on Managing Sickness Absence in December 2011, which have led to an increase in the number of days of sickness absence being disregarded for the purposes of taking action under the policy and consequently, a decrease in the number of employees progressing through the stages of the policy.
 - Current tenant rent arrears – this increase is reflective of the current economic downturn and the hardship tenants are experiencing due to reduced income levels. The Council's approach to arrears management is focused on early intervention through the provision of debt and benefits advice to tenants to deal with the impact of welfare reform.
133. The indicator for "Number and percentage of householder and non-householder planning applications dealt with within two months" has been replaced with "The average time (weeks) to deal with major and local planning applications determined during the year".

Local Performance Reporting

134. In August 2011, Audit Scotland published a national report entitled '*Scotland's public finances: Addressing the challenges*'. This report provided an overview of the scale of budget cuts

expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.

135. In 2012/13, we carried out a targeted follow-up review to assess what progress had been made subsequent to the publication of the 2011 report. In August 2013, we issued our follow-up report, which looked at the way the Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.
136. Our report highlighted a number of good practices including the work done to establish a clear link between the budget and the Council's corporate plan and the Council's robust performance management framework. Also, members regularly scrutinise the Council's financial position through regular budget monitoring reports and ad-hoc reports which highlight issues which may impact on the Council's financial strategy.
137. During 2012, the Council had identified a potential budget shortfall of around £34 million for the five year period 2013/14 to 2017/18 which informed the proposed approach to the Council's medium term financial strategy for the five years 2013/14 to 2017/18. Whilst we acknowledge the good practice followed to identify the budget shortfall, the shortfall is based on assumptions and projections that may fluctuate, perhaps significantly, as events unfold over the period 2013/14 to 2017/18 or if planned efficiencies are not achieved.
138. We have agreed an action plan with management that will address the issue outlined above. We will monitor progress in implementing the action plan at a future date.

National Performance Reports

139. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest in 2012/13 are detailed in Exhibit 7 below:

Exhibit 7: A selection of national performance reports 2012/13

- | | |
|---|--|
| <ul style="list-style-type: none">• Responding to challenges and change - An overview of local government in Scotland 2013• Improving community planning in Scotland• Major capital investment in councils.• Managing performance: are you getting it right? | <ul style="list-style-type: none">• Protecting consumers• Using cost information to improve performance - are you getting it right?• Health inequalities in Scotland• Reducing reoffending in Scotland.• National scrutiny plan for local government |
|---|--|

Source: Local Authority Un-audited Accounts

Follow up on National Reports

140. During 2012/13 intelligence was gathered in relation to the action taken by the Council and the impact of the following Audit Scotland reports:

- *Health inequalities in Scotland* – The report was considered by the West Lothian Community Health Care Partnership (CHCP) in March 2013. It was agreed that, where appropriate, actions required to be taken by the CHCP would be incorporated into the CHCP work plan.
- *Protecting consumers* - The report was considered by the Council's Environment Policy Development and Scrutiny Panel in March 2013, where it was agreed that the Council would consider the recommendation of the Audit Scotland report that councils should carry out a review of their consumer protection services.
- *Major capital investment in councils* – The report was presented to the Audit and Governance Committee in May 2013. Council asset lead officers were directed to review good practice and complete the checklist. The Head of Finance and Estates will report the results to the Partnership and Resources PDSP in Autumn 2013.
- *Responding to challenge and change – An overview of local government in Scotland 2013* – The report was discussed at the Audit and Governance Committee in May 2013 and the Head of Finance and Estates advised that a survey had been issued to councillors to consider the action points arising from this national report. The Head of Finance and Estates presented a report to the Partnership and Resources PDSP in September 2013 summarising the responses to action points from councillors.
- *Improving community planning in Scotland* - The report was not directly considered by any Council committee. However, a presentation on the audit of Community Planning Partnerships (CPPs) was given to the West Lothian Community Planning Partnership Board by Audit Scotland which included an overview of this national report. As noted earlier, Audit Scotland will carry out an audit of the West Lothian CPP in 2014.

141. The following Audit Scotland reports were presented to the Audit and Governance Committee in September 2013:

- *Managing early departures*; presented to the Audit and Governance Committee on 25 September 2013.
- *Housing in Scotland*; presented to the Audit and Governance Committee on 25 September 2013. It was decided that the housing strategy should be updated by the Head of Housing, Construction and Building Services as a result of the report.

Assurance and Improvement Plan Update 2013-16

142. The Local Area Network (LAN) of scrutiny partners for the Council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Audit and Governance Committee on 28 May 2013 for information and consideration by members.

143. The AIP highlights the LAN risk assessment for Council services was very positive. The only additional scrutiny planned is in relation to homelessness, where further information is required to enable the Scottish Housing Regulator to fully understand the reasons for recent movements in the Service's homelessness performance indicators. A further development is that the Council is working with the Care Inspectorate and will be a pilot organisation for a joint inspection of services for older people (Adult Services).
144. The LAN also recognised the inherent uncertainty around impending welfare reform, and how this will impact on both the Council's service users and benefits administration functions. Details of West Lothian Council's approach to managing the impact of welfare reform are mentioned elsewhere in this report.

Equality Act 2010

145. 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. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
146. The Council's Corporate Equality Outcomes report sets out the Council's approach to mainstreaming equality and provides details of quality outcomes (2013-2017) and employee information.
147. Following the implementation of the Public Sector Equality Duty in May 2012, West Lothian Council took the following measures in order to project manage the development of their outcomes, including:
- A briefing on the Public Sector Equality Duty and the specific requirements related to development of equality outcomes was provided to council senior management during summer 2012.
 - A sub-group of the Council's Corporate Working Group on Equality was devised in order to steer and influence the development of equality outcomes. The group also reviewed progress and evaluated impact of evidence and involvement activity.
 - Starting in November 2012, the key themes and priorities for development of outcomes were taken to a number of specific groups, individuals and organisations for involvement in the creation of outcomes. A range of facilitation methods were used dependent on the circumstances in order to ensure that the feedback received from involvement was as effective as possible.
 - The Council's equality outcomes have been built into the Council's performance management information system so that progress can be tracked and managed over the four year period. The Council's Corporate Working Group on Equality will monitor overall progress against the equality outcomes on a regular basis.
148. The Council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

Outlook

149. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships (CPPs).
150. Following discussion and agreement with senior management, West Lothian Council has been selected as one of a number of councils to receive a CPP audit in 2013/14. The West Lothian CPP audit is due to commence in October/November with most of the fieldwork completed in March/April 2014. Emerging findings will be shared with senior officers before formally reporting later in 2014.
151. The Audit Scotland report *Responding to Challenges and Change – an overview of local government in Scotland 2013 (March 2013)* highlights the pressures faced by councils in terms of resources and demands on services (see Exhibit 8 below). These pressures are not going to abate and this means that councils may have to consider decisions, which they had previously ruled out to balance their budgets. The challenges identified in this overview report were considered as part of the Delivering Better Outcomes consultation process and helped shape the Council's Corporate Plan and the revenue and capital budget strategies for 2013/14 and 2014/15. Officers will continue to monitor the challenges and pressures to ensure that resources are targeted towards achieving the Council's eight agreed priorities.

Exhibit 8



Source: Local Authority Un-audited Accounts

Appendix A: Audit Reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of adequacy of internal audit	27 November 2012	4 December 2012
Annual Audit Plan	26 February 2013	5 March 2013
Shared Risk Assessment/Assurance and Improvement Plan	25 April 2013	28 May 2013
Internal controls management letter	21 May 2013	28 May 2013
Report on financial statements to those charged with governance	11 September 2013	25 September 2013
Audit opinion on the 2012/13 financial statements	11 September 2013	25 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	26 October 2013	N/A
Annual Report on the 2012/13 audit	8 October 2013	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	60	<p>Borrowing</p> <p>The Council is 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.</p> <p>Risk – <i>The Council may incur unnecessary expenditure if the forecasted interest rate rises do not occur.</i></p>	Report on Treasury Management to Full Council on an ongoing basis. Capital Monitoring reports to Council Executive on an ongoing basis.	Head of Finance and Estates	Ongoing
2	66	<p>Funding gap</p> <p>The Council is facing a significant challenge in bridging a funding gap of around £34 million over the next five years.</p> <p>Risk: <i>the Council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</i></p>	Delivering Better Outcomes workstreams are being progressed.	Chief Executive	Ongoing
3	77	<p>Public Spending</p> <p>The Council continues to face an increase in demand for services due to the current economic climate and changes in demography.</p>	Medium term financial strategy to be kept under review.	Head of Finance and Estates	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk – <i>There is a risk that the Council may be unable to deliver services and maintain financial sustainability.</i>			
4	96	Public Services Network The council has yet to have its application to connect to PSN approved. Risk – <i>The Council may not be able to share or access data held by other public sector bodies.</i>	Appropriate action is being taken to secure a successful application.	Head of Corporate services	November 2013
5	117	Rent arrears Council house rent arrears are continuing to rise (increasing by 36% on 11/12) and this is likely to be further impacted by welfare reform. Risk – <i>The Council may be unable to prevent rent arrears from increasing, leading to a significant loss of income.</i>	A major campaign has been launched actively engaging with those tenants in rent arrears. Collection of rent will be given a higher priority on an ongoing basis.	Head of Housing, Construction and Building Services	October 2013 and Ongoing