

West Lothian Council

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008



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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of West Lothian Council. The council dealt well with significant changes to the format of the accounts.

Managing the financial position is a challenge for all councils. The council recorded a net decrease in the general fund balance of £227,000 at 31 March 2008, which reduced the general fund balance to £4.066 million. Commitments against the balance were £1.692 million, leaving an uncommitted balance of £2.374 million, which was in line with the council's target minimum uncommitted general fund balance of £2 million.

Taking into account the challenging planned efficiencies, the uncertainty over future payments following tribunal appeals, the financial pressures facing the council, and the current economic volatility the council should keep its target level of unallocated general fund under review to ensure it remains adequate for the council's future needs.

The council published a new corporate plan in June setting out the council's strategic objectives and priorities for 2007 - 2011.

A Best Value and Community Planning audit of the council was reported in June 2005. The council continues to demonstrate a clear commitment to improvement and has made steady progress against the improvement actions agreed as a result of its 2005 best value audit. The key area for improvement is in relation to performance reporting. The council is currently developing a public performance reporting (PPR) web facility. It is planned that the PPR web facility will use the performance information provided by the Covalent performance management system. From 2008/09 performance will be reported against key outcomes in the Single Outcome Agreement (SOA). The council needs to ensure the Covalent system aligns to the SOA to be effective and officers need to ensure the accuracy of information in Covalent.

The council had generally good governance systems in place that operated well within a sound control environment.

We have considered a number of areas of the council's performance during the year. The position on some of these is noted below.

An independent evaluation of the West Lothian Community Health and Care Partnership (CHCP) in its initial two years was undertaken by Bishops Consulting (now Brodies LLP), and a final report was



presented to the CHCP Board in November 2007. The report concluded that the CHCP is making progress in achieving its goal of increased well being and reduced inequalities across all communities in West Lothian. It was also noted that there is evidence of significant progress, sound performance and systematic management by the CHCP which has resulted in significant benefits for the people of the area.

West Lothian continues to provide domestic homecare services, including kitchen/bathroom hygiene, shopping and laundry services. The council is working with health partners in the CHCP to identify any potential problems in this area. Free preparation of meals also continues to be provided.

The council has worked hard during 2007/08 to increase recycling levels across the area and 34% of all waste was recycled in 2007/08.

Outlook for future audits

The financial pressures on the council are significant and there is a risk that corporate priorities may not be achievable. Revenue budgets have been constrained to meet the demands of single status implementation and the efficiency agenda. Other financial pressures include increasing pension costs, waste management initiatives, education pressures, increasing fuel and energy costs and increasing demands in relation to social care services. The current market conditions may also lead to a delay in capital receipts, reduction in council tax income because of fewer house completions, and a reduction in council house sales.

To monitor achievement of corporate objectives further development of the PPR web based facility is required to ensure that appropriate targets are being measured and that information is available promptly to assist in the decision making process and in managing progress against strategic objectives. Performance across services is subject to scrutiny by members. The effectiveness of this scrutiny is to be kept under review.

There are a number of new councillors and a revised political governance structure has been introduced. As the new arrangements bed in, the council will need to keep their effectiveness under review and ensure that elected members are appropriately supported. All elected members are expected to have access to the elected members learning site by the end of October 2008. It is important in going forward that members continue to take advantage of training and development opportunities available to them.

The co-operation and assistance given to us by the West Lothian staff during the year is gratefully acknowledged.



October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of West Lothian Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in January 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - affordability and efficient use of resources
 - moving from services to communities
 - supporting political governance
 - accounting and regulatory developments
 - developing the improvement culture
 - delivering modern infrastructure for a growing population
 - a modern and streamlined workforce.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of West Lothian Council for 2007/08.
9. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good, enabling the audit to progress smoothly. Audited accounts were finalised prior to the statutory deadline of 30 September 2008 and are now available for presentation to the council and publication.

Accounting practice

10. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on Financial Reporting Standards (FRS), FRS25, FRS 26 and FRS 29



- replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.

11. We are satisfied that the council had prepared the financial statements in accordance with the revised SORP.

Issues identified during the financial statements audit

12. The council adjusted the financial statements to correct all errors identified during the audit. There were therefore no unadjusted errors which required to be reported to the Head of Finance and the audit committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Equal pay

13. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2006/07.

14. The council have reviewed actual and potential claims in relation to equal pay legislation and have included a provision of £1.313 million in the financial statements, as the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date. It should be noted however that there remain uncertainties over the actual costs that will be incurred to settle these cases, and any future unquantifiable claims that may be made. The Council has sought to limit its exposure to the financial risk associated with equal pay claims by paying equal pay compensation payments to specific groups of employees as part of a compensation package.

Fixed Assets

15. Enhancement expenditure: As was reported in 2006/07 it remains the case that the council's approach to enhancement expenditure is to add all capital spend to the value of fixed assets, even though it is not certain whether the value of the asset has increased by the amount spent. When the assets are revalued as part of the council's rolling programme, the values will be updated at that time to reflect the impact of capital spend. With this approach, there is a risk that asset values are too high. While adding to the value of fixed assets pending revaluation is generally an acceptable approach, a valuation should be undertaken, in the year of spend, for any asset to which there are material additions. From 2008/09 onwards, the council should consider requesting that the valuer undertakes



a revaluation in year of assets on which there is material capital spend. Officers have stated that the cost of such surveys can be prohibitive and therefore, value for money will be taken into account when considering whether to revalue in the year of spend.

Borrowing and temporary investments

16. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the borrowing in advance of immediate requirements must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
17. At 31 March 2008, West Lothian Council held short term investments of £108 million. Of this total, £30.8 million related to the advanced borrowing undertaken to take advantage of low interest rates. The balance will reduce in line with planned capital expenditure in the capital programme. The current forecasted balance on temporary investments at 31 March 2009 is £81 million. The Head of Finance has confirmed that all borrowing in advance of immediate requirements has been made for a legitimate purpose and is in the interests of prudent cash management, to fund the council's current capital strategy.
18. Almost 100% of long-term borrowing at the year-end matures after more than 10 years. The council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.

Identification and valuation of common good assets

19. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009. West Lothian Council only has one common good fund for Linlithgow. The assets belonging to the fund have been disclosed in the financial statements and agree to the asset register.

Significant trading operations

20. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The council has one STO, commercial



properties. The actual surplus for the year as reflected in the income and expenditure account was £0.224 million. Taking into account a charge for interest which is required to determine the statutory position, the STO ended the year with a deficit position of £0.181 million. The cumulative balance for the three years to 31 March 2008 however, was a surplus of £0.695 million, as a result the STO achieved its statutory target. The STO is expected to achieve a surplus in 2008/09.

Legality

21. Each year we request written confirmation from the Head of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Head of Finance has confirmed that, to the best of his knowledge and belief, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.
22. We reported last year that local authorities with registered charitable bodies (ie registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
23. The Freedom of Information (Scotland) Act 2003 came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland. The Act requires that councils respond to FOI requests within 20 days. In 2007/08 the council received 401 requests for information and has responded to 323 (80.5%) of these within the 20 day target response time. Therefore, responses to 78 (19.5%) FOI requests fell outwith the 20 days.
24. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

25. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.



Financial position

Introduction

26. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and delivering future efficiencies.

Council tax and the general fund

Operating performance 2007/08

27. The council's net operating expenditure in 2007/08 was £325 million. This was met by government grants and local taxation of £303.8 million, resulting in an income and expenditure account deficit of £21.0 million. Local and statutory adjustments require to be made to the income and expenditure position to remove capital costs and retirement costs to obtain the surplus/deficit on the general fund for any year. After these adjustments for 2007/08, the general fund reported a deficit of £0.227million.

28. The budget set for 2007/08 was based on a Band D council tax level of £1,128. The council budgeted to retain its uncommitted balance of £2.000 million in the general fund. At the end of 2007/08 the uncommitted general fund balance was £2.374 million.

Housing Revenue Account

29. The housing revenue account shows a surplus of £0.924 million (£0.925 in 2006/07), there was a marginal budget overspend of £1,000.



Reserves and balances

30. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £56 million, an increase of £10 million on the previous year.

Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
Revenue Balance - General Fund	4.066	4.293
Revenue Balance - Housing Revenue Account Balance	0.924	0.925
Insurance Fund	7.842	6.062
Repair and Renewal Fund	0.091	0.086
Capital Fund	43.008	34.466
	55.931	45.832

31. At 31 March 2008, the general fund balance was £4.066 million, of which £1.692 million is committed. This leaves an uncommitted general fund balance of £2.374 million which exceeds the council's target balance.

32. At 31 March 2008 committed amounts are £0.460 million for delegated schemes within Education, £0.516 million for the energy efficiency fund, £0.500 million for the development plan project team and £0.216 million for Education projects.

33. The capital fund balance is taken into account as part of the approved funds for the ten year capital investment programme.

34. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's associates and joint venture on the group balance sheet is to reduce net assets by £112.031 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.



35. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue and Lothian Valuation) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. The council's share of these deficits was £121 million. Provision was made in the revenue budget to adequately cover the council's obligation arising from the deficits.

Spending on assets

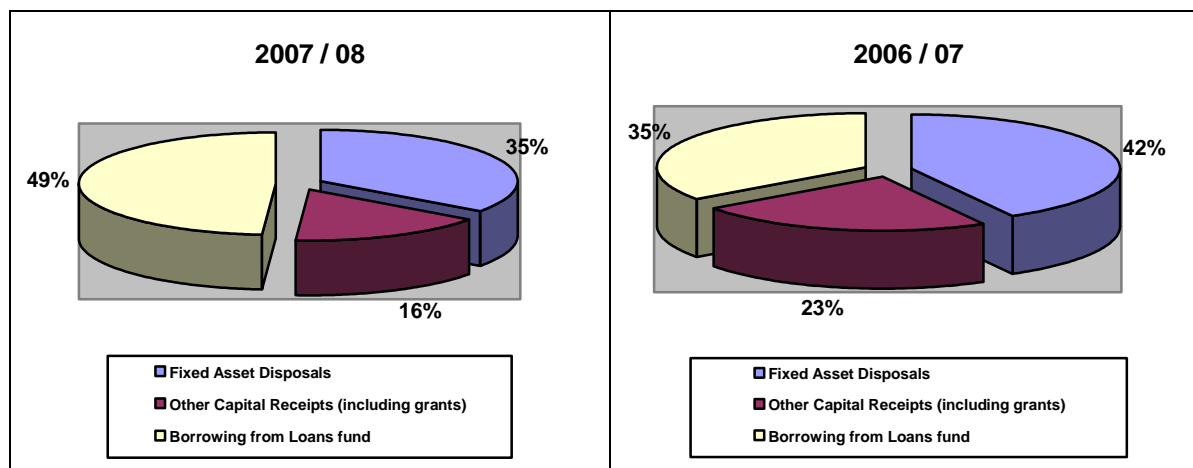
Capital performance 2007/08

36. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council has used the code to increase significantly its capital expenditure to improve its asset infrastructure.

37. Capital expenditure in 2007/08 totalled £78.4 million, compared to £78.5 million in 2006/07 and was funded by grants, capital receipts and borrowing as shown in Chart 1 below. Expenditure on General services for 2007/08 was £53.1 million, which is £2.1 million less than the revised budget of £55.2 million for the year. Although the General Services capital programme had net slippage of £2.1 million this was offset somewhat by the slippage of capital receipts from the disposal of council assets. The slippage experienced in relation to receipts arose due to timing differences and therefore it is anticipated that the slippage will be recovered in 2008/09

38. Capital expenditure for housing totalled £25.3 million in 2007/08, which is £298,000 more than budgeted. The overspend is attributable to the acceleration of works in the Social Housing Quality Standard (SHQS) programme and is expected to be offset by a corresponding underspend against the SHQS budget for 2008/09.

Chart 1: Sources of finance for capital expenditure 2007/08





Financial outlook

Council tax freeze

39. The council is party to the concordat between the Scottish Government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for additional Scottish Government funding and the removal of some ringfencing of grants.
40. The Scottish Government has made funding of £70 million available in 2009/10 and 2010/11 for local authorities that confirm they are freezing the council tax in those years. This equates to £2.091 million per annum for West Lothian. The Head of Finance in his 2009/10 and 2010/11 financial strategy reported to the Council Executive in June 2008 has assumed a council tax freeze in both 2009/10 and 2010/11 but the council will determine the planned council tax level in February each year.

Affordability and efficient use of resources

41. The 2008/09 revenue report looked at future developments and outlined a medium term efficiency strategy. The budget reflects the grant finance settlement and a wide range of expenditure pressures, and commitments to deliver service developments.
42. Revenue budgets have been constrained to meet the demands of single status implementation and the efficiency agenda. Other financial pressures include increasing pension costs, waste management initiatives, education pressures, increasing fuel and energy costs and increasing demands in relation to social care services. The current market conditions may also lead to a delay in capital receipts, reduction in council tax income because of fewer house completions, and a reduction in council house sales.
43. The council has budgeted for and is projecting an outturn position of break even at 31st March 2009. A number of efficiency savings and measures totalling £6 million have been included within the 2008/09 revenue budget. This is a challenging target and if efficiencies are not delivered there is a risk of overspending.

Key Risk 1

44. Taking into account the challenging planned efficiencies, the uncertainty over future payments following tribunal appeals, the financial pressures facing the council, and the current economic volatility the council should keep its target level of unallocated general fund balance of £2.000 million under review to ensure it remains adequate for the council's future needs.



45. To monitor achievement of corporate objectives in this difficult financial environment further development of the PPR Web based facility is required to ensure that appropriate targets are being measured and that information is available promptly to assist in the decision making process and in managing progress against strategic objectives.

Single status

46. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
47. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
48. Around half of Scottish councils have now implemented single status or have firm plans in place for implementation by 31 December 2008. West Lothian Council is one of a number of councils that implemented a single status agreement with the workforce as at 1st October 2007. The initial cost of implementing the single status agreement was £5.8million with further incremental increases of £0.800million per annum.

Future capital programme

49. Revised general services capital investment programmes for 2008/9 and 2009/10 anticipate annual capital expenditure of £96 million and £90 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing over the two years.
50. Over the same period £28.192 million is planned to be spent on the council's housing stock, funded by House Sales Receipts, Capital Funded from Current Revenue and Borrowing. The council remains committed to meeting the Scottish Housing Quality standard for all its stock by 2015.

Pension liabilities

51. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual



payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

52. The council's estimated pension liabilities as valued at 31 March 2008 exceeded its share of the assets in the Lothian Pension Fund by £0.711 million, reducing from £55.394 million in the previous year. In addition the council has unfunded liabilities for discretionary pensions of £29.792 million, the annual costs of which are accounted for in the revenue budget.
53. The next full actuarial valuation will assess the position at 31 March 2008 and is due to be issued in December 2008. This will determine contribution rates for 2009-10 and the next two financial years.



Governance

Introduction

54. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

55. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.
56. A Statement of Assurance on Corporate Governance is included within the annual financial statements which provide a commentary by the Leader of the Council and the Chief Executive on progress made during the year in taking forward issues to be addressed to comply with the local code of corporate governance.
57. Internal audit has been given responsibility for reviewing the adequacy, effectiveness and extent of compliance with the council's local code of corporate governance. In 2007/08 internal audit reviewed compliance with the structures and processes section of the code, and concluded that overall, the council's compliance was satisfactory.

Political Governance

58. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected across Scotland in May 2007 were new to local government.
59. Within West Lothian Council there was a change of administration and 13 councillors were new. This required substantial support from officers to ensure that adequate training and development programmes were provided. Alongside this, the council took the opportunity to review its political management structure.
60. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. Officers have informed us that the experience of workload can be different in practice from, person-to-person, ward-to-ward and party-to-party. There is reporting of increased workload for councillors, officers and support staff.



61. A protocol covering working practices and political management arrangements to encourage consistent effective and efficient multi-member ward working was issued in June 2007. The protocol is currently being revised to cover interactions between officers and members to encourage effective political leadership in addition to effective community leadership.

Audit Committee

62. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. During 2007/08, members in West Lothian Council continued to have the opportunity to challenge service activities and performance through the operation of a range of scrutiny panels.
63. We reported in 2006/07 that although the audit committee received all major reports prepared by internal audit on the results of reactive work undertaken, they received only a small number of the reports prepared in respect of systems reviews and performance/best value audit. We are pleased to report that in 2007/08 there has been an increase in the number of internal audit reports presented to the audit committee.

Internal Audit

64. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework.
65. We were able to place reliance on the work of internal audit in the following areas:
- income management and cash receipting
 - management of fixed assets
 - payroll.

Systems of internal control

66. A Statement on the System of Internal Financial Control for the council and its group was included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the council, the chief internal auditor and from joint venture and associate companies, the Head of Finance concluded that he was satisfied that



reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.

67. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on the council's main financial systems. The results were satisfactory. We performed additional detailed testing of controls on the non domestic rate income, council tax and payroll systems. The results were again satisfactory, enabling us to reduce the amount of audit work required during the audit of the financial statements figures on these areas.
Prevention and detection of fraud and irregularities
68. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.
69. During 2007/08 an employee fraud was identified within Finance services totalling £39,000. The employee was prosecuted and found guilty. Action is ongoing to recover the monies.

NFI in Scotland

70. In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud. Overall, 1,198 matches were identified in respect of West Lothian Council.
71. The council identified savings of approx £35,000 from the exercise, primarily from benefit fraud investigations. At the end of March 2008, investigations had been completed on almost 900 of the matches identified, with progress being made on the remainder. However, the council only submitted datasets for the mandatory areas, with none of the risk-based elements being considered. Cases relating to blue badge holders, and residential care payments, which are mandatory in the 2008/09 exercise are currently being considered by the council.
72. West Lothian Council was one of thirteen councils who also took part in a council tax exercise for NFI in 2008. One aspect of the exercise was to highlight potentially invalid single person discounts, and those reaching 18, who may affect household eligibility to single person discounts. Progress is ongoing in reviewing these matches.



73. The 2008/09 data matching exercise is due to commence in October 2008.

Housing Benefit

74. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. West Lothian Council is part of this future programme.

Data Handling

75. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation. The council recognises the importance of this matter and has carried out work to identify risks, and is currently developing a number of policies and procedures, such as the information security policy, to provide the control environment needed to ensure an appropriate level of information awareness and security. The Scottish government has set up a group of privacy and security experts to scrutinise how local government services handle personal data. This group will develop a draft set of guiding principles which should influence future information management and security actions.

Payment card standards

76. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The council uses the AXIS Payment Management solution supplied and managed by Capita Software Services to take its payments by credit card. The system conforms to the latest PCI / DSS standards required to process payments securely. The standard accredits the solution to ensure it is operating under the highest levels of security required by the banks. The council has also provided assurance that no personal card details in breach of the standard are retained on in-house servers.



Governance outlook

Single outcome agreements

77. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.
78. Every council had agreed its first SOA by 30 June 2008. West Lothian adopted a partnership approach in developing its SOA. In the council's opinion the time taken to establish the key issues for the area and demonstrate the evidence base for these issues resulted in a robust agreement being submitted to the Government. In addition the report to the council executive in June 2008 stated that in order to consolidate the outcome based approach and to continue the development of locality planning, it was recommended that community planning and regeneration services were confirmed as a permanent council service and that a head of service also be confirmed. In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.

Key Risk 2



Performance

Introduction

79. In this section we summarise how the council manages its performance and its current performance as reported in the annual report, statutory performance indicators and the best value improvement plans. We comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

Corporate objectives and priorities

80. Following the May 2007 elections, West Lothian Council experienced significant political change which resulted in a change to the ruling administration. A new corporate plan incorporating the council's mission and priorities for the next four years was approved by the new council in June 2007. The plan contains six main priorities:

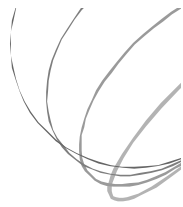
- improving opportunities for young people
- making our economy stronger
- improving the health and wellbeing of our communities
- protecting our environment and communities
- planning for population growth
- making our services as efficient as possible.

81. For each priority the plan summarises the context and key challenges the council faces and sets out the council's overall goals and specific objectives.

Overview of performance in 2007/08

Annual Report

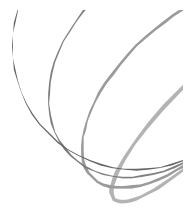
82. In September 2008, the Chief Executive and the Leader of the Council provided their annual report to the council. This report highlighted the council's most important achievements over the previous 12 months, outlined progress with ongoing major areas of work and identified issues to be addressed in the coming year. Key conclusions that were reported included:



- the council introduced local area committees in the last year and continued to develop locality planning highlighting the council's focus on local priorities. Locality plans are in the process of being developed
- efficiency improvements of £3.6 million were made ensuring low council tax levels below the Scottish average were maintained. The savings were used to maintain or improve delivery of council services
- last year the council was the first unitary authority in the UK to be awarded a Corporate Charter Mark, the standard for excellent customer service
- during the year the council took positive action to support its traditional town centres and was fully supportive of the Bathgate business improvement district. This is an initiative which the council hopes to see extended to other towns. A new local organisation has been established to encourage business and tourism to West Lothian
- the capital investment programme into roads, structures and street lighting was completed during the year. Work progressed well on the two new secondary schools, Armadale Academy and Deans Community High school and on the improvements and extensions of St Kentigern's Academy, the James Young High school and Inveralmond Community High school. Work was also completed on the new sports facility at Linlithgow Academy which will benefit both the pupils and the local community.

Measuring Performance

83. Performance information is currently provided through the Covalent system. However, in December 2007 internal audit raised concerns over the accuracy and currency of some of the information provided through the Covalent system.
84. The council employed Solace Associates to look at how the council plan, manage and report performance at the corporate level and across the services. Their report concluded that whilst on the whole satisfactory progress had been made in implementing the procedural recommendations contained in the internal audit report, the findings of their testing of sample indicators for accuracy were disappointing.
85. It is planned that the public performance reporting (PPR) web facility will use the performance information provided by the Covalent performance management system.



Statutory performance indicators

86. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). A total of 57 SPIs were reported in September 2008. Chart 2 below highlights how performance overall compares to that reported in 2006/07. Some of the areas where performance has improved are:

- there has been an increase of 30% in hours available for respite care
- hours available for respite care for disabled children have increased by 14%
- time taken for processing benefits has reduced; new claims by 6.4 days and changes in circumstances by 2.4 days
- the percentage of recoverable benefit overpayments that were recovered in the year (excluding council tax benefit) increased by 7.1%
- Trading standards have increased the percentage of consumer complaints processed within 14 days by 6.4% and the percentage of business advice requests dealt with within 14 days by 6.8%.

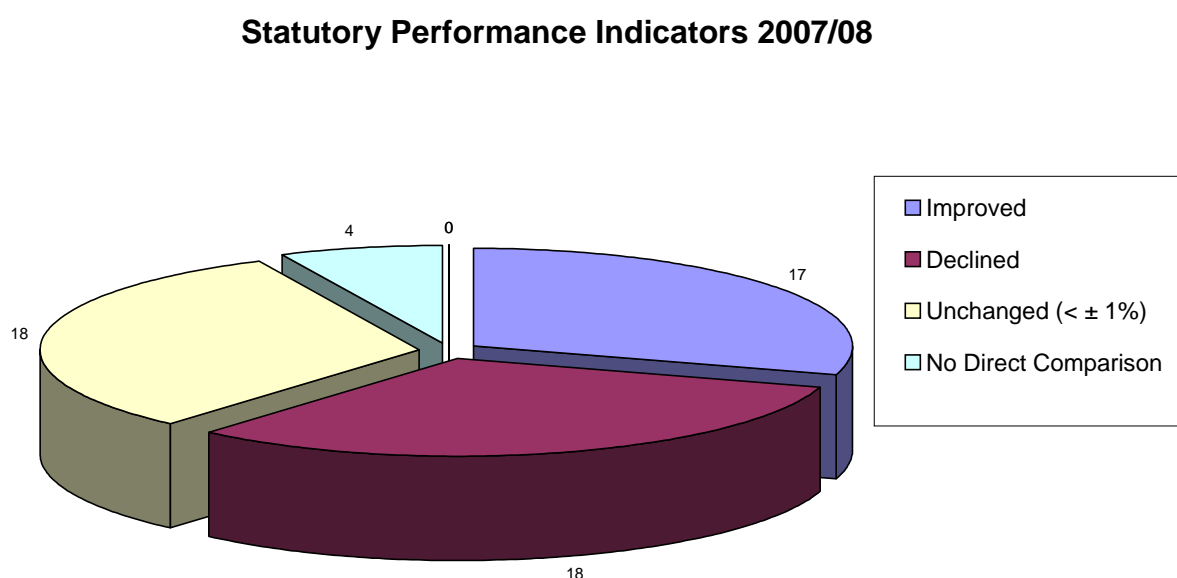
87. The key areas where performance has declined are:

- there has been an increase of 7.7% in housing benefit overpayments written off
- attendance for swimming pools reduced by 12.6%
- attendance for indoor sports and leisure facilities reduced by 10.4%
- the average time to sell a council house has increased from 21 weeks to 26 weeks
- the average time to process a homelessness case has increased from 21 weeks to 27.6 weeks
- the net cost of refuse disposal per premise increased by 8.7%.



88. A report was submitted to the performance committee in October 2008 highlighting the improvements and reductions in performance during 2007/08. Consideration was given to the report and it was decided that the Best Value Manager would provide the performance committee with a report that compared West Lothian Council's Statutory Performance Indicators against other local authorities. Action would then be determined by the performance committee.

Chart 2: Improvements demonstrated by SPIs (Total 57 indicators)



89. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was good. Two indicators were classified as unreliable due to incomplete information. The indicators were refuse collection complaints and the proportion of street lighting columns that are over 30 years old. This makes internal and external comparisons unreliable.

90. It is expected that the performance indicator for street lighting columns will be assessed as unreliable again in 2008/09 due to limitations of a new system which was introduced in April 2008.

Best Value audit

91. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new



arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

92. The Best Value audit of West Lothian Council was carried out in 2005 and the findings published in June 2005. The Accounts Commission recognised in the report the evidence of good practice and highlighted there was a strong commitment to improvement within the council.
93. Areas identified for improvement were incorporated in to the council's improvement agenda and the Accounts Commission noted that it was particularly interested to see improvement in the following areas:
- development of the role elected members should play in scrutinising service performance
 - better performance information to underpin management and scrutiny processes
 - more balanced public performance reporting that highlights areas in need of improvement as well as well as the council's successes.

These areas are considered below.

94. During 2006/07 the council established a performance committee. The committee prepared a programme of reviews and during 2007/08 received presentations on performance from all council services. There was no evidence in the committee minutes of effective scrutiny of the reports presented or agreed actions.

Key Risk 3

95. The development of performance information and public performance reporting remains is a key area for improvement for the council, as highlighted in paragraphs 83 – 85. of this report. The council also needs to ensure its performance management system aligns to the SOA if public performance reporting is to improve in 2008/09.

Performance outlook

Introduction

96. In the course of our audit work we identified some of the strategic risks to West Lothian Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into seven risk themes. In the following paragraphs, we comment on those outstanding risks not addressed elsewhere in the report. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.



Moving from services to communities

Community Health and Care Partnership

97. An independent evaluation of the West Lothian Community Health and Care Partnership (CHCP) in its initial two years was undertaken by Bishops Consulting (now Brodies LLP), and a final report was presented to the CHCP Board in November 2007. The report concluded that the CHCP is making progress in achieving its goal of increased well being and reduced inequalities across all communities in West Lothian. It was also noted that there is evidence of significant progress, sound performance and systematic management by the CHCP which has resulted in significant benefits for the people of the area.
98. However, the report also made a number of recommendations to help take the CHCP forward, including the need to cement the governance arrangements after signing the draft partnership agreement between the council and NHS Lothian, and the subsequent development of a more integrated approach to pooled budgeting. The report suggests that these recommendations support a five staged development of the CHCP, from the initial two year pilot phase to a phase of evidenced impact and organisational maturity responsive to the needs of the people of West Lothian. Joint governance and accountability between the council and all its partners are still not fully in place, and the council has identified this as an area requiring further work.
99. It is important that there is effective performance monitoring and reporting of the CHCP. At present the council and the NHS use their own reporting systems, Covalent and Midas respectively, to monitor performance. In addition, managers use a wide range of operational databases and systems, for example the financial ledger, to monitor performance. Internal audit have acknowledged that the CHCP now report on a greater range of information than they had done previously, however, further action is required to improve the performance reporting arrangements.

Housing

100. Communities Scotland reported on their housing inspection of the council in October 2006. The council was graded as excellent for housing management and property maintenance, but only as fair in respect of its homelessness services. The report concluded that the council's approach to delivering its homelessness service, including access to temporary accommodation and assessing applications, needs to improve significantly. An improvement plan was prepared by the council to address the weaknesses identified, and progress was reported to Communities Scotland in December 2007. Seventeen of the twenty three actions had been completed at that date. The council has highlighted in its SOA that it is taking forward an innovative approach to tackling homelessness but, without action from the Scottish government, will not be able to meet its statutory target in respect of homelessness by 2012.



Delivering modern infrastructure for a growing population

101. One of the most significant challenges currently facing the council is the predicted rate of growth of the West Lothian population and the resulting impact on infrastructure and council services. The West Lothian Local Plan, which is based on the Government Registrars population forecast, sets out how the West Lothian area should grow from now until 2020. The plan provides a framework for expansion which allows new houses to be built for the growing population, ensures essential facilities will be in place for the new citizens, helps the local economy to keep growing and keeps the effect on the environment to the minimum.

A modern and streamlined workforce

102. Significant workforce efficiencies will have to be identified to ensure that the council can balance its budget over the medium term. A small workgroup has prepared a draft outline of a workforce plan and will work with service areas to analyse the current workforce capacity against the future demands of the Council. Workforce plans will assist managers to take decisions on rationalising posts and services in order to achieve the required efficiencies.

National Studies

103. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

104. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/6. Co-mingled collections appear to achieve higher recycling rates
- there has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met
- increased recycling has led to increased costs for councils
- all parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.



In 2007/08 the position for West Lothian Council was that:

- 34% of all waste was recycled
- 1,590 flats or difficult to reach households were consulted on potential recycling containers and kerbside recycling was introduced to them
- the number of properties with kerbside recycling increased from 92% to 94%
- all West Lothian schools recycle paper and have the opportunity to recycle cans and plastic bottles
- a new Community Recycling Centre was opened in March 2008 at Oakbank which will increase the council's recycling rate by 2%
- the council is currently working with partners to provide a recycling shop on site in the coming year
- free bulky waste collections are offered three times a year for every household and the frequency of mixed recyclable collections has been altered to every two weeks.

EC landfill directive

105. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.

106. The council is currently responsible for collecting, treating and disposing of approximately 114,000 tonnes of waste each year, of which around 78,000 tonnes is taken to landfill. The council's landfill allowance will reduce from 44,257 tonnes in 2007/08 to 40,405 tonnes by 2009/10. In 2007/08 the council didn't meet its target but is expecting penalties to be waived.

107. As a result of the landfill tax increases it was established by the council that the additional costs of running the commercial waste collection service for 2008/09 would be £76,000 which includes an increase of £33,200 for landfill tax charges. Commercial waste charges were increased by 15% to cover the increase in landfill tax and associated fuel, haulage and gate fee increases.



Free personal and nursing care

108. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:
- councils have interpreted the legislation and guidance relating to food preparation differently across Scotland
 - councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services
 - councils should provide clear information to older people on what is covered by FPNC
 - councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.
109. West Lothian Council charged for food preparation (on a means tested basis), from the inception of its charging policy in 1999, up until 2006. At that point following concerns from elected members regarding the ambiguity around the legislation, a committee decision was taken to cease charging. All the income raised from food preparation, between 2002, (the date the legislation came into force), and 2006, was repaid to clients. This amounted to £400,000, with an additional recurring annual loss of income to the council of approximately £120,000.
110. The council is continually striving to improve, where appropriate, its reporting and information recording systems. Indeed the effectiveness of its client information services was commented on very favourably in the Social Work Inspection Agency Performance Inspection last year.
111. Prior to the FPNC Legislation being introduced in 2002, personal care was provided free to all clients in West Lothian who were in receipt of a home care service (home helps). Since then, information regarding FPNC has been made available to all clients, either those entering a care home, or receiving care at home.
112. West Lothian continues to provide domestic homecare services, including kitchen/bathroom hygiene, shopping and laundry services. The council is working with health partners in the CHCP to identify any potential problems in this area.



Scotland's school estate

113. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

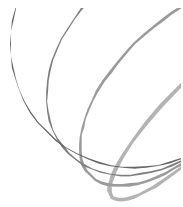
- better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy
- greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building
- making environmental sustainability a key element of school design
- doing more to identify and share good (and bad) practice in school design and estate management
- estimating pupil rolls for at least ten years ahead with a minimum annual review.

114. The council has a 10 year corporate asset management plan in place which was approved in November 2007. The asset management plan provides the framework for management of all of the council's assets, including schools and is supported by the capital investment strategy which enables assets to support service delivery.

115. The council has started work on extending and refurbishing Inveralmond Community High School, St Kentigern's Academy and the James Young High School, an investment of £59 million.

116. Work is also well underway to replace Deans Community High School and Armadale Academy, which are due for completion in 2009.

117. In August 2007 Simpson Primary School was opened, the capital cost was fully funded by developer contributions. The quality of school buildings was improved by investing in additional class bases, general-purpose space, and sports facilities across the schools, and the maintenance backlog in schools was cleared by August 2007.



Overview of sport in Scotland

118. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:
- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies
 - the level of participation and funding in sport has been declining and participation by younger people falls short of targets
 - Sport Scotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard
 - arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.
119. In 2007/08 West Lothian Council opened two full sized floodlit synthetic turf pitches at St Kentigern's Academy and the James Young High School, and provided a new multi-use games area at Harrysmuir Primary School. A new pilot project of sporting excellence was launched including four sports, girls' football, boys' basketball, golf and swimming, with 54 senior pupils receiving additional coaching, training and lifestyle education.
120. A total of 68 coach education courses were delivered and 898 volunteers were recruited to deliver the Active Schools programme, increasing the opportunity to participate in sport, and improving the quality of the sporting activity offered.
121. The curriculum dance programme attracted 132 pupils, up from 100 the previous year, and around 120 children and young people participated in weekly community dance classes.
122. Last year the council attracted 24,514 young people to attend 1,372 out-of-school and holiday sports programmes. In addition, 68 coach education courses were organised with 1,146 participants; 898 volunteers for Sport and Recreation activities were recruited; and nine community sports clubs were accredited.
123. Play parks and facilities were improved at Preston Road, Linlithgow, Granby Avenue and Falconer Rise, Livingston. Work also began to upgrade facilities at Letham Park, Craigshill.



Race equality

124. In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- examine the impact of the duty on council services and people from minority ethnic communities
- consider the main factors that affect the performance of councils on race equality
- set out how councils can now improve their performance
- make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

125. Following publication, the council should consider the recommendations made in this report.



Final Remarks

126. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
127. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
128. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
129. The co-operation and assistance given to us by West Lothian Council staff is gratefully acknowledged.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	43	<p>Financial pressures Efficiencies of £6million have been included in the 2008/09 revenue budget. Key emerging pressures on the council's 2008/09 budget include the impact of the economic situation, increasing pension costs, waste management initiatives, education pressures, increasing fuel and energy costs and increasing demands in relation to social care services.</p> <p>Risk: The council's efficiency savings may not cover the financial pressures in future years.</p>	<p>Heads of Service are fully aware of and committed to delivering their efficiencies in their service.</p> <p>Service budgets will be closely monitored on a monthly basis to ensure target efficiencies are being delivered.</p> <p>The council will continue to budget for emerging financial pressures.</p>	<p>Heads of Service</p> <p>Heads of Service</p> <p>Head of Finance</p>	<p>Throughout 2008/09</p> <p>Throughout 2008/09</p> <p>Ongoing</p>
2.	78	<p>Performance Reporting In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.</p> <p>Risk: The current performance monitoring and reporting system does not align to the SOA.</p>	<p>The council has confirmed this is the case and work is in hand to extend the system to Community Partners in order to simplify and standardise public and management reporting against the SOA.</p> <p>Management are currently taking action to ensure the accuracy of data in the Covalent system.</p>	<p>Best Value Manager</p>	<p>Throughout 2008/09</p>
3.	94	<p>Scrutiny of service performance The services across the council present reports to the performance committee on a cyclical basis. There is no evidence in committee minutes of any scrutiny of the performance information presented.</p> <p>Risk: the members are unsure of their role regarding scrutiny of the information presented.</p>	<p>Training will be provided to members on scrutiny of performance</p>	<p>Best Value Manager</p>	<p>December 2008</p> <p>December 2008</p>