# West Lothian Council

## Annual report on the 2013/14 audit

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

October 2014

# Contents



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# Key messages

| | |
|---|---|
| Financial statements | • Unqualified auditor's report on the 2013/14 financial statements. |
| Financial position | • An underspend of £3.569 million (1%) against service budgets.<br>• Usable reserves have increased by £1.953 million to £114.698 miillion<br>• The General Fund balance has reduced by £2.641 million to £22.571 million, of which £2 million is unallocated.<br>• Financial management remains strong with a robust budget setting process in place. |
| Governance & accountability | • The Council had sound governance arrangements in place.<br>• Systems of internal control operated effectively.<br>• The Council has an effective internal audit function and sound anti-fraud arrangements. |
| Best Value, use of resources & performance | • The Council has a well developed framework in place for monitoring and reporting performance against strategic priorities.<br>• In 2013/14 the Council met 94% of its performance targets. |
| Outlook | • Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources as well as continued strong governance and leadership. |

## Financial Statements

1. We have given an unqualified audit opinion that the financial statements of West Lothian Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended. 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 2014.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by West Lothian Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
3. As recorded in the 2013/14 comprehensive income and expenditure statement, the Council spent £609.632 million on the provision of public services, resulting in an accounting deficit of £44.750 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. When these adjustments are applied the general fund shows a decrease of £2.641 million.

## Financial position

4. The Council's general fund recorded an underspend of £3.569 million against service budgets in the year, representing 1% of net service expenditure. This was mainly due to reduced winter maintenance costs as a result of a mild winter, slippage in time-limited investment and additional funding from the Scottish Government which has been carried forward to 2014/15.
5. The Council's financial management arrangements remain strong with close budget monitoring and regular reporting to members.
6. The closing balance at the year end on usable reserves was £114.698 million representing a net increase of £1.953 million from 2012/13.
7. The net movement in the general fund for 2013/14 was £2.641 million, reducing the fund balance to £22.571 million as at 31 March 2014. This balance is made up of earmarked commitments of £20.571 million and an uncommitted balance of £2 million, which is the Council's approved minimum uncommitted general fund balance.
8. The Council's 2014/15 revenue budget identified a funding gap of £7.155 million and savings proposals were approved by Council in January 2014 to address this funding gap. The Council's Corporate Management Team (CMT), chaired by the Chief Executive, oversees the delivery of these efficiency

savings.

## Governance and accountability

9. In 2013/14, the Council had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. The Council had an effective internal audit function and systems of internal control.

10. Integration of adult health and social care is a key challenge for all local authorities. The Council is working with NHS Lothian to produce an integration scheme for the West Lothian Health and Social Care Integration Joint Board for submission to the Scottish Government for approval by 1 April 2015.

## Best Value, use of resources and performance

11. 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 a number of councils. Overall performance has remained high with 94% of the Council's indicators being achieved with strong performance across all objectives.

12. The Council was selected as one of a number of councils to receive a Community Planning Partnership (CPP) audit in 2013/14. The audit commenced in October 2013 and the fieldwork was completed in June 2014. The final report was discussed at a meeting of the Accounts Commission in September 2014 and will be published in October 2014.

## Outlook

13. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

14. The Council's Revenue Budget Strategy for the three year period 2015/16 to 2017/18, identifies a potential funding gap of approximately £30.4 million, and the Council will face challenges in focussing resources towards service delivery priorities. The results of the Council's 2012 "Delivering Better Outcomes" consultation with members of the public, employees and key stakeholders have been used by officers to develop potential measures for the three years 2015/16 to 2017/18. Further consultation is being undertaken with stakeholders on the 2015/16 to 2017/18 budget measures in October and November 2014.

15. The public reform agenda, particularly Welfare Reform, is resulting in the most significant changes in the UK welfare

system for decades. There are early indications that welfare reform is resulting in increased rent arrears in the Council area, although the Council is working proactively to manage and reduce rent arrears. Research groups such as the Rowntree Foundation are also warning of increasing poverty and homelessness amongst the poorer sections of society.

# Introduction

16. This report is a summary of our findings arising from the 2013/14 audit of West Lothian Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

17. Our responsibility, as the external auditor of West Lothian Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

18. The management of West Lothian Council is responsible for:
    - preparing financial statements which give a true and fair view
    - implementing appropriate internal control systems
    - putting in place proper arrangements for the conduct of its affairs
    - ensuring that the financial position is soundly based.

19. This report is addressed to the members of West Lothian Council and the Controller of Audit and should form the basis of discussions with the Audit and Governance Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

20. This report will be published on our website after it has been considered by the Council. The information in this report may be used for the Account's 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.

21. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. 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.

22. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

23. Appendix IV 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 "Management action/response".

24. We recognise that not all risks can be eliminated or even minimised. What is important is that West Lothian Council understands its risks and has arrangements in place to manage these risks. The Council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

25. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

26. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Financial statements

| Net service budget expenditure £394.5m | Planned capital expenditure £67m | Planned Usable Reserves £81m | Savings target £7.7m |
| --- | --- | --- | --- |
| Service Outturn £390.9m | Outturn Capital spend £69.7m | Outturn usable reserves £114.7m | Savings achieved £7.4m |
| Service Budget Underspend £3.6m | Capital Overspend £2.7m | Movement in usable reserves £33.7m | |

## Audit opinion

**27.** We have given an unqualified opinion that the financial statements of West Lothian Council for 2013/14 give a true and fair view of the state of the affairs of the Council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.

**28.** 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 2014. This was due to the requirement to recognise decreases in property asset valuations of £6.382 million in the 2012/13 financial statements. 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 result in a qualification of the opinion on the financial statements.

## Other information published with the financial statements

29. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

## Legality

30. Through our planned audit work we consider the legality of the Council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

## The audit of charities financial statements

31. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

32. West Lothian Council had 8 funds which were subject to the full charities financial statements audit for 2013/14.

33. Auditors of registered charities' statement of accounts have responsibilities to

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

34. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charities registered by West Lothian Council.

## Group accounts

35. 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.

36. West Lothian Council has accounted for the financial results of two associates (West Lothian Leisure Ltd and Lothian Valuation Joint Board) and a joint venture (West Lothian Recycling Ltd) in its group accounts for 2013/14. The overall

effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £1.158 million.

**37.** The net assets of the group at 31 March 2014 totalled £658 million, compared to a net asset position of £259 million in 2012/13. The positive movement in the closing net worth balance is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of the pension liabilities of Police and Fire from the group accounts.

## Accounting issues arising

### *Presentational and monetary adjustments*

**38.** A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management 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 in our *ISA 260 – Report to those charged with governance on the 2013/14 audit* submitted to the Audit and Governance Committee on 29 September 2014. As a result there were no unadjusted misstatements requiring to be brought to the attention of the Audit and Governance Committee.

### *Whole of government accounts*

**39.** The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Council submitted the consolidation pack for audit by the deadline. We anticipate having the consolidated pack audited and submitted before the deadline of 17 October 2014.

### *Prior year restatements*

**40.** During 2012/13 finance staff undertook a comprehensive review of the Council's Service Reporting Code of Practice (SeRCOP) analysis which led to the removal of internal recharging amounts from 2011/12 gross income and expenditure to ensure compliance with revised Scottish Government (SG) guidance and avoid overstatement of both income and expenditure. Similarly, during 2013/14 finance staff undertook a further and final review which led to the removal of internal recharging amounts totalling £2.659 million from 2012/13 gross income and expenditure. As both income and expenditure have reduced by the same amount, there has been no impact on the 2012/13 Net Cost of General Fund Services reported in the Comprehensive Income and Expenditure Statement.

**41.** 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.

42. International Accounting Standard 19 (IAS19) – Employee Benefits was amended in June 2011 and as a result, relevant pension figures disclosed in the 2012/13 statement of accounts have been restated in the 2013/14 statement of accounts. The change is of a technical accounting nature and there has been no change in the level of usable financial reserves of the Council.

## Pension costs

43. 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 , the Council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2014 provided by the scheme's actuaries increased the council's share of those net liabilities from £164.5 million last year to £195.6 million this year, reflecting general unfavourable movements in investment markets.

44. 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.

## Carbon trading

45. 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.

46. The 2013/14 provision was calculated as £0.365 million (£0.415 million in 2012/13) based on a baseline annual carbon footprint of 27,503 tonnes $CO_2$ (34,599 tonnes in 2012/13).

## Asset decommissioning costs

47. 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.

48. 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. We note that the current Rusha Farm Quarry restoration bond will expire on the 4 January 2015. The legal agreement required the site owner and insurer to agree a replacement bond by 4 October 2014. We note that a replacement bond was agreed before the 4 October 2014 deadline.

## Report to those charged with governance

49. We presented to the Audit and Governance Committee, on 29 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

50. **Equal Pay**: During 2013/14 the Council had provisions of £1.468 million to meet the liability arising from equal pay compensation claims. As payments totalling £0.213 million were made to claimants during 2013/14, the Council disclosed a provision of £1.255 million in respect of equal pay compensation claims outstanding at 31 March 2014. The Council is currently in discussion with claimants' representatives to establish settlement terms for claims outstanding at 31 March 2014. The Council has also disclosed an unquantified contingent liability in the financial statements in respect of future unknown equal pay claims.

51. **Holiday Pay Liability**: During periods of annual leave employees receive their basic contractual pay which is common practice across all Scottish councils, which means that any non-contractual additional payments, e.g. shift allowances, are not reflected in the rate of pay the employee receives while on annual leave. A decision by the European Court of Justice in May 2014 under the Working Time Directive 2003/88/EC has held that holiday pay should be the normal remuneration received by the employee and the matter is currently under consideration by the employment tribunal system. This matter is also currently subject to discussion at the Convention of Scottish Local Authorities (COSLA), and will be considered by the Council when further information is received from COSLA. No payments have been made by the Council in 2014/15 in relation to this issue. The Council has disclosed an unquantified contingent liability in the financial statements in respect of the decision by the European Court of Justice as it is unable to quantify the financial liability until

further guidance is received.

## Outlook

52. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include :

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

53. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.

54. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit and Governance Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Audit and Governance Committee by 30 September with publication on the Council's website by 31 October.

55. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The Council should ensure it is planning ahead to allow full compliance with the Code.

# Financial position

56. The council reported a deficit of £44.750 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code produces the revised position showing that the Council decreased its general fund balance by £2.641 million.

57. The 2013/14 outturn report shows that net service expenditure across the Council was £390.975 million, representing an underspend of £3.569 million (1%) against the budget. Key factors contributing to the overall underspend were as follows:

- Additional funding of £2.075 million was received from the Scottish Government in March 2014 to fund investment linked to employability and economic regeneration which has been carried forward to 2014/15.
- An underspend in time limited investment of £0.7 million which has been carried forward for spend to be incurred in 2014/15.
- Due to the very mild winter, there was an underspend of £0.5 million in relation to one off savings in the winter maintenance budget which has been added to the winter emergency fund.

58. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the Council increased by £1.953 million compared to the previous year and totalled £114.698 million.

**Exhibit 1: Usable reserves**

| Description | 31 March 2013 £ million | 31 March 2014 £million |
|---|---|---|
| General Fund | 25.212 | 22.571 |
| Capital Fund | 74.338 | 79.008 |
| Housing Revenue Account | 0.926 | 0.926 |
| Insurance Fund | 12.269 | 12.193 |
| **Total Usable Reserves** | **112.745** | **114.698** |

*Source: West Lothian Council 2013/14 financial statements*

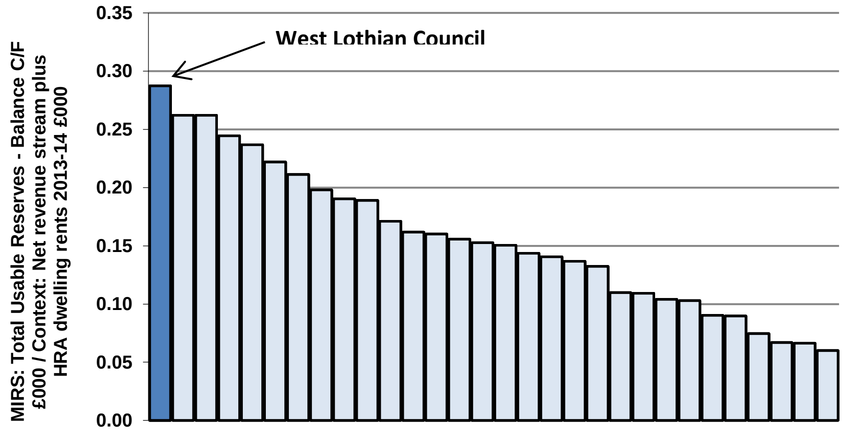
59. From an analysis of Scottish councils' unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13 . This was in part due to the retention of certain reserves associated with police and fire joint boards and the consequent reduction in general revenue grant from the Scottish

Government in 2013/14.

60. 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). Although the 2013/14 general services capital programme was partially funded by the capital fund, 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.

61. Exhibit 2 below presents the Council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being defined as general revenue grant, council tax, non domestic rates and dwelling rents). As indicated, the Council position is higher than the median level of around 15% and demonstrates the Council's stable overall financial position, including a substantial capital fund. The retention of a large capital fund, while borrowing to meet capital expenditure, should be closely monitored to confirm that it provides best value for the Council.

**Exhibit 2: Total Usable Reserves as a proportion of net revenue stream**




*Source : Scottish councils' unaudited accounts 2013/14*

62. The general fund balance reduced by £2.641 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £20.571 million and an uncommitted balance of £2 million. This position is in line with the Council's policy which is to maintain a minimum uncommitted general fund balance of £2 million.

63. Earmarked balances represent 91.1% (2012/13: 92.1%) of the general fund balance. These commitments on the fund mainly comprise amounts designated to meet costs associated with modernisation (£4.371 million) and specific time-limited

development projects (£10.236 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.

## Capital investment and performance 2013/14

**64.** Total capital expenditure for 2013/14 was £69.702 million, split between the housing programme and the general services programmes:

- The housing programme final outturn of £31.841 million includes new council house building of £11.469 million and works undertaken to meet the Scottish Housing Quality Standard (SHQS) of £11.656 million. The overall outturn position was an accelerated spend of £0.415 million due to accelerated energy efficiency work.
- The general services programme final outturn of £37.861 million includes investment on property assets, open space, roads and related assets and ICT projects. There was a variance of £2.281 million overall, due to accelerated spend on projects from future years.

**65.** The capital programme was funded as shown at Exhibit 3 below :

**Exhibit 3: Sources of finance for capital expenditure 2010/11 – 2013/14**

| Description | 2010/11 £m | 2011/12 £m | 2012/13 £m | 2013/14 £m |
|---|---|---|---|---|
| Capital receipts from asset sales | 4.185 | 5.084 | 5.982 | 5.397 |
| Capital financed from current revenue | 10.553 | 14.737 | 13.487 | 13.101 |
| Capital grants received | 9.103 | 22.017 | 15.735 | 12.620 |
| Other capital contributions received | 3.269 | 3.618 | 2.520 | 3.214 |
| Borrowing from loans fund | 39.881 | 31.803 | 34.640 | 35.370 |
| Transfer from repair and renewal fund | - | 0.066 | - | - |
| Total | 66.991 | 77.325 | 72.364 | 69.702 |

*Source: West Lothian Council financial statements 2010/11 to 2013/14*

**66.** The Council has reported an overspend (accelerated spend) against the planned level of capital expenditure of £2.696

million or 4% of the total programme for 2013/14.

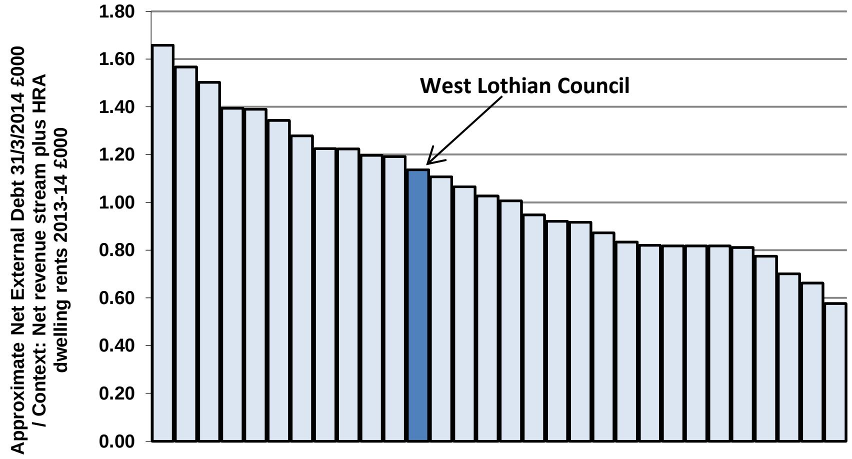
## Treasury Management

67. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

68. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. West Lothian Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £588 million while net external borrowing was £135 million lower at £453 million.

69. As shown at Exhibit 3, capital spend in the year was mainly funded through borrowing. The Council's level of net borrowing in 2013/14 has increased marginally. Exhibit 4 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.

**Exhibit 4 : Net external debt as a proportion of net revenue stream**




*Source : Scottish councils' unaudited accounts 2013/14*

70. 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 (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.

71. 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 Action Plan Point 1**

72. The Council's level of borrowing in 2013/14 has increased by £21 million and at 31 March 2014 the Council had total borrowings of £499.6 million (2011/12 £478.391 million), of which 99% is at a fixed rate of interest and is repayable over the long term.

73. Audit Scotland has, on behalf of the Accounts Commission, recently undertaken a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including West Lothian Council. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

## Outlook

74. In December 2013 the Council approved its budget for 2014/15. The net revenue expenditure budget set for 2014/15 is £375.040 million and represents an increase of 3.5% on that set for 2013/14 (£362.185 million).

75. In September 2014, a 2014/15 revenue budget monitoring report to the Council Executive from the Head of Finance and Estates provided an update on the financial position to July 2014. Although the report is forecasting a breakeven position for 2014/15, the report highlights significant cost pressures in relation to elderly care at home costs and staffing costs within Council care homes. These cost pressures are currently being met from savings elsewhere in the budget but will be closely monitored during 2014/15 and options identified to manage these cost pressures on a sustainable basis.

76. The 2014/15 revenue budget monitoring report also provided an update on the progress of 2014/15 efficiency savings projects and highlighted that £6.618 million (92%) of the efficiency savings required in 2014/15 of £7.176 million had been achieved or would be achieved with no issues anticipated. £0.523 million of the remaining required efficiency savings has been assessed as achievable with further ongoing review being required to ensure they are delivered.

77. The Council's CMT, which is chaired by the Chief Executive, has a remit to control delivery of each of the efficiency savings

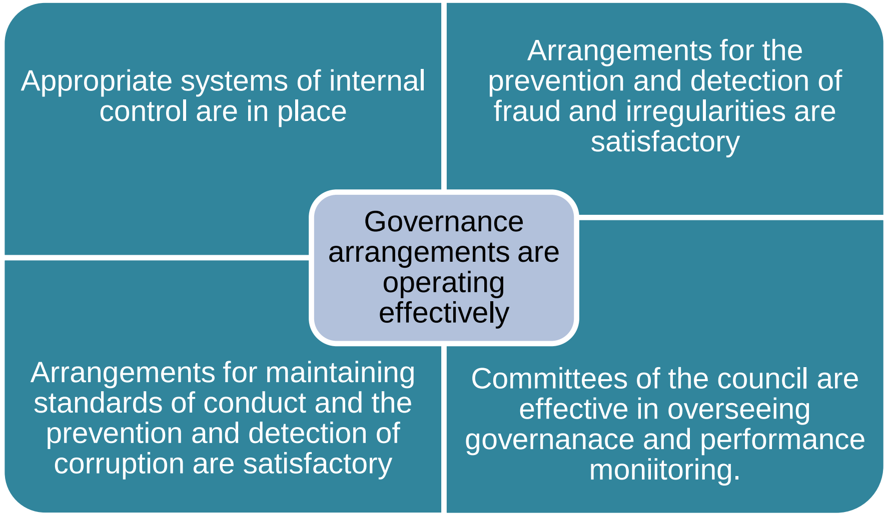
for 2014/15 (see Local Performance Reporting section).

78. The Council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the Council.

79. In June 2014, a report to the Council Executive from the Head of Finance and Estates provided an update in relation to the revenue budget strategy for 2015/16 to 2017/18. The report identified a potential budget shortfall of £30.4 million for the three year period 2015/16 to 2017/18 allowing officers to develop budget reduction measures to address the forecast gap and to undertake further budget engagement with stakeholders. 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 2015/16 to 2017/18 or if planned efficiencies are not achieved.

**Refer Action Plan Point 2**

# Governance and accountability




80. Members of the Council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of West Lothian Council and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

81. The corporate governance framework within West Lothian Council is centred on the Council which is supported by the following standing committees.

Council Executive

Education Executive

Various Policy Development and Scrutiny Panels (PDSP)

Audit and Governance Committee

82. The Council Executive and Education Executive are responsible for all of the Council's policy-making, decision-making and statutory functions, powers and duties, other than those matters reserved to full Council, delegated to other committees or sub-committees of the Council or delegated by to a joint committee or joint board.

83. The Council's Policy Development and Scrutiny Panels (PDSPs) allow existing policies and new proposals to be subject to consideration and discussion by members. In particular, 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.

85. The Council's Chief Legal Officer undertakes an annual review of compliance with the Council's Code of Corporate Governance. The results of this review for 2013/14 were reported to the Council Executive in June 2014 and the report concluded that the Code's standards were 'substantially met'.

86. Based on our observations and audit work our overall conclusion is that the governance arrangements within West Lothian Council are operating effectively.

## Internal control

87. As part of our audit we reviewed the high level controls in a number of the Council's systems that impact on the financial statements. This audit work covered capital accounting, accounts receivable, housing rents, housing repairs, general ledger, non-domestic rates, cash and banking, treasury management and payroll. Our overall conclusion was that West Lothian Council had appropriate systems of internal control in place during 2013/14.

## Internal audit

88. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.

89. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit for accounts payable and council tax billing and collection.

## ICT audit

90. 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. We concluded that the process of developing and maintaining the Council's business continuity plan is operating satisfactorily based on a review of a

sample of service area plans. Whilst welcoming the progress the Council making in testing all services' WLC1 (risk to life and limb) business continuity plans, we consider this is only part of a continuous review process needed to maintain up-to-date business continuity plans.

91. 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. However, we understand that the Corporate Management Team is looking at several options for rising cyber awareness and risk including YB@R and hope to reach a conclusion shortly.

92. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non-compliance issues. Work is ongoing to maintain PSN compliance and the Council successfully achieved accreditation on 22 August 2014 for the coming year.

## Arrangements for the prevention and detection of fraud

93. The Council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

94. West Lothian Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

95. The arrangements for the prevention and detection of corruption in West Lothian Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Correspondence referred to the auditor by Audit Scotland

**96.** Part of Audit Scotland's duties as external auditors of West Lothian Council is to consider concerns raised by members of the public about the Council. If appropriate, we may investigate them further. During 2013/14, we followed up an issue raised by a member of the public in relation to the Council's procedures for tendering a particular housing improvement contract.

**97.** We concluded that although the Council had complied with statute and legislation e.g. EU procurement regulations in relation to the contract, the Council's own Best Value framework (established in 2003) required to be updated to reflect current practice. As a result, in June 2014 the Council Executive approved the Council's updated Best Value framework (see paragraph 116), to reflect changes to current procurement legislation and financial thresholds.

## Integration of adult health and social care

**98.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health bodies in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.

**99.** A joint approach to health and social care integration has been established between the NHS Lothian (NHSL) chief executive and the chief executives of the four councils (City of Edinburgh, East Lothian, Midlothian and West Lothian) within the NHSL area.

**100.** The priority for 2014 is to create the framework required to implement the Act. There is a clear timeframe for setting up the integration joint boards and a document called an integration scheme must be produced which includes the following information:

- The type of organisation which will be set up.
- The aims and outcomes of the new organisation.
- The health services and council services which will become the responsibility of the new organisation.
- How the money and the finances will move between organisations.

**101.** We understand that the Council is working with NHSL to produce an integration scheme for the West Lothian Health and Social Care Integration Joint Board for submission to the Scottish Government for approval by 1 April 2015.

## Welfare Reform

102. The Council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for further changes after the recent Scottish independence referendum.

103. The Council has established an Anti-Poverty Development Group (APDG), 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 APDG is monitoring the effects of the welfare reform changes on the Council's services, including council tax collection and rent arrears.

104. The Head of Finance and Estates presents a welfare reform quarterly update report to the Council's Partnership and Resources Policy Development and Scrutiny Panel (P&R PDSP). The report provides an overview of the impact of welfare reforms within West Lothian and the action being taken by the Council in response to the reforms.

105. Rent arrears have been increasing in West Lothian Council. In 2012/13 arrears totalled £1.001 million and these had increased to £1.320 million at 31 March 2014 (an increase of 32%). During 2013/14 the Council reviewed its approach to the calculation of the housing rent arrears bad debt provision which increased to £1.509 million at 31 March 2014 (£0.615 million at 31 March 2013). In addition, we noted that the level of un-provided Council Tax debt at 31 March 2014 is £7.861 million, a decrease of £0.154 million (2%) from 2012/13.

106. The Council is currently running a high profile rent arrears campaign with adverts in the local media, press releases and posters displayed in Council offices, community centres and GP surgeries aimed at encouraging tenants to engage with the Council to ascertain whether tenants are eligible for housing benefit. We also note that housing officers regularly visit those tenants in arrears to provide advice and support.

107. In addition, the Discretionary Housing Payment (DHP) Fund can provide additional support to households where a tenant is in receipt of housing benefit but where there is a shortfall between their rent and the amount of housing benefit paid. DHP can be paid to alleviate short term hardship, or to assist those most affected by the welfare reforms, particularly those affected by the size criteria restrictions in the social rented sector.

108. The Council, having secured funding to fully mitigate the effects of the size criteria restrictions in West Lothian for 2014/15, and with the planned lifting of the DHP spending limit, adopted a new simple application process which provides for a

prompt award of DHP with the minimum possible burden being placed on each applicant. As a result of this initiative, around 99% of those affected by the size criteria restrictions in West Lothian have now been awarded full DHP for 2014/15.

**Refer Action Plan Point 3**

## Housing benefits performance audit

109. In June 2014 the Accounts Commission approved the Audit Scotland benefits performance audit annual update report for 2013/14. The report highlights the main areas of risk identified during 2013/14 as well as areas where improvement is being evidenced. The Accounts Commission raised some specific concerns about the performance of benefit services across councils and their capability to deliver improvements going forward were:

- The on-going impact on benefit services from the loss of experienced staff and the difficulty benefit services have in filling vacant positions. This risk is increased by the continuing uncertainty about the timetable for the roll out of Universal Credit.
- The delivery of services to claimants being adversely affected for extended periods during times of change such as the implementation of new systems.

110. West Lothian Council's benefits service has been selected by Audit Scotland for a benefits performance audit follow-up risk assessment in 2014/15. The risk assessment will involve a review of a completed self-assessment template and relevant benefits performance information to determine whether they provide assurance that sufficient progress has been made to reduce the risks to continuous improvement identified in the previous risk assessment report for the Council and that no additional material risks have arisen since the last assessment.

## Outlook

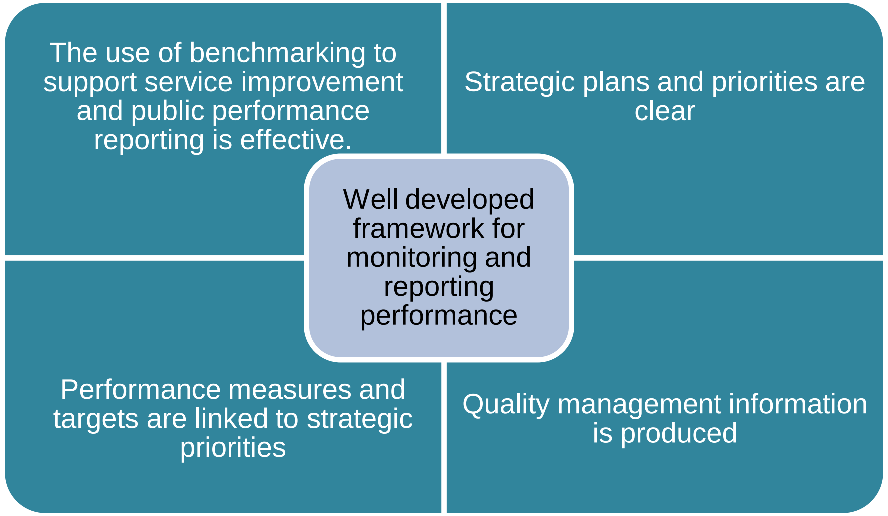
111. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the Council will need to continue to engage at the highest level with partners to ensure that the relevant arrangements are in place by the statutory date of 1 April 2016.

112. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions (DWP) which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the

transfer of staff from councils to the DWP. West Lothian Council staff will transfer to the DWP on 1 February 2015. There is a risk that councils' arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS. We note that the Council is planning to retain two posts relating to fraud work and these posts will be based in the audit and risk team.

113. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Whatever the conclusions of the Scotland Devolution Commission, a cross party working group tasked with overseeing the devolution of more powers to Scotland, there is the potential for even further change and discussions are likely on local services, governance and accountability.

# Best value, use of resources and performance




114. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

## Arrangements for securing Best Value

115. 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 any further Best Value reviews over the period 2014/15 to 2016/17. This position was noted and agreed by the Local Area Network (LAN) during its shared risk assessment process, and reported accordingly in the 2013/14 Assurance and Improvement Plan.

116. In June 2014 the Council Executive approved the Council's updated Best Value framework, which replaced the existing Best Value framework established in 2003. The framework was updated to reflect changes to current procurement legislation and financial thresholds, two versions of Best Value guidance which were issued after the approval of the existing framework, and changes to the operating framework and approach to Best Value, such as a corporate and comprehensive approach to performance reporting and more rigorous WLAM assessments.

117. The framework can be categorised around the following Best Value themes:

- Financial management.
- Challenge and improvement.
- Performance management.
- Governance and accountability.
- Procurement.

118. Officers will review progress and compliance with the Best Value framework on an annual basis and this will be considered at the Governance and Risk Board. In addition, an annual statement of compliance with the Best Value framework will be incorporated within the Head of Finance and Estates' annual compliance statement on procurement. The statement will be submitted to Council Executive as part of the overall governance report.

## Use of resources

### *Asset Management*

119. 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 (PDSPs). The corporate Asset Management Strategy and General Services Capital Programme for 2013/14 to 2017/18 were approved by the Council in January 2013. The strategy sets out capital projects over the five year period with a total capital investment of around £200 million which will be principally funded by government grants, borrowing and capital.

### *Procurement*

120. The corporate Procurement Strategy 2014 to 2018 is aligned to the Council's Financial Strategy to secure cashable savings and other efficiencies. In 2012 the Council performed a full evaluation of its procurement activity and subsequently prepared a comprehensive set of recommendations to enable future procurement activities to be more efficient and effective. As a result, the Council's 2013 Procurement Capability Assessment (PCA) score was 62 per cent, which demonstrates a marked improvement on the 2012 PCA score of 44 per cent. This places the council in the 'improved performance' category. A work plan has been created by officers to identify the areas of possible improvement with a view to achieving targeted score of 68%.

### *Risk management*

121. A revised Risk Management Policy and Strategy, incorporating business continuity management strategy, was approved by the Council in February 2012. The Council has approximately 220 risks identified in its Covalent performance management system, which are reported alongside performance. The Risk Management Plan for 2013/14 (presented to the Audit &

Governance Committee in March 2013) highlights planned work in relation risks identified as 'high' within Covalent.

**122.** A review of the Council's corporate risk management arrangements by Falkirk Council's Internal Audit Service (June 2013) concluded that substantial assurance could be provided on the adequacy of the council's corporate risk management arrangements (i.e. largely satisfactory risk, control and governance systems are in place).

### *Workforce management*

**123.** The revised People Strategy 2013 to 2017 was approved by the Council Executive in December 2013 and is aimed at improving workforce effectiveness across the Council and progress towards the outcomes specified will be monitored using a range of performance indicators. The implementation of the People Strategy actions will provide a means of ensuring that effective leadership and people management processes are directed towards delivery of the priorities identified in the council's Corporate Plan. Annual workforce management plans are produced at individual service level and there is active review and redesign of working practices through techniques such as Rapid Improvement Events.

### *Partnership working*

**124.** 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.

**125.** West Lothian 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. West Lothian Council and its community planning partners agreed a new Single Outcome Agreement (SOA) for 2013 to 2023 for the West Lothian area to reflect the six policy priorities contained in the guidance on CPPs issued by COSLA and the Scottish Government in 2012.

**126.** 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 have been developed to extend this model of community facility within West Lothian.

**127.** 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).

128. Following discussion and agreement with senior management, West Lothian Council was selected as one of a number of councils to receive a CPP audit in 2013/14. The West Lothian CPP audit commenced in October/November 2013 and the fieldwork was completed in June 2014. The final report will be published in October 2014.

## Performance management

129. West Lothian Council has robust self-evaluation arrangements in place. The Council has a framework for assessing performance and improvement called the West Lothian Assessment Model (WLAM) which 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.

130. 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 almost 6,000 performance indicators on Covalent, providing a wide range of detailed management information on the efficiency and effectiveness of services. Quarterly performance reports for each service are presented to the relevant PDSP throughout the year.

131. The Performance Committee conducts a continuous assessment of reviews of the units included in WLAM. Services report their performance reviews 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.

132. The Corporate Plan for 2013 to 2017 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.

133. We are satisfied that appropriate performance management arrangements were in place within West Lothian Council for 2013/14.

## Overview of performance targets in 2013/14

134. The Council’s performance is monitored against 247 high level indicators aligned to the eight priorities and three main enabler themes in the Council's Corporate Plan. These indicators form part of the Council's public performance reporting framework. The Council’s overall performance in 2013/14 was strong with

the achievement of 94% of targets across the high level indicators. The targets which were not achieved during the year are not significant and do not affect the overall performance against any of the corporate priorities.

## Statutory performance indicators

135. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

136. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

137. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to 2012/13 public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their 2012/13 PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for West Lothian Council were favourable, with 71% fully, 19% partially and 10% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2015.

138. We have concluded that the Council's arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators are adequate.

139. The Council's Performance and Improvement Service undertake an annual compliance audit to assess the content

and integrity of performance indicators. The focus of the analysis is on the quality, categorisation and management of the information that is fed into the system and informs the performance indicators. The level of compliance with corporate standards in 2014/15 has improved across all categories from the compliance audit in 2013/14.

140. The Council continues to improve its reporting of performance indicators and the Executive Management Team (EMT) have agreed corrective actions to improve the compliance levels of services with the corporate performance framework and standards, including the use of training, review panels and actions to address non compliance.

141. The Council is proposing to enhance its current PPR arrangements and a report was taken to the EMT in September 2014 detailing the action required to improve the arrangements.

## Assurance and improvement plan 2014-17

142. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for West Lothian Council prepared by the Local Area Network of scrutiny partners for the council since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website and was submitted to the Audit and Governance Committee in June 2014.

143. No areas within the AIP were risk assessed as requiring further scrutiny or where further information was required. We will revisit these areas as part of the Shared Risk Assessment process for 2014/15.

## Local performance audit reports

144. In June 2011, Audit Scotland, on behalf of the Accounts Commission, published a national report entitled '*Arm's-Length External Organisations (ALEOs): Are you getting it right?'.* This report set out good practices to be considered by councils when setting up and operating ALEOs. More recently, following its consideration of a case involving The Highland Council, the Chair of the Accounts Commission's wrote to all councils highlighting the serious financial consequences of weak governance in the arrangements for overseeing ALEOs. The Chair took this opportunity to remind councils about the Commission's previous work in this area.

145. In 2013/14, we carried out a targeted follow-up review to provide the Accounts Commission with a position statement on councils' use of ALEOs and, in particular, assess what progress had been made subsequent to the publication of the 2011 report. This work will inform the Accounts Commission's consideration of ALEOs in the context of the public sector audit model.

146. In May 2014, we issued our follow-up report, in which we

assessed the effectiveness of the Council's governance arrangements for overseeing ALEOs. Our report concluded that the governance arrangements in respect of ALEOs are well established and that the Council has a clear and well-structured governance framework for monitoring the performance of ALEOs.

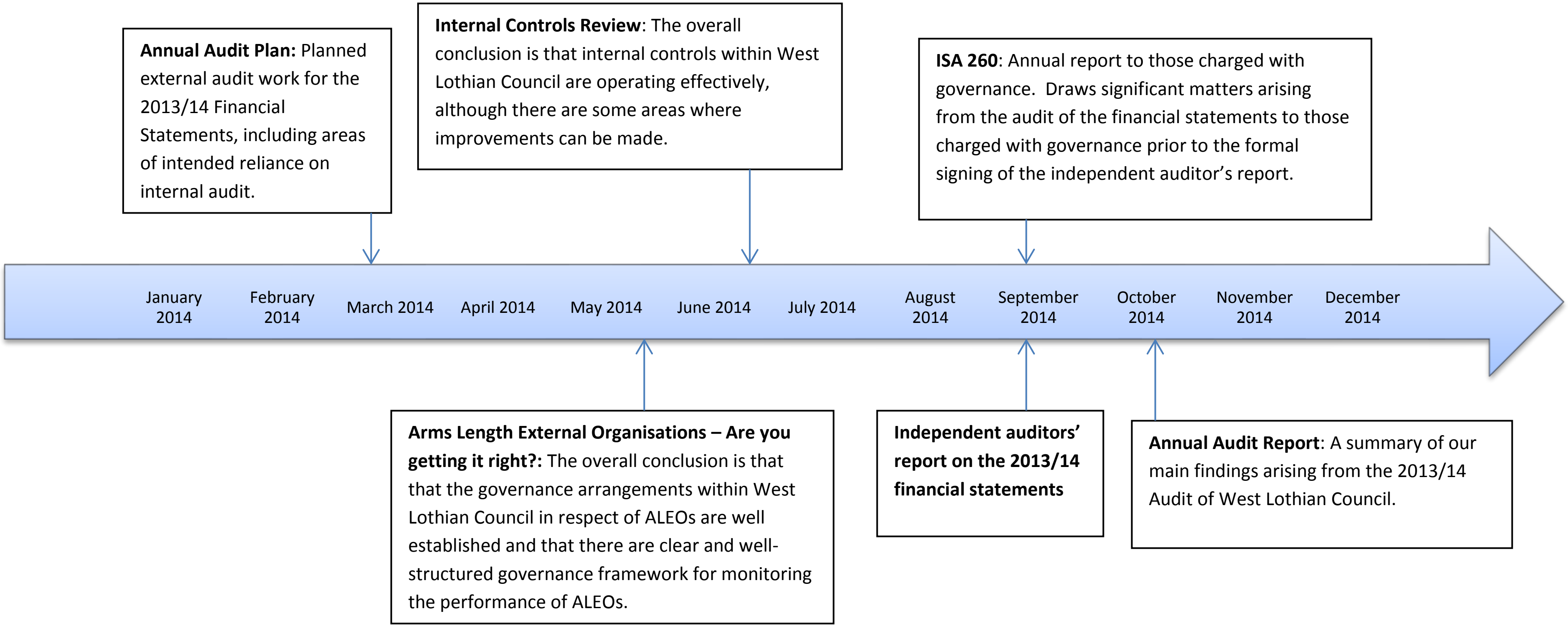
## National performance audit reports

147. The Council regularly reports the findings from our national performance audit reports to members including an assessment of current practices against good practices and the agreement of actions to ensure further improvements. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II .

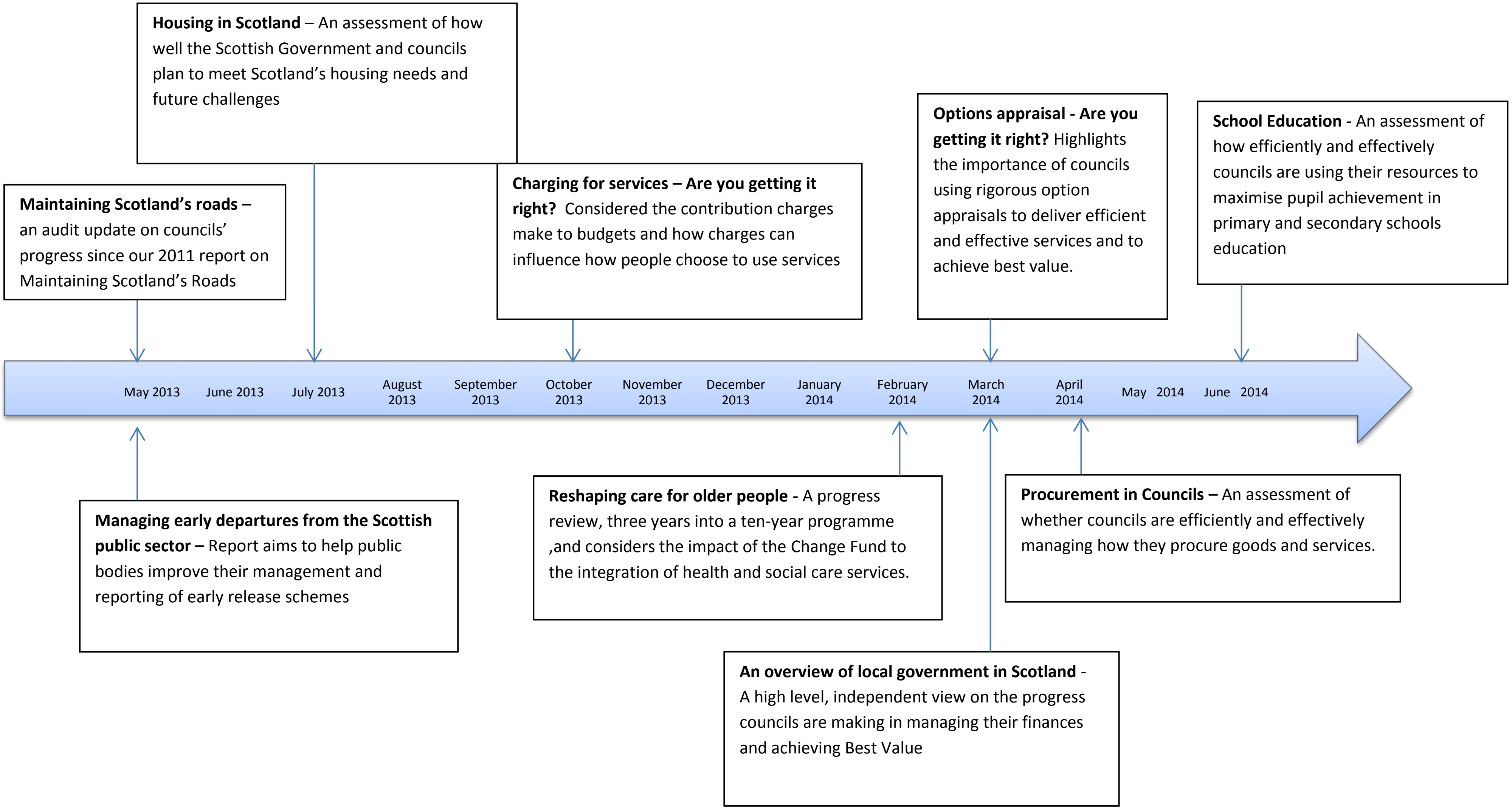
## Outlook

148. In common with other councils, West Lothian Council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However as choices on how to address funding gaps becomes increasing difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the Council achieving its key priorities.

## Appendix I – Summary of West Lothian Council local audit reports 2013/14



# Appendix II – Summary of Audit Scotland national reports 2013/14



## Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

| Audit Risk | Assurance procedure |
|---|---|
| **Managing financial pressures:** The Council agreed the revenue budget for 2013/14 and 2014/15 in January 2013, which identified funding gaps of £7.699 million and £7.176 million in 2013/14 and 2014/15 respectively. Savings proposals were produced for 2013/14 and 2014/15 and the Council has established effective officer level arrangements to control the delivery of each of the efficiency savings projects.<br>The Council may fail to deliver their agreed efficiency savings options. | We monitored the delivery of savings and the financial position of the Council by reviewing the budget monitoring reports presented to members throughout the financial year.<br>£7.439 million (97% of total savings target) of efficiency savings were achieved in 2013/14. The savings that were not delivered relate to procurement and were carried forward and added to the 2014/15 procurement savings target.<br>Refer to pages 19 and 20 of this report. |

| Audit Risk | Assurance procedure |
| --- | --- |
| **Welfare reform:** The Council's Anti-Poverty Development Group (APDG) is monitoring the effects of the welfare reform changes on the Council's services, including council tax collection and rent arrears. However, rent arrears are increasing.<br>The Council may not effectively manage the impact of Welfare Reform Act 2012 on individuals directly affected and the wider delivery of Council services. | We reviewed the welfare reform update reports presented to Council committees throughout the financial year.<br>We monitored the level of housing rent arrears by reviewing the relevant reports presented to Council committees during the financial year.<br>We reviewed the Council's approach to the calculation of the bad debt provision in respect of housing rent arrears and council tax arrears as part of the 2013/14 financial statements audit.<br>Refer to pages 25 and 26 of this report. |
| **New financial systems:** During 2013/14, three new financial systems have been implemented; asset register, non-domestic rates and housing rents and repairs.<br>The controls within the newly implemented financial systems may not be operating effectively. With any new system there are always potential implementation risks. | We reviewed the key controls operating within each new financial system and reported our finding within our 2013/14 review of systems of internal control management letter issued in May 2014. No significant issues were identified. |

## Appendix IV – Action plan

| Action plan point/page | Issue, risk and recommendation | Management action/response | Responsible officer | Target date |
|---|---|---|---|---|
| 1/19 | **Borrowing**<br>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.<br>**Risk**<br>The Council may incur unnecessary expenditure if the forecasted interest rate rises do not occur.<br>**Recommendation**<br>The Council should review its borrowing approach in light of developing market conditions. | The borrowing approach will continue to be reviewed during 2014/15. The rationale for the treasury strategy will be covered in detail in the annual report to Council. | Head of Finance and Estates | March 2015 |

| Action plan point/page | Issue, risk and recommendation | Management action/response | Responsible officer | Target date |
|---|---|---|---|---|
| 2/20 | **Funding gap**<br>The Council is facing a significant challenge in bridging a funding gap of over £30 million over the next three years.<br>**Risk**<br>The Council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.<br>**Recommendation**<br>The Council should ensure that it has up to date plans in place to deliver the required efficiency savings. | A major budget consultation exercise will be undertaken in October and November 2014, the results of which will be reported to PDSPs in December 2014.<br>A report on a three year revenue budget strategy and a detailed 2015/16 revenue budget will be presented to Council in early 2015. | Chief Executive<br>Head of Finance and Estates | December 2014<br>February 2015 |

| Action plan point/page | Issue, risk and recommendation | Management action/response | Responsible officer | Target date |
|---|---|---|---|---|
| 3/26 | **Rent arrears**<br>Council house rent arrears are continuing to rise (increasing by 32% on 2012/13) and this is likely to be further impacted by welfare reform.<br>**Risk**<br>The Council may be unable to prevent rent arrears from increasing, leading to a significant loss of income.<br>**Recommendation**<br>The Council should ensure that it has taken action to identify and address the causes of increasing housing rent arrears. | The Council has detailed plans in place to manage and reduce rent arrears, via a rent strategy. This was reported to the Council Executive on 19 June 2014. | Depute Chief Executive (Corporate, Operational and Housing Services) | March 2015 |