DATA LABEL: Public

Audit Committee

West Lothian Civic Centre
Howden South Road
LIVINGSTON
EH54 6FF

12 December 2017

A meeting of the **Audit Committee** of West Lothian Council will be held within **Council Chambers, West Lothian Civic Centre** on **Monday 18 December 2017** at **2:00 p.m**.

For Chief Executive

BUSINESS

Public Session

1. Apologies for Absence

2. Declarations of Interest - Members should declare any financial and non-financial interests they have in the items of business for consideration at the meeting, identifying the relevant agenda item and the nature of their interest.

3. Order of Business, including notice of urgent business and declarations of interest in any urgent business

4. Confirm Draft Minute of Meeting of the Audit Committee held on Monday 25 September 2017 (herewith).

Public Items for Decision

5. Internal Audit Progress Report - report by Audit, Risk and Counter Fraud Manager (herewith)

Public Items for Information

6. Counter Fraud Presentation

   (a) Report by Audit, Risk and Counter Fraud Manager (herewith)

   (b) Presentation by the Senior Compliance Officer

7. Risk Actions Arising From Audit And Inspection Reports - report by Audit, Risk and Counter Fraud Manager (herewith)

8. Internal Audit of The Administration of School Medication - report by Audit, Risk and Counter Fraud Manager (herewith)

9. Internal Audit of The Administration of Financial Instruments - report by Audit, Risk and Counter Fraud Manager (herewith)

10. Report To Members and The Controller of Audit on the 2016/17 Audit - report by Head of Finance and Property Services (herewith)

11. Local Government in Scotland Financial Overview 2016/17 - report by Head of Finance and Property Services (herewith)

12. Audit Scotland - Principles for a Digital Future: Lessons Learned from Public Sector ICT Projects - report by Head of Corporate Services (herewith)

13. Audit Scotland - Equal Pay in Scottish Councils - report by Head of Corporate Services (herewith)

14. Counter Fraud Report for First Six Months of 2017/18 (April to September) - report by Audit, Risk and Counter Fraud Manager (herewith)

PRIVATE SESSION

15. The Clerk considers that the following business is likely to be taken in private (exempt under the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973).

Private Items for Information

16. Counter Fraud Report for First Six Months of 2017/18 (April to September) - Appendix 1: Summary of Fraud/Irregularity Established in 2017/18 (April to September) (herewith) (Exempt in terms of Paragraphs 1, 6 and 14)

NOTE **For further information please contact Elaine Dow on 01506 281594 or email elaine.dow@westlothian.gov.uk**

MINUTE of MEETING of the AUDIT COMMITTEE of WEST LOTHIAN COUNCIL held within COUNCIL CHAMBERS, WEST LOTHIAN CIVIC CENTRE, on 25 SEPTEMBER 2017.

Present – Councillors Chris Horne (Chair), Damian Timson, Lawrence Fitzpatrick and John McGinty

Apologies – Noel Lawlor, Lay Member

In attendance
Graham Hope (Chief Executive), Donald Forrest (Head of Finance and Property Services), Julie Whitelaw (Head of Corporate Services), Kenneth Ribbons (Audit, Risk and Counter Fraud Manager), James Millar (Governance Manager), Pamela Main (Senior Manager, Assessment and Prevention).

1. DECLARATIONS OF INTEREST

There were no declarations of interest made.

2. MINUTE

The committee approved the minute of its meeting held on 30 June 2017 as being a correct record.

3. WORK OF INTERNAL AND EXTERNAL AUDIT

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, advising that on 7 June 2017 West Lothian Council decided that the existing Audit and Governance Committee should be replaced by two new committees – the Audit Committee and the Governance & Risk Committee.

A presentation was then provided to assist members of the committee by providing an overview of the internal and external audit processes.

The Audit, Risk and Counter Fraud Manager, then gave a presentation on the history and purpose of internal and external audit. He advised that internal auditing provided independent, objective assurances and consulting activity designed to add value and improve operations. It also helped to accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The purpose of the external auditors was to audit the annual accounts and form a view as to whether the accounts were "true and fair" and report back to stakeholders and members.

Finally, it was noted that the risk based audit work undertaken by the Audit, Risk and Counter Fraud Manager would form the basis of the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

The committee thanked the Audit, Risk and Counter Fraud Manager, for the informative presentation.

Decision

To note the contents of the report and the presentation by the Audit, Risk and Counter Fraud Manager.

4. AUDIT SCOTLAND SELF-DIRECTED SUPPORT 2017 PROGRESS REPORT

The committee considered a report (copies of which had been circulated) by the Head of Social Policy providing a summary of the findings of the Audit Scotland Self-directed Support 2017 progress report. A summary was also provided on the progress made in implementing Self-directed Support using the Audit Scotland Checklist for councillors and board members, details of which were attached at appendix 1 to the report.

The report explained that the 10 year national *Self-directed Support Strategy 2010-20* was introduced jointly by the Scottish Government and COSLA with the aim of empowering people to have more say in the decisions that affected them both as individual recipients of social care services and support and as members of their communities. The 2013 Social Care (Self-directed Support) (Scotland) Act 2013, which came into effect on 1 April 2014, was part of that strategic approach. The aim of Audit Scotland's follow up SDS 2017 progress audit was to establish whether councils, integration authorities and the Scottish Government were making sufficient progress in implementing SDS to achieve the aims of the 10 year strategy. The key findings and recommendations from the audit were outlined within the report.

The findings of the Audit Scotland report reflected the challenges that councils have faced in making the significant changes required for the implementation of SDS as the mechanism for the delivery of social care and support in Scotland. West Lothian has made effective progress in all the areas of SDS implementation considered by the report and in planning the future work that was required to complete the full implementation of the SDS strategy.

The Audit Scotland report has provided a useful analysis of the progress across Scotland in implementing a key national policy for the delivery of social care. The position in relation to the implementation of SDS nationally was reflected locally and demonstrated the scale of the transformational change required. However, effective progress has already been made and there was strong local commitment across key partners and stakeholders to continue the work to ensure the implementation of the 2010-20 SDS strategy.

In response to questions from members which centred on the council's own policies and procedures, the committee was advised that:

- The choice of the “best” option for a service user was for the individual to make, not for the council to make or direct. The council had a duty to provide information to make sure the service users were in a position to make their own choice

- The council did have a power to intervene and stop direct payments if it was concluded that they were not being used appropriately. The system was designed around outcomes, and the intervention would be considered if those outcomes were not being achieved

- There was a financial context in relation to reducing budgets for the service. There as evidence to show that if the options and services available were well-used then better outcomes could be delivered at lower cost

- It had been recognised by officers that the council could do better in relation to enabling service users to know their options and make the right choice for them, and an action plan is in place to make the improvements identified

- The view of officers was that the pace of change expected by Audit Scotland was not achievable, with limitations of the market representing a restricting factor

- There were robust methods in place to measure the effectiveness of the service, including customer surveys, user reviews and assessment processes, and those are used to identify areas for improvement and plan actions to address them.

It was recommended that the committee:

1. Notes the key findings and recommendations of the Audit Scotland Self-directed Support 2017 progress report; and

2. Notes West Lothian’s progress in implementing Self-directed Support summarised in the Audit Scotland Checklist for councillors and board members.

Decision

To note the contents of the report.

5. INTERNAL AUDIT OF BUSINESS CASE EXEMPTIONS

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, providing details of the outcome of an audit of exemptions from the approved competitive procurement process.

The report advised that in accordance with the annual audit plan for 2016/17, the council carried out an audit of procurement business case exemptions. Business case exemptions were required to be completed in exceptional circumstances where a service did not deem it appropriate or possible to go through a competitive procurement process. The objective of the audit was to review compliance with Standing Orders for the Regulation of Contracts and the business case exemption process as detailed in Corporate Procurement Procedures. The resultant audit report was attached as an appendix to the report which included an action plan with agreed management actions.

In response to questions from members the committee was advised that:

- The new procedures to address the identified weaknesses included, for the lower-value exemptions, a revised application form agreed through the Procurement Board and a pre-authorisation review of the register of exemptions to address the risk of aggregation of contract values, together with a sign-off on the application by the Head of Service

- For the higher-value cases, a completely new process had been designed and implemented by the recently-appointed Corporate procurement Manager which called for, amongst other things, a consultation with the Corporate Procurement Unit and their comments included with the application when submitted

- The fact that all of the lower-level exemptions had been approved should not cause concerns, rather it indicated that the pre-application processes were filtering out the problematic cases before they reached the stage for formal decision.

It was recommended that the Audit Committee notes that control in relation to the exemptions process was unsound.

Decision

To note the contents of the report.

6. INTERNAL AUDIT OF THE OBJECTIVE CONTENT MANAGEMENT SYSTEM

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, providing details of the outcome of an internal audit of the Objective content management system.

The report advised that in accordance with the annual audit plan for 2017/18, the council has carried out an audit of the Objective content management system. The audit remit was to conduct a high level review of the effectiveness of the project management arrangements and the key activities that contributed towards the successful delivery of the project. The resultant audit report was attached as an appendix to the report which included an action plan with agreed management actions.

In response to questions from members the committee was advised that:

- Although the project had had the same technical Lead throughout, there had been several changes to the Project Manager post. That had been filled from outside the council and those appointed had been found not to have been a good fit for the project. The current Project Manager had been appointed internally and would be in post till the conclusion of the project

- The slippage in completion, not uncommon for such projects, had been acknowledged. The reasons included non-availability of key personnel from the supplier and the changes of Project Managers

- The completion of the project was now considered and monitored at regular meetings of the Project Working Group and the Procurement Board, and record-keeping through minutes and action notes had been improved

- There were arrangements in place to retain information and documentation after completion of the project and after contracted staff leave, but there were also current internal appointments to positions of Development Officer, an IT Technical Lead and the Project Manager.

It was recommended that the Audit Committee notes that the review of the implementation of the Objective content management system concluded that the level of control required improvement.

Decision

To note the contents of the report.

7. INTERNAL AUDIT OF THE SYSTEM OF INTERNAL CONTROL

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, providing details of the outcome of an internal audit of the council's system of internal control.

The report stated that in accordance with the internal audit plan for 2017/18, a high level review was undertaken of the council's key policies and procedures, including a review of previous internal audit work on these areas, and a review of the draft 2016/17 annual governance statements. The resultant audit report was attached as an appendix to the report which contained agreed management action as set out in the action plan.

In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Audit, Risk and Counter Fraud Manager required to deliver an annual opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control. His opinion would be included in the 2017/18 annual report which would be reported to the Audit Committee in June 2018. The opinion of the Audit, Risk and Counter Fraud Manager would have regard to the findings in the internal audit report attached as an appendix to the report and the findings of the other internal audit and counter fraud work undertaken during the year.

In response to questions from members the committee was advised that:

1. Other organisations chose to use different terminology for their assessment categorisation, such as “limited”, but the words used by the council were appropriate and well-understood

2. In relation to cash-handling risks, those were very much in the control of Heads of Service and were their operational responsibility, albeit that specialist advice from Internal Audit and the Financial management Unit were available

3. The assessment in relation to health and safety policies was considered to be accurate, with completion of actions on track by the agreed deadline.

It was recommended that the Audit Committee notes that the review of the system of internal control was considered to be satisfactory.

Decision

To note the contents of the report.

8. INTERNAL AUDIT OF THE FINANCIAL STRATEGY - REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER (HEREWITH)

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, providing details of the outcome of an internal audit of the delivery of a financial strategy and balanced budget.

The report advised that in accordance with the internal audit plan for 2017/18, an audit was undertaken of the delivery of a financial strategy and balanced budget. The resultant audit report was attached as an appendix to the report. The committee noted that there were no audit findings, and therefore no requirement for an action plan.

It was recommended that the Audit Committee notes that following the review of the processes to deliver a financial strategy and balanced budget it was concluded that the level of control was effective.

In response to questions from members the committee was advised that:

- Although the risk in relation to a balanced budget as assessed as “high”, reporting to committee on the current frequency remained appropriate, rather than reporting more often, such as on a quarterly basis

- There was a set of mitigation measures in place in relation to that risk. The report to and decisions by council at the budget-setting meeting in February would result in a reduction of the scoring for the risk, and after that the emphasis would shift more to the risks of approval and delivery of a medium-term financial strategy.

The Chief Executive confirmed that the high and strategic corporate risks were being reported to Governance & Risk Committee in October and that the committee could, if it so decided, consider those risks at every meeting rather than on a less frequent basis.

Decision

To note the contents of the report.

9. SCOTTISH LOCAL AUTHORITIES CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, providing details of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) annual report for 2016, which was attached as an appendix to the report.

The report explained that The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) existed to promote best practice in internal audit in local government and acted as a networking forum for members. Membership comprised of the heads of internal audit in Scottish local government and Strathclyde Partnership for Transport.

The Group met four times during 2016. The September 2016 meeting was a joint meeting on health and social care integration, with the council's counterparts on the health side. During 2017 local meetings continued between the internal auditors for the NHS Lothian Integration Joint Boards and the head of internal audit for NHS Lothian.

The committee noted that the Group maintained a computer audit sub group, and in addition the Scottish Local Authority Investigators Group (SLAIG), which was previously a stand-alone group, and was now a permanent sub group. SLAIG existed to promote the practice of fraud prevention, detection and investigation in local government, and during the year the group received a presentation on procurement fraud from the council's counter fraud team.

When asked about the benefits or lessons to be derived from the Group, the Audit, Risk and Counter-fraud manager advised that he felt the Group provided a useful network for sharing experience and learning lessons. He gave as an example the recently-established cooperation locally amongst Internal Auditors of councils, Integration Joint Boards and health board.

It was recommended that the Audit Committee notes that the SLACIAG continued to act as an effective forum for the dissemination of best practice for internal audit in local government.

Decision

To note the contents of the report.

DATA LABEL: PUBLIC

AUDIT COMMITTEE

INTERNAL AUDIT PROGRESS REPORT

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of progress in relation to the internal audit plan for 2017/18.

B. RECOMMENDATION

It is recommended that the Audit Committee:

- notes that the 2017/18 internal audit plan remains on target to be completed;
- agrees to an amendment to the 2017/18 internal audit plan as set out in section D.5 of this report.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Completion of the internal audit plan is a performance indicator on Pentana.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	None.

D. TERMS OF REPORT

D.1 Risk Based Audit

This involves reaching an opinion as to the effectiveness of control over key risks to the council. The following work has been undertaken.

Completed

Corporate Services - Taxi / Private Hire Car Licensing (reported to the Committee on 30/6/17)
Corporate Services - Electronic Content Management System (reported to the Committee on 25/9/17)
Council Wide - System of Internal Control (reported to the Committee on 25/9/17)
Council Wide - Physical Asset Security
Education Services - Administration of School Medication (to be reported to the Committee on 18 December 2017)
Education Services –Follow up of agreed actions re school funds
Finance and Property Services - Financial Strategy (reported to the Committee on 25/9/17)
Housing, Customer and Building Services – Control over Payments to Sub-Contractors
Operational Services - Damage to Underground Services
Operational Services – Operator's License
Planning, Economic Development and Regeneration – Financial Instruments (to be reported to the Committee on 18 December 2017)

Reports in Draft

Operational Services - Compliance with Waste Recycling Targets
Housing, Customer and Building Services – Building Services Overtime Payments

Work in Progress

Council Wide - Procurement of Works Contracts
Education Services – Monitoring of West Lothian Leisure Financial Position
Operational Services – Administration of Taxi Cards
Housing, Customer and Building Services- Follow up of agreed action re Homeless Costs
Social Policy – Administration of External Children's Placements

To Start

Corporate Services - Payroll
Council Wide - Compliance with Payment Card Industry (PCI) Standards
Education Services - Pupil Equity Grant
Educations Services – Procedures for Monitoring School Fund Compliance
Operational Services - Follow up of agreed action re Cemeteries Risks

D.2 Grant Claims / Returns

This involves the annual audit of the Leader (rural development) grant claim, the 2016/17 Climate Change Declaration (CCD) and the 2016/17 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme return. The CRC audit is undertaken to confirm the accuracy of the submitted emissions figures. The Leader report is in draft and the CCD and CRC work is complete.

D.3 Reactive Work

During the period the Senior Auditor attended the Objective Project Board and Objective Project Team as the Finance and Property Services representative.

D.4 Other External Bodies

As set out in the annual internal audit plan, the internal audit team undertakes work for the West Lothian Integration Joint Board, West Lothian Leisure, and the Improvement Service. This work is reported separately to the Audit Committees of these organisations.

D.5 Amendments to the 2017/18 Plan

The 2017/18 internal audit plan includes an audit in relation to the Social Policy risk CF001 "Assault or injury to staff, or malicious allegation, by service user". The Governance and Risk Board has commissioned Gallagher Bassett, the council's risk consultant, to undertake a review of personal safety in Social Policy. It is proposed that this audit is therefore not undertaken at this time and further work will be considered depending upon the outcome of the Gallagher Bassett review. It is proposed to replace this in the 2017/18 audit plan by an audit of the Social Policy risk SP010 "Injury, death, or abuse to service user".

E. CONCLUSION

The 2017/18 internal audit plan remains on target to be completed.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee 27 February 2017: Internal Audit Plan 2017/18

Appendices/Attachments: None.

Contact Person: Kenneth Ribbons, Kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

West Lothian Council

AUDIT COMMITTEE

COUNTER FRAUD PRESENTATION

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of the presentation by the Senior Compliance Officer on the work of Counter Fraud Team.

B. RECOMMENDATION

That the Audit Committee notes the work of the Counter Fraud Team.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Weaknesses in the framework of governance, risk and control may have an adverse impact on performance.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	None.

D. TERMS OF REPORT

At the meeting of the Audit Committee on 30 June 2017, a request was made to the Senior Compliance Officer to provide members with further details on the Counter Fraud Team.

Accordingly, a presentation has been prepared to provide members of the Audit Committee with an understanding of the work undertaken by the Counter Fraud Team.

E. CONCLUSION

The presentation will assist the work of the Committee by providing an overview of the Counter Fraud Team.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee on 27 February 2017: Counter Fraud Plan 2017/18

Report to the Audit Committee on 30 June 2017: Counter Fraud Report 2016/17

Appendices/Attachments: None.

Contact Person:
Stuart Saunders, Senior Compliance Officer, stuart.saunders@westlothian.gcsx.gov.uk
Tel No. 01506 281574

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

DATA LABEL: PUBLIC

West Lothian Council

AUDIT COMMITTEE

RISK ACTIONS ARISING FROM AUDIT AND INSPECTION REPORTS

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To advise the Audit Committee of progress in implementing agreed actions arising from audit and inspection reports.

B. RECOMMENDATION

It is recommended that the Audit Committee considers the outstanding risk actions and notes that failure to timeously implement agreed actions may impact adversely on performance and / or achievement of council objectives.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Failure to effectively mitigate risks may have an adverse impact on performance.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	Heads of Service.

D. TERMS OF REPORT

In November 2011 a report was submitted to the then Risk Management Board in relation to entering agreed actions from audit / inspection reports into the Pentana system as risk actions.

The Board endorsed the recommendation that the following be entered into Pentana as risk actions:

- all external audit findings which are the subject of an agreed action plan;
- agreed actions arising from internal audit findings ranked as being of "high" importance;
- actions arising from findings / recommendations from other external inspectors / agencies which are considered to be significant.

A report was submitted to the Audit Committee on 30 June 2017 setting out those findings which had been entered into Pentana as risk actions in accordance with the agreed protocol, which were due to be completed by 31 March 2017, and which were still outstanding. This report and appendix constitutes an update on these actions.

In relation to the attached appendix:

- the "assigned to" field contains the responsible officer for the action;
- the "progress bar" field identifies the service's current estimate of percentage completion;
- the "original due date" field is the date for completion, where relevant this will be as per the original agreed action plan;
- the "revised due date" is a revised completion date set by the service;
- the "finding" field contains the finding;
- the "agreed action" field sets out the agreed action;
- the "latest note" field contains the latest update by the service on progress.

There are 12 outstanding risk actions in this report, of which one relates to Audit Scotland, and 11 relate to internal audit.

E. CONCLUSION

It is important that risk actions are implemented timeously as failure to do so may impact adversely on performance and / or compliance with council objectives. Oversight of outstanding risk actions by the Audit Committee will facilitate their completion.

F. BACKGROUND REFERENCES

None.

Appendices/Attachments: Outstanding Audit and Inspection Recommendations due by 31 March 2017

Contact Person: Kenneth Ribbons Kenneth.Ribbons@westlothian.gov.uk tel. 01506 281573

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

Appendix: Outstanding Audit and Inspection Recommendations due by 31 March 2017

Audit Scotland

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
ITS15009_Are Use of Unsupported and Older Software	Ian Forrest	99%	31-Dec-2015	31-Dec-2017	The Council is still using and relying on unsupported Microsoft software. (Windows Server 2003). **Risk** Operating older unsupported versions of software may result in security weaknesses. **Recommendation** The Council should ensure that project to migrate Windows Server 2003 should be completed as soon as possible	A project is ongoing to decommission all versions of windows 2003 server by 2015.	Julie Whitelaw 08-Dec-2017 Action - All versions of windows 2003 server to be decommissioned by 2015 - incomplete. Revised date for completion - 31 December 2017. The Open Housing/Open Query server remains the only active server on Windows 2003. A replacement product is now live and the service are currently performing user acceptance testing. Following a meeting on 29 November, the Service has agreed the server will be powered down and removed from the network on 31 December 2017. The server will then be decommissioned after the confirmation of a successful year end reporting.

Internal Audit

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
PTS13120_Ari Tender for bus shelter advertising	Nicola Gill	40%	31-Mar-2014	31-Dec-2017	The council has had a contract for bus shelter advertising with the company Clear Channel since 1996 which ended on 31 March 2011. Clear Channel both supply and clean the shelters. The current annual income is £7,600. We were advised that the contract for bus shelter advertising will be going out to tender in the latter part of this year. However, on expiry of the contract in 2011, there was no formal extension to the contract and an informal agreement was put in place to continue with the current contract until a new contract had been tendered. The contract needs to be put out to tender as soon as possible.	Long -term contract in place to manage bus shelter advertising and maximise revenue for the council	Nicola Gill 08-Dec-2017 Further Benchmarking exercise has established that WL is one of few LAs who receive rent income from shelters and discussions with the current supplier have indicated that movements in the market to digital advertising mean that rent income is being removed from long term contracts going forward as the market position is unclear. This confirms that a tender process would not be appropriate at this time. Therefore, PTU manager has written to current supplier to request a formalisation of a short term contract (2 years) matching existing agreement and income levels in order to allow time to identify if changes to the infrastructure are required to meet market requirements. These terms have been accepted by the supplier and a deed of variation is being submitted to West Lothian Council for signing which will complete the audit action.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
COR14001_Ari Use of the San Server	.Head of Corporate Services (J Whitelaw)	83%	30-Sep-2014	31-Jan-2018	The majority of services were still making use of the san server in relation to reviewing data for deletion or transfer to Meridio or using the san server where data was not compatible with Meridio or was required to be held separately to facilitate interfaces with other systems. Social Policy also currently continues to use the san server for client records as they consider alternative storage methods. Officers did not advise of any targets or deadlines in relation to the review of data on the san server and are tackling this on an ongoing basis and as time permits. Numerous examples were provided of information that is exempt from storage on Meridio. However there are no central records recording this information and where it is held. A central record of approved exemptions may assist when reviewing san server usage. In addition, while Social Policy client files remain on the san server, a significant volume of sensitive data is out with the council's standard records management procedures.	1. Heads of Service to ensure that the Information Asset register is updated with exceptions to the use of EDRMs – 03/07/2014. 2. Project Managers/ILOs to complete a 6 Monthly review of the Information Asset Register and report to IMWG – 03/07/2014 (see 3.2.1). 3. Head of Corporate Services to ensure installation of migration tool for EDRMs to allow bulk uploads of documentation – 30/09/2014. 4. IT Services to provide the IMWG with reports on SAN usage quarterly (see 3.3.2): 14/08/2014; 06/11/2014.	Julie Whitelaw 06-Dec-2017 Action 1 - Heads of Service to ensure that the Information Asset register is updated with exceptions to the use of EDRMs. - outstanding. Although exceptions had been agreed for the purposes of Meridio, the exceptions from Objective will differ from those in Meridio and the revised timescale for agreeing the new list of exceptions is end January 2018. Action 2 - Project Managers/ILOs to complete a 6 Monthly review of the Information Asset Register and report to IMWG - Complete Action 3. Head of Corporate Services to ensure installation of migration tool for EDRMs to allow bulk uploads of documentation – Complete Action 4. IT Services to provide the IMWG with reports on SAN usage quarterly - Complete.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
LS14001_Ari Partnership Working Guidance	James Millar	85%	31-Dec-2014	28-Feb-2018	We noted that the council's Partnership Working Guidance was approved by Council Executive in June 2010, and in our opinion it would now be appropriate for it to be reviewed: the Guidance contains certain mandatory requirements, and consideration should be given to renaming / rewording it to make it explicit that compliance is mandatory the Guidance contains the following "details of the partnership agreement should be recorded in the council's register of contracts"; as partnerships are not commercial contracts, we do not consider this to be appropriate.	Guidance will be reviewed and updated	James Millar 08-Dec-2017 The guidance is part of an overarching paper about engagement with outside bodies, especially ALEOs. Following the external auditor's report in September 2017 and now the Best Value Assurance report in November 2017, the council's relationship with its ALEOs and arrangements for West Lothian Leisure are to be reviewed. The existing draft has been adjusted and revised with those matters in mind. The paper will be part of that review process. The current guidance remains in place for use.
LS14002_Ari Partnership details	James Millar	80%	30-Apr-2015	28-Feb-2018	We noted as above that the Guidance refers to a requirement to record details of the partnerships in the council's register of contracts. We noted that services were not maintaining details of their partnerships, other than in relation to an entry in their annual management plan. Services should maintain comprehensive details of all partnerships, and in our view it would be appropriate for the Corporate Governance Working Group to monitor progress in implementation.	Revised guidance will include updated requirements in relation to maintaining lists of partnerships Once the revised guidance is approved by Council Executive it will be cascaded via Heads of Service. Monitoring will be undertaken by Depute Chief Executives. Training will be provided to Governance Champions via the Corporate Governance Working Group. Governance Champions will cascade requirements and training within their service areas.	James Millar 30-Nov-2017 Completion is tied to and is part of the work covered by LS14001_Ari. Please see the latest update there for information.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
LS14003_Ari Partnership Working Checklists	James Millar	80%	30-Apr-2015	31-May-2018	We identified a general lack of awareness of the Partnership Working Guidance. The Guidance recommends that services complete checklists for informal and formal partnerships. Only one service provided evidence of completed checklists in relation to their partnership working arrangements, however these did not appear to be comprehensive. There was also no evidence that services had formally reviewed their partnership arrangements annually as required by the Guidance. As above, we consider that there is a role for the Corporate Governance Working Group in raising awareness and monitoring implementation.	Training will be provided for Governance Champions by CGWG. Governance Champions will deliver training to their respective services.	James Millar 30-Nov-2017 Completion is tied to and is part of the work covered by LS14001_Ari. Please see the latest update there for information
PTS15101_Ari Update Trapeze so that an audit trail of the user approving an invoice batch is available	Nicola Gill	80%	30-Oct-2015	15-Dec-2017	The majority of orders and invoice batches are approved in Trapeze by either the Public Transport Manager or the Senior Public Transport Officer. However, the system will also allow both Super Users to authorise purchase orders and invoice batches. Due to staff absence, there has been a need for the Super Users to authorise purchase orders and invoice batches in the past.	Amend Trapeze user rights so that no user can approve their own invoice batches and create report or screen to show which user approves an invoice and which user exports a batch.	Nicola Gill 08-Dec-2017 User Acceptance Testing of the new update has been completed in the test environment and has confirmed that an audit trail of user approving invoice batches exists within the system meeting the requirements of the audit action. Supplier is uploading update into Live environment on 15 December 2017.
PTS15102_Ari Update Trapeze so that Super Users cannot approve their own batch invoices	Nicola Gill	80%	30-Oct-2015	15-Dec-2017	The Super Users have permissions to raise orders, approve orders, input invoices and approve invoice batches and it was confirmed that these functions are all currently undertaken by them. These arrangements should be reviewed to ensure appropriate approval roles and effective segregation of duties are in place.	A request was raised with Trapeze on 10 April 2015 to change user rights so that Super Users cannot approve their own invoice batches. The request also included a request for visibility of the user who approves an invoice and who exports a batch invoice history screen	Nicola Gill 08-Dec-2017 User Acceptance Testing of the new update has been completed in the test environment and has confirmed that super users cannot approve their own batch invoices meeting the requirements of the audit action. Supplier is uploading update into Live environment on 15 December 2017.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
COR15004_Ari Information Asset Register Follow-up - High Risk Assets	.Head of Corporate Services (J Whitelaw)	99%	30-Jun-2016	30-Jun-2017	The six highest ranking assets/systems in terms of risk levels (score of 16+) were selected for audit testing. Having checked for 'risk assessment logs' in the IT Applications folder in Meridio, of the six high / critical risk systems only the Exchange e-mail system and EDRMS were present in the folder. In the case of EDRMS, there was no current risk assessment present in the folder. Also, a further two high risk assets, Email Management System and Vodafone Disk, which were overdue for review at the time of the audit, were reviewed. It was confirmed that the risk in relation to the Email Management System was overstated and we could not obtain any information at all on the status of the Vodafone Disk, other than being advised that services may be keeping risk assessments locally.	a) High level risk assessments are in place for all assets. It may be useful to have internal audit's view on this process. Privacy impact assessments and project risk assessments should be in place for all new/updated systems. The council requires an information risk assessment process that is in line with current risk management regime. Once (a) above is completed, and in conjunction with the reminder and verification process outlined in findings 3.2 and 3.3, an exercise will be undertaken to have the individual IAR asset risks reviewed and updated as necessary. Heads of Service to ensure that all assets are appropriately assessed as per corporate standards.	Julie Whitelaw 06-Dec-2017 Action - High level risk assessments are in place for all high risk assets. Action overtaken by work which is being undertaken to prepare for implementation of GDPR. High risk assets in the Information Asset Register were reviewed at every second IMWG to ensure that all risk assessments are in place for assets assessed as high risk. Report to ICT Programme Board on any high risk assets where risk assessment is not in place. New information asset register is being developed which will hold the attributes required for GDPR compliance. All of the assets are currently under review for GDPR Compliance. High risk assets will be prioritised for review. GDPR will require mandatory Risk Assessments and updating of processes in line with Cyber Security and Law Enforcement Directives. A new Asset Register and Risk Assessment process is required by 25th May 2018. A new GDPR risk has been created (COR 15007) and a risk action relating to the creation of appropriate GDPR compliant information asset register has been created (COR15007_A) and linked to that risk. Action - High level assets reviewed and updated as necessary - complete. Information Asset Register reviewed at every second meeting of Information Management Working Group.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
HCBS16001_Ari Capacity Shortfall Analysis	AnnMarie Carr	85%	31-Mar-2017	31-Mar-2018	Review of projected budget outturn information for 2016/17 found that the full budget for hotel and bed and breakfast costs had been spent by the end of August 2016. At the end of August 2016 projected spend for 2016/17 was £653,000 against the 2016/17 budget of £250,000. A report analysing short to medium term accommodation demand has been prepared and a growing shortfall in the number of available accommodation units was identified in the three years from 2016/17 to 2018/19. Proposals which meet the projected shortfalls, for example through investment of available capital budget and Scottish Government funding, and the sourcing of additional properties through the review of arrangements with Registered Social Landlord partners and Private Sector Landlords were identified. At the time of the audit these proposals have not been fully implemented and it is imperative that these are completed as quickly as possible to minimise budget pressures in 2016/17 and to meet the forecast demand levels in future years. It is also important that accommodation demand analysis is revisited regularly to account for changes in the key variables in the accommodation demand forecasts i.e. average length of time spent in temporary accommodation, forecast population growth rates, total number of households being assessed as homeless. The demand analysis report notes that demand forecasts are intended to be reviewed annually, however a more frequent review may be appropriate.	Proposals which have been identified to meet projected shortfalls will be implemented by end of 2016/17. Service restructure will be completed during the same timeframe. Demand analysis figures will be kept under regular review.	AnnMarie Carr 06-Dec-2017 The service has increased numbers of properties available for use as TT's and is continuing to work with Private Sector and RSL landlords to further increase capacity. Detailed modelling for 17/18 has been carried out with plan to ensure continued mitigation of use of B&B's and reduction in budget spend. The service continues to meet on a weekly basis to discuss and monitor progress of plan and projections re demand for service and numbers in hotels. In addition the service is attending special CMT meeting to discuss plan with chief executive and heads of service in order to ensure corporate approach to meeting challenges. The service restructure is 85% complete. The Accommodation Officers role is going through final consultation in preparation for grading with aim that structure will be complete and fully implemented by end of January 2018.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
					The demand analysis report concludes by noting that the service is also undergoing a restructure and as part of this a review of procedures will be carried out to ensure best use of resources whilst meeting statutory requirements. It was confirmed that this review is ongoing and it is recommended that this is concluded alongside the implementation of the proposals noted above.		

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
HRS16002_Ari Procedures for file cleansing / destruction - ex employee files.	Katrina Daly	40%	31-Mar-2017	30-Mar-2018	The HR retention schedule is generally satisfactory in terms of detailing what requires to be obtained, retained and applicable retention periods, with records management plan and retention schedule in place. However, there is a lack of an effective practical procedure for the cleansing of files after members of staff have left the service of the council. The records of seven ex-employees whose employment terminated between 2004 and 2009 were reviewed, and all had documents present which should have been destroyed before the audit commencement date. This requires to be addressed and a procedure introduced for ongoing cleansing of historic records.	Implement system to ensure file destruction takes place in accordance with retention schedule. The specification for the new EDRM system is to include the facility to manage the destruction of records in accordance with the relevant file retention schedules. As a result, this action will be progressed as part of the upgrade process.	Julie Whitelaw 07-Dec-2017 Action - Implement system to ensure file destruction in relation to ex-employees, takes place in accordance with retention schedule Objective ECM includes facility for retention /destruction of records. Action will not be fully completed until conclusion of the Scottish Child Abuse Inquiry or at least until the Inquiry provides some further instruction on records which can be deleted. The Historic Child Abuse Inquiry issued a retention notice in 2017 prohibiting destruction of any files or papers which may be required for the purposes of the inquiry. As a result the council is required to retain the employee records of all current and past employees occupying or having occupied a safeguarding role or who have been PVG checked due to their regular contact with vulnerable groups. Typically this includes all current or past employees who work or have worked in the delivery of Social Care and Education in schools, as well as other employees who work or have worked within that settings. The Council has records from 2011 when PVG checks were introduced of all employees/ ex-employees who have been checked but no records of disclosure checks or SCRA checks which predate that. There is no accurate way of identifying the employee files that can be destroyed before 2011. Whilst a list of posts that are not be covered by the prohibition order could be created, this would only relate to the employees post when leaving the Council. Further work is being undertaken to identify whether there are any reports which can be run to confirm from a former employees employment history that none of their previous posts were covered by the order and that these files can therefore be destroyed.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
							Action - The specification for the new EDRM system is to include the facility to manage the destruction of records in accordance with the relevant file retention schedules. As a result, this action will be progressed as part of the upgrade process. - Complete. Objective ECM includes facility to manage retention/destruction of records.
HRS16004_Ari Non-deletion of disciplinary records after prescribed period.	Katrina Daly	40%	31-Mar-2017	30-Jun-2018	Disciplinary records are not being deleted from the HR files following the prescribed period. Of twelve files reviewed, nine still had disciplinary records on file which had been passed the prescribed period following which they should have been destroyed. Of the remaining three, two were correctly retained but one related to an individual who had been dismissed - the retention schedule does not detail a specific holding period for dismissals and the standard retention periods for terminations are said to apply i.e. 6 years or 25 years (where PVG applies).	Implement system to ensure file destruction takes place in accordance with retention schedule. The specification for the new EDRM system is to include the facility to manage the destruction of records in accordance with the relevant file retention schedules. As a result, this action will be progressed as part of the upgrade process.	Julie Whitelaw 07-Dec-2017 Action - Implement system to ensure file destruction in relation to disciplinary records, takes place in accordance with retention schedule. - This action will not be completed until conclusion of the Scottish Child Abuse Inquiry. Objective ECM includes facility for retention /destruction of records. Deletion of disciplinary records not covered by Scottish Child Abuse prohibition should be in accordance with the Retention and Destruction Schedule for Employee Records available on my Toolkit. HR services are employing a dedicated resource from January to June 2018 to review and cleanse current employee files. The Historic Child Abuse Inquiry issued a retention notice in 2017 prohibiting destruction of any files or papers which may be required for the purposes of the inquiry. As a result the council is required to retain the employee records of all current and past employees occupying or having occupied a safeguarding role or who have been PVG checked due to their regular contact with vulnerable groups. Typically this includes all current or past employees who work or have worked in the delivery of Social Care and Education in schools, as well as other employees who work or have worked within that settings.

Action Code & Title	Assigned To	Progress Bar	Original Due Date	Revised Due Date	Audit Finding	Agreed Action	Latest Note
							The Council has records from 2011 when PVG checks were introduced of all employees/ ex-employees who have been checked but no records of disclosure checks or SCRA checks which predate that. There is no accurate way of identifying the employee files that can be destroyed before 2011. Whilst a list of posts that are not be covered by the prohibition order could be created, this would only relate to former employees post when leaving the Council. Further work is being undertaken to identify whether there are any reports which can be run to confirm from a former employees employment history that none of their previous posts were covered by the order and that these files can therefore be destroyed. Action - The specification for the new EDRM system is to include the facility to manage the destruction of records in accordance with the relevant file retention schedules. As a result, this action will be progressed as part of the upgrade process. - Complete. Objective ECM includes facility to manage retention/destruction of records.

West Lothian Council

AUDIT COMMITTEE

INTERNAL AUDIT OF THE ADMINISTRATION OF SCHOOL MEDICATION

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of the outcome of an internal audit of the administration of school medication within Education Services.

B. RECOMMENDATION

It is recommended that the Audit Committee notes that control is considered to be unsound.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	Compulsory procedures “Management of Pupils with Health Care Needs” dated May 2015.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Weaknesses in internal control may have an adverse impact on performance.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people’s needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	Senior managers within Education Services as part of the audit process.

D. TERMS OF REPORT

In accordance with the internal audit plan for 2017/18, an audit has been undertaken of the administration of school medication within Education Services. The resultant audit report is attached as an appendix to this report and includes an action plan containing agreed management actions.

E. CONCLUSION

Our audit of the administration of school medication within Education Services has concluded that control is unsound.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee 27 February 2017: Internal Audit Plan 2017/18.

Appendices/Attachments: Internal audit report dated 11 December 2017: School Medication

Contact Person: Kenneth Ribbons, kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

West Lothian Council

ES1701

INTERNAL AUDIT REPORT

EDUCATION SERVICES

SCHOOL MEDICATION

11 December 2017

westlothian.gov.uk

CONTENTS

1.0 EXECUTIVE SUMMARY

1.1 In accordance with the annual audit plan for 2017/18, we have undertaken a review of the administration of school medication within Education Services and conclude that the level of control is **unsound**.

1.2 The audit remit is set out in section two.

1.3 The council operates 11 secondary schools, 67 primary schools and 6 special schools delivering education to over 26,000 pupils, and is responsible for the safety of pupils while in their care, including the safe administration of medical care. This extends to the administration of medicines, both prescribed and non-prescribed, and pupils whose medical needs do not involve medication.

1.4 Medical conditions noted during the audit were highly diverse ranging from asthma / allergies which are evident in most classes in most schools; epilepsy, diabetes and ADHD which are less prevalent, and other conditions which may be unique to a specific individual at one school.

1.5 The administration of medication at three secondary schools, eleven primary schools and one special school was reviewed during the audit, and a list of these is included at Appendix B. The following key controls were found to be in place:

- there are mandatory procedures for the administration of medication in all schools;
- a range of forms are included in the above procedures, to aid effective administration;
- there is a requirement for parents / carers to provide signed verification of the medication / care needs of their child whilst at school;
- there is bespoke training for the care of pupils with asthma/anaphylaxis, diabetes and epilepsy.

1.6 The following findings have been ranked as being of 'High' importance:

- failings were identified in the completion of Individual Health Care Plans (IHCP's), including missing signatures, missing review dates and the use of non-compliant substitute forms (ref: 3.2);
- across almost all of the schools visited, there are fewer asthma / anaphylaxis trained members of staff than required by the mandatory procedures (ref: 3.3);
- a number of general observations have been made in relation to: controlled drugs, disposal of medication, medicines past expiry date, outdated forms, incorrect use of a form and conflicting information on the dosage of a medicine (ref: 3.4);
- there continue to be no satisfactory internal review arrangements in place within Education Services for the administration of medication, and the lack of any review is evident by the level of non-compliance found during this audit (ref 3.5);
- the procedures state that a generic risk assessment in relation to the administration of medication is to be carried out by each school on an annual basis. One school of the 15 we visited was able to evidence that they had carried out a risk assessment using their own risk assessment methodology. All others, by admission, had failed to do so (3.6).

1.7 The action plan in section three details our findings, grades their importance (Appendix A) and includes agreed actions. The implementation of agreed actions will improve control.

1.8 We appreciate the assistance of Education Services staff during the conduct of our audit. Should you require any further assistance please contact Colin Carmichael.

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

2.0 REMIT

2.1 The objective of the audit was to undertake a review of risk ED008: “Errors or accidents when assisting pupils with medication”, and controls in place to mitigate the risk. This included a follow-up of the recommendations from audit ES1401, which was issued on 15 June 2015.

2.2 Our review concentrated on the key controls and our testing was undertaken on a sample basis. Therefore, the weaknesses we have identified are not necessarily all those which exist.

2.3 We agreed the findings at individual schools by providing feedback to the responsible persons at the end of each school visit. The draft report has been agreed for factual accuracy with Alison Raeburn, Inclusion & Wellbeing Manager on 07/12/17.

2.4 The Head of Education (Learning, Policy and Resources) is responsible for both the implementation of agreed actions and the risk arising from not acting on any agreed actions in this report.

2.5 We carry out follow-up reviews on a risk based approach. The Audit, Risk and Counter Fraud Manager will determine the need for a follow-up review of this report.

2.6 In accordance with the council’s risk management arrangements, services are required to record internal audit findings graded as being of ‘High’ importance in Pentana Performance (previously Covalent) as risk actions and to link these to the corresponding risks.

2.7 Audit findings ranked as being of ‘High’ importance that are not implemented will be reported to the Governance and Risk Board and Audit Committee and considered for inclusion in the Annual Governance Statement.

3.0 ACTION PLAN

Ref	Findings & Risk	Agreed Action	Importance Level
3.1	**<u>Pentana Performance - Internal Controls for Risk ED008</u>** The internal controls recorded to demonstrate how this risk is mitigated by the service require review and updating as follows: Controls 3 & 4 have been superseded, with the new procedures document having gone through the PDSP process in June 2015. However, these presently state the following: • No 3 - '*Medication policy dated March 2012 available to all schools on internet*.' • No 4 - '*Medication policy under review due to changes in Scottish Government guidance to be considered at Education PDSP on 16 June 2015*.' Additionally, control No. 5 states: '*Intention for Education VSE to include review of implementation of policy and guidance on medication in schools*.' As stated previously, our review found no evidence of VSE's undertaken to date including a review of the administration of medication, and we were advised this is not a mandatory part of the VSE process. **<u>Risk</u>** *Misleading and ineffective controls in Pentana resulting in an incorrect assessment of the service risk.*	As explained at the initial audit planning meeting on 13 September 2017, Education Services, prior to notification of an audit, was in the process of revising the current procedure as a result of feedback on implementation of existing policy and renewed Scottish Government guidance. This revision commenced in academic session 2016/17. As the Service was aware of issues relating to the existing policy arrangements were made for access to the NHS ASL Nurse based within Edinburgh (via Community Child Health) to advise and consult regarding individual cases through the Inclusion & Wellbeing Manager pending the final outcome of the revision of the Service's Procedures. (1) Once agreed, the revised guidance ('The Handbook of Procedures for the Management of Pupils with Healthcare Needs in Educational Establishments') will be available to all schools. (2) Launch of revised guidance will be supplemented with awareness raising training for Head Teachers and/or nominated member of school Senior Management Team. (3) An (mandatory) Annual Health & Wellbeing Conference will be organised from academic session 2018/19 to include a range of compliance procedures. (4) A central register of Head Teacher compliance checks to be recorded and monitored. (5) Quality assurance procedures are being finalised and will include:	Medium **Responsible Officer** Alison Raeburn **Risk Identifier** Risk Ref: ED008 **Action Date** (1) 31/8/18 (2) 31/8/18 (3) Academic session 2018/19 (4) 9/4/18 (5) 8/1/18

		• an audit survey based on the procedures, devised via Health & Safety Team. • schools to complete the annual audit online using RIVO • the online information from 30% of schools across the authority will be validated through school visits • actions from the online audit and school visits will be addressed by Inclusion & Wellbeing Service on an individual basis (6) Pentana will be updated with immediate effect. (7) Presentation of audit outcomes to be delivered at next Head Teacher Leadership Meeting.	(6) 7/12/17 (7) 18/1/18

Ref	Findings & Risk	Agreed Action	Importance Level
3.2	**<u>IHCP Completion</u>** Audit testing reviewed a sample of 89 IHCPs from across the 15 schools visited and the following findings were identified: • In all bar two IHCPs from the 89 reviewed, no signature was present from a medical practitioner. This is due to medical practitioners' refusal to sign the form, and there is a clear need to either reach an agreement with the medical profession, or remove this requirement from the forms. In the absence of a signature, one school was attaching copies of prescriptions to IHCPs and another held NHS asthma action plans. However, these do not have space for a parent/carer signature to confirm the school should adhere to the plan, nor a school signature agreeing to it; • At four schools, the parent/carer and/or school signatures were missing from some IHCPs; • When the IHCP form is completed, a date for subsequent review requires to be entered and this was missing from around 10% of forms. • Furthermore, in over 50% of IHCPs the review section to the rear of the form was being completed, signed and dated by parents prior to its initial return, rather than following the subsequent review. More clarity is required, and it is suggested that a revised review page is introduced (ref: appendix C); • In the absence of forms being returned by parents, one school was seen to be completing IHCPs themselves and retaining them on file without a parental signature; • One school had accepted an Asthma UK 'My Asthma Plan' document apparently in lieu of the correct Form 8(b). However, the Asthma UK form contains no parent or school signatures or contact details, and is non-compliant in terms of policy. **<u>Risk</u>**	The main issue with an NHS signature to date has been the confusion over which NHS practitioner requires to sign the IHCPs. The guidance is that it is the relevant Medical Practitioner which is not necessarily the family GP. Extensive consultation has taken place with NHS on this issue (including Dr Elaine Duncan (Clinical Director) and Dr McGown (Lead GP for West Lothian). Feedback on the draft revised guidance is that "it is essentially excellent advice for schools on recording the care needs of children and how to deliver routine and emergency treatment." In summary the signatory solution is: • The forms for short courses of medication like painkillers and antibiotics are signed only by parents. • The forms for routine chronic meds and prn asthma inhalers are also signed only by the parents. • the consent forms for "severe allergy", "diabetes" and "epilepsy" should be signed by the hospital consultant/ specialist nurse. (1) The new guidance also allows a letter detailing medication/care and signed by the hospital consultant/specialist nurse or a photocopy of a signed prescription to replace a medical practitioners' signature on the IHCP. The suggested revised review page of IHCPs is included in the revised guidance. (2) As the Service was aware of issues relating to the existing policy arrangements were made for access to the NHS ASL Nurse based within Edinburgh (via Community Child Health) to advise and consult regarding individual cases through the Inclusion & Wellbeing Manager pending the final outcome of the revision of the Service's Procedures.	High **Responsible Officer** Alison Raeburn **Risk Identifier** Risk Ref: ED008 **Action Date** (1) 31/8/18 (2) Ongoing

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	Errors or accidents when assisting pupils with care or medication.	(3) Once agreed, the revised guidance ('The Handbook of Procedures for the Management of Pupils with Healthcare Needs in Educational Establishments') will be available to all schools. Launch of revised guidance will be supplemented with awareness raising training for Head Teachers and/or nominated member of school Senior Management Team. which will address all the findings in Ref 3.4 and will reinforce the message that: • All IHCPs **must** be signed by **both** the school SMT and the parent. • Schools **must** follow the Handbook guidance and use appropriate asthma forms from the Handbook and not use the Asthma UK 'My Asthma Plan' document. (4) An (mandatory) Annual Health & Wellbeing Conference will be organised from academic session 2018/19 to include a range of compliance procedures. (5) A central register of Head Teacher compliance checks to be recorded and monitored. (6) Quality assurance procedures are being finalised and will include: • an audit survey based on the procedures, devised via Health & Safety Team. • schools to complete the annual audit online using RIVO • the online information from 30% of schools across the authority will be validated through school visits • actions from the online audit and school visits will be addressed by Inclusion & Wellbeing Service on an individual basis (7) Presentation of Audit outcomes to be delivered at next Head Teacher Leadership Meeting.	(3) 31/8/18 (4) Academic session 2018/19 (5) 9/4/18 (6) 8/1/18 (7) 18/1/18

<table>
<tr><th>Ref</th><th>Findings & Risk</th><th>Agreed Action</th><th>Importance Level</th></tr>
<tr><td rowspan="8">3.3</td><td rowspan="8"><u>Training</u>

There are specific training requirements in relation to asthma / anaphylaxis, diabetes and epilepsy as set out in the June 2015 procedures. However, the actual level of training undertaken was seen to fall short of these requirements across most of the schools reviewed. 10 from the 15 schools visited failed to comply with the training requirements.

The policy for primary schools is different from secondary schools, the former having a lower core training requirement, but potentially much higher overall - e.g. a primary with 20 classes and one asthmatic pupil in each class would require to have a minimum of 20+ trained staff. A secondary school with 50 asthmatic pupils from a school roll of 1,000+ only requires 5 trained staff. Consideration should be given as to whether it would be appropriate to bring primary schools into line with the secondary schools requirement of 5 members of staff overall.

It was noted that all schools have relatively high numbers of asthma/allergy sufferers by comparison to epilepsy and diabetes.

<u>Risk</u>

Ineffective care as a result of inadequate training and increased potential for errors or accidents in the administration of medication.</td><td rowspan="8">In secondary schools the requirement is based on the expectation that pupils are able to take more responsibility for their own healthcare
A core of 5 members of staff require to be trained, to include:
• 1 member of senior management
• Staff from each faculty, but including Home Economics and PE
• Staff with remit for first aid

In primary schools, due to the age and developmental ability of the pupils the requirement and therefore the requirement to give pupils more assistance, proportionately more staff require to be trained, including the class teacher if a pupil has severe allergies, asthma or epilepsy.
A core of 3 members of staff require to be trained, to include:
• 1 member of senior management
• Staff with remit for first aid

Training requirements have been determined by NHS colleagues and are already being applied in City of Edinburgh and East Lothian schools with no issues.

It will be reiterated at the next Head Teacher Leadership Meeting that all Head Teachers are required to ensure training has been carried out.</td><td>High</td></tr>
<tr><td>Responsible Officer</td></tr>
<tr><td>Alison Raeburn</td></tr>
<tr><td>Risk Identifier</td></tr>
<tr><td>Risk Ref: ED008</td></tr>
<tr><td>Action Date</td></tr>
<tr><td>18/1/18</td></tr>
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<tr><th>Ref</th><th>Findings & Risk</th><th>Agreed Action</th><th>Importance Level</th></tr>
<tr><td>3.4</td><td><u>General Administrative Observations</u>

The undernoted instances of non-compliance with procedures were identified. There is a need to ensure that all schools are aware of and comply with the approved procedures:
• Procedure 11 Controlled Drugs - the most common controlled drug in use at schools is Methylphenidate (trade names noted: Ritalin, Equasym, Tranquilyn) which is used for the treatment of ADHD. These require to be logged in and out by two signatories, and a running stock total maintained at all times, allowing stock to be easily balanced. Form 14 is provided for this purpose, and 3 instances were noted where this form was not in use, also that the form was not being used correctly - e.g. missing signatures, no running total;
• Procedure 10.4 Disposal of Medication - it was evident that the requirement for return or destruction (via the local pharmacy) of medication at the end of the summer term is in large part not being adhered to, with no schools having presented evidence of this;
• Medicines which had passed their expiry dates were found at 3 schools - adherence to the above requirement for return / destruction would assist in addressing this;
• At 4 schools out of date forms were found to be in use, pre-dating those contained in the June 2015 procedures;
• In one school, Form 13 was being used to cater for issue of medication to multiple pupils, whereas this form is designed for use on a pupil specific basis;
• An instance was seen at one school where the dosage detailed in one section of Form 3 was at odds with (double) the dose at another section.

<u>Risk</u>

Inadequate implementation of procedures, leading to harm to pupil.</td><td>(1) Reference to be included in generic risk assessment to the recording of controlled drugs being counted in and out showing running total and being double-signed for on record form.

(2) Guidance on disposal of medication is highlighted again in draft revised guidance, including requirement to register with SEPA as a professional carrier and transporter of waste.

(3) Quality Assurance process as outlined in section 3.5 will audit and manage appropriate implementation of the guidance.</td><td>High
Responsible Officer
Alison Raeburn
Risk Identifier
Risk Ref: ED008
Action Date
(1) 31/8/18
(2) 31/8/18
(3) ongoing</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Findings & Risk</th><th>Agreed Action</th><th>Importance Level</th></tr>
<tr><td rowspan="7">3.5</td><td rowspan="7"><u>Internal Review of Administration of Medication</u>

Our previous internal audit report dated 15 June 2015 noted that there were no internal review arrangements in place within Education for the administration of medication. It was agreed that ‘quality assurance of compliance with the requirements of compulsory procedures would be included in the Education Services VSE schedule'. The revised administration of medication guidelines were updated and issued to schools in August 2015, and we have now been informed that the review of the administration of medication in schools is not a mandatory part of the VSE and will only be done at the request of the school.

A review of VSE reports was undertaken for 10 of the 15 schools considered during this audit, with none of the reports containing any reference to the administration of medication. This is compounded by the lack of annual risk assessments (ref: 3.6).

There therefore continues to be no satisfactory internal review arrangements in place within Education Services for the administration of medication, and the lack of any review is evident by the level of non-compliance found during the audit.

<u>Risk</u>

Inadequate implementation of procedures, leading to harm to pupil</td><td rowspan="7">(1) Quality assurance procedures are being finalised and will include:
• an audit survey based on the procedures, devised via Health & Safety Team.
• schools to complete the annual self assessment online using RIVO
• the online information from 30% of schools across the authority will be validated through school visits
• actions from the online audit and school visits will be addressed by Inclusion & Wellbeing Service on an individual basis

(2) An (mandatory) Annual Health & Wellbeing Conference will be organised from academic session 2018/19 to include a range of compliance procedures.

(3) A central register of Head Teacher compliance checks to be recorded and monitored.</td><td>High</td></tr>
<tr><td>Responsible Officer</td></tr>
<tr><td>Alison Raeburn</td></tr>
<tr><td>Risk Identifier</td></tr>
<tr><td>Risk Ref: ED008</td></tr>
<tr><td>Action Date</td></tr>
<tr><td>(1) 8/1/18

(2) Academic session 2018/19 onwards

(3) 9/4/18</td></tr>
</table>

10

Ref	Findings & Risk	/Agreed Action	Importance Level
3.6	**<u>Generic Risk Assessment</u>** It was agreed as part of the Gallagher Bassett review in 2013 that a generic risk assessment would be prepared for the administration of medication, and Pentana Performance action ED13002_Aro states that 'generic risk assessments will be developed'. Although this risk action was marked as complete in Pentana, this would not appear to have been done and no generic risk assessment for the administration of medication has been identified. Notwithstanding the above, section 14 of the June 2015 procedures states that a generic risk assessment in relation to the administration of medication is to be carried out by the school on an annual basis. One school of the 15 we visited was able to evidence that they had carried out a risk assessment using their own risk assessment methodology. All others, by admission, had failed to do so. **<u>Risk</u>** *Inadequate understanding of risk leading to inappropriate administration of medication.*	A generic risk assessment template will be appended to revised guidance document ('The Handbook of Procedures for the Management of Pupils with Healthcare Needs in Educational Establishments') **for completion by schools** as required. Quality Assurance process as outlined in section 3.1 above will audit and manage appropriate implementation of the guidance.	High **Responsible Officer** Alison Raeburn **Risk Identifier** Risk Ref: ED008 **Action Date** 31/8/18

Ref	Findings & Risk	Agreed Action	Importance Level
3.7	**Side Effects** It was raised by the previous audit that where medicines are administered in a medical room, side effects may not be immediately apparent, and it therefore may be difficult to identify and record side effects on the 'Record of Medication Administered in Schools' form. Form 13 does not contain any provision for side effects or adverse reactions to be detailed, and consideration should be given to including a section for this on the form. This may assist in improving effective monitoring of pupils for side effects suffered following the administration of medicines. **Risk** *Inadequate consideration may be given to the possibility of an adverse reaction.*	(1) In revised guidance ('The Handbook of Procedures for the Management of Pupils with Healthcare Needs in Educational Establishments') the forms clearly state that medication must not be administered for the first time during the school day by including the wording 'I have given the first dose of this medication to my child and no adverse reaction has been observed.' School staff would follow emergency procedures if pupil displays potentially life threatening symptoms. School staff inform parents/carers of any wellbeing concern during the school day. It is not recommended that school staff are placed in a position of diagnosing medical conditions (including side effects) or using such information to make medical judgments about re-use of drugs following a side effect. (2) This instruction will be added to the existing procedures.	Medium **Responsible Officer** Alison Raeburn **Risk Identifier** Risk Ref: ED008 **Action Date** (1) 31/8/18 (2) 30/12/17

<table>
<tr><th>Ref</th><th>Findings & Risk</th><th>Agreed Action</th><th>Importance Level</th></tr>
<tr><td>3.8</td><td><u>Treatment Table</u>

A Treatment Table is contained at Appendix 6 of the June 2015 procedures, and is referenced twice within the procedures. However, this referencing is a very basic and falls short of expressing in any way the relevance or importance of the table and the requirements to check the table against actual treatments being administered in schools. This falls short of the previously agreed action i.e. 'the relevance and importance of the treatment table will be covered in revised compulsory procedures'.

<u>Risk</u>

Administration of medical treatment outwith scope of council policy leading to harm and / or potential litigation.</td><td>Insurance Officer (Financial Management Unit) has advised that the treatment table is no longer of any relevance to the education policy and is misleading so should be removed from the revised procedure.

Treatment table will be removed from existing policy and not included in the revised procedures. The following statement will be added to both current and new versions:

"School staff must ensure that:

a) each pupil who receives a medical procedure or intervention in school has a specific Individual Healthcare Plan signed off by the pupil's parents, the school Head Teacher and the hospital consultant/specialist nurse. Attaching a letter detailing medication/care and signed by the hospital consultant/specialist nurse or a photocopy of a signed prescription can replace a medical practitioner's signature on the Individual Healthcare Plan.

b) the Individual Healthcare Plan must include full details of the emergency procedures in the event of a medical emergency.

c) the pupil's parents have provided written consent for a non-medical or healthcare practitioner to provide the medical procedure or intervention to their child.

d) the staff member who is providing the medical procedure or intervention has received full training from a registered medical or healthcare professional, and has been signed off as fully competent in the procedure they are providing.</td><td>Medium

Responsible Officer

Alison Raeburn

Risk Identifier

Risk Ref: ED008

Action Date

11/12/17</td></tr>
</table>

		e) the employee who is providing the medical procedure or intervention has provided written confirmation that they have read and understood the Individual Healthcare Plan.”	

Ref	Findings & Risk	Agreed Action	Importance Level
3.9	**<u>Gallagher Bassett Recommendations</u>** Gallagher Bassett, the council's risk consultants, made a number of recommendations in relation to policy and procedures in February 2013. Findings 3.3, 3.5 and 3.6 of this report are related to the previous Gallagher Bassett recommendations. Additionally, it was noted that whereas a hygiene section was included in the predecessor document, this has been removed from the updated June 2015 procedures. **<u>Risk</u>** *Inadequate hygiene procedures leading to spread of infection.*	(1) Incorporate hygiene section in revised guidance handbook ('The Handbook of Procedures for the Management of Pupils with Healthcare Needs in Educational Establishments'). (2) Also incorporate hygiene section into existing procedures pending newly published Handbook.	Low **Responsible Officer** Alison Raeburn **Risk Identifier** Risk Ref: ED008 **Action Date** (1) 31/8/18 (2) 11/12/17

APPENDIX A

DEFINITIONS OF AUDIT FINDINGS & AUDIT OPINION

AUDIT IMPORTANCE LEVELS

Importance levels of ‘**High’**, ‘**Medium’** or ‘**Low’** are allocated to each audit finding within the action plan.

These reflect the importance of audit findings to an effective system of internal control and must be considered in the context of the business processes being audited (Section 2 – Audit Remit).

AUDIT OPINION

Our overall opinion on the controls in place is based on the level of importance attached to the findings in our audit report. The overall audit opinions are as follows:

Overall Opinion	Definition
EFFECTIVE	No findings ranked as ‘High’ importance. There may be a few ‘Low’ and ‘Medium’ ranked findings.
SATISFACTORY	No findings ranked as ‘High’ importance however there are a moderate number of ‘Low’ and ‘Medium’ ranked findings.
REQUIRES IMPROVEMENT	A few findings ranked as ‘High’ importance. There may also be a number of findings ranked as ‘Low’ and ‘Medium’ importance.
UNSOUND	A considerable number of findings ranked as ‘High’ importance resulting in an unsound system of control. There may also be a number of findings ranked as ‘Low’ and ‘Medium’ importance.

SCHOOLS VISITED FOR THE AUDIT

Secondary Schools
Deans Community HS
St Margaret's Academy
West Calder HS

Primary Schools
Armadale PS
Kirknewton PS
Knightsridge PS
Low Port PS Linlithgow
Springfield PS Linlithgow
St Joseph's RC PS Linlithgow
St Mary's RC PS Polbeth
Stoneyburn PS
Toronto PS
Whitdale PS
Windyknowe PS

Special School
Ogilvie Campus

SUGGESTED REVISED REVIEW PAGE FOR IHCPs

Forms 8 (a / b / c & d) - Review of Individual Health Care Plan

(this section of the form is to be completed following each regular review)

Pupil's Name:		Date of Birth:	/ /

I confirm that the existing Individual Health Care Plan for my child continues to reflect the current needs of my child, and propose that a further review is undertaken in line with the *next review date which I have detailed below.

I will inform the school if my child's needs change prior to the next review date, and will arrange with the school for a replacement Individual Health Care Plan to be completed.

Date Review Undertaken	Name of Parent / Carer Signing	Parent / Carer Signature	*Next Review Date
/ /			/ /
/ /			/ /
/ /			/ /
/ /			/ /
/ /			/ /
/ /			/ /

copy to be given to parent / carer

DATA LABEL: PUBLIC

AUDIT COMMITTEE

INTERNAL AUDIT OF THE ADMINISTRATION OF FINANCIAL INSTRUMENTS

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of the outcome of an internal audit of the administration of financial instruments within Planning, Economic Development & Regeneration.

B. RECOMMENDATION

It is recommended that the Audit Committee notes that control is considered to require improvement.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Weaknesses in internal control may have an adverse impact on performance.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	Senior managers within Planning, Economic Development and Regeneration as part of the audit process.

D. TERMS OF REPORT

In accordance with the internal audit plan for 2017/18, an audit has been undertaken of the administration of financial instruments within Planning, Economic Development & Regeneration.

As local planning authority, the council is responsible for ensuring provision is made for end of life restoration of major mineral extraction and wind farm development sites. This includes ensuring that adequate third party contingency cover is made available to provide an alternative means of financing restoration in the event of a developer or landowner failing to meet their restoration obligations.

The resultant audit report is attached as an appendix to this report and includes an action plan containing agreed management actions.

E. CONCLUSION

Our audit of the administration of financial instruments within Planning, Economic Development & Regeneration has concluded that control requires improvement.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee 27 February 2017: Internal Audit Plan 2017/18.

Appendices/Attachments: Internal audit report dated 11 December 2017: Financial Instruments

Contact Person: Kenneth Ribbons, kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

PE1701

INTERNAL AUDIT REPORT

PLANNING, ECONOMIC DEVELOPMENT & REGENERATION

FINANCIAL INSTRUMENTS

11 December 2017

westlothian.gov.uk

CONTENTS

1.0 EXECUTIVE SUMMARY

1.1 In accordance with the annual audit plan for 2017/18, we have undertaken a review of the administration of financial instruments within Planning, Economic Development & Regeneration and conclude that the level of control **requires improvement**.

1.2 The audit remit is set out in section two.

1.3 As local planning authority, the council is responsible for ensuring provision is made for end of life restoration of major mineral extraction and wind farm development sites. This includes ensuring that adequate third party contingency cover is made available to provide an alternative means of financing restoration in the event of a developer or landowner failing to meet their restoration obligations. This cover takes the form of financial instruments (cash held to the council's order, bank bonds or guarantees) which can be for tens of millions of pounds and may extend to 25 years or more. It is clearly important that suitable control mechanisms are in place to ensure the level of cover is adequate. The development sites reviewed during this audit are set out in Appendix B.

1.4 The following key controls were found to be in place:

- there is a written policy in place to ensure satisfactory contingent cover
- use of agreements under s.75 of the Town & Country Planning (Scotland) Act 1997 to interpose appropriate restoration / aftercare conditions;
- in conjunction with the above, taking cash deposits, financial bonds or guarantees to provide contingency cover for site restoration and aftercare.

1.5 The following two findings ranked as 'High' importance were found:

- formal diary system for bond renewals – a more formal diary system would be beneficial to ensure bonds are not allowed to lapse, leaving a lack of contingent financial cover to ensure restoration (ref: 3.1);
- cash deposit of £210,000 for Pates Hill Wind Farm – no evidence provided at time of audit that adequate contingency cover is currently in place (ref: 3.3).

1.6 The action plan in section three details our findings, grades their importance (Appendix A) and includes agreed actions. The implementation of agreed actions will help improve control.

1.7 We appreciate the assistance of Planning, Economic Development & Regeneration staff during the conduct of our audit. Should you require any further assistance please contact Colin Carmichael.

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

2.0 REMIT

2.1 The audit objectives were to determine whether satisfactory controls are in place, which ensure adequate contingency measures are taken to cover the restoration obligations of land owners / developers.

2.2 Our review concentrated on the key controls and our testing was undertaken on a sample basis. Therefore, the weaknesses we have identified are not necessarily all those which exist.

2.3 We agreed the draft report for factual accuracy with Tony Irving, Senior Planning Officer on 27 November 2017.

2.4 The Head of Planning, Economic Development & Regeneration is responsible for both the implementation of agreed actions and the risk arising from not acting on any agreed actions in this report.

2.5 We carry out follow-up reviews on a risk based approach. The Audit, Risk and Counter Fraud Manager will determine the need for a follow-up review of this report.

2.6 In accordance with the council's risk management arrangements services are required to record internal audit findings graded as 'High' importance in Pentana Performance (previously Covalent) as risk actions and to link these to the corresponding risks.

2.7 Audit findings ranked as being of 'High' importance that are not implemented will be reported to the Governance and Risk Board and Audit Committee and considered for inclusion in the Annual Governance Statement.

3.0 ACTION PLAN

Ref	Findings & Risk	Agreed Action	Importance Level
3.1	**<u>Formal Diary System For Bond Renewals</u>** Some restoration bonds are restricted to a period significantly shorter than the life of the site (e.g. a mineral extraction site may have a life expectancy of 25 years, but the initial bond limited to as little as 3 years and require replacement prior to expiry). There is no detailed procedural document or formal diary system to ensure that replacements for limited life bonds are pursued in good time prior to their expiry. This is presently at the discretion of the planning officer responsible for the site. **<u>Risk</u>** *Risk of financial exposure due to a lack of adequate contingent cover.*	A new developer contributions tracking system is being introduced and will go live in January 2018. It has been confirmed that the system will be capable of monitoring bond obligations / renewal dates, The data for all existing bonds and guarantees will be incorporated within the system by 31 March 2018.	High **Responsible Officer** Tony Irving **Risk Identifier** Risk Ref: DP005 **Action Date** 31/03/18

Ref	Findings & Risk	Suggested/Agreed Action	Importance Level
3.2	**<u>Procedural Guidance for Bonds / Guarantees / Cash Escrow</u>** There is no written procedural document setting out how the negotiation of financial instruments should be handled. **<u>Risk</u>** *Risk of financial exposure due to a lack of adequate contingent cover.*	It should be recognised that the bond / guarantee market is dynamic and the solutions available at any point in time vary. For example, it is now virtually impossible to obtain performance bonds for remediation works. Most bonding arrangements now take the form of insurance policies rather than guarantees and it is the guarantor which defines the terms and period of cover. Where that period of cover is less than the expected lifespan of the site, renegotiation will be necessary at some stage, but scope of that renegotiation will be determined by the market at that point in time. The position is further complicated by the fact that in many cases, particularly for windfarms, the decision is not made by the planning authority. As a consequence we don't have the option to refuse consent if an appropriate bonding arrangement cannot be agreed. As a consequence of the above it is considered that a written procedure note will be of limited value in ensuring an appropriate outcome. Nevertheless, a framework document will be drawn together outlining the key procedural stages.	Medium **Responsible Officer** Tony Irving **Risk Identifier** Risk Ref: DP005 **Action Date** 31/04/18

Ref	Findings & Risk	Suggested/Agreed Action	Importance Level
3.3	**<u>Pates Hill Cash Deposit</u>** We were advised during the audit that cash is held to cover future restoration of this site. This is covered by a Minute of Variation dated February 2009 which requires the sum of £210,000 to be placed on joint deposit in respect of restoration and aftercare. The minute of variation allows the cash held to be transferred to an equivalent value Bond, but there is no requirement to do so. However, at time of audit no evidence has been forthcoming that this cash is in fact held despite our having made numerous requests for it. **<u>Risk</u>** *Risk of financial exposure due to a lack of adequate contingent cover.*	£210,000 was deposited in a RBS joint account on 11 February 2009 for restoration purposes. A bank statement setting out the movement on the account over the last eight years and confirming a current balance of £203,518.64 has been provided. No further actions are required. However, in line with the action under Ref 3.1, a trigger will be placed in the developer contribution system to request a bank statement on an annual basis.	High **Responsible Officer** N/A **Risk Identifier** Risk Ref: DP005 **Action Date** Completed

<table>
<tr><th>Ref</th><th>Findings & Risk</th><th>Suggested/Agreed Action</th><th>Importance Level</th></tr>
<tr><td rowspan="7">3.4</td><td rowspan="7"><u>Black Law Bonding</u>

Bonding is confirmed to be in place for the phase 1 extension granted consent in 2011 and phase 2 extension granted consent in 2015. However, no contingent cover has been evidenced for the four wind turbines installed in West Lothian as part of the earlier original planning permission from 2004, which straddles West Lothian, South Lanarkshire and North Lanarkshire.

<u>Risk</u>

Risk of financial exposure due to a lack of adequate contingent cover.</td><td rowspan="7">Contact will be made with Scottish Power Renewables, North Lanarkshire Council and South Lanarkshire Council to obtain evidence of bonding for the four turbines in West Lothian that form part of the original wind farm.</td><td>Medium</td></tr>
<tr><td>Responsible Officer</td></tr>
<tr><td>Tony Irving</td></tr>
<tr><td>Risk Identifier</td></tr>
<tr><td>Risk Ref: DP005</td></tr>
<tr><td>Action Date</td></tr>
<tr><td>31/03/18</td></tr>
</table>

APPENDIX A

DEFINITIONS OF AUDIT FINDINGS & AUDIT OPINION

AUDIT IMPORTANCE LEVELS

Importance levels of ‘**High’**, ‘**Medium’** or ‘**Low’** are allocated to each audit finding within the action plan.

These reflect the importance of audit findings to an effective system of internal control and must be considered in the context of the business processes being audited (Section 2 – Audit Remit).

AUDIT OPINION

Our overall opinion on the controls in place is based on the level of importance attached to the findings in our audit report. The overall audit opinions are as follows:

Overall Opinion	Definition
EFFECTIVE	No findings ranked as ‘High’ importance. There may be a few ‘Low’ and ‘Medium’ ranked findings.
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UNSOUND	A considerable number of findings ranked as ‘High’ importance resulting in an unsound system of control. There may also be a number of findings ranked as ‘Low’ and ‘Medium’ importance.

SITES REVIEWED

Mineral Extraction	
Site	**Additional Information**
Levenseat	Quarry in operation for over 70 years. Restoration cover in place through the operator's Mineral Products Association membership
Polkemmet	Restoration underway of ex-colliery site. Cash cover held in escrow account.
Rusha	Coal extraction site, now in restoration phase. Restoration bond in place

Wind Generation	
Site	**Additional Information**
Black Law	Straddles council border with North Lanarkshire. Bonding for original turbines not evidenced, but confirmed to be in place for extension subject to 5 yearly review.
Camilty	Development had not commenced at time of audit. Planning approval specifies requirement for bonding.
Harburnhead	Contingency cover provided by cash deposit.
Pates Hill	Contingency cover said to have been provided by way of cash deposit. *No evidence of this was provided during the audit, although this has subsequently been addressed*.
Pearie Law	Contingency cover provided by a restoration bond. This automatically renews annually until restoration and aftercare conditions have been met. Can be cancelled at an earlier date subject to formal cancellation and due notice.
Tormywheel	Contingency cover provided by a restoration bond.

(these were all the current mineral extraction and wind generation sites at time of audit commencement)

DATA LABEL: PUBLIC

West Lothian Council

AUDIT COMMITTEE

REPORT TO MEMBERS AND THE CONTROLLER OF AUDIT ON THE 2016/17 AUDIT

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To advise the Audit Committee of the outcome of the 2016/17 audit and to provide a summary of the key points arising from the Annual Audit Report.

B. RECOMMENDATION

It is recommended that the Audit Committee:

1. considers Ernst and Young LLP's 2016/17 Annual Audit Report;
2. considers the 2016/17 Annual Accounts;
3. notes the management response to the action plan contained with the Annual Audit Report and the progress that has been made in implementing the agreed management actions.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of resources, working in partnership
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The Auditor's Report was presented to the Council meeting on 26 September 2017 in accordance with the Local Government (Scotland) Act 1973.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on Performance and Performance Indicators**	The audit report contains recommendations on scrutiny of performance within the council.
V	**Relevance to Single Outcome Agreement**	None.
VI	**Resources - (Financial, Staffing and Property)**	There are no resource issues that require to be drawn to the council's attention.
VII	**Consideration at PDSP**	Not applicable.
VIII	**Consultations**	Consultation with appropriate council officers on the audit report and the annual accounts.

D. TERMS OF REPORT

D.1 INTRODUCTION

The report by Ernst & Young LLP on the 2016/17 audit is addressed to Members of the Council, is simultaneously forwarded to the Controller of Audit and forms part of the audit process. The Auditor's report covers an executive summary, financial statements, accounting and audit matters under the scope of the audit, other audit deliverables and appendices.

The unaudited Annual Accounts for the year ended 31 March 2017 were considered by the Audit Committee on 30 June 2017, thus achieving the statutory deadline of 30 June for submission to the council's auditors. These Accounts were the subject of the General Fund Revenue Outturn report to the Council Executive on 20 June 2017. The external audit of the Accounts and the signing of the Independent Auditor's Report were completed by the target date of 30 September 2017 following approval of the Accounts by West Lothian Council on 26 September 2017. The Council agreed to refer the Auditor's Report and the 2016/17 Annual Accounts to the Audit Committee for information and scrutiny.

As a result of Ernst & Young LLP audit findings, there were a number of changes to the figures in the unaudited accounts, however these changes did not impact on the 2016/17 revenue out-turn figures as reported to the Council Executive on 20 June 2017.

D.2 KEY MESSAGES IN THE ERNST AND YOUNG LLP REPORT

The key messages arising from the Auditor's executive summary on outcomes from the 2016/17 audit are as follows:

- There is an unqualified opinion on the financial statements and on the nine charitable trusts administered by the council;

- Financial management in the council remains sound, with a well-established basis for identifying and tracking budget savings;

- There is good evidence of financial control and understanding of in year monitoring of the budget, with regular reports provided to Council Executive highlighting the major pressure areas which enable members to have appropriate oversight;

- There is good evidence of delivery and management of capital projects;

- The council recognises the future challenges in relation to approving a corporate plan and financial plan for the five year period from 2018/19 onwards. The auditors do note their view that the timescales for approval do represent a risk that needs to be managed;

- The internal audit function within the council is well respected. The report includes recommendations that the auditor believes will enhance the effectiveness of audit in the council;

- The council has a comprehensive performance improvement framework found on the well established West Lothian Assessment Model;

- The Auditor has recommended that consideration be given to changes to the Scheme of Administration to state that neither the chair of the Audit Committee and Governance and Risk Committee shall be drawn from the Administration. Officers have noted in the management response that these recommendations are a matter for consideration by elected members at the Council meeting. These matters were considered at the Council meeting on 7 November 2017 and it was agreed that the Scheme of

Administration would be amended to require that the Chair of the Audit Committee and Governance and Risk Committee be a member from outwith the administration group or groups.

D.3 SUMMARY OF 2016/17 REPORT

The main body of the report is divided into the six sections reflected in the public sector audit model.

- Financial statements and accounting;
- Approach to Best Value;
- Financial management;
- Financial sustainability;
- Governance and transparency;
- Value for money.

D.3.1 Financial Statements

There are no qualifications to the Independent Auditor's Report in relation to the council's Accounts.

International Standard on Auditing 260 requires the auditor to communicate significant findings from the audit. The valuation of Property Plant and Equipment (PPE) assets and the Economic Development Properties Significant Trading Organisation were raised as issues in the report.

There were a number of audit differences in relation to PPE assets identified which have been adjusted from the unaudited annual accounts, these resulted in corrections to the prior year comparative figures as follows:-

1. Revaluation adjustment to correct increase in value of other land and buildings in prior year (£426 million)
2. Recognition of revaluation of schools PPP assets in prior year (£56 million)
3. Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing (£12 million)

The increase in value relating to the school estate reflects the gradual increase, over the five year period since revaluation in 2011, of the application of the Scottish Government / Scottish Futures Trust (SFT) Schools for the Future matrix. The matrix figures reflect the actual construction costs of the recently delivered new school in Armadale and the financial close of the new West Calder High School. In discussions with the Auditor, the Corporate Property Manager has indicated that at no point was there an appropriate time to identify an increase in valuations without actually revaluing the school estate.

The overall impact of audit differences was to increase net assets as at 31 March 2016 by £476.6 million in the consolidated balance sheet, and increase net assets by £17.1 million as at 31 March 2017.

There was an overall increase in the general fund balance of £6.6 million (2015/16: £6.6 million), due to an amendment of treatment of developer contributions from the HRA. This was a technical accounting change and has had no impact on actual available resources.

In relation to the group financial statements, in 2015/16, the Council accounted for West Lothian Leisure Ltd as an associate, due to having significant influence but not outright control over the entity. During 2016/17, West Lothian Leisure converted from a registered society to an incorporated company limited by guarantee with the Council as the sole member. An updated assessment of the control arrangements was not conducted however

Ernst & Young LLP consider there to be no material impact on the group financial statements, even had a change to the group relationship been made during the year. An unadjusted audit difference with a cumulative value of £3 million has therefore been identified. An updated assessment of the group relationship with West Lothian Leisure will be conducted by council officers in advance of preparation of the 2017/18 financial statements.

The auditor has also given an unqualified audit opinion on the 2016/17 financial statements of those charities registered by the council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006.

D.3.2 Approach to Best Value

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for the public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

The report notes that the local scrutiny plan defined by various scrutiny bodies for the council was of the view that the council demonstrates its commitment to best value, with evidence of strong leadership, a clear vision and a focus on continuous improvement.

The Controller of Audit has provided a Best Value Assurance Report undertaken by Audit Scotland and Ernst and Young LLP which was reported to the Accounts Commission in November 2017 and which is due to be submitted to the Council in January 2018 for consideration.

D3.3 Financial Management

The report highlights the operating performance of the council in 2016/17, the reserves and balances held by the council and the investment and performance in relation to the capital budget. The Auditor's report concludes that the council has generally sound financial management arrangements including identification and overall tracking of budget savings. The report also notes that the council is going through a period of significant capital investment and that there is good evidence of delivery and management of capital projects.

The Auditor has identified that the council currently has the lowest levels of uncommitted reserves by a local authority in Scotland. On an annual basis, management, as part of the budget setting process, considers if the level of uncommitted reserves remains appropriate and includes recommendations in the budget report for consideration by elected members. Taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves is appropriate. The level of uncommitted reserves will continue to be reviewed as part of the revenue budget setting process and will continue to be subject to a specific recommendation in the annual revenue budget report which enables elected members to decide on this matter on an annual basis.

In terms of the financial performance of the council, the Auditor notes the financial pressures with Housing, Customer and Building Services in relation to homelessness and the earmarked funding linked to employability and economic regeneration within Planning, Economic Development and Regeneration.

The Auditor notes that regular budget monitoring reports including those in relation to budget reductions are provided to Council Executive and that there were no major fluctuations in year which demonstrates good financial control and understanding of the key financial pressures. Key actions to address pressures are included in the monitoring reports allowing members to have appropriate oversight.

D3.4 Financial sustainability

The Auditor is required to review the council's medium to long term financial sustainability and within their report the Auditor has concluded that the council's financial position is generally sound. The report acknowledges that the council has recognised the significant demographic pressures that will be faced in respect of ageing populations and recognises the strong evidence of delivery of the financial strategy over the last five years, drawing on the major public consultation exercises in 2012 and 2014. The report does note that the council does not having a rolling budget setting programme and there is a risk around timescales between the conclusion of the consultation in Autumn 2017 and the scheduled approval of the corporate and financial plans in February 2018. It is the opinion of the Head of Finance and Property Services that this risk is mitigated by members agreeing to the approach and timetable which is similar to previous planning processes successfully delivered by the council. The consultation took place from mid-October to mid-November and provided all stakeholders in West Lothian with the opportunity to comment on proposed priorities, officer savings proposals and future council tax levels. Reports on all responses to the consultation will be presented to PDSPs in the week starting 18 December 2017. The Head of Finance and Property Services will also report to Partnership and Resources PDSP on 19 January 2018 setting out the proposed approach and content of the revenue and capital budget reports that will be presented to Council in mid-February 2018, along with the Corporate Plan and Treasury Plan. It is acknowledged that this is a challenging process and timescales and considerable officer resources are in place to ensure that plans are produced within agreed deadlines.

In terms of capital, the report notes the performance of the council in relation to other local authorities. West Lothian Council, despite having a high level of borrowing on the substantial investment agreed by the council, has the 11th lowest cost of borrowing indicating excellent performance in this regard.

D3.5 Governance and transparency

The Auditor has recommended that the roles of the Audit Committee and Governance and Risk Committee should be reviewed and that the Scheme of Administration should be updated to ensure that neither chair of either committee would be drawn from the council's Administration. As noted earlier in the report, any alterations to the Scheme of Administration are a matter for elected members to consider, and these matters were considered at the Council meeting on 7 November 2017 when it was decided that the Scheme of Administration would be amended to require that the Chair of the Audit Committee and Governance and Risk Committee would be a member from outwith the administration group or groups.

Ernst and Young LLP recommend actions in relation to the reporting and minuting of discussions at Performance Committee. Officers have agreed that the minute of the committee will include the discussion and questions raised at the meeting. In addition, it was agreed that a review of the reporting of performance information would be undertaken to ensure that appropriate information is provided to the committee for consideration.

The Audit report confirms that the Internal Audit function is well respected. Various recommendations have been made for consideration in relation to audit arrangements. The Auditor noted that the internal audit plan is not always delivered with some reviews being removed and/or rescheduled. This is as a result of management reacting to priority work, however, management will going forward prioritise the internal audit reviews which are included in the approved internal audit plan. The Auditor also considered that the current performance indicators for the Internal Audit function should be reviewed. In response, management have agreed to review the current performance indicators.

The auditor highlights a potential conflict of interest in the council's Audit, Risk and Counter Fraud Manager fulfilling both the role of the council's chief advisor on internal audit and risk management. The Auditor considers that there is a risk that with the significant changes that the council will be facing in the coming years, where one person advises on risk management there may be a conflict of interest if the same person conducts an internal audit on that area. The view of the council's Corporate Management Team is that the arrangements for management of risk in the council have improved significantly since responsibility for risk management was combined with Internal Audit. A review to identify any potential conflicts of interest has been undertaken and mitigating actions were agreed by the Executive Management Team on 6 December 2017. They will be implemented and the position will be kept under review.

D3.6 Value for money

The auditor concludes that the council has a comprehensive performance improvement framework in place which allows for continuous improvement by using the well-established West Lothian Assessment Model. Further analysis of the council's performance in relation to value for money will be reported to the Council after the conclusion of the Best Value Assurance Audit.

D3.7 Annual Audit Report Action Plan

An action plan including management response is attached as appendix F to the Annual Audit Report.

The first three recommendations relate to accounting matters. Recommendations 1 and 2 are on target to be completed by the agreed date and recommendation 3 is complete.

Recommendation 4 relates to evaluating risks around budget savings measures. The council's risk manager will carry out a review of risks and this information will be included in the revenue budget papers reported to Council.

Recommendation 5 relates to the level of uncommitted general fund reserves. The Head of Finance and Property Services discussed this matter with Corporate Management Team colleagues and can confirm the officers' view that the level of the balance remains appropriate taking account of other reserves and financial management and planning arrangements.

The management response to recommendation 6 is complete and the response to recommendation 7 will be complete by 21 December following reports to PDSP's.

Recommendations 8, 9 and 10 cover scrutiny of performance in the council and the auditor has made various suggestions for enhancements to current arrangements. Workplans for the Audit Committee and Governance and Risk Committee have been amended to include a self-assessment. Officers have noted the areas such as the Scheme of Administration that are appropriate for consideration by elected members, and as stated previously in this report, Council has agreed that the Scheme of Administration be amended to require that the Chair of the Audit Committee, and the Governance and Risk Committee, be a member from outwith the administration group or groups. Officers are working to complete a review of the Performance Committee workplan, including the range of reports that are brought forward by officers. This includes consideration of the relevance and sufficiency of information contained within reports and presentations, in terms of aiding the level of scrutiny. The documented minutes of the Performance Committee will now provide more details of questions and discussion at the Committee.

Recommendations 11 and 12 relate to suggested enhancements to internal audit arrangements and these will be taken forward by the Audit, Risk and Counter Fraud Manager. The management response to recommendation 13 on the role of internal audit is complete.

Finally recommendation 14 relates to a review of governance arrangements for West Lothian Leisure and these will be carried out by council officers by the deadline of the end of February 2018.

E. CONCLUSION

The Auditor has provided an unqualified opinion on the council's financial statements for 2016/17.

The Auditor has concluded that the council has generally sound financial management arrangements in place and that there is good recognition of the challenges in the future.

The Auditor has made 14 recommendations following the audit and the management response to these is set out in appendix F. As noted, some elements of recommendations 8 and 9 were most appropriately considered by elected members of the council, and these are now complete.

In conclusion, the audit represents the first carried out by Ernst and Young LLP for West Lothian Council. Since the start of the council in 1996, external audit has been conducted by Audit Scotland and the change has inevitability meant challenges for the council and our new auditors. Overall, council officers and auditors have worked together professionally and constructively and will review the experience this year to identify areas of learning and improvement for future years.

F. BACKGROUND REFERENCES

Report to West Lothian Council 26 September 2017: Report to Members and the Controller of Audit on the 2016-17 Audit - Report by Head of Finance and Property Services

Appendices/Attachments:

(1) Ernst and Young LLP – 2016/17 Annual Audit Report to Members and the Controller of Audit

(2) West Lothian Council Annual Accounts Year ended 31 March 2017

Contact Person: Donald.forrest@westlothian.gov.uk - Tel No. 01506 281294

Donald Forrest
Head of Finance and Property Services
18 December 2017

West Lothian Council

Year ended 31 March 2017
Annual Audit Report

29 September 2017

Building a better
working world

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council (the Council) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Auditing Practices Board; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the Council and the Controller of Audit, and presented to both Council management and those charged with governance. It will be published on Audit Scotland's website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the audit committee on 27 February 2017. We summarise the responsibilities of the Council in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan with the exception of the following key change:

- Valuation of property, plant and equipment was changed to a significant audit risk from an inherent audit risk, reflecting the significance of change in valuation of certain property assets within the unaudited financial statements.

We planned our procedures using a materiality of £12 million and a Tolerable Error of £9 million. We reassessed this using the actual year-end figures contained within the unaudited financial statements, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences is £250,000, in accordance with the Code.

Status of the audit

We have completed our audit of West Lothian Council's financial statements for the year ended 31 March 2017. We have issued an unqualified opinion on the Council's financial statements for the year.

Key contacts

Stephen Reid, Partner
sreid2@uk.ey.com

Keith Macpherson, Head of GPS Audit, Scotland
kmacpherson@uk.ey.com

John Boyd, Senior Manager
jboyd1@uk.ey.com

Ernst & Young LLP, Ten George Street, Edinburgh EH2 2DZ

Acknowledgement

We would like to thank all members of the Council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the Council's financial statements

Preparation of financial statements

- The unaudited financial statements were prepared to a good standard.
- There were a number of audit differences identified which were adjusted by management. Included within these were errors identified in the opening balance sheet information which resulted in management correcting the prior year comparative figures. The overall impact of audit differences was to increase net assets as at 31 March 2016 by £476.6 million in the consolidated balance sheet, and increase net assets by £17.1 million as at 31 March 2017. There was an overall increase in general fund of £6.6 million (2015/16: £6.6 million), due to the correction of treatment of developer contributions from the HRA.

Significant risks

Risk of fraud in income and / or expenditure recognition

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Management override of controls

- We are have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- We consider that management made good disclosure on the accounting judgements and estimates made, with some scope for further enhancement.

Valuation of property, plant and equipment

- We identified a prior year adjustment of £470 million on the carrying value of property, plant and equipment as at 31 March 2016. This comprised an increase in value of other land and buildings by £482.3 million, offset by a decrease in value of £12.3 million to council dwellings. In addition, an adjustment of £23.3 million was also required to the 31 March 2017 carrying values of council dwellings to ensure these reflected Existing Use Value – Social Housing.
- While underlying valuations are robust, the process for accounting for changes in value can be enhanced.

Other inherent risks

Retirement benefits

- Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable. The required disclosures are provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Other matters and reporting requirements

- The new Expenditure and Funding Analysis has been presented appropriately and the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- We have obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we were not required to undertake detailed testing at components of the group. We are the appointed auditor to West Lothian Integration Joint Board.
- We undertook the audit of nine of the Council's registered charitable trusts. We have provided a unqualified audit opinions on the financial statements of the trusts.
- We have concluded that the Council has complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We include a statement noting that the Council has failed to achieve its statutory responsibilities to ensure that its significant trading operations achieves a break even position over a three year rolling period. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the Council's arrangements

Financial management

- We have concluded that the Council has generally sound financial management arrangements. This has been based on identification and overall tracking of budget savings well in advance as part of two-year indicative annual budget setting.
- The Council is going through a period of significant capital investment, both in general fund services and council housing. While there has been some delay in the new build housing programme, there is good evidence of delivery and management of projects.

We have made one recommendation in the action plan (point 4) in respect of the Council's arrangements.

Financial sustainability – area of audit focus

- We have concluded that the Council's financial position is generally sound. While significant investment is required in response to demographic pressures, it has a good basis to undertake this investment.
- The Council has an established process for aligning its financial strategy to its corporate plan priorities. As a result only a one-year budget was approved for 2017/18, as this was the final year of the existing five year corporate plan. The Policy Development and Scrutiny Panels will consider the results of the public consultation in respect of officers' savings proposals in December 2017, prior to Council approval of a new five year corporate plan and underlying financial strategy in February 2018. In our view, since difficult decisions are expected to be required, the timeline for involvement of members could leave the delivery of savings in the required timescales at risk.

We have made three recommendations (points 5, 6 and 7) , two of which are graded one, in respect of the Council's arrangements.

Governance and transparency – area of audit focus

- The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles. Internal audit is well respected, however, we have raised a number of recommendations for consideration to strengthen reporting and monitoring by the audit committee.
- We consider there is scope to strengthen the arrangements for scrutiny of corporate and service performance. The relationship between the new governance & risk and audit committees should be monitored. The Council needs to improve the controls and governance arrangements around Following the Public Pound.

We have made seven recommendations (points 8 to 14), two of which are graded one, in respect of the Council's arrangements.

Value for Money

- We have concluded that the Council has a comprehensive performance improvement framework, founded on the well established West Lothian Assessment Model. This has provided a stable and consistent framework through which services undertake self-assessment and seek to improve their performance.
- The Council monitors a suite of performance indicators through the Covalent system. Performance information shows that the Council generally performs very well compared to other councils, although the Council recognises areas where performance can be improved.

We have not identified any recommendations in respect of the Council's arrangements.

Appendices

We set out in the appendices a number of required communications we provide in accordance with auditing and ethical standards. In particular, we have confirmed our continuing independence to act as auditor of the Council. No non-audit services have been provided to the Council during the year.

We also provide a short accounting and regulatory update highlighting forthcoming changes and their potential impact on the Council.

1. Financial statements and accounting

1. Financial statements and accounting

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

In respect of the financial statements, we have issued an unqualified opinion on the truth and fairness of the state of affairs of the Council and its group at 31 March 2017 and of the deficit on provision of services for the year then ended, in accordance with applicable law and the 2016/17 Code of Practice.

The detailed form and content of our audit report, plus the requirements underpinning the report are contained in the Audit Scotland guidance at: http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017_5_local_authorities.pdf.

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973.

Financial statements preparation

As part of your oversight of the Council's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

The overall preparation of the financial statements appears to be a smooth process and the financial statements are, in our view, easily readable and appropriately concise in the presentation of material financial information. Based on the findings expressed later in this section, overall we believe there is scope to improve the financial reporting process further in respect of supporting evidence of key judgements. This includes clearly documented consideration and review of critical assumptions around the valuation of property, plant and equipment and consideration of the scope of group financial statements. We have agreed with the finance team to work together to continuously improve both the financial reporting and audit process.

Action plan point – 1

Materiality

We planned our procedures using a materiality of £12 million. We reassessed this using the actual year-end figures contained within the unaudited financial statements, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result. Our Tolerable Error for the audit was £9 million and the threshold for reporting audit differences is £250,000.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

We identified one unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that the audit committee and Council note this and that this will be included in the Letter of Representation. The aggregated impact of unadjusted audit difference is a £3 million decrease in net assets. We agree with management's assessment that the impact is not material.

There were a number of audit differences identified which were adjusted by management. Included within these were errors identified in the opening balance sheet information which resulted in management correcting the prior year comparative figures. We provide details of the reasons behind these adjustments within the relevant section of the report. The overall impact of audit differences was to increase net assets as at 31 March 2016 by £476.6 million in the consolidated balance sheet, and increase net assets by £17.1 million as at 31 March 2017. There was an overall increase in general fund of £6.6 million (2015/16: £6.6 million) due to the correction of treatment of developer contributions from the HRA. Full details can be found in Appendix E – Summary of Audit Differences.

Our Audit Plan identified key areas of focus for our audit of the Council's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and/or exposure.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the risk of improper recognition of revenue in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. This is because there is no judgement in respect of the recognition of these income streams.

Results of audit procedures

In relation to income, predominantly fees and charges, and other operating expenses where we had identified a significant risk of material misstatement, we:

- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Reviewed transaction listings for individually material transactions as well as unusual items (debits to income, credits to expenditure etc.) to agree to supporting documentation and third party evidence.
- Tested a representative sample of transactions across the remaining untested income and expenditure population to ensure coverage of testing across all balances.
- Reviewed and tested revenue cut-off around the year end through reviewing manual journals posted to revenue and reviewing material credit notes raised after year end.
- Performed a search for material receipts received after year end and ensured these had been accounted for in the correct period.

Where we are performing procedures to address significant risks to the financial statements we do so to a lower level of materiality than for standard accounts. All procedures outlined above were completed with no material reported audit differences or other matters noted.

Other income and expenditure areas

The most significant area of revenues was taxation and non-specific grant income of £399 million. £249 million of this related to government grant income which we substantively tested to grant confirmation letters. The remainder is made up of £87.7 million of NDR redistributions and £62.2 million of Council Tax income. These were agreed either to funding correspondence, and / or through establishing detailed expectations of income and expenditure, agreeing underlying assumptions to supporting evidence, and comparison to actual income and expenditure recorded by the Council in the year.

For expenditure, £230 million relates to payroll costs. These have been subject to detailed analytical procedures and reconciliation to underlying payroll information. We have agreed PPP transaction costs to PFI contract and finance models. Depreciation and impairment charges have been subject to detailed audit testing, including reconciliation to fixed asset register.

Risk of fraud in income and expenditure recognition – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Significant risk – management override
What is the risk?
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Audit procedures performed and what did we find?
Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.
Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates. We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management have disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.
Evaluate the business rationale for any significant unusual transactions We did not identify any significant unusual transactions outside the normal course of business.
Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure HRA funds were not being utilised to meet general fund expenditure. No issues were noted through our testing performed.

Risk of management override – what have we concluded?

- We are have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- We consider that management made good disclosure on the accounting judgements and estimates made, with some scope for further enhancement.

Significant risk – valuation of property, plant and equipment
What is the risk?
The Council's property portfolio totalled £1.3 billion as at 31 March 2016, with the major elements of this being in respect of council dwellings, other land and buildings and infrastructure assets. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we initially assigned a higher inherent risk to the valuation of property, plant and equipment. The unaudited financial statements included significant revaluations in respect of certain operational land and buildings, totalling over £400 million. As a result, we re-scoped this aspect of our work as a significant risk.
Audit procedures performed and what did we find
Through analysis of the source data and enquiries of management, we considered the appropriateness as to the procedures used by management's specialist to establish whether the source date was complete and concluded this was satisfactory. We assessed the reasonableness of the assumptions and methods used in the valuation of land and buildings, including compliance with the Code of Practice on Local Authority Accounting. In doing so, we also considered the appropriateness of the timing of when management's specialist carried out the work. The Council revalue assets as part of a five year rolling programme. The Code of Practice on Local Authority Accounting requires assets to be carried at fair value. The Council considers material changes in asset valuations through consideration of significant capital additions in the year, as well as discussions with in-house valuers around potential asset impairments. This does not necessarily consider the potential impact of market movements impacting on fair value. In line with the Council's policy, some operational land and buildings were subject to revaluation as at 1 April 2016. From assessment of market data management confirmed that the material increase in the asset valuations was due to conditions that existed as at 31 March 2016. Given the material revaluation increases, we concluded that this change should have been reflected in the prior year financial statements and that the carrying value was materially understated. We also identified that the Council had historically carried PPP school assets at cost on the balance sheet rather than at fair value. Taken together, the total value of the prior year misstatement for these elements was to understate assets by £482.3 million. In respect of the valuation of council dwellings, we identified that these were also not appropriately valued as at 31 March 2017 or 2016. Consequently an impairment of £23.3 million (2016: £12.3 million) was required to the carrying value of theses assets to ensure these were carried at Existing Use Value – Social Housing. In performing our work, we involved EY valuation specialists to ensure management's underlying valuation approach was appropriate and consistent with guidance. We concluded that the underlying valuation process is robust. We recommend that management enhance the existing valuation process to ensure that a full consideration of the appropriateness of asset valuations, and their recognition in the financial statements, is undertaken in a more timely manner. ***Action plan point – 2***

Significant risk, valuation of property, plant and equipment – what have we concluded?

- We identified a prior year adjustment of £470 million on the carrying value of property, plant and equipment as at 31 March 2016. This comprised an increase in value of other land and buildings by £482.3 million, offset by a decrease value of £12.3 million to council dwellings. In addition, an adjustment of £23.3 million was also required to the 31 March 2017 carrying values of council dwellings to ensure these reflected Existing Use Value – Social Housing.
- While underlying valuations are robust, the process for accounting for changes in value can be enhanced.

Other inherent risks – retirement benefits
What is the risk?
The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS). Accounting for the pension fund assets and liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Results of audit procedures
In planning our audit, we identified that pension liabilities at 31 March 2016 were £176.1 million. Following the result of the EU Referendum in June 2016, we saw significant changes in certain economic assumptions used in the valuation of pension liabilities leading to significant increases in reported net pension liabilities by entities with accounting year-ends after June 2016. At 31 March 2017, the Council's net pension liability had increased to £290.3 million, primarily as a result of changes in the discount rate used to value the pension obligations. Our audit procedures included: ▸ Analysis of the payroll and pensions source data and made inquiries as to the procedures used by management's specialist to establish whether the source date was relevant and reliable. ▸ Utilisation of EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2017. As part of this work, our specialists considered the work undertaken by PWC on behalf of the public audit agencies to provide assurance over the major actuarial firms involved in preparing IAS 19 valuation reports. Assumptions used by the actuary and adopted by the Council are considered to be within our acceptable range. ▸ Testing of the journal entries for the pension transactions to ensure that they have been accurately processed and agreed the required disclosures in the financial statements to relevant information provided by the actuary.

Other inherent risks, retirement benefits – what have we concluded?

- Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable and the required disclosures have been provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support calculation of the liability.

Our Audit Plan identified other audit matters and aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

Other audit matters

Expenditure and funding analysis

In 2016/17 there were amendments to the Code as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates, reflecting internal financial reporting structures.

This change impacted the Consolidated Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS) and introduced the new expenditure and funding analysis (EFA), with full retrospective restatement of the CIES and MiRS. Our audit approach has focused on:

- Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code. Management initially presented the EFA as the first statement within the financial statements. Since it does not form one of the four primary statements, we requested that management make the narrative clear that the EFA, while displayed prominently, is a note to the financial statements.
- Reviewing the analysis of how these figures are derived, the re-mapping of the ledger system to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Opening balances

International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we:

- Held discussions with your former external auditor in respect of previous significant audit issues, corporate governance and general risk assessment.
- Reviewed prior year financial statements, annual audit reports and other reports issued by your former external auditor.
- Substantively tested opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- Undertaken a range of testing on balances during 2016/17 which provide assurance on the judgements and estimates made as at 31 March 2016.

We have reported elsewhere on the requirement to undertake restatement of the prior period to correct errors in the valuation of property, plant and equipment. A separate adjustment was also required to correct £6.6 million of developer contributions which were accounted for in current liabilities, instead of being held in an earmarked reserve.

Other audit matters – what have we concluded?

- The EFA has been presented in accordance with the Code and the MiRS and CIES restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- We concluded our work on the opening balances as part of the requirements for initial audit engagements. As reported elsewhere, a number of adjustments to prior period figures were required.

Other audit matters (continued)

Group financial statements

In 2015/16, the Council accounted for West Lothian Leisure Ltd and Lothian Valuation Joint Board as associates, due to an assessment of having significant influence but not outright control over these two entities. The Council also identified two joint ventures, West Lothian Recycling Ltd and West Lothian Integration Joint Board (WLIJB). A number of other entities were excluded from consolidation on the grounds of either materiality or lack of significant influence.

In scoping our audit work over the group, only WLIJB was scoped into our audit procedures on the grounds of materiality. We are the appointed auditor to the WLIJB and report separately on our audit of that entity. The accounting for the WLIJB was new in 2016/17. The relationship as a joint venture meant that in the Council CIES, a gross-up of expenditure funding made to WLIJB plus the expenditure on social care services should be shown, offset by the income receivable from WLIJB as part of its delegation of resources. The unaudited financial statements did not account for this correctly, leading to an adjustment in the financial statements.

The overall impact of preparing group financial statements was to reduce total reserves by £2.9 million (*2015/16: £0.8 million*).

During the year, West Lothian Leisure converted from a registered society to an incorporate company limited by guarantee with the Council as the sole member. An updated assessment of the control arrangements was not conducted by the finance team based on the change in circumstances during the year. We have concurred with management's assessment that there was no material impact on the group financial statements even had a change to the group relationship been made during the year. An unadjusted audit difference with a cumulative value of £3 million has been identified.

From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council. An updated assessment of the group relationship with West Lothian Leisure should be conducted by management in advance of preparation of the 2017/18 financial statements.

Action plan point - 3

Qualitative aspects of the financial statements

With the exception of the matters discussed specifically elsewhere in this report:

- We have reviewed the significant accounting policies, which are disclosed in the annual financial statements. We consider these to be appropriate to the Council.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure.
- There were no significant difficulties encountered in the audit.

Other audit matters (continued) – what have we concluded?

- We have obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we were not required to undertake detailed testing at components of the group. We are the appointed auditor to West Lothian Integration Joint Board.
- Management should ensure they update their consideration of the group boundary for changes in circumstances at entities with which they have an interest.

Other audit matters

Charitable trusts

The Council acts as sole trustee for 40 trusts and mortifications, nine of which are registered charities. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. We have audited the 2016/17 financial statements of the charitable trust funds. In summary:

- We have provided an unqualified audit opinion on the charitable trust funds financial statements, in accordance with applicable law and the relevant financial reporting framework.
- There were no audit adjustments impacting on the net assets or income and expenditure reported for the year.
- No numerical and presentational adjustments were required to the financial statements prepared for audit.
- We considered and confirmed our independence to act as auditors of the charitable trust funds, in line with the procedures set out in Appendix C for the Council audit, together with the objectivity of the audit partner and staff.
- Materiality for the audit was set in accordance with our audit methodology, at 2% of total income.
- We encountered no significant difficulties in undertaking our work and have no other significant matters to report to you.

Significant trading operations

Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period.

The Council reports one significant trading operation, Economic Development Properties. The cumulative three-year result is a deficit of £4.86 million, resulting in a failure to achieve the statutory financial requirement. During 2015/16 and 2016/17 impairment charges against assets within the property portfolio were £4.48 million and £0.64 million, respectively. These impairment charges represented the reason why the statutory breakeven position was not achieved.

In line with the position reported in the prior year by your former external auditor, without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report explaining the Council's failure to achieve a statutory objective.

Other audit matters (continued) – what have we concluded?

- We undertook the audit of nine of the Council's registered charitable trusts. We provided an unqualified audit opinions on the financial statements of the trusts.
- Without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report due to the Council's failure to achieve a statutory objective in the operation of its statutory trading operation.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the requirements of the Code.

Other reporting requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements on the Council in respect to the Annual Accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit. As required, we received the unaudited Annual Accounts by the 30 June. The audit committee considered the unaudited Annual Accounts on 30 June 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

While complying with the regulations, we consider that there is some potential inconsistency in the role and remit of the audit committee in the oversight of the financial statements which management should consider.

Action plan point – 8

Management Commentary

The requirement for the Council to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance.

Guidance on the content of the management commentary was issued by the Scottish Government within Local Government Finance Circular 5/2015. We considered whether the management commentary provided a fair and balanced review of the Council's business; a description of the principal risks and uncertainties; financial and non-financial key performance indicators; a description of the Council's strategy and business model and the main trends and factors likely to affect future developments; performance and position of the Council's business and explanation of the amounts in the financial statements.

We made suggestions to provide some more detailed and specific analysis within the management commentary. Management updated the commentary appropriately to reflect key elements of our review.

Remuneration Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to 42 staff totalling £951,000 (*2015/16: 46 staff totalling £1.1 million*).

Annual Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*. We set out the work undertaken in respect of the Council's annual governance statement as part of the Wider Scope – Governance & Transparency section of this Report.

Other reporting requirements – what have we concluded?

- We have concluded that the Council has complied with the requirements of the Regulations.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. As your external auditor we also participate in the Local Area Network (LAN). The LAN brings together representatives from across different scrutiny bodies to agree a Shared Risk Assessment (SRA) for each local authority. The SRA informs the local scrutiny plan (LSP) ensuring that for any risks identified there is an appropriate scrutiny response.

The 2016/17 LSP reported that the LAN were of the view that the Council demonstrates its commitment to best value, with evidence of strong leadership, a clear vision and a focus on continuous improvement. The LAN did not identify any specific areas from the risk assessment where scrutiny was required. The 2017/18 LSP confirmed this position and taken together formed a context for our audit and risk assessment.

Best Value auditing

Under the new approach to Best Value auditing in local government, the Controller of Audit will provide a Best Value Assurance Report (BVAR) for each council at least once in a five year period. The Council was selected as one of six councils to be subject to a BVAR report in the first year of the new arrangements. Joint work has been undertaken by ourselves and members of Audit Scotland's Performance Audit and Best Value team. The finalised BVAR will be heard by the Accounts Commission in November 2017.

The annual audit continues to focus on aspects of Best Value over our five year appointment. We have identified an indicative five year Best Value Plan in the table below. This will be subject to ongoing revision as priorities change or emerging risks arise.

The Accounts Commission has published its strategic audit priorities and these are mapped across, at a high level, to the Best Value audit work planned as shown below.

A. The clarity of council priorities and quality of long-term planning to achieve these.
B. How effectively councils evaluate and implement options for significant changes in delivering services.
C. How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.
D. How effectively councils are involving citizens in decisions about services.
E. The quality of council public performance reporting to help citizens gauge improvement.

Indicative five year Best Value plan	2016/17	2017/18	2018/19	2019/20	2020/21	Mapping to Strategic Audit Priority
Planned BVAR	X					
Follow up of BVAR		X				
Audit coverage:						
Performance and outcomes		X				B
Improvement		X				-
Leadership, Governance and Scrutiny			X			A
Equal Opportunities			X			E
Partnership Working and Empowering Communities				X		C, D
Financial and service planning					X	A, C
Financial governance and resource management				X		-

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial management

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- Is financial management effective?
- Are the budget setting and monitoring processes operating effectively?
- Is there sufficient financial capacity?

2016/17 financial outcomes

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) shows that the Council incurred gross expenditure on the provision of services of £754.2 million (*2015/16: £702.2 million*), and incurred an accounting deficit of £95.2million (*2015/16: £105.9 million*) on those services.

The new Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Code and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £0.35 million (*2015/16: £0.26 million*). In February 2016, the Council approved its 2016/17 revenue budget and provisionally approved its 2017/18 budget. Included within the budget for 2016/17 were budget reduction measures of £11.2 million to deliver a balanced budget. These were delivered.

Key financial statements movements and balances are considered below.

Focus on financial statements results	2016/17 £000	Restated 2015/16 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	**95,215**	105,892	The primary factor in the reduced deficit was the significant depreciation charged to the Housing Revenue Account in 2015/16 on revaluation of council dwellings.	G
(Surplus) / deficit on General Fund and HRA	**347**	260	No significant change. In general this result reflects on good in-year financial management and budgetary control	G
Uncommitted general fund	**2,075**	2,070	This equates to 0.5% of budgeted net expenditure and is one of the lowest levels held of any local authority in Scotland. This needs to be kept under close review.	R
Earmarked reserves	**23,187**	23,539	Earmarked reserves have broadly been maintained at the same level and provide the Council with flexibility around key initiatives.	G
Net current liabilities	**(245)**	(12,542)	Net current liabilities can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this is not a risk.	A
Total Usable Reserves	**103,550**	128,464	Most of the reduction is due to utilisation of the capital fund in supporting the Council's investment in assets. However there are significant usable reserves available.	G
Total Unusable Reserves	**803,687**	979,422	Revaluation of operational land and buildings / Council's asset base remains strong.	G
Net (decrease) / increase in cash	**(12,718)**	2,561	The decrease in cash reflects the significant investment the Council is currently making in its assets and in line with plan.	G

2016/17 budget monitoring and outturn

A balanced budget was set for 2016/17. The projected outturn against budget was reported regularly to the Council Executive during the year. The outturn report in June 2017 which supported the preparation of the unaudited financial statements is summarised in the table.

Service area	Budget £000	Outturn £000	Over / (under) £000
Schools, Education Support	207,730	207,370	(360)
Planning, Economic Development and Regeneration	6,999	5,263	(1,736)
Operational Services	68,160	68,160	-
Housing, Customer and Building	10,796	11,456	660
Corporate Services	17,609	17,609	-
IJB – Adults and Elderly Services	60,584	60,584	-
Non-IJB – Children's Services	30,010	30,100	90
Chief Executive, Finance and Property	32,632	32,167	(465)
Joint Boards	1,214	1,214	-
Service Expenditure - Total	**435,734**	**433,923**	**(1,811)**

The significant variance item giving rise to the underspend was reported as due to receipt in March 2017 of additional funding of £1.74 million for investment linked to employability and economic regeneration. This has been earmarked for spend in 2017/18. The key overspend in Housing, Customer and Building Services related to homelessness.

In-year budget monitoring reports were provided to the Council Executive on a regular basis, which included forecast outturn. There were no major fluctuations in the outturn projections provided to members during the year, demonstrating good financial control and an understanding of the budget and in-year management of financial pressures. Action to address service pressures were included in monitoring reports, enabling members to have appropriate oversight.

Reporting on budget reduction measures

Monitoring reports also included in-year analysis against the budget reduction measures. For 2016/17, these totalled £11.2 million and reports included red, amber, green assessment of their achievement. By Period 6, £9.4 million (78%) had been assessed as green with the remainder as amber. This included £2.1 million of staff performance savings, to be met through management of staffing vacancies during the year.

As the budget approved in February 2016 also included indicative figures for 2017/18. At mid-year in 2016/17 management were able to report that 59% of the £8.4 million reduction measures were already green with the remainder amber. This results in a position whereby at the time of the budget approval for 2017/18, the majority of savings are all identified and understood and so can deliver full in-year savings.

Action plan point - 4

Housing Revenue Account

The HRA delivered break-even performance in the year. There were no significant movements in any of rent arrears, losses on void properties or the bad debt provision from the prior year.

2016/17 financial outcomes – capital expenditure

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
General services capital programme	**63,304**	**69,616**	**6,312**
In line with prior year, the Council delivered accelerated spend on its general services capital programme. Compared with our experience elsewhere, where slippage on capital programmes can be a regular occurrence this demonstrates appropriate management of capital projects and ability to accelerate spend where circumstances allow.			
Housing capital programme	**62,450**	**49,787**	**(12,663)**
The housing programme under-delivered against the plan, due primarily on slippage due to the 1,000 Houses New Build programme. This accounted for slippage of £17 million against budget, although £27 million of expenditure was still invested in this programme during the year.			

Overall financing of the capital programme was supported by £67.1 million of capital receipts, grants from government and contributions from third parties and/or existing capital funds; £9.3 million of capital expenditure funded by revenue with the remaining £42.9 million funded by borrowing.

Capacity of finance and standing in the organisation

The Council's section 95 officer is the head of finance and property services. We considered the role and status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's *Statement on the role of the Chief Financial Officer in Local Government*.

We have reviewed the Council's financial regulations and are satisfied that these are comprehensive and subject to regular update. They are available through the Council's website.

Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operation of key controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

Financial management – what have we concluded?

- We have concluded that the Council has generally sound financial management arrangements. This has been based on identification and overall tracking of budget savings well in advance as part of two-year indicative annual budget setting.
- The Council is going through a period of significant capital investment, both in general fund services and council housing. While there has been some delay in the new build housing programme, there is good evidence of delivery and management of projects.

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability

The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11 and demographic changes in particular in respect of aging populations. Additionally, there are a broad range of legislative and policy changes, including for example integration of health and social care, community empowerment provision and education reform.

Scottish Government funding is distributed to councils using a formula based on factors such as population, deprivation and rurality. This means that not all councils have experienced the same level of reductions in funding. Audit Scotland figures show that the Council's reduction in funding overall has been the lowest of all councils, at less than 5%. This is in the context, however, of a demographic which also shows that the Council is expected to experience the most significant increase in population over 75 years old, by over 120% in the period 2014 to 2039.

Education and social work increasingly make up a greater majority of expenditure in local government. Within the Expenditure and Funding Analysis, in terms of the amount chargeable to the general fund and HRA, 67% of spend was in respect of these areas, within a range nationally of 60 – 80%.

Level of reserves

As shown in the table below, the Council's level of usable revenue reserves as a percentage of net expenditure on cost of services has decreased over the last five years. While reserves are broadly at a similar level, the overall net expenditure of the Council has increased. Within earmarked reserves, the Council's modernisation fund has been assisting in funding potential termination costs for staff, as service delivery has been modernised.

Analysis of reserves	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	%age change
Earmarked general fund	23,212	20,571	23,869*	23,539*	23,187	(28)
Uncommitted general fund	2,000	2,000	2,000	2,070	2,075	4
HRA fund	926	926	926	926	926	-
Insurance fund	12,269	12,193	13,570	13,715	11,835	(4)
Total Usable Revenue Reserves	**38,407**	**35,690**	**40,365***	**40,250***	**38,023**	**(1)**
As a % of net expenditure on cost of services	**9.9%**	**9.1%**	**10.4%**	**8.5%**	**8.2%**	
Capital fund	74,338	79,008	84,765	88,214	65,527	(12)
Total Usable Reserves	**112,745**	**114,698**	**125,130***	**128,464***	**103,550**	**(14)**

* Restated following prior year adjustment processed in 2016/17

The Council has maintained an uncommitted general fund balance at around £2 million, representing approximately 0.5% of net expenditure. This remains one of the lowest balances of all local authorities in Scotland and while the use of earmarked balances should also be considered when reviewing the available flexibility to the Council in making budget decisions, we believe this level of uncommitted reserves represents a risk to the Council.

Action plan point - 5

The significant capital fund means that reserves in total for the Council are strong. A significant proportion of this fund has been allocated, and is being utilised, to support the significant capital investment currently being made by the Council in both housing and general fund services, thus reducing the amount of additional borrowing required at this time.

Forward financial planning

The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, to provide councils with the ability to respond to the acknowledged demographic and fiscal pressures. The Council has traditionally aligned its financial strategy with its corporate plan, which was approved for 2012-17 in line with the timing of local elections. There is strong evidence of delivery of this financial strategy over the last five years, drawing on major public consultation exercises in 2012 and 2014.

During this period, the Council set multi-year indicative budgets, for example in January 2015 for the three year period 2015/16 to 2017/18 i.e. including the current financial year. This represents good practice. In January 2016 and January 2017 this was reduced to two-year and then just a one-year budget.

In February 2017, the Council approved the process to prepare a priority based revenue financial plan for 2018/19 to 2022/23 and to set out how the Corporate Plan priorities will be delivered over this period.

In setting the 2017/18 budget, the Council received an overview of the challenging economic outlook over the next five years. However, no detailed financial information was provided to members outlining the likely profile of the medium-term financial position. To our knowledge, this puts the Council in a minority of local authorities by not providing such information to members in advance of what was known to be a highly challenging period. The 2017/18 budget committed £2.179 million of non-recurring resources to meet the budget.

As part of the 2017/18 budget process, members agreed to the development of a financial and corporate plan for the period 2018/19 to 2022/23.

Action plan point - 6

In June 2017, management submitted a Revenue Budget Strategy 2018/19 to 2022/23 to the new Council Executive outlining the forecast budget gaps for the period.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Gross expenditure	17.5	16.4	16.8	15.3	15.7	81.7
Gross Income	2.5	0.4	(7.0)	(5.9)	(6.0)	(16.0)
Forecast Budget Gap	**20.0**	**16.8**	**9.8**	**9.4**	**9.7**	**65.7**

Expenditure pressures on staffing comprised £19.8 million of the forecasts, based on a 1.25% pay rise assumption in the first two years and 1% thereafter. This is a key assumption and the paper notes that a 0.5% increase on this assumption would add a further £6 million in cost pressures. Given recent public announcements by the Scottish Government, in our view it is likely that will be a need to revisit these assumptions.

Demographic and demand led pressures account for £28.4 million, or 35% of the expenditure budget pressures. This is heavily weighted to social care costs, and the Council's demographic of an increasing elderly population.

Income assumptions are based on a 3% annual Council tax increase which, coupled with the house building programme in the area, results in the majority of the increase in gross income. The Local Government finance settlement is assumed to show further reductions in 2018/19 and 2019/20, before increasing again thereafter. Taken together, this results in the front loading of the budget gap, with 56% of savings in the first two years.

Closing the gap

Following consideration of the Revenue Budget Strategy 2018/19 to 2022/23 report, in line with the officer recommendations in the report, Council Executive agreed that officers should report back to them in late summer / early autumn on proposals for a public consultation, including proposed priorities, future spending plans and savings options, and proposed council tax levels.

The Corporate Management Team has been working through officer savings proposals to meet the forecast budget gaps. In September 2017, the Council Executive considered an update from officers which set out a revised estimated budget gap of £66.1 million. This report set out the public consultation details as follows:

- Priorities for the next five years, drawing on the existing eight priorities of the Corporate Plan 2012/17 to ask respondents to comment on their ongoing suitability for West Lothian and again asking respondents to rank the priorities in order of importance.
- Seek views on the outline officer proposals for reductions and / or changes to services provided by the Council in seeking to balance the Council's financial position over the next five years.
- Seek views on the annual Council Tax increase of 3% which had been assumed in the budget model.

The consultation period will run from 16 October to 12 November 2017, with officers reporting on the results of the consultation to the relevant Policy Development and Scrutiny Panels for consideration in December 2017.

The development of the Council's new five year corporate plan and supporting corporate strategies, including the financial strategy resulting from the public consultation and subsequent consideration by members, are due to be approved in February 2018.

At the current time, therefore, the budget proposals are not public although we understand that management categorises these by prioritisation savings and efficiency savings, essentially considering how savings can be made in what the Council does, and secondly by how it does it. The required savings are expected to be found by an approximate 50:50 split between these two aspects.

Overall, we have assessed that the Council fully recognises the need for medium-term financial planning, linked to delivery of the corporate plan priorities. However, members have not yet been involved in determining the proposed areas of transformation and targeted savings. These are expected to include difficult decisions and so in our view this could leave the delivery of savings in the required timescales at risk.

Action plan point - 7

Long-term capital programme

2017/18 represented the final year of the current capital programmes for both general and housing services.

Capital investment of £49.8 million on general fund services was approved in the budget although £21.9 million of investment already committed in 2018/19 and beyond was highlighted. By completion of the financial year 2017/18, this will bring £257 million of investment over the previous five years.

The Council is in the process of developing a 10-year capital plan to be approved along with the next round of the Corporate Plan and underpinning strategies. This will be phased for years 1-5 individually and then years 6-10 as one phase.

The Accounts Commission's 2015/16 financial overview report provided comparison levels of borrowing across councils. While the Council has a relatively high level of borrowing, in terms of affordability, it was the 11th lowest in terms of percentage of income used to service debt. The Council has accelerated elements of borrowing to fund the 2017/18 programme as interest rates continue to be low, leaving more of the Capital Fund available to fund the longer-term programme.

A housing capital budget of £77.2 million was approved for 2017/18, comprising £60.7 million on the new build housing programme and £16.5 million on other works including planned refurbishments. This is an ambitious programme, and reflects partly the under-delivery in the new build programme to date.

Funding of the housing capital programme is predominantly through borrowing of £53.5 million, with right to buy sales generating £5.6 million through completion of final sales before the legislative change which brought an end to tenants' right to buy. The retention of council housing will significantly impact on HRA rental income in the future, supporting the increased borrowing levels.

Other long-term liabilities

Retirement benefits

We reported earlier on the significant increase in the liability assessed at the balance sheet in respect of the Council's obligations for pensions. Individual council obligations, and their corresponding affordability, reflects on a number of factors:

- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

In the Accounts Commission's 2015/16 financial overview report, at approximately 40%, the Council had the sixth lowest ratio of pension liability to net revenue. While this ratio has increased substantially to closer to 79%, similar movements will have affected all councils and so this remains one of the lower percentages.

PPP liabilities

The Council has two PPP contracts for schools, both over 31-year periods, one of which expires in 2032 and the second in 2039. The outstanding principal on these contracts totals £65.5 million at 31 March 2017. In line with other long-term leasing obligations, the Council also makes annual payments in respect of interest, lifecycle capital costs and operating costs.

Integration of Health and Social Care

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The West Lothian Integration Joint Board (the WLIJB) was legally established on 21 September 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the Council and NHS Lothian. The Council committed £60.6 million of expenditure to the WLIJB in 2016/17 and received direction from the WLIJB in respect of use of these resources in the year. The Council's 2017/18 budget approved resource of £69.4 million, representing the growth in resources required in this area.

Edinburgh and South East Scotland City Region Deal

The Council is one of six local authorities within the Edinburgh and South East Scotland City Region Deal. The City Region Deal was approved in July 2017, with commitment from the Scottish and UK Governments to provide significant investment, along with additional investment from the councils as well as universities within the region. This provides opportunity for the Council to work with its partners to use this investment to improve economic performance in the region, deliver services more effectively and tackle inequality and deprivation.

Financial sustainability – what have we concluded?

- We have concluded that the Council's financial position is generally sound. While significant investment is required in response to demographic pressures, it has a good basis to undertake this investment.
- The Council has an established process for aligning its financial strategy to its corporate plan priorities. As a result only a one-year budget was approved for 2017/18, as this was the final year of the existing five year corporate plan. The Policy Development and Scrutiny Panels will consider the results of the public consultation in respect of officers' savings proposals in December 2017, prior to Council approval of a new five year corporate plan and underlying financial strategy in February 2018. In our view, since difficult decisions are expected to be required, the timeline for involvement of members could leave the delivery of savings in the required timescales at risk.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance arrangements

During our audit, and in conjunction with the BVAR work, we have reviewed the Council's overall governance arrangements. In line with responsibilities of the Council, this has considered the Council's arrangements as they relate to standards of conduct including for the prevention and detection of fraud and error.

The Council has a set of Standing Orders which regulate the way it goes about its business, supported by the Scheme of Administration which sets out the membership, powers and responsibilities for full council, all its committees, sub-committees, working groups, Policy Development and Scrutiny Panels and Local Area committees. The Financial Regulations contain the Council's arrangements for the proper administration of its financial affairs. In line with good practice, all documents are kept up to date to reflect changes.

The full Council of 33 Members meets approximately every six weeks, with most of the Council's important decisions and policies made by the Council Executive or the Education Executive. The Council Executive meets twice between meetings of full Council, and the Education Executive once.

During 2016/17, the Council was led by a minority Labour administration. Following the May 2017 elections, which returned 13 Scottish National Party, 12 Scottish Labour Party, seven Scottish Conservative and Unionist and one Independent members of Council. The remains a minority Labour administration.

Member training

The Council offers training to elected members through the year, and make available on its website details of the 19 events hosted during 2016/17 and the number of members who attended this. The content of training was broad and covered a range of subject matters corresponding to the breadth of responsibilities held by elected members.

Following the May 2017 elections, induction training was provided for new and returning members. Discussions with members as part of the ongoing Best Value work found that members were positive about the nature and extent of training provided.

We understand that Human Resources are in the process of developing and progressing individual training plans for members and records of training undertaken. While senior officers respond to and provide informal briefings to members when they have queries, given the increasing challenges facing local government, we would encourage individual tailored plans to be developed for elected members to support them in discharging their roles in ensuring Best Value in provision of services at the Council over the coming term in office.

Annual Governance Statement (AGS)

The AGS sets out the Council's governance framework. The Council supports its arrangements through its local code of corporate governance, and assessments are undertaken regularly of compliance against this. Other core support for the AGS is through the system of compliance statements which are obtained from key individuals in the Council's management team, relating to their areas of responsibility.

The annual report from the Audit, Risk and Counter Fraud Manager is a further source of support for the AGS. This report concluded "*that the council's framework of governance, risk management and control is generally sound.*" We observed that of the 19 reviews for which an audit conclusion was provided, two obtained an '*unsound*' conclusion and nine '*required improvement*'. With over half of the reviews receiving one of the bottom two gradings produced by internal audit; we considered whether the overall support for the AGS was appropriate. We judged that since areas requiring improvement were included within the AGS then there was appropriate transparency and disclosure of the underlying control framework. The Audit, Risk and Counter Fraud Manager has further advised that in reaching his conclusion, he considers other sources of assurance than that of the individual audit reviews.

Focus on Audit and Governance and Risk Committee arrangements
Prior to the local elections in May 2017, the audit and governance committee had primary responsibility for matters relating to internal and external audit, and the governance arrangements of the Council. During 2016/17 this committee continued to be chaired by a member of the administration, which as also reported by the Council's former auditor, does not accord with our own, or the Accounts Commission's, views on best practice for independence of audit committee chairs. The main change to the Council's committee structure following the elections was to split the remit of the audit and governance committee into two, replacing it with an audit committee and a governance and risk committee. Both of these committees have a membership of five (two Labour, two Conservative and 1 SNP), with in addition one lay member currently appointed to the audit committee, and a lay member due to be appointed to the governance and risk committee. At the current time, three of the five members of each committee are the same, while the SNP members are not taking up their one position on each committee. The remits of the two new committees contain some significant overlap, for example in June 2017 both committees considered the Internal Audit Annual Report. There are a number of occasions where it is likely that the same reports from officers may need to be considered by both committees in order to fully discharge their responsibilities. Management have explained that the reason for the split is to allow members to have a greater focus in particular on risk within the Council. We agree with this principle as there has been limited consideration or review of the corporate risk register at any committee of the Council during the year, as this was performed at the Governance & Risk Board during the year. While the chairs of both new committees are not currently members of the minority administration, best practice would suggest formalising the arrangement within the Scheme of Administration such that the chair, or vice-chair, of these important committees should not be drawn from the administration. Given the new arrangements, and the potential overlap in remit, we believe it will be important for officers and members to keep the operation of the committees under review during their first cycles of operation. ***Action plan point - 8***

Focus on performance and scrutiny arrangements

The scrutiny of performance by members is carried out in different places in the decision-making structure. There are two committees, Performance committee and Education (Quality Assurance) committee (EQAC) and nine Policy Development and Scrutiny Panels (PDSPs).

The Council operates a series of PDSPs. These are small groups of councillors (four Labour administration, three opposition) and up to six invited third party representatives, who develop new policies for the Council, or scrutinise the workings of existing policies to consider where changes are needed. They do not have the power to actually make decisions, but they make recommendations to the Council Executive or Education Executive for them to make decisions which are binding on the Council.

Since they report through either the Council Executive or the Education Executive, the current membership of the PDSPs is such that most have a majority of elected members who are also members of either executive committee.

The PDSPs therefore play an important role in the development and scrutiny of policy decisions. In undertaking this role, in accordance with the Scheme of Administration their remit also includes the review of periodic service performance reports. This enables them to make recommendations to officers for improvements or actions to be taken.

This is an important part of the scrutiny of policy, although in our view we do not consider this alone would represent sufficient scrutiny of service performance by elected members.

The main committees in the structure for consideration of performance are the Performance committee, and for education services, the EQAC.

The Performance committee comprises five members. In practice, it has been and is currently chaired by a non-administration member, although the Scheme of Administration does not require this, nor does it set out whether members of the Executive(s) may or may not be on the committee. According to its remit, the purpose of the committee is consideration of the Council's corporate performance, including ensuring that performance management arrangements cover Best Value considerations.

The EQAC has since its inception been chaired by a non-administration member. Its membership includes religious and parent members and parent council representatives are invited to attend for each school under review. It considers reports from external and internal school inspections and reviews and the action plans that have been developed in response. There is evidence of member involvement in scrutiny and a willingness to follow up reports at future meetings to monitor progress. Of its 13 elected member representation, 11 of these members are also on the Education Executive.

In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council.

Action plan point – 9

The Performance committee sets a work-plan for the year and receives an annual report on the Council's performance within the Local Government Benchmarking Framework. From our review of committee business, there has tended to be more focus on service performance reports than overall corporate performance reporting. Further, from our review of minutes there is limited evidence of challenge and oversight of corporate performance of the Council, as the minutes often record that members noted the content of reports without recording any challenge or scrutiny which may have occurred.

Robust challenge and involvement from elected members in driving improvement of Council performance at a corporate level is a key element of a commitment to delivering Best Value.

Action plan point – 10

Focus on Internal Audit
The Council has an in-house internal audit function which is designed to provide members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. As part of our first year appointment, we considered aspects of internal audit's performance with relevance to their compliance with Public Sector Internal Audit Standards (PSIAS). Our work in this area was assisted by Internal Audit's own self-assessment against PSIAS, and an independent peer review of this self-assessment by the Chief Internal Auditor from Moray Council. Broad compliance with the PSIAS was noted. Overall, the Council's Internal Audit team demonstrates a number of areas of good practice, including clear access and reporting to the leadership team and the audit committee. Review of internal audit reports and observation of audit committee meetings evidenced that management is subject to challenge. The Audit, Risk and Counter-Fraud section consists of 7 FTE of skilled and experienced personnel, with access to more specialised IT technology support through its partnership relationship with Falkirk Council. The internal audit complement is 3 FTE. The relatively small size of the team, which is reflected in the cost of the function being benchmarked as the second lowest in Scotland, increases the inherent risk around the dependency and reliance on key individuals within the team. Our review of Internal Audit working papers found that while there was a structured quality review process, there were opportunities to enhance aspects of assignment working paper review and sign-off to be aligned with good practice which we have discussed with management. The PSIAS assessment identified that planned audit reviews are not prioritised in the internal audit plan for the year. The Audit, Risk and Counter Fraud Manager provided the mitigation that this is due to the intention to complete the annual internal audit plan each year, giving every review the same high priority. We have observed that experience shows that this is not the case, with reviews being rescheduled into future years or removed from the plan as other pressures on resource arise. ***Action plan point - 11*** In line with the Council's performance management framework, Internal Audit reports against a series of performance indicators. Notable is the highly positive feedback which is consistently received from services which have been subject to audit. However, in our view, there is scope to improve the indicators identified and / or the targets for assessment of performance. For example, the 12-week target as the average time to issue draft reports on completion of assignments is not sufficiently challenging and provides a risk that control weaknesses can continue un-addressed while draft reports are being prepared. Management have advised that in practice, any significant risk or issue would be escalated out with formal reporting cycles. ***Action plan point – 12***
Focus on Internal Audit's role in the organisation
The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. The risk associated with internal audit self-review is mitigated by management ensuring that audit of the Council's risk management process is conducted independently from the in-house internal audit team. Nonetheless, our view is that this combined Risk Manager and Head of Internal Audit role creates a potential conflict of interest. The delivery of the Council's new corporate plan is likely to bring a period of significant change as the Council works to deliver and enhance services for users, while responding to changing demographics and ongoing budgetary and funding constraints. In our view, at such times, a Risk Manager should be utilising their specialist risk experience and knowledge to provide advice and support to management across the Council in identifying and managing risks, supporting effective internal control, the risk management framework and overall good governance. This allows Internal Audit to be free from any actual or perceived conflict of interest to challenge and scrutinise management on delivery of transformation of Council working practices. ***Action plan point - 13***

Following the public pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (the FtPP Code). The audit and governance committee received and considered the Accounts Commission's report "*Roles and working relationships in councils - Are you still getting it right?*" Part of this report considered the relationship of working with Arms Length External Organisations (ALEOs). The committee agreed that the contents of the report would be progressed through the Governance and Risk Board and a further report considered if any recommendations arose from that consideration.

Internal audit undertook a review of the monitoring processes in respect of grants to voluntary and not-for-profit organisations. At the time of the review, this covered payments totalling £22.8 million during 2015/16 of which approximately £20.3 million were related to social policy and £2.5 million to other areas. Internal audit concluded that controls were effective where grants were made in respect of social policy, although it highlighted that there was a risk of a lack of effective oversight by members as required information on contract performance had not been properly reported to the Social Policy PDSP.

In respect of funding of other areas, controls were found to be unsound with four 'high' graded recommendations and four 'medium' graded recommendations made by internal audit.

Focus on West Lothian Leisure

The Council has an interest in one ALEO, West Lothian Leisure Limited (WLL). West Lothian Leisure was established in 1998 but during 2016 converted, from a registered society, to a company limited by guarantee with the council as the sole member. The Council provides a management fee, which for 2016/17 amounted to £1.9 million, being approximately 20% of WLL's income. From 1 April 2017, additional leisure and cultural services were transferred from the Council to WLL.

One consequence of using more complex structures involving ALEOs in delivering services is that the public may be less clear about who is responsible for services. Maintaining transparency by having arrangements that are easy for people to get access to and understand is a key objective of good governance. This is detailed in the Accounts Commission's *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* 2011 report.

It is good practice that councils should monitor how ALEOs perform against both financial and service expectations. Internal audit undertook a review of financial monitoring and reporting in relation to WLL and concluded that the control framework required improvement. A number of recommendations were made in respect of improving the governance and control environment, which were accepted and management have advised that these have been implemented.

The West Lothian Leisure Advisory Committee is the committee responsible for oversight of the Council's relationship with WLL. As a result of the internal audit report, financial and performance reporting was separated into different reports. However, all papers considered by this committee have up until now been done so in private.

During 2016/17 three members of the advisory committee were also directors of WLL. The Accounts Commission's 2011 report identifies that such roles are incompatible or pose a real risk to governance and accountability, stating that "*the councillor or officer who scrutinises an ALEO on behalf of the council, or makes funding decisions affecting an ALEO, should not be a board member of the ALEO.*"

On 28 February 2017, the Council Executive was given explicit advice about appointment of members to ALEOs based on Standards Commission advice. Since the May elections, no member on the advisory committee is also a director of WLL. However, the Council Scheme of Administration does not set out that this should not occur. In addition to the actions identified by internal audit, therefore, the Council should review its governance arrangements to ensure they provide for a relationship with WLL that is clear and complies with best practice and relevant guidance, thus reducing the risk of conflicts of interest arising.

Action plan point – 14

Fraud and irregularity

In line with our responsibilities under the Code, we have considered the Council's high level arrangements as they relate to the prevention and detection of fraud and error. Overall we consider the Council's arrangements to be appropriate.

National Fraud Initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. Local authorities were required to submit datasets in autumn 2016 and matches fro investigation and follow-up were released early in 2017.

We reviewed the Council's arrangements for participation in the NFI in support of preparation of a return to Audit Scotland. We were satisfied that the Council had appropriate arrangements to respond to the NFI and had initiated their response to the most recent exercise.

Standards of conduct

Through consideration of the Council's financial regulations, standing orders and scheme of administration, supplemented by consideration of the Code of Conduct for elected members, we are satisfied that the Council has established appropriate arrangements. The Standards Commission for Scotland did consider two cases in respect of councillors during the period and in both cases found against them for relatively minor breaches in respect of disclosure of interests.

Governance and transparency – what have we concluded?

- The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles. Internal audit is well respected, however, we have raised a number of recommendations for consideration to strengthen the reporting and monitoring by the audit committee.
- We consider there is scope to strengthen the arrangements for scrutiny of corporate and service performance. The relationship between the new governance & risk and audit committees should be monitored. The Council needs to improve the controls and governance arrangements around Following the Public Pound.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the Council has appropriate arrangements to demonstrate Best Value.

Performance and improvement

Framework for improvement

The Council uses the Covalent performance management software as their central performance management system. Covalent supports management and reporting of performance and includes functionality for setting and reviewing targets and thresholds to trigger intervention or action from the service.

The Council has an improvement strategy which guides how continuous improvement is pursued throughout the organisation. The strategy is well rounded in that it considers the different stages of the improvement cycle, from engagement, to planning, performance management and self-assessment. Services carry out self-assessment of their performance through the West Lothian Assessment Model (WLAM). There are two elements to the WLAM, looking at what has been done (enablers) and what has been achieved (results).

Information on the enablers is provided by the service's assessment team. Results information is lifted from the relevant performance indicators on the Covalent system by the Council's Performance and Improvement Service and analysed jointly along with the assessment team. These performance indicators are related to both processes and activities. A final score is then agreed based on both parts of the assessment.

WLAM cycles run for three years, with each WLAM unit required to carry out one assessment per cycle with the aim of achieving continuous improvement. Assessments are presented to a WLAM Review Panel, which is made up of the Chief Executive and two other senior managers (not from the service subject to review). The Review Panel is set up to provide high level scrutiny and peer review, and ensure a consistent approach to self-assessment.

The Council produced an end of programme report for the WLAM cycle 2014-17. This showed that the average score across the Council had improved from the previous cycle and all services (where comparable information was available) had improved performance in their assessment. The Council did acknowledge that the pace of improvement varied between services and that some services could benefit from swiftly addressing the recommendations from their Review Panel.

The Council is currently considering the refresh of the WLAM programme for 2017-20.

Statutory performance indicators

The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting. The 2015 Direction set out a streamlined and more flexible set of performance information for the 2016/17 financial year that the Commission required councils to collect and report in public. Councils are required to publish the required information from the financial year ended 31 March 2017 each year through to the financial year ending 31 March 2019. The schedule within the 2015 Direction sets out the required information as:

Achievement of Best Value

SP 1: Each council will report a range of information setting out its performance in:

- improving local public services (including with partners)
- improving local outcomes (including with partners)
- engaging with communities and service users, and responding to their views and concerns
- achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources

Local Government Benchmarking Framework

SP 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)

Performance and improvement (continued)

The Council utilises four categories of performance indicator in its performance management framework:

- Public Performance Reporting (PPR): A small number of key indicators – linked to the key processes / activities and / or outcomes that are reported externally, for example to meet the Accounts Commission's requirements.
- High Level: Key indicators – linked to the key processes / activities and / or outcomes that are reported to senior officers and elected members.
- WLAM: Indicators of local service performance – linked to the key processes / activities that are reported within the service.
- Management: Indicators that provide management information for use in the service to plan or forecast provision

Service plans, approved through the PDSPs at the start of the financial year, set out the performance targets for the year ahead as well as reporting on the trend performance against the indicator for the previous three years.

The Council reports annually to its performance committee on comparative performance through the LGBF. The most recent report covered the 2015/16 performance year. This shows that the Council generally performs well against its peers. Using data from the Local Government Benchmarking Framework, the Council calculates an average ranking against other Scottish Local Authorities to measure performance. Under the most recent reported figures it came fifth overall in 2015/16, down from second in 2014/15. The report identified a number of areas where performance had declined, particularly around cost pressures in adult social work.

The BVAR will report in more detail on the Council's performance, focussing in particular on trend performance and the linkage between indicators and improvements in outcomes.

Options appraisal and decision making

In advance of approving the transfer of management of facilities and functions to a modernised West Lothian Leisure, the Council Executive received a series of papers outlining the options appraisal exercise undertaken in advance of the recommended option. The move to a shared service delivery was driven by the need to generate additional savings of £0.5 million, but the appraisal decision was based on criteria which would indicate the likelihood that the option would support the Council's priorities of people living longer, healthier lives through increased participation in sport, leisure and cultural activities.

In line with the revised arrangements for Best Value, and the Accounts Commission's strategic priorities, our approach to which we set out in our indicative five year plan, we will undertake further detailed work on options appraisal and decision making in future years following the adoption and implementation of the new Corporate Plan.

Value for money – what have we concluded?

- We have concluded that the Council has a comprehensive performance improvement framework, founded on the well established West Lothian Assessment Model. This has provided a stable and consistent framework through which services undertake self-assessment and seek to improve their performance.
- The Council monitors a suite of performance indicators through the Covalent system. Performance information shows that the Council generally performs very well compared to other councils, although the Council recognises areas where performance can be improved.

3. Other audit deliverables

Under the terms of our appointment, we provide other assurance activities such as the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as information returns to Audit Scotland.

Other audit deliverables			
Aspect of work	**What we did and what we found**	**Expected completion / submission date**	**Submitted on time**
Annual Audit Plan	Reported to audit committee on 27 February 2017	31 March 2017	Yes
Audit Scotland Fraud Return submission	We submitted fraud returns summarising the reporting to audit and governance committee during the year.	26 May 2017	Yes
Submit NFI return to Audit Scotland	Reviewed the Council's arrangements and completed an information return – see conclusion elsewhere in this report	30 June 2017	No – submitted July 2017 due to EY staff illness
Submit Audit Scotland EU Funding questionnaire return	The purpose of this questionnaire was to support the development of an understanding of Scotland's reliance on EU structural funding arrangements and in particular the extent to which public bodies have been preparing themselves for the consequences of not having access to EU funds in the future. We identified that the Council is managing £5.95 million of EU funds through 2016/17 and 2017/18, with 39 staff members involved in associated projects. Updates on the risk facing the Council are reported to the Partnership and Resources PDSP.	30 June 2017	Yes
Submit certified Education Maintenance Allowance return	The return was not received by the Council submission deadline. When testing was undertaken during July, specific supporting evidence was not available for key elements of the claim, with evidence held offsite at schools. Our opinion was qualified as a result.	31 July 2017	No, due to the delays as a result of lack of evidence available from the Council
Submit certified Criminal Justice Social Work claim	Audit work has been undertaken with no significant findings arising.	29 September 2017	Yes
Whole of Government Accounts assurance statement to NAO	Audit work will be undertaken on updated WGA pack, following audit adjustments made to the financial statements.	29 September 2017	Yes
Certify Annual Accounts and submit Annual Audit Report	Pending formal approval of the financial statements	30 September 2017	Yes
Submit Best Value Data Return to Audit Scotland	N/A for the Council due to BVAR in 2017	2 October 2017	N/A
Submit certified Non-Domestic Rates return	Audit work has been undertaken with no significant findings arising.	6 October 2017	On target
Submit certified Housing benefit subsidies claim to DWP	Work is in progress and we will discuss findings with the relevant officers prior to submission of our certification report.	30 November 2017	On target

Appendices

A – The Council’s responsibilities

B – Required communications with the audit committee

C – Auditor independence

D – Accounting and regulatory update

E – Summary of audit differences

F – Action plan

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: ▸ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▸ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▸ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▸ maintaining proper accounting records. ▸ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: ▸ such financial monitoring and reporting arrangements as may be specified ▸ compliance with any statutory financial requirements and achievement of financial targets ▸ balances and reserves, including strategies about levels and their future use ▸ how they plan to deal with uncertainty in the medium and longer term ▸ the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

B. Required communications

There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA 260 and other auditing standards. These are set out below.

Required communication - what is reported?	Our reporting to you
Terms of engagement Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Annual Audit Plan – 27 February 2017
Significant findings from the audit ▸ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Any significant difficulties encountered during the audit ▸ Any significant matters arising from the audit that were discussed with management ▸ Written representations we have requested ▸ Expected modifications to the audit report ▸ Any other matters significant to overseeing the financial reporting process ▸ Findings and issues around the opening balance on initial audits	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	This Annual Audit Report
Fraud ▸ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▸ A discussion of any other matters related to fraud, relevant to audit committee responsibility.	This Annual Audit Report

Required communication - What is reported?	Our reporting to you
Significant deficiencies in internal controls identified during the audit ▸ Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report
Related parties Significant matters arising during the audit in connection with the Council's related parties including, where applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and/or regulations ▸ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events ▸ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information ▸ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report.
External confirmations ▸ Management's refusal for us to request confirmations ▸ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and / or regulations ▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Group Audits ▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components ▸ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.	Annual Audit Plan – 27 February 2017 This Annual Audit Report
Independence ▸ Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.	This Annual Audit Report – Appendix C

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats.
- Safeguards adopted and their effectiveness.
- An overall assessment of threats and safeguards.
- Information on the firm's general policies and processes for maintaining objectivity and independence.
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 27 February 2017.

We complied with the APB Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your audit committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 25 September 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees initially agreed for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the Code requirements.

Additional auditor remuneration of £4,000 was agreed with management in respect of the audit of the Council's nine charitable trust funds.

Auditor remuneration per Annual Audit Plan	£201,333
Audit Scotland central costs	£130,480
Total fee per Annual Audit Plan	£331,813
Additional auditor remuneration	£4,000
Non-audit service fees	-
Total fees	**£335,813**

There are a number of new accounting standards and interpretations which will impact on the local authority accounting code of practice in the next two or three years. The following table provides a high level summary of those that have the potential to have the most significant impact on you.

Area	Summary	Potential impact
IFRS 9 – Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year. This new standard will change: ► How financial assets are classified and measured ► How the impairment of financial assets are calculated ► Financial hedge accounting ► The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains uncertainty. The Council will, however, have to: ► Reclassify existing financial instrument assets ► Remeasure and recalculate potential impairments of those assets; and ► Prepare additional disclosure notes for material items
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ► Leases; ► Financial instruments; ► Insurance contracts; and ► for local authorities, Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	Again CIPFA have issued initial thoughts on the approach to adopting IFRS 15, although uncertainty remains until the Code is issued. For all material income sources from customers the Council will have to: ► Disaggregate revenue into appropriate categories ► Identify relevant performance obligations and allocate income to each ► Summarise significant judgements
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

Summary of audit differences – prior period adjustments			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease**	**Balance sheet (Decrease) / Increase**
1	**Revaluation adjustment to correct increase in value of other land and buildings in prior year**		
	Property, plant & equipment – land & buildings		£426.2 million
	Revaluation reserve		£(426.2) million
2	**Recognition of revaluation of schools PPP assets**		
	Property, plant & equipment – schools PPP assets		£56.0 million
	Revaluation reserve		£(56.0)million
3	**Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting**		
	Property, plant and equipment – Council Dwellings		(£12.2 million)
	Impairment recognised in cost of services	£12.2 million	
4	**Adjustment to remove HRA developer contributions from creditors and reflect these as a transfer between HRA fund and General Fund.**		
	Short Term Creditors		£6.6 million
	Housing Revenue Account Expenditure	(£6.6 million)	
	Housing Revenue Account Fund		£(6.6) million
	General Fund – earmarked reserves		£6.6 million

E. Summary of Audit Differences (cont.)

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

Summary of audit differences – current year adjustments			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease**	**Balance sheet (Decrease) / Increase**
1	**Revaluation adjustment to correct increase in value of other land and buildings in prior year**		
	Property, plant & equipment – land & buildings		£(426.2) million
	Revaluation reserve		£426.2 million
2	**Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting**		
	Property, plant and equipment – Council Dwellings		(£20.6 million)
	Impairment recognised in cost of services	£20.6 million	
3	**Adjustment to depreciation in year to reflect depreciation on PPP assets**		
	Property, plant and equipment - depreciation		£(12.8) million
	Depreciation charged to cost of services	£12.8 million	
4	**Recognition of initial contribution to West Lothian Integration Joint Board and subsequent income received to deliver services.**		
	CIES – Service gross income	£(60.6) million	
	CIES – Service gross expenditure	£60.6 million	
5	**Adjustment to remove incorrect recognition of an accrual and prepaid income within the draft financial statements.**		
	Short-term creditors		£0.5 million
	Short-term debtors		£(0.5) million

E. Summary of Audit Differences (cont.)

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. One difference remains unadjusted as set out below.

Summary of audit differences – unadjusted differences			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease**	**Balance sheet (Decrease) / Increase**
1	**Net estimated impact of recognising West Lothian Leisure as a subsidiary in the group financial statements instead of as an associate**		
	Group net assets		£(3.0) million
	Group reserves		£3.0 million

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	**Financial reporting process** Overall the financial reporting process is well established within the Council. However, particularly in relation to non-transactional items, we have identified that there are examples where judgements made in the financial statements process are not fully and appropriately documented and approved.	Where key judgements on items within the financial statements are being made, these should be fully documented and subject to approval by the Head of Finance and Property Services, and retained to support current and future year financial statements. *Grade 2*	Key judgements will be fully documented and approved by the Head of Finance and Property Services for the 2017/18 financial statements onwards.
2	**PPE Valuations** Our audit work identified significant movements in operational building valuations which were not being taken into account when assessing whether, in line with Code requirements, the year end values of assets could be materially different from the carrying value recorded in the financial statements.	Management requires to consider and agree an appropriate process to ensure the valuation cycle is appropriate to take into account potential material movements in key assets, as well as a means to ensure that where a 1 April valuation is undertaken, that the valuation remains appropriate as at the 31 March balance sheet. *Grade 1*	A review will be undertaken by the end of December 2017 to agree an appropriate process.
3	**Group financial statements** From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council.	An updated assessment of the group relationship with West Lothian Leisure should be conducted in advance of preparation of the 2017/18 financial statements. *Grade 2*	An assessment has been completed. West Lothian Leisure will be accounted for as a subsidiary in the 2017/18 financial statements.
4	**Financial management – risk assessment of savings** Management has an established process of risk assessing the delivering of savings within the in-year budget monitoring. Savings will, however, become increasingly difficult to deliver.	We have discussed with management the means to identify within budget papers the risk assessment associated with individual savings proposals. We recommend that an overall red/amber/green rating is provided to members on savings proposals allowing them to focus on the area of greatest financial risk. *Grade 2*	Savings proposals going forward will be assessed on a red/amber/green basis by officers. This information will be included in the revenue budget papers reported to elected members.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5	**Level of uncommitted general fund reserves** The Council has one of the lowest levels of uncommitted general fund reserves of all Scottish local authorities. While the Council exhibits good in-year financial management, as financial savings become harder to delivery, this low level of reserves reduces the Council's flexibility around budget decisions.	Management should consider whether the target level of uncommitted reserves remains appropriate in the context of approval of the forthcoming medium-term financial strategy. *Grade 2*	Management has considered if the level of uncommitted reserves remains appropriate. Taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves is appropriate. The level of uncommitted reserves will continue to be reviewed as part of the revenue budget setting process and will continue to be subject to a specific recommendation in the annual revenue budget report.
6	**Approval of 2017/18 budget** As the final year of the existing five year financial plan, the Council set a one-year budget for 2017/18. While an overview of the economic outlook was provided to members, there was no detailed information provided on the financial challenges facing the Council over the medium-term.	While we understand that the Council links the financial strategy to the corporate plan, we recommend that in setting budgets, the Council should always have a multi-year budget strategy in place so that savings are being considered in the context of a medium-term plan. *Grade 1*	Updates on the economic context at UK, Scottish and West Lothian level and an update on the council's future budget model are now being presented quarterly to the Partnership and Resources PDSP. In future, these updates will include information for at least three years in advance on the anticipated financial position of the council. This information will also be included in any reports on future financial planning.
7	**Engagement of members in long-term financial planning** In advance of public consultation, the corporate management team has been developing proposals to meet the significant forecast budget gaps. While members have approved the overall process, their detailed consideration of officer savings proposals will commence in December 2017. These are expected to include difficult decisions and could leave the delivery of savings in the required timescales at risk.	With significant challenges facing the Council over the coming years, in our view it is important that members take an early lead in shaping the direction of future priorities and service delivery. *Grade 1*	Council, in February 2017 agreed objectives, a process and a timetable for corporate and financial planning. In accordance with the agreed process and timetable a consultation is to take place from mid October to mid November and provides all stakeholders in West Lothian with the opportunity to comment on proposed priorities, officer savings proposals and future council tax levels. Reports on all responses to the consultation will be presented to PDSPs in December 2017 providing the opportunity for elected members to share the direction of future priorities and service delivery.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8	**Operation of audit and governance & risk committees** With the remit of the audit and governance committee split across these two new committees, to introduce a greater focus on risk, there is the potential for unnecessary duplication in the work of the committees, together with a lack of clarity in respect of where reports and business are considered. In addition, while the audit committee received the unaudited accounts on 30 June 2017, its remit does not formally include the annual accounts and so there is a risk of uncertainty arising around the audit committee's role in considering the external audit report on the annual accounts.	It is recommended that, in line with best practice, these committees undertake annual self-assessments of effectiveness, including with a focus on how they have interacted with each other over a full cycle of reporting. The role of the audit committee with the annual accounts should also be clarified. In addition, best practice would suggest that the scheme of administration sets out that the chairs of these committees should not be drawn from the Council administration. *Grade 2*	It is intended to include a self assessment in the work-plan for both committees. In accordance with the agreed procedures, Council will consider for approval the auditor's annual report and audited annual accounts. Following approval, the auditor's report and the audited annual accounts will be referred to audit committee for information. Changes to the scheme of administration are a matter for elected members of the council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.
9	**Scrutiny of performance** The Performance committee and the Education (Quality Assurance) committee are the main committees within the scheme of administration for consideration of performance. At the current time, the scheme of administration does not set out the membership of these committees in relation to roles elected members may have on other committees.	In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council. *Grade 2*	Changes to the scheme of administration are a matter for elected members of the Council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
10	**Performance committee reporting** The performance committee is the key committee for independent scrutiny of overall corporate performance. Improvements could, however, be made to the information and reports received on corporate performance. Review of committee minutes, and attendance at the committee, also found that there is scope to improve evidence of member involvement in providing robust challenge and scrutiny to drive forward improvement at the Council.	As the key committee for driving improvement at a corporate level, including oversight of the key Council priorities against which the Council reports in its public performance reporting, the performance committee should receive appropriate information on corporate performance and record evidence of effective and robust challenge and scrutiny provided by the committee in respect of achievement of corporate performance targets should be recorded. *Grade 1*	A officer review will be undertaken by the end of October 2017 to consider how reporting and scrutiny on corporate performance can be improved. The documented minutes of performance committee will provide more details of questions and discussion at the committee.
11	**Prioritisation of internal audit reviews** Experience has shown that the original annual audit plan is not always delivered with reviews either rescheduled into future years or removed from the plan as other pressures on resource arise. For example, in 2016/17 four reviews were rescheduled to 2017/18 and three removed, totalling 125 days out of the original 370 day plan.	While the audit committee is asked to review a revised plan, in our judgement, prioritisation of reviews in the original plan is important to support members in discharging their oversight role on the appropriate delivery of the internal audit plan for the year. Good practice would also show the audit plan productive days as an element of total resources available. *Grade 2*	In future the audit reviews included in the annual audit plan, and presented to the audit committee for approval, will be prioritised and the productive days as an element of total resources will also be included in the plan.
12	**Internal audit performance indicators** In our view, certain targets set for measurement of the performance of internal audit are not sufficiently stretching, with for example 12 weeks to deliver a draft report providing a risk that control weaknesses continue un-addressed while the report is being prepared. Key performance indicators also indicate that 100% of the annual audit plan has been delivered, but this does not relate to a measurement of the original plan set at the start of the year.	A review of internal audit performance indicators should be undertaken to ensure that these are appropriately challenging, relevant to business needs and take account of changes in annual audit plans in the year. In addition, while internal audit reports appear to be suitably challenging of the control environment, a key indicator of the challenge provided is the percentage of recommendations which are accepted and implemented by management. *Grade 2*	Internal audit performance indicators are currently subject to ongoing review, however a further review will be undertaken by the end of December 2017.

No.	Findings and risk	Recommendation / grading	Management response / Implementation timeframe
13	**Role of internal audit** The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. This creates, in our view, a potential for conflict of interest to arise.	During a forthcoming period of potentially significant change, senior officers should consider the potential for this risk to arise and to ensure there is appropriate mitigation, such that the risk manager is not involved in activities which could subsequently affect their independence in conducting internal audit reviews in certain areas. *Grade 2*	The view of the council's Corporate Management Team is that the arrangements in the council have improved significantly since responsibility for risk management was combined with Internal Audit. A review will be undertaken by the end of December 2017 to identify any potential conflicts of interest to ensure mitigating actions are implemented.
14	**FtPP Compliance / Governance** Scrutiny of the performance of West Lothian Leisure has been undertaken in private throughout 2016/17. In addition, two members of the committee charged with scrutinising performance have also been directors of the Company. This is not in line with the Accounts Commission's guidance on working with arms-length external bodies.	In addition to addressing the weaknesses identified through an internal audit review, the Council should review the overall governance and scrutiny arrangements in respect of West Lothian Leisure to ensure these accord with best practice. *Grade 1*	A review will be undertaken by the end of February 2018 of governance and scrutiny arrangements in respect of West Lothian Leisure.

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West Lothian Council

Annual Accounts

Year ended 31 March 2017

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Accounts of West Lothian Council for the year ended 31 March 2017, prepared pursuant to Section 105 of the Local Government (Scotland) Act 1973 and in accordance with the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Accounts

Annual Accounts (Continued)

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of West Lothian Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of West Lothian Council ("the council") and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Fund, the Trusts and Mortifications Account and notes to the Annual Accounts and notes to the Group Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Head of Finance and Property Services for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance and Property Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance and Property Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Property Services; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Other information in the annual accounts

The Head of Finance and Property Services is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.
In our opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have the following to report in respect of these matters.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The council failed to comply with this statutory requirement for the three year period ending 31 March 2017 in respect of their significant trading operation, Economic Development Properties.

We have nothing further to report in respect of the other matters.

Stephen Reid, for and on behalf of Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ
29 September 2017

MANAGEMENT COMMENTARY

1. THE COUNCIL

1.1 General

West Lothian Council lies at the heart of central Scotland midway between the cities of Glasgow and Edinburgh. It sits astride the M8 and M9 motorways and contains a mixture of small rural and urban communities, including towns such as Livingston, Broxburn, Bathgate, Whitburn, Armadale and Linlithgow. It borders the City of Edinburgh, Falkirk, North Lanarkshire, South Lanarkshire and the Scottish Borders.

The council provides a diverse range of essential services, such as:

- Education
- Social services
- Housing
- Environmental health
- Planning
- Economic development
- Highways
- Transport

The quality and effectiveness of these services relies on the commitment, dedication and ability of the council's 6,808 (Full Time Equivalent) employees, who on a daily basis make a difference to the lives of our customers.

West Lothian has a total population of over 178,000, which accounts for 3.3% of the total population of Scotland. Located in the central belt of Scotland, bordered by five neighbouring authorities, West Lothian is less than 30 miles from Edinburgh and Glasgow and in 2014 had over 77,000 jobs and 4,565 registered firms. The three largest sectors in West Lothian are health, construction and retail.

With a growing younger population and a large increase in the older population, West Lothian is fairly unique in Scotland. The latest estimates are that West Lothian's population will grow to over 196,000 by 2037. While West Lothian has one of the fastest growing and youngest populations in Scotland it is also forecast to have the highest population growth in the over 75 age group in Scotland. Growth in the population of West Lothian will mean more demand for all services including waste collection, schools and support for older and vulnerable people in our communities.

The council is proud of its school estate which is one of the best in Scotland in terms of condition and suitability, and has, over a number of years, invested considerable sums to ensure school pupils have the best possible environment to learn and develop. Within the current general services capital programme for 2017/18, there are a number of significant planned improvements, projects and other investment which will sustain and improve the condition, suitability, sufficiency, accessibility and sustainability of our school estate.

The construction of a new West Calder High School through a design, build, finance and maintain (DBFM) contract will provide one of the most modern learning environments of any secondary school in Scotland and will also provide the community of West Calder with local access to facilities including a swimming pool and sports and leisure accommodation. The building will be fully operational from August 2018.

The council is committed to delivering 1,000 new council houses, which is the most significant local authority new build programme in Scotland, and will provide new council homes for rent. Expenditure on the 1,000 Houses New Build Programme amounted to £27.309 million in 2016/17. There were 105 new build completions during the financial year across West Lothian, including: Pumpherston, Bridgend, Broxburn, Blackburn, Bathgate as well as Kirkhill, Philpstoun and Linlithgow Bridge. Construction works are progressing across a range of locations, with additional handovers in the coming months.

A community benefits clause within procurement contracts provides an innovative partnership to support local suppliers and employability measures. The Housing Capital programme includes unprecedented levels of planned expenditure to support both the new build programme and continued investment in housing infrastructure to ensure that homes are suitable for 21st century living.

The council is committed to partnership working as a key to improving the quality of life for local people. Providing seamless services is at the heart of the council's ethos and this can clearly be demonstrated by an active Community Planning Partnership and other partnership arrangements such as the West Lothian Community Safety Unit partnership with Police Scotland.

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament in February 2014 and established the framework for the integration of health and social care in Scotland. In line with this, a health and social care partnership in the form of the West Lothian Integration Joint Board (IJB) has been set up in West Lothian. The new arrangements require the delegation of relevant functions and resources by the council and NHS Lothian to the West Lothian IJB. This was effective from 1 April 2016. The level of resources associated with council functions delegated to the IJB in 2016/17 is £60.584 million.

The central location, infrastructure and range of industrial and commercial properties, along with the support of the council's Enterprise Centre, property and business advisors, ensure that new businesses are attracted to invest and locate in the area.

West Lothian has three fantastic country parks, Almondell and Calderwood, Beecraigs and Polkemmet; the area boasts a range of outdoor activities from golf courses and horse-riding to a renowned skate park, while the council's partners West Lothian Leisure provide leisure, sports and swimming facilities across the area.

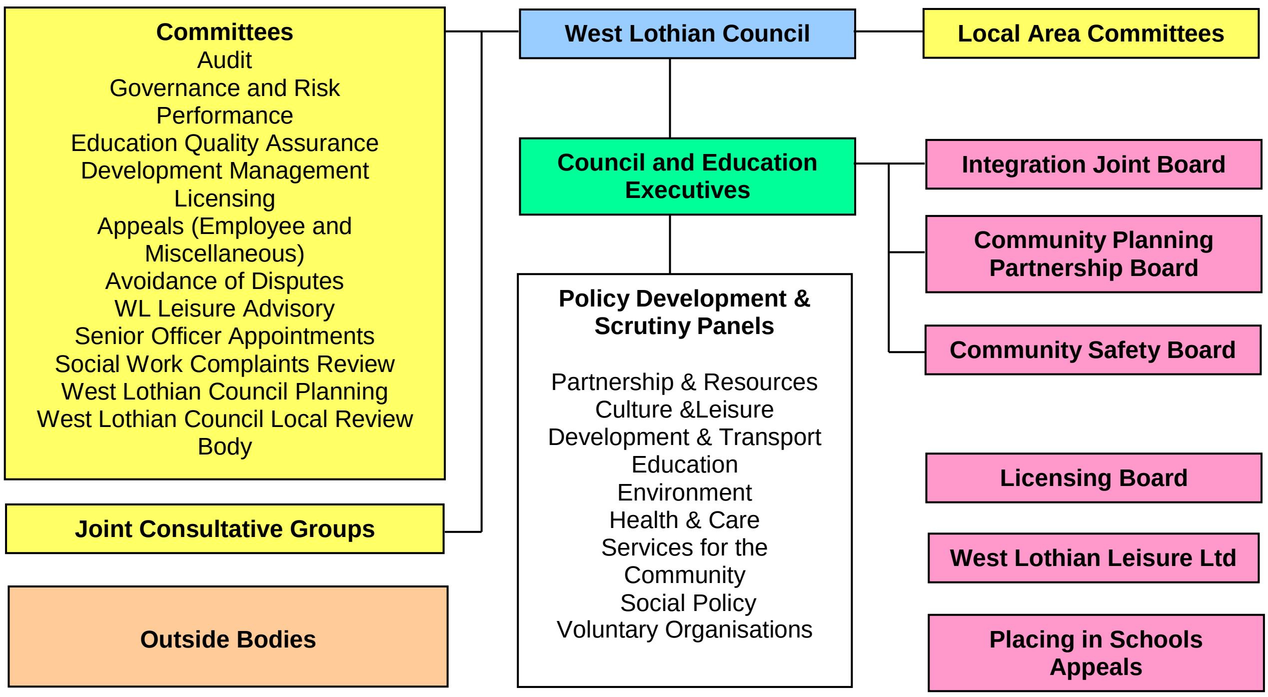
1.2 West Lothian - Decision Making Structure

The council is made up of 33 locally elected members who serve the constituents of nine multimember wards. The area also has two Scottish Parliament constituencies Almond Valley and Linlithgow, and two UK parliamentary constituencies Livingston and Linlithgow and East Falkirk.

At 31 March 2017, the council had 33 locally elected members, 16 of which were Labour, 15 Scottish National Party (SNP), 1 Conservative and 1 Independent. Following Local Elections on 4 May 2017, the make-up of the council is now 13 SNP, 12 Labour, 7 Conservative and 1 Independent.

The elected members meet every six weeks at full council. Below the full council, there is a structure of other bodies which are designed to make decisions and set council policy in an efficient and transparent way. The committee structure in place throughout the year is shown in the following diagram. Council Executive and Education Executive are the two policy-making committees.

Decision Making Structure



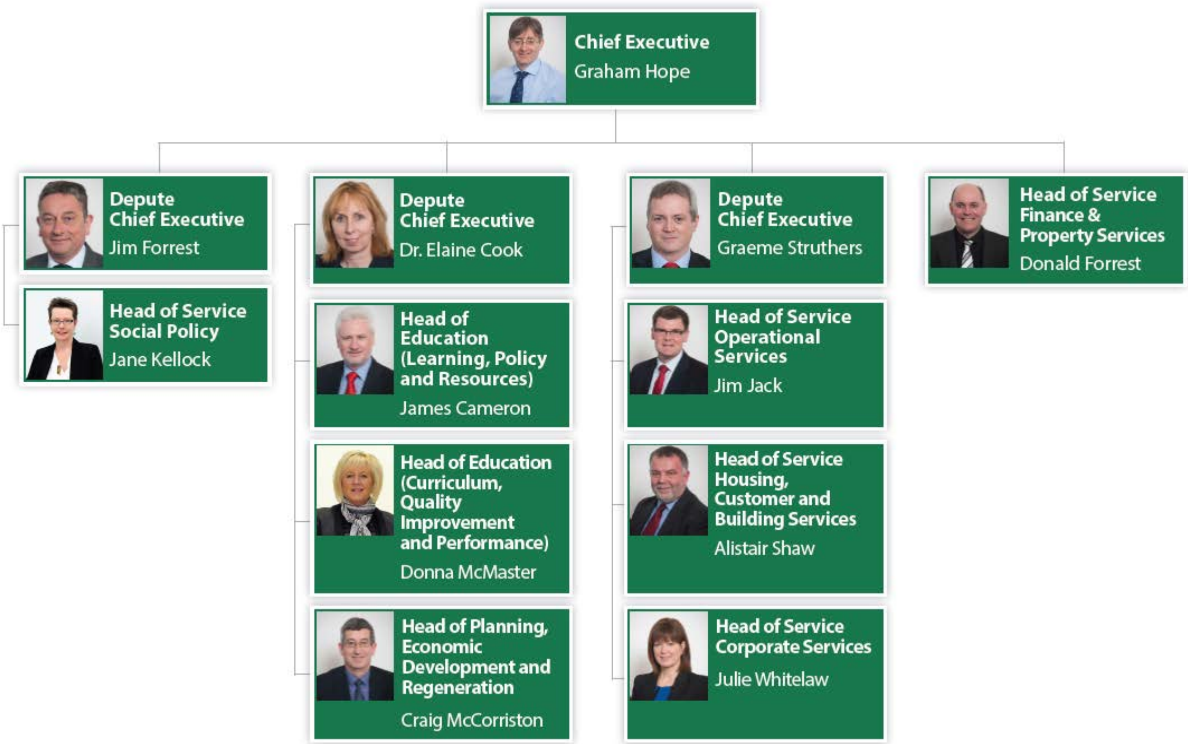
MANAGEMENT COMMENTARY

The council has a set of Standing Orders which regulate the way it goes about its business, at committee meetings and by employees. Standing Orders comprise various elements which apply to different areas of the council's decision-making:-

- The council's Scheme of Administration sets out the membership, powers and responsibilities for full council, all its committees, sub-committees, working groups, Policy Development and Scrutiny Panels and Local Area Committees.
- The Scheme of Administration is part of the councils Standing Orders for the Regulation of Meetings which contains the rules and regulations for the way council and committee meetings are organised and run
- The Scheme of Delegations to Officers lists the decisions which the council has decided to leave to employees of the council to make
- The Standing Orders for the Regulation of Contracts set out the rules which apply to the contracts the council enters into
- The Procurement Procedures set out the way the council must go about setting up contracts for the supply of goods and services
- The Financial Regulations contain the council's arrangements for the proper administration of its financial affairs

1.3 Management Structure

The council's Management Team consists of the Chief Executive, three Depute Chief Executives, and eight Heads of Service including the Section 95 Officer (Head of Finance and Property Services). Details of salaries and pensions for these senior officers can be found in the remuneration report on pages 20 to 25.



2. Corporate Strategy

The council's Corporate Plan can be accessed using the following link https://www.westlothian.gov.uk/media/3641/West-Lothian-Council-Corporate-Plan-2013-2017/pdf/corporateplan.pdf.

The Plan sets the strategic priorities for the council from 2013 to 2017 and the strategy for 2018 to 2022 is currently in development. The strategic priorities provide the focus for all services, as the council works to deliver better outcomes for West Lothian. The council's overall aim is to improve the quality of life for people in West Lothian. The Corporate Plan contains eight key priorities that aim to make a lasting and sustainable impact on the local area and improve the lives of residents in West Lothian. The priorities are:

Delivering positive outcomes and early interventions for early years	Improving the employment position in West Lothian
Improving the quality of life for older people	Improving attainment and positive destinations for school children
Minimising poverty, the cycle of deprivation and promoting equality	Reducing crime and improving community safety
Delivering positive outcomes on health	Protecting and built and natural environment

The council has an integrated set of strategies designed to support the delivery of the council's priorities and also to contribute to Strategic Outcomes of the West Lothian Community Planning Partnership.

Corporate Strategies are developed to support the delivery of the Corporate Plan priorities by achieving specific, linked outcomes. These strategies capture cross-cutting council activity that will affect all, or a significant proportion of, council services within the corporate planning period.

The council produces a Factfile on an annual basis which provides an essential guide to the council's performance in relation to the eight priorities. The most recent publication for 2015/16 can be found on the council's website: https://www.westlothian.gov.uk/factfile. The 2016/17 publication can be found on the same link and is scheduled for publication in October 2017.

3. Budget Strategy and Budget Setting

The annual general services and housing revenue budgets form part of the council's integrated approach to financial strategy, corporate planning, delivery of outcomes and performance monitoring. The activity budget links the council's activities, resources and outcomes and is a core element of the council's financial strategy and annual management plans. The 2017/18 activity budget is published on the council's intranet. The council's budget setting process is subject to statutory, regulatory and governance requirements. The Local Government Finance Act 1992 section 93(2) requires councils to formally agree council tax levels before 11 March each year, and the Housing (Scotland) Act 1987 requires the housing budget and rent increases to be reported to Council each year for approval.

The general services capital programme supports the delivery of the council's eight priorities incorporated in the Corporate Plan. The programme also takes into consideration comments received during budget consultations where there was support for the managing of our assets and reducing energy use workstreams. It is important that resources are prioritised on an ongoing basis to ensure investment has the maximum impact on the core assets required to sustain existing service delivery. The current Corporate Asset Management Strategy was agreed in January 2013 and individual Asset Management Plans for each asset category were approved throughout 2013. Asset management provides appropriate structures and governance arrangements to ensure the council's assets are utilised appropriately in support of service delivery.

MANAGEMENT COMMENTARY

The Prudential Code requires councils to approve, on an annual basis, a defined set of prudential

l indicators, covering both general fund and housing capital investment, at the same council meeting that approves the revenue budget for the forthcoming year. The key objective of the Prudential Code is to ensure that the capital investment plans are affordable, prudent and sustainable. The Code has nine prudential indicators designed to support and record local decision making, which require to be approved and monitored by the Council. In doing so, the council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable and also confirming that the treasury management function operates in accordance with the requirements of the CIPFA Treasury Management in the Public Services Code of Practice.

The 2017/18 budgets for general services revenue, the housing revenue account (HRA), the general services capital programme and the housing capital programme were approved by full Council on 20 February 2017, and the treasury management plan for 2017/18 was approved on 7 March 2017.

4. Performance Overview

Performance management is the way that West Lothian Council measures achievement in key activities and processes. It enables the council to track the progress made in achieving outcomes and priorities and to demonstrate that services are delivered efficiently and effectively.

West Lothian Council has a strong, well established approach to performance management and reporting of performance. Aligned to the council priorities (and the Corporate Plan) and outcomes for West Lothian, the performance framework supports a balanced, multifaceted view of impact. The framework requires indicators that track overall impact and quality of services through measures of efficiency, effectiveness and satisfaction with the service.

A range of information is published on corporate and council service performance:

http://www.westlothian.gov.uk/article/6283/Serviceand-Public-Performance

and on comparative performance:

http://www.westlothian.gov.uk/benchmarking

The council has a rigorous programme of self-assessment – using a European Foundation for Quality Management (EFQM) based approach, which has been in place for over ten years, to ensure challenge and performance focus are embedded in the council culture. External scrutiny is also used to improve service performance and challenge practice against the best in class in the public, private and third sectors. The council retained Customer Service Excellence (CSE), Investors in People (IIP) and Investors in Young People at Gold (the highest level) accreditations following external assessment in 2016/17. The council achieved European Foundation for Quality Management (EFQM) at five-star level following an external assessment and won the overall Scottish Award for Business Excellence (SABE) in 2016/17. The council also won a special award for Leadership at the SABE in 2016/17.

A range of performance information is published on all council services, this includes:

Customer satisfaction with the service: We consult with customers on the services and the quality of the service that they receive from the council. This information that customers provide is used to identify ways to improve our services. Measurable indicators of customer satisfaction are also tracked and monitored from surveys with customers, demonstrating if the council is providing high quality customer-focused services to customers. The council holds Investor in People status across the organisation and every team is involved in service improvement and Customer Service Excellence.

How we perform against Service Standards: Service Standards are the promises that the council makes to our customers about the quality of the service that we will deliver. The standards set out what customers accessing our services can expect regarding customer service, timeliness and overall quality.

We monitor our performance against the standards with customer satisfaction results and the measurable aspects of service provision, such as time taken to deliver services and the number of complaints received or upheld. Telling people how our services are performing is important. It helps the council to demonstrate that we are open and honest with the public, and that we are working to improve the value and impact of our services for the people living, working and learning in West Lothian.

The efficiency of the service: The council has a responsibility to achieve value for money and report our performance to the public, explaining how efficiently we deliver services. There are different ways to determine the efficiency of a service and the council uses a range of indicators. This includes indicators measuring the unit cost of services and indicators measuring productivity. This information is used to increase efficiency and also to compare the cost and efficiency of our services with other similar services.

Benchmarking is an improvement process that allows West Lothian Council to compare our performance with other organisations, such as other Scottish local authorities. Benchmarking is used to identify how we are doing and what we can learn from the high performance and good practice of others.

The impact of the service: The council has set challenging outcomes and priorities for West Lothian with our Community Planning Partners. Each service will contribute to achieving those outcomes and priorities and the impact of a service is determined by the ongoing measurement of key activities and processes that they deliver.

5. Financial Performance Review

The financial performance review outlines the key financial issues affecting the council during the year and the overall financial position of the council.

5.1 Financial Ratios

The following ratios assist evaluation of the council's financial sustainability and affordability of financial plans.

Council Tax	**2016/17**	**2015/16**	**Notes on Ratios**
In-year collection rate Target for year	95.3% 95.3%	95.2% 95.0%	This shows the % of Council Tax collected during the financial year that relates to bills issued for that year. It does not include collection of funding relating to previous financial years.
Council Tax income as a percentage of overall funding	18.9%	18.4%	This shows the proportion of total funding that is derived from Council Tax.
Debt and Borrowing – Prudence			
Capital Financing Requirement (£'000)	£652,361	£624,099	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets.
Debt and Borrowing – Affordability			
Financing costs to net revenue stream – General Fund	7.3%	6.7%	These ratios show the proportion of total revenue funding that is used to meet financing costs. The ratios exclude any voluntary repayments of debt made during the year.
Financing costs to net revenue stream – HRA	26.6%	25.3%	
Impact of capital investment on Council Tax (£'000)	£188,820	£183,293	These ratios show incremental impact of financing costs (the increase in financing costs from the previous financial year) as a percentage of Council Tax, in respect of costs payable through the General Fund and house rents for the HRA.
Impact of capital investment on house rents (£'000)	£463,541	£440,806	

5.2 Financial Out-turn

Net expenditure on General Services is met from government grants and council tax. In 2016/17 government grants accounted for 81.1% (81.6% 2015/16) of the council's external funding with the remaining 18.9% (18.4% 2015/16) from council tax. The in-year collection rate for council tax in 2016/17 was 95.3% (95.0% 2015/16).

In 2016/17 the council incurred net expenditure of £442.610 million against a budget of £444.421 million, utilising 99.6% of available budget. The Expenditure and Funding Analysis (EFA), Statement 4, on page 26 shows how the annual net expenditure is used, how it is funded from resources and how expenditure is allocated for decision making purposes between the council's services.

The figures in the first column of the EFA detail the financial position before the charging of accounting entries such as depreciation, pensions and accumulating absences in line with the council's monitoring procedures throughout the year.

MANAGEMENT COMMENTARY

As shown in the EFA, the General Fund recorded a net deficit for the year of £0.347 million. This was made up of the following:-

- A net service underspend of £1.811 million
- A breakeven position in non-service expenditure
- A breakeven position in council tax income
- A net spend of £2.158 million in relation to General Fund committed balances

The service underspend of £1.811 million reflects additional funding of £1.736 million received from the Scottish Government in March 2017 for investment linked to employability and economic regeneration which will be carried forward to fund expenditure in 2017/18. The remaining underspend of £0.075 million is the net effect of the following movements in a number of demand led areas.

- A mild winter which resulted in savings within the winter maintenance budget.
- Partially offset by an overspend in Social Policy Children's services due to additional residential school and secure unit placements during the latter part of the financial year.
- Demand led pressures across social care which include growth in elderly care numbers and requirements and also growth in learning disability clients.
- Homelessness costs, within Housing, Customer and Building Services, increased. An action plan has been implemented to manage the costs of homelessness on a recurring basis and the financial progress against this plan will be reviewed on a regular basis during 2017/18.

Key demand led areas of the budget will be closely monitored during 2017/18 and any overspend risks will be highlighted on a timely basis to ensure action is taken to mitigate pressures.

The net deficit of £0.347 million decreases the General Fund balance to £25.262 million at 31 March 2017. Existing commitments against the balance are £23.187 million, including a Modernisation Fund of £3.764 million and time limited projects of £4.861 million. Full details of the commitments against the General Fund Balance are detailed in Note 36 on page 61. The uncommitted balance of £2.075 million (£2.070 million 2015/16) or 0.5% of budgeted net expenditure is £0.075 million above the council's target minimum uncommitted General Fund balance of £2 million.

The council holds a provision of £0.174 million to meet the remaining liabilities arising from equal pay claims. West Lothian is currently finalising discussions with claimants' representatives to establish settlement terms on the small number of claims outstanding. To date £1.276 million has been paid to claimants and their representatives. During 2016/17 £0.257 million (£0.811 million 2015/16) was paid from the provision. The remaining balance in the equal pay provision is deemed sufficient to cover any further payments which may be required.

The council has a Modernisation Fund which can be used to assist in funding potential termination costs for staff or other costs associated modernisation and change within the council. To date £14.605 million has been paid from the Modernisation Fund. As at 31 March 2017, the balance of the Modernisation Fund is £3.764 million.

Included in the Comprehensive Income and Expenditure Statement is £0.951 million of expenditure in relation to the cost of employee exit packages paid to 42 staff during 2016/17 as part of the council's strategy to balance the budget.

During the normal fixed assets revaluation cycle, community centres, day centres, old people's homes, partnership centres, pavilions, miscellaneous land and schools were revalued. As a result, £23.914 million was charged to the Comprehensive Income and Expenditure Account. £0.644 million of this relates to the downward revaluation of the Economic Development Properties and the remaining £23.270 million relates to impairment on council dwellings. The revaluation charge has no impact on the General Fund Balance carried forward.

5.3 **Revenue Budget – Housing 2016/17**

Statement 10 (page 64) the HRA – Income and Expenditure Statement includes depreciation and impairment on housing assets. The deficit for the year is £24.214 million. Statement 11 (page 65) the Statement of Movement on the HRA Balance adjusts this deficit as a result of amounts which are required by statute to be debited or credited to the HRA Balance for the year, the net credit for these items is £24.214 million. The overall position was breakeven for the year, which maintains the HRA balance carried forward at £0.926 million.

For 2016/17, capital financing charges were less than budgeted resources, with underspends also noted in employee costs and supplies and services. These underspends were offset, in part, by an overspend in premises costs and an under recovery of income. The combination of these allowed an increased contribution in Capital Funded from Current Revenue (CFCR). The enhanced CFCR provision ensures not only a breakeven position, but provides a cost effective means of financing housing capital investment.

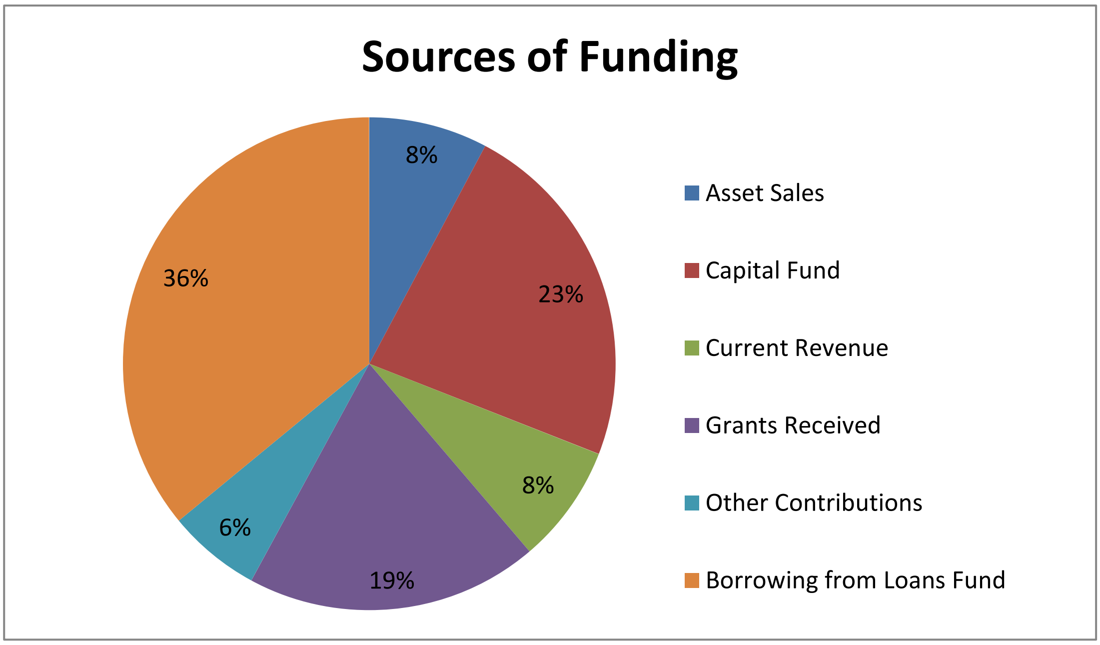
5.4 **Capital Budget 2016/17**

Under the provisions of the CIPFA Prudential Code for Capital Finance in Local Authorities, councils can decide locally on capital investment strategy on the basis that spending plans must be affordable, prudent, sustainable and meet Best Value requirements. Compliance with these criteria is demonstrated by defined prudential indicators.

Based on approved indicators, the council was able to demonstrate the affordability of capital plans. The capital financing requirement for 2016/17 was £652.361 million, £463.541 million for general services and £188.820 million for Housing Revenue Account. External debt levels were £668.084 million during 2016/17. The ratio of financing costs to net revenue stream for General Fund and HRA were 7.3% and 26.6% respectively.

Capital expenditure of £119.403 million was incurred in 2016/17. This expenditure was split between two distinct blocks with £49.787 million spent on the Housing Programme and £69.616 million on the General Services Programme.

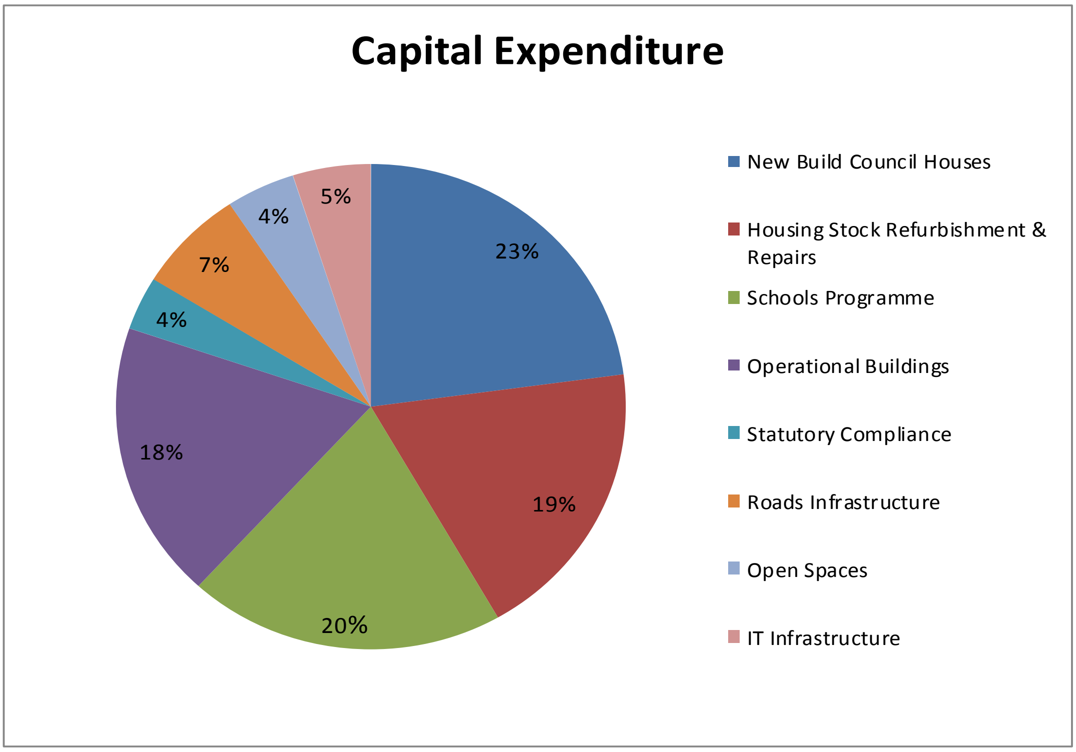
5.5 **Capital Programme 2016/17**



The 2016/17 General Services Capital Programme had a budget of £63.304 million and the final outturn for 2016/17 was £69.616 million. The variance of expenditure compared to budget for the year was £6.312 million due to accelerated spend on major projects from future years. There was net acceleration of £4.532 million within property projects, mainly due to better than anticipated progress in the major projects at West Calder High School and the new Whitehill Service Centre.

The HRA Capital Programme had a budget of £62.450 million and actual expenditure of £49.787 million resulting in a net variance of £12.663 million. This was mainly due to slippage on the 1,000 Houses New Build Programme, due to the timescales for statutory consents and permissions relating to planning, utilities and Scottish Water.

Of the total capital expenditure of £119.403 million, £67.180 million was funded by asset sales and contributions from third parties / funds, £9.309 million was raised from revenue contributions to capital, and the remaining £42.914 million was funded by borrowing. Total internal capital debt outstanding at 31 March 2017 was £603.931 million.



5.6 **PPP Contracts**

PPP Contracts are assessed under International Financial Reporting Standards (IFRS) which looks at aspects of control of an asset, such as specifying services and the price paid for these services. The net value of all PPP assets in the balance sheet at 31 March 2017 is £148.471 million.

The outstanding liabilities on the PPP contracts are £65.464 million of which £2.392 million is shown under current liabilities and £63.072 million under long term liabilities.

Details of the annual costs of these contracts are shown in note 37.

5.7 **Significant Trading Operations (STO)**

The Local Government in Scotland Act 2003 introduced new requirements to maintain and disclose significant trading operations. Consequently, a trading account has been prepared for the only significant trading operation, Economic Development Properties, in accordance with guidance issued by CIPFA/LASAAC.

During 2016/17 the STO achieved an in-year surplus of £0.485 million. In the three years to 31 March 2017 the trading account sustained a statutory aggregate loss of £4.855 million, therefore not achieving the statutory financial requirement to breakeven over a three year period. This was a result of accounting charges for impairment of £4.477 million in 2015/16 and £0.644 million in 2016/17 on assets from the Economic Development Property Portfolio. Note 31 provides further details.

5.8 **Pension Reserve and IAS19**

The pensions accounting standard IAS 19 is fully adopted in the accounts and details are available in Statement 9 note 1 on accounting policies. The requirement to recognise the council's share of the net liabilities of the Lothian Pension Fund in the balance sheet has resulted in a Pension Reserve debit balance of £290.290 million at 31 March 2017 (£176.148 million 31 March 2016).

The balance sheet deficit has increased during 2016/17 due to a significant decrease in the net discount rate over this period. The effect of this has been partially offset by much greater than expected asset returns achieved over this period. The negative reserve does not impact on the council's available resources.

The figures presented in the actuary's valuation are prepared only for the purposes of IAS19 and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes, and have no impact on the employers' pension contribution rate.

MANAGEMENT COMMENTARY

5.9 **Other Reserves**

The following table details the usable reserves held by the council for the five year period 2012/13 to 2016/17.

Fund	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Committed General Fund	23,212	20,571	23,869	23,539	23,187
Uncommitted General fund	2,000	2,000	2,000	2,070	2,075
HRA Fund	926	926	926	926	926
Capital Fund	74,338	79,008	84,765	88,214	65,527
Insurance Fund	12,270	12,193	13,570	13,715	11,835
Total	**112,746**	**114,698**	**125,130**	**128,464**	**103,550**

The reduction in the Capital Fund of £22.687 million from 2015/16 is a result of the planned usage of the fund to supplement the capital programme. The Insurance Fund reduction of £1.880 million relates to the triennial revaluation of the fund and subsequent realignment to represent the estimated insurance liability.

5.10 **Group Accounts**

Local authorities are required to consider their interests in all types of entity, including companies, joint ventures and statutory bodies such as Valuation Boards. Where they have a material interest in such entities, authorities are required to prepare a full set of group accounts in addition to their own council's accounts.

The council did not have any subsidiaries during 2016/17, with both West Lothian Leisure Ltd and the Lothian Valuation Board deemed to be associates under group accounts guidance. However during 2016/17 West Lothian Leisure Ltd converted to a company limited by guarantee and from 1 April 2017 will be treated as a subsidiary.

In addition, the council has joint venture relationships with a 50% holding in West Lothian Recycling Ltd and a joint venture in relation to the health and social care partnership in the form of the West Lothian Integration Joint Board (IJB). Full details of the group accounts are on pages 70 to 76.

6. Risk and Uncertainty

West Lothian Council approved its revenue budget for 2017/18 at the council meeting of 20 February 2017. In order to maintain a balanced budget for 2017/18, the council will be required to deliver total budget savings of £8.783 million. The annual budget report also highlighted a number of risks in 2017/18 that will be monitored, including risks surrounding pay and inflation, demand-led risks to social care budgets, and risks around the pupil teacher ratio if pupil numbers exceed forecasts.

The council has an established risk based approach to budget monitoring which ensures that effective action is taken to manage risks. During 2017/18, officers will continue to provide updates on risks as part of the quarterly budget monitoring to Council Executive.

At present, there are no confirmed Scottish Government budget allocations for local government beyond 2017/18 and there are significant risks and uncertainties associated with long term financial assumptions. Some of the key risks and uncertainties are:

- Economic uncertainty and impact on public sector expenditure arising from the impact of the vote to leave the European Union.
- Funding is not provided to fully cover the costs of introducing new legislation.
- Policy changes by the UK or Scottish Governments which restrict the council's local flexibility to decide how to deliver budget savings, or constrain how local authorities allocate their resources to delivering local priorities.
- Pay and inflation increases are not met by funding increases provided.
- Increased demands and public expectations around council services alongside funding constraints
- The impact of demographic changes particularly relevant to West Lothian which is forecast to have the highest growth in Scotland in the over 75 years age group, as well as an increasing younger population.

MANAGEMENT COMMENTARY

Despite the level of uncertainty around the level of funding the council will receive in future years, it is reasonable to assume at this stage that the council will face a very significant funding gap over the five year period 2018/19 to 2022/23.

Given the magnitude of the challenge that the council will face in delivering essential services whilst resources are constrained, and to effectively focus on medium to long tem sustainability, the council agreed on 20 February 2017 to the following:

- The council will continue to adopt the approach of integrating corporate planning and financial planning over the 2018/19 to 2022/23, with a Corporate Plan, revenue plan, capital plan and treasury management plan to be considered at the same council meeting, to ensure that a joined up approach is taken.

- In accordance with Audit Scotland and CIPFA best practice, the council will prepare a priority based revenue financial plan for 2018/19 to 2022/23, to set out how the Corporate Plan priorities will be delivered over the period.

- Officers will prepare a consultation with West Lothian citizens, to include council tax levels to be set over the next five years.

This approach will ensure that the council continues to develop its medium term financial strategy in line with best practice to ensure budgets are balanced, priority outcomes are met and performance is maintained or improved. Officers are currently developing the five year corporate and financial strategy for consideration by elected members during 2017/18.

With regard to future years, council services will be faced with significant challenges to meet demands and operate within tight financial constraints over the foreseeable future. On 20 June 2017, the council approved a report on the council's revenue budget strategy for 2018/19 to 2022/23. This set out the council's approach of integrating corporate planning and financial planning over 2018/19 to 2022/23 and that, in accordance with Audit Scotland and CIPFA best practice, the council will prepare a priority based revenue financial plan for the period.

Taking account of expenditure and funding assumptions, an estimated funding gap of £65.7 million was identified for the period 2018/19 to 2022/23. To ensure the council has balanced budgets going forward, fundamental changes may be required to some services which contribute less to council priorities and the introduction of new models of service delivery will be necessary in some areas. In the Autumn the council will consult with West Lothian citizens on proposed priorities, saving options and proposed council tax levels

Donald Forrest CPFA
Head of Finance and Property Services

Graham Hope
Chief Executive

Councillor Lawrence Fitzpatrick
Leader of the Council

26 September 2017

STATEMENT OF RESPONSIBILITIES — STATEMENT 1

THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Head of Finance and Property Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by West Lothian Council at its meeting on 26 September 2017.

Signed on behalf of West Lothian Council

Councillor Lawrence Fitzpatrick
Leader of the Council
26 September 2017

THE HEAD OF FINANCE AND PROPERTY SERVICES' RESPONSIBILITIES

The Head of Finance and Property Services is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts the Head of Finance and Property Services, has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Head of Finance and Property Services has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;

I certify that the financial statements give a true and fair view of the financial position of the local authority (and its group) at the reporting date and the transactions of the local authority (and its group) for the year ended 31 March 2017.

Donald Forrest CPFA
Head of Finance and Property Services
26 September 2017

ANNUAL GOVERNANCE STATEMENT — STATEMENT 2

1. Corporate Governance

1.1 The governance framework is the systems, processes, culture and values by which the council is directed and controlled, and the activities through which it is accountable to, engages with and leads the West Lothian community. These are the arrangements put in place to ensure that the intended outcomes for West Lothian residents and other stakeholders are defined and delivered. They must always be used in the public interest.

1.2 The council has overall responsibility for good governance arrangements – for establishing its values, principles and culture, for ensuring the existence and review of an effective governance framework, and for putting in place monitoring and reporting arrangements.

1.3 In practice, as with most of its business, the council to a large extent entrusts the delivery of those tasks to committees and to appropriate council officers. That delegation does not remove or avoid the responsibility of all the council's elected members for governance.

1.4 In the council's Corporate Plan 2013/17 the place of corporate governance as an "enabler" is recognised and established. It is one of the essential back-office corporate services necessary to assist the setting, monitoring, achievement and reporting on corporate priorities and outcomes. The Corporate Plan acknowledges the wide understanding that good governance promotes good decision-making.

2. Governance framework

2.1 The framework is made up of corporate documents, policies and procedures which are designed to guide and assist the council in doing its business in accordance with the law and with proper standards and principles; ensuring that public money is safeguarded and used economically, efficiently and effectively; and fulfilling its statutory duty to secure best value.

3. System of internal control

3.1 A significant part of the council's governance framework is its system of internal control (financial and other). It is an ongoing process designed to identify risks to the achievement of the council's objectives; to evaluate the likelihood of those risks occurring; to consider the potential impact of the risks; and to manage them effectively. Those controls can never eliminate risk or failure to achieve objectives entirely – they can only provide reasonable and not absolute assurance. The design, development and management of the system of internal control is undertaken by managers within the council.

3.2 The system of internal financial control is designed to provide assurance on the effectiveness and efficiency of operations and the reliability of financial reporting. It is based on a framework, which includes financial regulations and a system of management supervision, delegation and accountability, supported by regular management information, administrative procedures and segregation of duties. Its key elements include a documented internal control framework relating to financial processes, procedures and regulations; a comprehensive budgeting and monitoring framework; scrutiny of periodic and annual financial and operational performance reports; performance management information; and project management disciplines.

3.3 Reporting to members on the effectiveness of the system of internal control is carried out by the Audit Risk & Counter Fraud Manager in his Internal Audit Annual Report to committee (June 2017). His conclusion is that the framework of governance, risk management and control is generally sound. He identified areas where improvements could be made and confirmed that recommendations would be followed up and reported as required. Of those, four areas were identified where the conclusion was that control was unsound - information security breaches, grants to voluntary organisations, information asset register and procurement business case exemptions. The agreed actions in relation to those areas will be followed up in the next year.

4. Audit & Governance Committee

4.1 The Audit & Governance Committee monitors the independence and effectiveness of the Audit, Risk and Counter Fraud Unit. It is given assurance in relation to non-internal audit functions through the internal audit manager of Falkirk Council. The committee considers annual reports by the Audit, Risk and Counter Fraud Manager and the Governance Manager which provide an opinion and assurance on the overall adequacy and effectiveness of the council's framework and code of governance, risk management and control. This statement forms part of that process and was approved at committee in June 2017.

4.2 The committee meets four times each year. Reports by the Audit, Risk and Counter Fraud Manager are presented and considered in public unless there is clear legal justification for excluding the public. The outcome of internal audit and counter-fraud investigations judged to be significant are reported. They express an opinion as to whether controls are satisfactory or require improvements. They set out improvement actions which have been agreed with relevant managers. The findings, actions and times for completion are presented for committee approval. The committee periodically receives a report by the Audit, Risk and Counter Fraud Manager in relation to agreed actions which have been reported to committee but which have not been fulfilled.

4.3 The committee also receives reports in relation to governance matters, principally reports issued by the Accounts Commission and/or Audit Scotland in relation to the council or local government as a whole. It can consider those reports from the councillors' perspective and recommend any action which it considers should be taken in response. The committee also receives the annual report on corporate governance and the annual governance statement for approval.

4.4 The committee includes one non-councillor member recruited for a three-year tenure. That member is entitled to the same papers and reports as councillor members of the committee and brings a different non-council and non-councillor perspective to the work of the committee.

5. Code of Corporate Governance

5.1 The council's governance arrangements are reflected in a Local Code of Corporate Governance based on a framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The six principles on which the Code is currently based are:-

- Focusing on the purpose of the council, outcomes for the community and a vision for the local area
- Elected members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the council and demonstrating good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of elected members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability

5.2 That framework is based on governance principles and sub-principles and is informed by standards and evidence-based compliance and monitoring arrangements. The Code is maintained on the council's performance system, Covalent, with a settled scoring methodology applied and used to measure compliance and monitor progress against each of the requirements of the Code. An annual report is presented to committee annually to provide members with assurance as to the degree of compliance with the standards in the Code. The annual report will be published when it is reported to Council Executive. The annual report includes information about compliance through a list of scores against the Code's standards.

6. Compliance statements

6.1 As part of the annual report a set of compliance statements are produced. They deal with compliance with the law and with the policies, procedures and practices of significance to good governance. They are prepared after wide consultation with services and senior officers and take into account oversight by external bodies of the council's compliance. They are signed by the responsible senior officer and are designed to bring to the attention of elected members any incidents of non-compliance which are significant to the council's operations. They cover the following areas of activity:-

- Breaches of the law - Monitoring Officer
- Best Value Framework - Head of Finance & Property Services
- Procurement - Head of Corporate Services
- Fraud and Corruption - Head of Finance & Property Services
- Employee Whistleblowing - Head of Finance & Property Services
- Discipline and Grievances - Head of Corporate Services
- Occupational Health & Safety - Head of Corporate Services
- Protection of Vulnerable Groups - Head of Corporate Services
- Information Security - Head of Corporate Services
- Public Sector Equality Duty - Head of Corporate Services
- Covert Surveillance and Accessing Communications Data – Governance Manager

6.2 The statement by the Monitoring Officer is particularly important since the Monitoring Officer is one for the four statutory officer posts charged with ensuring the council's compliance with its statutory duties and responsibilities and reporting on any breaches of the law which are significant to the operation of the council.

6.3 Separate reports are provided to members in relation to the operation and compliance with the Councillors' Code of Conduct (by the Governance Manager) and in relation to compliance with the freedom of information legislation (Head of Corporate Services).

7. Scrutiny

7.1 The council deals with the remainder of its scrutiny function by members in three places.

- Policy Development & Scrutiny Panels are working groups of members and representatives from external community bodies. They consider quarterly performance reports from the service areas included in their remit. The reports are drawn from the council's well-established performance monitoring and reporting system (Covalent) and reports are presented with graphs, charts and RAG analysis together with explanatory commentary. Members and external representatives are able to question officers on service performance and make recommendations to them about improvement actions.

- The Performance Committee is established to consider the performance of service units against the council's performance appraisal system, the West Lothian Assessment Model (WLAM). It receives written reports presented at public committee meetings by senior service managers and can question them and make recommendations to them about improvement actions.

- The Education (Quality Assurance) Committee carries out a scrutiny role solely in relation to schools' performance and internal and external assessment reports. The committee includes the non-councillor members appointed by the council in relation to its education function. Representatives from the relevant school's Parent Council are invited to attend and take part in the committee's meetings.

7.2 Taking these into account for performance scrutiny the council has provided a set of forums for the effective scrutiny by members of service performance. Training on scrutiny was included in the induction programme for members to be delivered after the local government elections in May 2017.

8. Officer activity

8.1 The council is required by legislation to operate a professional and objective internal audit service. The Audit, Risk and Counter Fraud Unit includes internal audit which is an independent appraisal function which examines and evaluates systems of financial and non-financial control. Internal audit operates in accordance with the "Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector" (PSIAS). An annual audit plan is prepared based on an assessment of risk and is approved by the Audit & Governance Committee. Internal audit reports are issued to the committee in relation to the outcome of significant proactive and reactive reports. Reports are issued in the name of the Audit, Risk and Counter Fraud Manager who has the right, when deemed necessary, of direct access to the Chief Executive. There is annual reporting to the committee of internal audit activities and to give assurance about the independence, effectiveness and soundness of the service.

8.2 Legislation requires the council to appoint a Chief Financial Officer. That role is to be performed to conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) sets out the requirement for the Chief Financial Officer to be professionally qualified and sets out the criteria for qualification. The council's Head of Finance & Property Services is the council's Chief Financial Officer. He operates in accordance with the council's Financial Regulations and Treasury Management plan, and reports regularly to members on revenue and capital budgetary performance and compliance. The role is undertaken in accordance with the relevant statutory rules, guidance and standards.

8.3 Governance and risk management are supervised on the officer side of the council by the Governance & Risk Board. It is chaired by a Depute Chief Executive and its members include the Monitoring Officer, the Audit Risk and Counter Fraud Manager, the Governance Manager, the Chief Solicitor and senior managers from across the council's service areas. It receives reports from officer working groups on risk and corporate governance, and monitors corporate and high risks. It considers the annual report on corporate governance and the compliance statements before they are presented to committee. It provides an effective control and conduit for risk and governance issues and matters of concern.

8.4 Risk management is embedded at a service level across the council and management teams monitor, assess and mitigate risk at service level as a matter of routine at their management team meetings. That process continues at lower levels in each service's management structure. Risk assessment and monitoring and the progress towards agreed actions are carried out using Covalent.

8.5 Similarly, management teams routinely monitor their performance through Covalent, utilising the high-level performance indicators which are reported publicly as well as lower level management performance indicators. Services are divided into WLAM units which report on an agreed cycle to a panel chaired by the Chief Executive. It considers the evidence presented and allocates a score. The service unit then proceeds to report to the Performance Committee.

9. Assurance

9.1 In addition to the activities and procedures already described, throughout the year the council has considered, reviewed and approved numerous documents, strategies, policies and procedures which are reflected and assessed in the code of corporate governance. All of these can be found in the reports and minutes of the committees and other bodies in the council's decision-making structure. The following are small lists of examples of that work:-

- Significant document reviews - Corporate Plan 2013/17; ICT, Corporate Procurement and Information Strategies; Standing Orders and Scheme of Administration; Members' Role Descriptions; Officer/Member Protocols
- Annual reports - System of Internal Control and External Auditors' Review of Key Internal Controls; Equality Outcome and Mainstreaming; Code of Corporate Governance and Annual Compliance Statements; Councillors' Code of Conduct; Chief Social Work Officer Report
- Annual plans and progress/completion reports - Treasury Management Plan and Annual Report; Internal Audit Charter, Plan and Annual Report; Corporate Procurement Plans; Management Plans; People Strategy and Staff Engagement
- Performance and scrutiny - General and HRA revenue fund and capital programme monitoring; procurement activity; complaints performance; service unit performance reports to Performance Committee; Public performance reporting, including Fact File and the End of Term Report
- *Ad hoc* reporting and issues - Independent Review of the Planning Service; Public Protection Committee Biennial Report; Audit & Governance Committee on outstanding actions from risk-based audit reports; recording and broadcasting council meetings; monitoring of performance of Police Scotland and Fire & Rescue Service

9.2 Based on the governance framework and arrangements already described, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2016/17.

10. Matters of concern from 2015/16

10.1 Two matters for action were highlighted in last year's annual governance statement and the annual report on corporate governance. They have been addressed in the last year as follows.

- Members' training was again seen as an area where improvements could be made. Especially in the current regime of reducing budgets for local government the engagement of members in a full understanding of the council's statutory duties and the impacts of budget reductions is essential. It was acknowledged in those reports that the best chance of progress would come after the local government elections in May 2017. With that in mind a working group of officers was established in September 2016 and met regularly with a view to designing and delivering the best possible post-election induction programme and ongoing training and briefing arrangements. Feedback from elected members was obtained and built into the programme. Training for all members, returning and newly-elected, was made compulsory for regulatory committees. The success of the induction programme will be assessed and experience used to inform ongoing training opportunities.
- Formal reviews of several elements of the council's constitutional arrangements were overdue. Those were Standing Orders for the Regulation of Meetings, the Scheme of Administration, the Multi-Member Ward Protocol for Officers, the Multi-Member Ward Protocol for Members and Elected Members' Role Descriptions. The review process was started in 2015/16 and was concluded for all five documents in November and December 2016. They fall to be reviewed again at least once before the next local government elections in 2022.

10.2 Another matter commented on in previous years is the streamlining of the Code of Corporate Governance to try to reduce its size and unwieldiness. That work has not progressed significantly in the current year but has been overtaken by the introduction of a new CIPFA/SOLACE Framework and Guidance (2016). That will require consideration of the extent to which the current Code requires to be amended to reflect and apply the new principles and standards. That is work to be carried out in the coming year.

11. Matters addressed and to be addressed

11.1 A selection of the issues which have been noted in the year are as follows. Actions have been taken during the year as described, and the last three of these are areas which will be taken forward to be addressed next year.

- The possibility of political change and uncertainty was recognised following the local government elections in May 2017. This was largely not capable of control. In preparation, a working group of officers was established and met from September 2016 to plan for the introduction and induction of elected members and for the legal requirements to be met in the immediate post-election period. The effectiveness of those arrangements will be reviewed in 2017/18.
- The proposed expansion of the services delivered for the council through West Lothian Leisure raised legal and governance concerns. A working group chaired by the Project Manager was set up and included the Governance Manager and Chief Solicitor. The actions identified included adequate measures to deal with the governance issues identified. The advice issued by the Standards Commission in 2016 on members' roles in ALEOs was incorporated.
- The implementation of the community empowerment regime called for new policies and procedures to be put in place in relation to asset transfer and participation requests and those were achieved.
- The continuing and developing relationship between the council and the Integration Joint Board was of potential concern. Arrangements were put in place during the year for reporting of IJB activity and decisions within the council and the provision of service delivery and financial performance information to the IJB for its meetings.
- The council's awareness of and compliance with its public sector equality duties was addressed through compulsory training at service level and increased attention to carrying out and reporting on equality impact assessments.
- The review was concluded of Standing Orders for the Regulation of Meetings, the Scheme of Administration, the Multi-Member Ward Protocol for Officers, the Multi-Member Ward Protocol for Members and Elected Members' Role Descriptions.
- The council was inspected by the Office of the Surveillance Commissioner in relation to its policies and procedures for compliance with its regulation of investigatory powers and duties. The inspection identified areas of concern and six principal actions required for improvement. An action plan has been put in place and this is covered in the annual compliance statements. They include the introduction of revised and up-to-date policy and procedures and regular training.
- Members' training remains an area of concern. It has been and will be addressed through the arrangements for post-election induction and training.

- In 2016 a new CIPFA/SOLACE Framework "Delivering Good Governance" was introduced. It replaces the principles, sub-principles and standards found in the 2007 version with revised and updated versions. The Code of Corporate Governance currently reflects the 2007 version of the Framework. Detailed consideration will be given in the next year to transferring the current Code into the framework introduced in the 2016 version. In doing so, it is likely that more specific issues requiring action will be identified as the new principles are applied in the context of the council's present arrangements.
- The review of the system of internal control identified four areas where control was unsound (information security breaches, grants to voluntary organisations, information asset register and procurement business case exemptions). Actions for improvement have been agreed and progress will be monitored in the next year.

11.2 A list of actions and target completion dates in relation to these issues will be developed and followed up. It will incorporate the work required for consideration of translating the current code of corporate governance into the form required of the 2016 framework and guidance. Completion will be monitored through the governance and risk board and reported to committee as required.

Graham Hope
Chief Executive

Councillor Lawrence Fitzpatrick
Leader of the Council

26 September 2017

REMUNERATION REPORT — STATEMENT 3

1. INTRODUCTION

In accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2011, West Lothian Council is required to prepare a Remuneration Report to disclose remuneration information and details of West Lothian Council's remuneration policy for "relevant persons". The Regulations define "relevant persons" as senior councillors and senior employees.

The other sections of this report will be reviewed by Ernst & Young LLP and any apparent material inconsistencies with the audited financial statements will be considered as part of their audit report.

2. COUNCIL LEADER, PROVOST AND SENIOR COUNCILLORS

2.1 Remuneration Policy

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the council's political management structure.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17 the salary for the Leader of West Lothian Council was £33,789. The Regulations permit the council to remunerate one Provost and set out the maximum salary that may be paid to the Provost. For 2016/17 the salary of the Provost of West Lothian Council was £25,341. The council's Scheme of Elected Members Remuneration, Allowances and Reimbursement of Expenses 2016/17 sets the level of payment in accordance with the regulations at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £295,643. The council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

In 2016/17 (2015/16) West Lothian Council had 11 senior councillors and the basic salary paid to these councillors totalled £299,510 (£275,990). The Regulations also permit the council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

The Scheme of Elected Members Remuneration, Allowances and Reimbursement of Expenses which sets out details of the salary parameters for all elected members including the Leader, Provost and Senior Councillors was agreed at a meeting of the Council Executive on 1 March 2016 and is available at http://coins.westlothian.gov.uk/coins/submissiondocuments.asp?submissionid=30191

2.2 Remuneration Policy - Convenors and Vice Convenors for Police and Fire Functions and Joint Boards

In addition to the Senior Councillors of the council the Regulations also set out the remuneration payable to councillors with the responsibility of a convenor or a vice-convenor of a Joint Board. The Regulations require the remuneration to be paid by the council of which the convenor or vice-convenor is a member. The council is also required to pay any pension contributions arising from the convenor or vice-convenor being a member of the Local Government Pension Scheme.

In 2016/17 (2015/16) the amount recharged to Lothian Valuation Joint Board in respect of Councillor B Robertson until 13 December 2016 was £2,456 (£3,106) in respect of a vice-convenor position.

2.3 Total Councillors Remuneration

The council paid the following salaries, allowances and expenses to all councillors (including the senior councillors above) during the year:-

Type of Remuneration	2016/17 £'000	2015/16 £'000
Salaries	676	666
Allowances	15	11
Expenses	31	28
Total	**722**	**705**

The annual return of Councillors' salaries and expenses for 2016/17 is available for any member of the public to view at all Council Information Services Offices and Libraries during normal working hours and is also available on the council's website at http://www.westlothian.gov.uk/article/1956/Councillors-and-Wards

REMUNERATION REPORT **STATEMENT 3**

2.4 **Council Leader, Provost and Senior Councillors Remuneration**

The following table provides details of the remuneration paid to the Council's Senior Councillors and remuneration paid to councillors with the responsibility of a convenor or vice-convenor of a Joint Board during 2016/17:-

Name	Post Title	Total Remuneration 2016/17 £	Total Remuneration 2015/16 £
	Council Leader, Provost and Senior Councillors		
T Kerr	Provost (Civic Leader)	25,341	25,090
A Boyle	Chair Licensing Board and Licensing Committee	25,341	25,090
H Cartmill[1]	Chair of Audit and Governance Committee	18,109	25,090
F Toner[2]	Chair of Audit and Governance Committee	24,125	-
T Conn	Executive Post – Environment	25,341	25,090
A Davidson	Chair Development Management Committee	25,341	25,090
J Dixon	Executive Post – Voluntary Organisations	25,341	25,090
L Fitzpatrick	Executive Post – Education	25,341	25,090
D King	Executive Post – Culture and Leisure (Depute Provost)	25,341	25,090
D Logue	Executive Post – Social Policy	25,341	25,090
J McGinty	Leader of Council	33,789	33,454
A McMillan	Executive Post – Health and Care	25,341	25,090
C Muldoon	Executive Post – Development and Transport (Depute Leader)	25,341	25,090
G Paul	Executive Post – Services for the Community	25,341	25,090
B Robertson[3]	Lothian and Borders Joint Valuation	19,349	19,832
Total		**374,123**	**354,366**

1. Chair of Audit and Governance Committee until 23 May 2016.
2. Chair of Audit and Governance Committee from 24 May 2016.
3. West Lothian appointee on Lothian Valuation Joint Board until 13 December 2016.

With the exception of matters reserved to the full council or remitted to committees for consideration, the Council Executive has universal decision making powers and has 12 members, of which eight councillors and the Leader of the Council have been appointed with responsibility for Executive Posts.

The amount recharged to Lothian Valuation Joint Board in 2016/17 was £2,456 in respect of Councillor B Robertson (2015/16 £3,106).

3. SENIOR EMPLOYEES

3.1 Remuneration Policy

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/148 sets the amount of salary for the Chief Executive of West Lothian Council for the period 2015 to 2017.

The salaries of the Depute Chief Executives are based on the nearest point on the national spinal column for Chief Officers, which equates to 87 per cent of the Chief Executive's salary in three spinal column points. Heads of Service are paid across two pay grades of three spinal column points. These pay grades are based on the nearest point on the national spinal column for Chief Officers which equates to one pay grade of 65 per cent and one of 72 per cent of the Chief Executives salary. Placing on the pay grade for Heads of Service is based on the outcome of a job evaluation exercise.

These pay arrangements were agreed through approval of the Organisational Review Report at a meeting of the Policy, Partnership and Resources Committee on 6 February 2002.

The West Lothian Integration Joint Board was legally established on 21 September 2015 and J Forrest was formally appointed as Chief Officer on 16 February 2016. The Depute Chief Executive / Chief Officer West Lothian Integration Joint Board is a joint appointment and the terms and conditions, including pay for the post, are set by NHS Lothian, who employ the post holder directly.

REMUNERATION REPORT STATEMENT 3

3.2 **Senior Employees Remuneration**

The senior employees included in the table are any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the council,
- Who holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989, or
- Whose annual remuneration is £150,000 or more.

The full year equivalent salary has been provided for senior employees who have been in post for part year during 2016/17 or 2015/16.

Name and Post Title	Full Year Equivalent Salary £	Total Remuneration 2016/17 £	Total Remuneration 2015/16 £
G Hope[1] Chief Executive	-	138,180	141,821
J Forrest[2] Depute Chief Executive / Chief Officer West Lothian Integration Joint Board	99,656	49,828	47,237
R G Struthers Depute Chief Executive	-	116,627	115,472
M Niven[3] Depute Chief Executive (Retired)	113,766	-	46,951
E Cook[4] Depute Chief Executive	-	113,031	103,059
D Forrest Head of Finance and Property Services	-	95,078	94,136
J Jack Head of Operational Services	-	87,890	87,020
S Field[5] Head of Area Services	-	-	87,020
A Shaw Head of Housing, Customer and Building Services	-	87,890	87,020
C McCorriston Head of Planning, Economic Development and Regeneration	-	87,890	87,020
J Whitelaw Head of Corporate Services	-	87,890	87,020
J Cameron Head of Education (Learning, Policy and Resources)	-	95,078	94,136
D McMaster[6] Head of Education (Curriculum, Quality Improvement and Performance)	-	93,269	84,322
J Kellock Head of Social Policy	-	93,269	90,573
Total		**1,145,920**	**1,252,807**

1. Remuneration includes returning officer payment of £4,509 in 2016/17 (2015/16 £9,473).
2. The Depute Chief Executive/Chief Officer West Lothian Integration Joint Board, J Forrest, is remunerated by the National Health Service (NHS) with West Lothian contributing 50% of his total cost of employment. The total pension contribution paid by WLC in relation to J Forrest in 2016/17 (2015/16) is £7,424 (£7,417).
3. Depute Chief Executive until 13 September 2015.
4. Appointed to Depute Chief Executive from 17 August 2015. Previous post Head of Education (Quality Assurance) until 16 August 2015.
5. At the meeting of West Lothian Council on 23 February 2016, a report on organisational review was approved which resulted in the reduction in the number of heads of service from eight to seven from 1 April 2016. As a result, the post of Head of Area Services was removed from the Corporate Management Structure.
6. Appointed to Head of Education (Curriculum, Quality Improvement and Performance) from 1 October 2015.
7. There were no compensation payments for loss of employment or annual compensation payments in 2015/16 or 2016/17.

REMUNERATION REPORT STATEMENT 3

3.3 **Employee Information by Pay Band**

The number of officers whose remuneration, including benefits, in the year were £50,000 or more is detailed below:-

Remuneration Bands	Number of Employees 2016/17	2015/16
£50,000 - £54,999	104	99
£55,000 - £59,999	48	49
£60,000 - £64,999	16	19
£65,000 - £69,999	13	2
£70,000 - £74,999	4	7
£75,000 - £79,999	5	3
£80,000 - £84,999	1	1
£85,000 - £89,999	4	5
£90,000 - £94,999	2	3
£95,000 - £99,999	2	-
£100,000 - £104,999	-	1
£105,000 - £109,999	-	-
£110,000 - £114,999	1	-
£115,000 - £119,999	1	1
£120,000 - £124,999	-	-
£125,000 - £129,999	1	-
£130,000 - £134,999	-	-
£135,000 - £139,999	1	-
£140,000 - £144,999	-	1
Total	**203**	**191**

3.4 **Employee Exit Packages**

The number of employee exit packages with total cost per band is set out in the table below. There were no compulsory redundancies in 2015/16 or 2016/17.

	Number of employee exit packages agreed		Total cost of employee exit packages in each band	
Exit package cost band	2016/17	2015/16	2016/17 £'000	2015/16 £'000
£0 - £20,000	26	27	307	256
£20,001 - £40,000	11	12	306	333
£40,001 - £60,000	2	4	103	190
£60,001 - £80,000	2	1	145	65
£80,001 - £100,000	1	1	90	100
£100,001 - £150,000	-	1	-	152
Total	**42**	**46**	**951**	**1,096**

4. PENSIONS

4.1 **Local Government Pension Scheme Details (LGPS)**

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is adjusted by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees the LGPS changed on 1 April 2015 from a final salary pension scheme to a career average scheme. In the 2015 scheme, normal retirement age for both councillors and employees is equal to the member's state pension age subject to a minimum of 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

REMUNERATION REPORT STATEMENT 3

4.1 **Local Government Pension Scheme Details (LGPS) (Continued)**

The members contribution rates and ranges for 2016/17 remain the same as the 2015/16 rates and ranges.

Whole time pay	Range 2016/17	Range 2015/16	Contribution rate 2016/17	Contribution rate 2015/16
On earnings up to and including	£20,500	£20,500	5.5%	5.5%
On earnings above	£20,500 and up to £25,000	£20,500 and up to £25,000	7.25%	7.25%
On earnings above	£25,000 and up to £34,400	£25,000 and up to £34,400	8.5%	8.5%
On earnings above	£34,400 and up to £45,800	£34,400 and up to £45,800	9.5%	9.5%
On earnings above	£45,800	£45,800	12.0%	12.0%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

The Local Government Pension Scheme changed on 1 April 2015 from a Final Salary to a Career Average Scheme. For each year in the Scheme from 1 April 2015, a scheme member builds up pension at 1/49ths of pensionable pay. The pension is built up in the member's Pension Account which is revalued each scheme year by HM Treasury Revaluation Order which is currently the Consumer Prices Index (CPI).

If an employee was a member of the Scheme prior to 1 April 2015, the benefits built up under the Final Salary arrangement will continue to be worked out on the member's final pay when leaving. For scheme membership up to 31 March 2015, the pension accrues at 1/60th of final pay at leaving. There is no automatic lump sum but annual pension can be swapped for a tax free lump sum. For scheme membership up to 31 March 2009, pension accrues on the basis of 1/80th of the member's final pay at leaving plus an automatic lump sum of 3 times the pension.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

4.2 **Pension Benefits Senior Councillors - Local Government Pension Scheme (LGPS)**

The pension entitlements of Senior Councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the council to each Senior Councillor's pension during the year.

		In-year pension contributions		Accrued pension benefits			
		For year to 31 March 2017	For year to 31 March 2016	As at 31 March 2017		Difference from 31 March 2016	
Name	**Post Title**	£	£	Pension £'000	Lump Sum £'000	Pension £'000	Lump Sum £'000
T Kerr	Provost (Civic Leader)	5,170	5,145	4	2	(1)	(1)
A Boyle	Chair Licensing Board and Licensing Committee	5,170	5,118	2	-	-	-
H Cartmill[1]	Chair of Audit and Governance Committee	3,694	5,118	2	-	-	-
F Toner[2]	Chair of Audit and Governance Committee	4,922	-	1	-	1	-
T Conn	Executive Post – Environment	5,170	5,118	4	2	-	-
L Fitzpatrick	Executive Post – Education	5,170	5,118	4	2	-	-
D King[3]	Executive Post – Culture and Leisure (Depute Provost)	4,646	5,185	7	2	3	-
D Logue	Executive Post – Social Policy	5,170	5,118	4	2	-	-
A McMillan	Executive Post – Health and Care	5,170	5,118	2	-	-	-
C Muldoon	Executive Post – Development and Transport (Depute Leader)	5,170	5,118	4	2	-	-
G Paul	Executive Post – Services for the Community	5,170	5,237	4	2	-	-
B Robertson[4]	Lothian and Borders Joint Valuation	3,947	4,046	2	-	-	-
Total		**58,569**	**55,439**	**40**	**14**	**3**	**(1)**

1. Chair of Audit and Governance Committee until 23 May 2016.
2. Chair of Audit and Governance Committee from 24 May 2016.
3. Included in the pension scheme until 22 February 2017 up to age 75.
4. West Lothian appointee on Lothian Valuation Joint Board until 13 December 2016.

4.2 **Pension Benefits Senior Councillors - Local Government Pension Scheme (LGPS) (Continued)**

All senior Councillors shown in the tables are members of the LGPS.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a council subsidiary body, and not just their current appointment.

Councillors A Davidson, J Dixon and J McGinty are not members of the LGPS. All Councillors under 75 years of age are eligible for participation in the LGPS.

4.3 **Pension Benefits Senior Employees - Local Government Pensions Scheme (LGPS)**

The pension entitlements of Senior Employees who are members of the LGPS for the year to 31 March 2017 are shown in the table below, together with the contribution made by the council to each Senior Employee's pension during the year.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

		In-year pension contributions		Accrued pension benefits			
		For year to 31 March 2017	For year to 31 March 2016	As at 31 March 2017		Difference from 31 March 2016	
Name	**Post Title**	**£**	**£**	**Pension £'000**	**Lump Sum £'000**	**Pension £'000**	**Lump Sum £'000**
G Hope	Chief Executive	27,269	28,933	55	108	2	1
R G Struthers	Depute Chief Executive	23,792	23,556	43	86	2	1
M Niven[1]	Depute Chief Executive (Retired)	-	9,578	-	-	-	-
E Cook[2]	Depute Chief Executive	23,058	21,024	54	-	7	-
D Forrest	Head of Finance and Property Services	19,396	19,204	37	70	2	-
J Jack	Head of Operational Services	17,930	17,752	37	75	2	1
S Field[3]	Head of Area Services	-	17,752	-	-	(41)	(91)
A Shaw	Head of Housing, Customer and Building Services	17,930	17,752	49	111	2	1
C McCorriston	Head of Planning, Economic Development and Regeneration	17,930	17,752	37	75	2	1
J Whitelaw	Head of Corporate Services	17,930	17,752	26	41	2	1
J Cameron	Head of Education	19,396	18,827	65	-	2	-
D McMaster[4]	Head of Education	19,026	9,213	50	-	28	(65)
J Kellock	Head of Social Policy	19,026	18,477	28	44	3	1
Total		**222,683**	**237,572**	**481**	**610**	**13**	**(149)**

1. Depute Chief Executive until 13 September 2015.
2. Appointed to Depute Chief Executive from 17 August 2015. Previous post Head of Education (Quality Assurance) until 16 August 2015.
3. At the meeting of West Lothian Council on 23 February 2016, a report on organisational review was approved which resulted in the reduction in the number of heads of service from eight to seven from 1 April 2016. As a result, the post of Head of Area Services was removed from the Corporate Management Structure.
4. Appointed to Head of Education (Curriculum, Quality Improvement and Performance) from 1 October 2015.

Graham Hope
Chief Executive

Councillor Lawrence Fitzpatrick
Leader of the Council

26 September 2017

EXPENDITURE AND FUNDING ANALYSIS — STATEMENT 4

PURPOSE	The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

EXPENDITURE AND FUNDING ANALYSIS
FOR THE YEAR ENDED 31 MARCH 2017

	Note	Net Expenditure Chargeable to the General Fund and HRA Balance £'000	Adjustments Between the Funding and Accounting Basis (Note 6) £'000	Transfers to or from other Statutory Reserves £'000	Net Expenditure In the Comprehensive Income and Expenditure Statement £'000
2015/16					
Schools, Education Support		137,195	37,875	-	175,070
Planning, Economic Development and Regeneration		4,070	3,611	-	7,681
Operational Services		57,702	11,100	-	68,802
Housing, Customer and Building Services		5,720	11,348	-	17,068
Corporate Services		12,039	(11,463)	-	576
Social Policy – IJB, Adult and Elderly Services		10	-	-	10
Social Policy – non IJB Adult and Elderly Services		59,005	-	-	59,005
Social Policy – non IJB, Children's Services		31,450	11,806	-	43,256
Chief Executive, Finance and Property		24,103	6,225	-	30,328
Joint Boards		1,214	-	-	1,214
Time Limited Expenditure		340	-	-	340
Other Services		10,991	(1,356)	(9,340)	295
Net Cost of General Fund Services		**343,839**	**69,146**	**(9,340)**	**403,645**
Housing Revenue Account		-	70,367	-	70,367
Net Cost of Services		**343,839**	**139,513**	**(9,340)**	**474,012**
Other Income and Expenditure		(343,579)	(23,656)	(885)	(368,120)
(Surplus) or Deficit	7	**260**	**115,857**	**(10,225)**	**105,892**

	General Fund	HRA Fund	Total
Opening General Fund and HRA Balance	**(25,869)**	**(926)**	**(26,795)**
Deficit on General Fund and HRA Balance in Year	260	-	260
Closing General Fund and HRA Balance as at 31 March	**(25,609)**	**(926)**	**(26,535)**

	Note	Net Expenditure Chargeable to the General Fund and HRA Balance £'000	Adjustments Between the Funding and Accounting Basis (Note 6) £'000	Transfers to or from other Statutory Reserves £'000	Net Expenditure In the Comprehensive Income and Expenditure Statement £'000
2016/17					
Schools, Education Support		142,039	83,748	-	225,787
Planning, Economic Development and Regeneration		5,031	1,501	-	6,532
Operational Services		57,675	12,771	-	70,446
Housing, Customer and Building Services		5,126	11,177	-	16,303
Corporate Services		11,072	(10,669)	-	403
Social Policy – IJB, Adult and Elderly Services		60,584	-	-	60,584
Social Policy – non IJB, Children's Services		28,223	6,425	-	34,648
Chief Executive, Finance and Property		23,250	6,510	-	29,760
Joint Boards		1,214	-	-	1,214
Time Limited Expenditure		-	-	-	-
Other Services		10,385	(8,261)	(2,259)	(135)
Net Cost of General Fund Services		**344,599**	**103,202**	**(2,259)**	**445,542**
Housing Revenue Account		-	18,144	-	18,144
Net Cost of Services		**344,599**	**121,346**	**(2,259)**	**463,686**
Other Income and Expenditure		(344,252)	(23,372)	(847)	(368,471)
(Surplus) or Deficit	7	**347**	**97,974**	**(3,106)**	**95,215**

	General Fund	HRA Fund	Total
Opening General Fund and HRA Balance	**(25,609)**	**(926)**	**(26,535)**
Deficit on General Fund and HRA Balance in Year	347	-	347
Closing General Fund and HRA Balance as at 31 March	**(25,262)**	**(926)**	**(26,188)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT STATEMENT 5

PURPOSE	The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

	Note	2016/17			2015/16 Restated		
		Gross Expend £'000	**Gross Income £'000**	**Net Expend £'000**	**Gross Expend £'000**	**Gross Income £'000**	**Net Expend £'000**
Schools, Education Support		231,791	6,004	225,787	181,831	6,761	175,070
Planning, Economic Development and Regeneration		11,478	4,946	6,532	15,098	7,417	7,681
Operational Services		79,497	9,051	70,446	79,052	10,250	68,802
Housing, Customer and Building Services		21,761	5,458	16,303	22,146	5,078	17,068
Corporate Services		1,067	664	403	1,178	602	576
Social Policy – IJB, Adult and Elderly Services		145,587	85,003	60,584	10	-	10
Social Policy – non IJB, Children's and Elderly Services		-	-	-	75,041	16,036	59,005
Social Policy – non IJB Children's Services		39,200	4,552	34,648	47,845	4,589	43,256
Chief Executive, Finance and Property		35,277	5,517	29,760	34,867	4,539	30,328
Joint Boards		1,214	-	1,214	1,214	-	1,214
Time Limited Expenditure		-	-	-	340	-	340
Other Services		58,171	58,306	(135)	59,285	58,990	295
Net Cost of General Fund Services		**625,043**	**179,501**	**445,542**	**517,907**	**114,262**	**403,645**
Housing Revenue Account		64,592	46,448	18,144	117,556	47,189	70,367
Net Cost of Services		**689,635**	**225,949**	**463,686**	**635,463**	**161,451**	**474,012**
Other Operating Expenditure	8	(2,559)	-	(2,559)	(1,877)	-	(1,877)
Finance and Investment Income and Expenditure	9	67,121	34,060	33,061	68,621	30,355	38,266
Taxation and Non-Specific Grant Income	10	-	398,973	(398,973)	-	404,509	(404,509)
(Surplus) or Deficit on Provision of Services		**754,197**	**658,982**	**95,215**	**702,207**	**596,315**	**105,892**
Items that will not be reclassified to the (surplus) / Deficit on the Provision of Services							
(Surplus) / Deficit on revaluation of property, plant and equipment				2,542			(490,210)
Actuarial (gains) / losses on pension assets and liabilities				102,920			(114,318)
Items that may be reclassified to the (Surplus) / Deficit on the Provision of Services				105,462			(604,528)
(Surplus) / Deficit on revaluation of available for sale financial assets				(28)			(35)
Other Comprehensive Income and Expenditure				**105,434**			**(604,563)**
Total Comprehensive Income and Expenditure				**200,649**			**(498,671)**

MOVEMENT IN RESERVES STATEMENT — STATEMENT 6

PURPOSE	The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the Statutory General Fund Balance and Housing Revenue Account Balance Movements in year following those adjustments.

MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2017

	Note	General Fund £'000	Housing Revenue Account £'000	Insurance Fund £'000	Capital Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance at 1 April 2015 Restated		**25,869**	**926**	**13,570**	**84,765**	**125,130**	**484,085**	**609,215**
Movement in Reserves during 2015/16 Restated								
Total comprehensive income and expenditure		(28,758)	(77,134)	-	-	(105,892)	604,563	498,671
Adjustments between accounting basis and funding basis under regulations	12	38,723	77,134	-	(6,631)	109,226	(109,226)	-
Net increase (decrease) before transfers to other statutory funds		9,965	-	-	(6,631)	3,334	495,337	498,671
Transfers to / (from) other statutory funds	11	(10,225)	-	145	10,080	-	-	-
Increase (decrease) in year		**(260)**	**-**	**145**	**3,449**	**3,334**	**495,337**	**498,671**
Balance at 31 March 2016		**25,609**	**926**	**13,715**	**88,214**	**128,464**	**979,422**	**1,107,886**
General Fund analysed over:								
Amounts Earmarked	36	**23,539**						
Amounts Uncommitted		**2,070**						
Total General Fund Balance at 31 March 2016		**25,609**						
Movement in Reserves during 2016/17								
Total comprehensive income and expenditure		(71,001)	(24,214)	-	-	(95,215)	(105,434)	(200,649)
Adjustments between accounting basis and funding basis under regulations	12	73,760	24,214	-	(27,673)	70,301	(70,301)	-
Net increase (decrease) before transfers to other statutory funds		2,759	-	-	(27,673)	(24,914)	(175,735)	(200,649)
Transfers (to) / from other statutory funds	11	(3,106)	-	(1,880)	4,986	-	-	-
Increase (decrease) in year		**(347)**	**-**	**(1,880)**	**(22,687)**	**(24,914)**	**(175,735)**	**(200,649)**
Balance at 31 March 2017		**25,262**	**926**	**11,835**	**65,527**	**103,550**	**803,687**	**907,237**
General Fund analysed over:								
Amounts Earmarked	36	**23,187**						
Amounts Uncommitted		**2,075**						
Total General Fund Balance at 31 March 2017		**25,262**						

BALANCE SHEET — STATEMENT 7

PURPOSE	The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Fund that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

LONG TERM ASSETS	**Note**	**As at 31 March 2017 £'000**	**As at 31 March 2016 Restated £'000**	**As at 31 March 2015 Restated £'000**
Property, Plant and Equipment				
- Council Dwelling		382,991	392,439	463,180
- Other Land and Buildings		1,055,260	1,109,578	655,048
- Vehicles, Plant, Furniture and Equipment		19,287	18,729	18,646
- Infrastructure Assets		211,219	207,853	199,148
- Community Assets		570	814	529
- Assets under construction		72,055	43,644	10,534
- Surplus Assets, not yet held for disposal		23,187	23,062	23,062
	13.1	1,764,569	1,796,119	1,370,147
Heritage Assets	14	779	677	677
Long Term Investments	16.1	277	249	213
Long Term Debtors	17	-	11	53
TOTAL LONG TERM ASSETS		**1,765,625**	**1,797,056**	**1,371,090**
CURRENT ASSETS				
Short Term Investments	16.1	125,585	100,466	90,462
Inventories	18	1,137	971	968
Short Term Debtors	19	36,012	35,979	26,726
Cash and Cash Equivalents	29	15,084	27,802	25,241
Intangible Assets	15	592	622	636
TOTAL CURRENT ASSETS		**178,410**	**165,840**	**144,033**
CURRENT LIABILITIES				
Short Term Borrowing	16.1	(100,290)	(100,066)	(89,883)
Short Term Creditors	20	(78,191)	(77,885)	(70,080)
Provisions	21	(174)	(431)	(1,242)
TOTAL CURRENT LIABILITIES		**(178,655)**	**(178,382)**	**(161,205)**
NET CURRENT ASSETS (LIABILITIES)		**(245)**	**(12,542)**	**(17,172)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,765,380**	**1,784,514**	**1,353,918**
LONG TERM LIABILITIES				
Long Term Creditors	22	(1,140)	(1,345)	(1,042)
Long Term Borrowing	16.1	(503,641)	(433,671)	(403,796)
Defined Benefit Scheme Liability	23.3	(290,290)	(176,148)	(272,204)
Other Long Term Liabilities	22	(63,072)	(65,464)	(67,661)
TOTAL LONG TERM LIABILITIES		**(858,143)**	**(676,628)**	**(744,703)**
TOTAL NET ASSETS		**907,237**	**1,107,886**	**609,215**
Financed by:				
USABLE RESERVES				
General Fund Balance	36	25,262	25,609	25,869
HRA Balance		926	926	926
Capital Fund	24.2	65,527	88,214	84,765
Insurance Fund	24.1	11,835	13,715	13,570
TOTAL USABLE RESERVES		**103,550**	**128,464**	**125,130**
UNUSABLE RESERVES	25	**803,687**	**979,422**	**484,085**
TOTAL RESERVES		**907,237**	**1,107,886**	**609,215**

The unaudited accounts were considered by the Audit Committee on 30 June 2017 and the audited accounts were authorised for issue on 26 September 2017.

DONALD FORREST CPFA, Head of Finance and Property Services **26 September 2017**

CASH FLOW STATEMENT — STATEMENT 8

PURPOSE	The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

	Note	**2016/17 £'000**	**2015/16 Restated £'000**
Net surplus or (deficit) on the provision of services		**(95,215)**	**(105,892)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements	26	148,698	172,674
Net cash flows from Operating Activities		53,483	66,782
Net cash flows from Investing Activities	27	(135,990)	(103,980)
Net cash flows from Financing Activities	28	69,789	39,759
Net increase (decrease) in cash and cash equivalents		**(12,718)**	**2,561**
Cash and cash equivalents at the beginning of the reporting period		**27,802**	**25,241**
Cash and cash equivalents at the end of the reporting period	29	**15,084**	**27,802**

1. ACCOUNTING POLICIES

General

The council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Following the Telling the Story review of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement, introduced a new statement, the Expenditure and Funding Analysis, and streamlined the Movement in Reserves Statement. The changes are explained as follows:

- The requirement to report the cost of individual services in the Comprehensive Income and Expenditure Statement in accordance with the format specified in Section 3 of SeRCOP has been removed and replaced with the requirement to report on an organisational basis.
- The new Expenditure and Funding Analysis brings together the council's performance reported on the basis of expenditure measured under proper accounting practices with statutory defined charges to the General Fund and HRA.
- Both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement include a segmental analysis, which is required to allow the council to report performance on the basis of how it is structured and how it operates, monitors and manages financial performance.
- The 2016/17 Code introduces a new streamlined Movement in Reserves Statement, which presents the Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement as one line.

The 2015/16 figures in the Comprehensive Income and Expenditure Statement have been represented to organisational structure to provide comparator year figures. The 2015/16 figures in the Movement in Reserve Statement have been streamlined in keeping with the Code.

The 2015/16 financial statements have also been restated to reflect material understatement of property, plant and equipment as at 31 March 2016. This resulted in material changes to school and council dwelling asset values as detailed in Note 5 to the annual accounts.

These changes do not impact on the Net Cost of Services as they are presentational in nature and there is no impact on the Balance Sheet as a result of this change in accounting policy.

Revenue Transactions

The Revenue Accounts of the council are maintained on an accruals basis in accordance with the Code of Practice. That is, sums due to or from the council during the year are included, whether or not the cash has actually been received or paid in the year. Provision has been made for possible bad or doubtful debts in both the General Fund Account and Housing Revenue Account. There is no de minimis level for inclusion in the annual accounts for revenue transactions.

Property, Plant and Equipment - Valuation

All expenditure on the acquisition, creation or enhancement of property, plant and equipment has been capitalised on an accruals basis.

Operational Property, plant and equipment have been included in the balance sheet at either existing use value or depreciated replacement cost, depending on whether or not there is assessed to be an active market for the assets being revalued. Assets under construction and Community Assets have been included at historical cost.

Surplus assets not yet available for sale have been included in the Balance Sheet on a fair value basis using the valuation techniques for level 2 inputs, i.e. open market value.

Plant, furniture and computer equipment costing below £6,000 are not treated as long term assets but are charged to the revenue account. This de minimis limit does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

Council houses have been valued at fair value using the Beacon Principle, existing use value for social housing, in accordance with the Royal Institution of Chartered Surveyors (RICS) Guidance. During 2015/16 the council houses were revalued by DM Hall LLP, an external firm of chartered surveyors.

Valuations have been provided by the council's Property Services and an external firm of chartered surveyors. Increases in valuations from 1 April 2007 have been credited to the Revaluation Reserve.

Property, Plant and Equipment - Capital Receipts

Receipts arising from the sale of property, plant and equipment are credited to capital receipts and used to finance new capital expenditure. These transactions are then credited to the capital adjustment account.

Property, Plant and Equipment - Depreciation

Assets, other than land, are being depreciated using the straight line method over their useful economic lives as follows:-

- Council dwellings	50 years
- Council dwellings (Fixtures)	27 years
- Operational buildings	20 - 60 years
- Plant and equipment (Other)	10 - 25 years
- Plant and equipment (Books)	3 years
- Motor vehicles	4 - 10 years
- Fixtures and fittings	3 - 10 years
- Infrastructure assets	40 years

No depreciation is provided on Community Assets, Assets under construction, Surplus Assets not yet available for sale and Heritage Assets.

Under International Accounting Standard 16 (IAS 16), where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Significance is determined by comparing the cost of components against the overall cost of the asset. The significance threshold was initially set at £100,000 on assets with a value in excess of £1 million.

However, during 2016/17, all properties subject to material change in valuation; community centres, day centres, old people's homes, partnership centres, pavilions, miscellaneous land and schools were revalued. In total, they were collectively deemed to be significant in terms of their overall asset value and as such depreciation was charged on a componentised basis for all properties revalued as part of those groups regardless of the value of the asset.

The current policy of quinquennial revaluation will remain. However, in line with the requirements of the Code, only assets which were acquired, enhanced or revalued in 2016/17 had their useful lives updated, thereby achieving progressive compliance over 5 years.

In the case of council dwellings fixtures are depreciated over 27 years with the non-fixture element of council dwellings being depreciated over 50 years.

Property, Plant and Equipment - Revaluation

Where decreases in value are identified, they are accounted for as follows:-

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Property, Plant and Equipment - Impairment

Assets subject to revaluation that have suffered a reduction in value have been impaired. Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Property, Plant and Equipment - Charges to Revenue

Service revenue accounts and the HRA have been charged with a capital charge for all property, plant and equipment assets used in the provision of the service. Such charges cover the annual provision for depreciation.

Heritage Assets

The council's Heritage Assets are held in various locations throughout the authority, there are two main categories of asset:- Artworks and Sculptures and Civic Regalia which includes Precious Metals, Fabric Items and Robes. All other assets are included in the Miscellaneous Other category.

As a general policy, heritage assets are recognised on the balance sheet where the cost or value of the asset is known. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the balance sheet.

Artworks & Sculptures

The art collection includes paintings, sketches and marble busts. These assets are reported in the balance sheet at insurance value which is based on market value. Valuations are provided by an external valuer with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions. The assets within the artwork and sculpture collections are deemed to have indeterminate lives and a high residual value hence the council does not consider it appropriate to charge depreciation.

There have been no acquisitions, one donation and no disposals during the previous five years. Two council owned additions to the Heritage Asset portfolio have been identified during the financial year 2016/17.

Civic Regalia

Civic regalia predominately relates to the council's collection of Chains of Office worn by office bearers at ceremonial and civic events (Provost, Magistrates and Convenors).

These are reported in the balance sheet at insurance value which is based on market value. Following the full valuation of civic regalia in 2017, further formal valuations will be commissioned where it is considered that there could potentially be a material change in the value of the assets held. In the absence of such circumstances a formal revaluation will be carried out on a quinquennial basis.

It would be exceptionally rare for the council to purchase or dispose of, items of civic regalia.

Archives

These records include photographs, prints, negatives and slides, both original and copied from loans, recording the history of West Lothian.

These collections are not recognised on the balance sheet as cost information is not readily available and the council believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items are believed to have an immaterial value.

The majority of items within the collections have been acquired by donation over time.

Archaeology

The council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently the council does not recognise these assets on the balance sheet.

The council does not make any purchases of archaeological items.

Memorials, Monuments and Public Art

The authority holds and maintains memorials, public art and monuments of historic significance, some of which are tributes to the war dead. These are recognised on the balance sheet where there has been capital spend to improve or refurbish the assets. It is considered that there is a lack of available, comparable market values to establish a ‘fair value’. Assets which have not had enhancing capital spend are not recognised on the balance sheet as information on historical cost is not available.

It is unlikely that the council would procure such assets but is more likely to refurbish or enhance existing assets. In this respect, the cost of those works will be capitalised at cost.

Heritage Assets - General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the council’s general policies on impairment. It is likely that disposals of heritage assets will be made rarely. If this does occur, the proceeds of such items will be accounted for in accordance with the council’s general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the annual accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Improvement Grants

All expenditure on improvement and other grants is charged to revenue in the year the expenditure is incurred.

Government Grants and Contributions

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account. Capital grants and contributions received to finance property, plant and equipment assets have been credited to the Comprehensive Income and Expenditure Account. They are reversed out of the General Fund Balance in the Movement in Reserves Statement and transferred to the Capital Adjustment Account.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement and Capital Adjustment Account until conditions attached to each grant have been satisfied.

Monies advanced as revenue grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the revenue grants are credited to the service line in the Comprehensive Income and Expenditure Statement and, for capital grants, to the Capital Adjustment Account.

Redemption of Debt

The council operates a Consolidated Loans Fund under the terms of the Local Government (Scotland) Act 1975. All loans raised are paid into the fund. Capital payments made by services are financed from the Loans Fund and repaid over 30 years using the annuity method.

Premiums and discounts on debt rescheduling have been transferred to the Financial Instruments Adjustment Account and have been designated as statutory premiums and discounts under statutory guidance issued by the Scottish Government. The annual charge to the General Fund is managed by movements to and from the Financial Instruments Adjustment Account and the Movement on Reserves Statement.

Investments

Long-term investments, held in Lothian Buses Limited (Formerly Lothian Buses Plc), have been shown in the Balance Sheet at fair value (Level 2 on the fair value hierarchy) , based on the current share price multiplied by the council’s shareholding. Changes in fair value are balanced by an entry in the Available-for-sale Financial Instrument Reserve and the loss or gain is recognised in the Comprehensive Income and Expenditure Account.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than twenty four hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in values.

Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council’s cash management.

Prior Period Adjustments

Prior Period Adjustments arise as a result of a change in accounting policy. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts.

In 2016/17, the Code requirement to produce the Comprehensive Income and Expenditure Statement on the basis of organisational structure has required a restatement of the 2015/16 comparator figures from the SerCOP structure. Presentational changes have also been made to the Movement in Reserves Statement in line with the Code.

Financial Liabilities

Financial liabilities are carried in the balance sheet at amortised cost using the effective interest rate method. For market stepped Lenders Option Borrowers Option (LOBO) loans this involves calculation of the effective interest rate over the life of the loan. The difference between this and the actual interest paid to date on the loan is added to the carrying value of the loan. This increase in value of financial liabilities is offset by a corresponding debit to the Financial Instruments Adjustment Account.

Reserves

The council operates the following reserves under Schedule 3 of the Local Government (Scotland) Act 1975.

General Fund - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted General Fund Balance will be a minimum of £2 million.

Insurance Fund - this is the funding mechanism for the control of insurable risk and includes premiums and self-funded insurance costs. The fund covers all known insurance liabilities and is independently valued on a triennial basis.

Capital Fund - established to ensure that, following the introduction of the CIPFA Prudential Code for Capital Finance in Local Authorities in April 2004, borrowing decisions and capital programme management are based on Best Value considerations. General Fund treasury management balances in any given year will normally be transferred to or from the Capital Fund. The balance in the Capital Fund at 31 March 2017 was £65.527 million.

Revaluation Reserve

The Revaluation Reserve represents the net increase in the value of fixed assets as a result of these being shown in the Balance Sheet at revalued amounts rather than historical cost. The opening balance on the Revaluation Reserve at 1 April 2007 was zero. The balances on the former Fixed Asset Restatement Account and Capital Financing Account at 31 March 2007 were transferred into the Capital Adjustment Account.

Capital Adjustment Account

This Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation or impairment. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

Inventories

Stocks and stores held by the council are recorded at average cost, with the exception of deer and Highland Cows which have been valued at net realisable value. The valuation is in accordance with IAS 41 - Agriculture. The use of average cost rather than lower of cost and net realisable value is a departure from the Code but is not considered material.

External Interest Payable and Loans Fund Interest

External interest has been calculated and charged to the Income and Expenditure Account on an amortised cost basis over the life of the loan. For the majority of loans this represents the interest amount payable for the year per the loan agreement. However, for stepped LOBO loans, this results in a difference between the coupon rate and the amount charged to the Income and Expenditure Account. This difference is removed from the General Fund by a transfer to the Financial Instruments Adjustment Account.

These accounting adjustments ensure that the loans fund interest is calculated and allocated to the Revenue Account in accordance with LASAAC Guidance Note No. 2.

Interest on revenue balances is allocated on the basis of the monthly balances held on the respective accounts.

Central Support Services

Time recording systems and number of employees have been used as the bases for allocating costs to direct services, with the exception of the following:-

a) Administration Buildings - The number of employees based at each building.

b) Central Telephone Service - Based on number of extensions.

c) Central Postal and Messenger Services - Based on actual usage.

d) HR Pay and Reward – based on employee numbers within each Service.

Central Support Service charges allocated to the HRA and Building Services are a fixed amount agreed at the start of the financial year.

Corporate and Democratic Core

In accordance with CIPFA Guidance the costs of corporate and democratic core and of non-distributed costs have not been allocated to General Fund Services but gathered together and separately identified in the Comprehensive Income and Expenditure Statement.

Finance Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lesser to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, these elements are considered separately for classification.

Assets acquired under finance leases have been capitalised together with a liability to pay outstanding rentals. Payments have been apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

Employee Benefits

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulated Absences Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by an officer, in agreement with the council, to terminate their employment before the normal retirement date or an officer's decision to accept voluntary severance. The costs are charged on an accruals basis to the Other Services line in the Comprehensive Income and Expenditure Statement. Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund or pensioners and any such amounts payable but unpaid at the year-end.

Public Private Partnership (PPP)

The treatment of PPP contracts, under International Financing Reporting Standards (IFRS) looks at aspects of control of an asset, such as specifying services and the price paid for these services. The PPP schools are recognised as property assets, with recognition of a liability for the financing of these assets. The unitary charge paid to the PPP contractor is allocated between operating costs, finance lease principal and interest, and any capitalised lifecycle costs.

Operating Leases

Current annual operating lease rentals have been charged to revenue.

Non Domestic Rates (NDR)

National Non-domestic Rate debtors were previously shown on local authority balance sheets as debtors of the authority. Following a review of all types of local taxation, CIPFA/LASAAC concluded that local authorities act as the agent of the Government when collecting NDR. The Code requires local authorities not to recognise NDR debtors in their balance sheets but instead recognise a creditor or debtor for cash collected from NDR debtors as agent of the Government but not paid or overpaid to the Government.

Pension Costs

The council participates in two different pension schemes which provide members with defined benefits related to pay and service and are as follows:-

Teachers: This is an unfunded scheme administered by the Scottish Government. Under the pensions accounting standard IAS 19 - 'Retirement Benefits' this scheme is treated as a defined contribution scheme as it does not allow the identification of liabilities consistently and reliably between participant authorities. The pension cost charged to the Accounts is the contribution rate set by HM Treasury on the basis of a notional fund.

Other Employees: Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (which is administered by the City of Edinburgh Council as the Lothian Pension Fund). The Lothian Pension Fund is a multi-employer scheme funded on the basis of triennial actuarial valuations of the required employers' contributions to ensure adequate assets in the scheme. As it is possible to identify the council's share of the assets and liabilities underlying the scheme on a consistent and reliable basis, it is accounted for as a defined benefit scheme under IAS 19.

IAS 19 is based on the premise that an organisation should account for retirement benefits when it is committed to give them, even if the actual payment will be many years in the future. The pension cost under IAS 19 is therefore not the cash contributions paid to the pension fund but the increase in the employers' attributable pensions liability during the year.

The IAS 19 actuarial valuation involves the actuary reviewing the most recent triennial actuarial valuation, updating it to reflect current conditions at the balance sheet date and apportioning assets and liabilities amongst employers. Assets are valued at fair value, principally bid value for investments. Liabilities are valued using the projected unit method which assesses the future liabilities of the fund discounted to their present value. The 2016/17 discount factor was 2.6% (3.5% 2015/16). The inclusion of attributable scheme assets and liabilities in the balance sheet represents an authority's commitment to increase contributions to make up any shortfall, or its ability to benefit, via reduced contributions, from a surplus in the scheme.

The actuary identifies the following elements of pension cost charged to the Income and Expenditure account:

Actuarial gains and losses – these consist of experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effect of actuarial assumption changes in regard to financial and demographic assumptions.

Current Service Cost - the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Net Defined Benefit Liability (asset) – the present value of the defined benefit obligation less the fair value of the plan assets.

Net interest Income (expense) – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. This includes allowance for interest on the current service cost.

Past Service Costs – the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment

Any difference between the accounting cost (i.e. the IAS 19 based cost) and the funding cost (i.e. the contributions or payments made during the year) is appropriated from the Pensions Reserve to the Movement in Reserves Statement. This appropriation ensures the IAS 19 pension cost equals the pension payments funded from taxation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in the Notes to the Annual Accounts. Details of the liabilities are shown in note 32.

Provisions

Provisions are made where an event has taken place that gives the council a Legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the obligation. Provisions are charged as an expense to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year the council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision. Details of the provisions are shown in note 21.

Carbon Reduction Commitment Scheme

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the second year of its second phase, which ends on 31 March 2019. The council is required to purchase allowances prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances and is measured at the best estimate of the expenditure required to meet the obligation, at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption. The allowances under the CRC Scheme are accounted for as current intangible assets.

VAT

Income and Expenditure excludes any amounts related to VAT, as all VAT collected and paid is payable to, or recoverable from, Her Majesty's Revenues and Customs (HMRC).

Fair Value Measurement

The council measures its non-financial assets such as surplus assets not yet held for sale and financial instruments equity shareholdings at fair value at each reporting date using valuation techniques. When measuring the fair value of an asset the council assumes highest and best pricing. Inputs to the valuation techniques are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2016/17 there are no accounting policy changes which require to be reported as issued but not yet adopted by the code in respect of West Lothian.

However, at its meeting on 9 November 2016 the CIPFA/LASAAC Local Authority Accounting Code Board decided to postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority Annual Accounts for 2016/17.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) is now proposed to take effect from 1 April 2017. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts and states that implementation will be on the same basis as planned for 2016/17.

Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land. The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. The new valuation will reflect the current cost of replacement rather than the original cost of works, which would have been built up over a significant time period.

Therefore, there is no impact of this change on the accounts covering the 2016/17 financial year

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the annual accounts are:

- PPP - The council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The council controls the services provided under the scheme and ownership of the schools will pass to the council at the end of the contract. The schools are therefore recognised on the council's balance sheet.

- Associates - The valuation joint board is included within the group accounts under the wider definition of an "associate" although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place.

- Investment Properties - All property, plant and equipment is used on the delivery of services or as part of the council's strategy for economic regeneration.

- Uncertainty over future funding - There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a reduction in funding.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

PENSIONS LIABILITY

Uncertainties: Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns, on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions: The following table shows the sensitivity of the results to the changes in the principal assumptions used to measure the scheme liabilities.

Sensitivities at 31 March 2017	Approx % increase to Employer Liability	Approx monetary amount £'000
0.5% decrease in Real Discount Rate	11%	137,565
0.5% increase in the Salary Increase Rate	4%	47,798
0.5% increase in the Pension rate	7%	85,496

For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3 -5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

FAIR VALUE MEASUREMENTS

Uncertainties: the fair values of Surplus Assets not yet available for sale and Financial Instruments cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation technique;

Level 2 – quoted prices for similar assets or liabilities in active markets at the balance sheet date;

Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements include considerations such as uncertainty and risk. Changes in the assumptions could affect the fair value of the council's assets and liabilities.

Information about valuation techniques and inputs used in determining the fair value of these assets is set out in note 16.

Effect if actual results differ from assumptions: Significant changes in any of the observable inputs may result in a significantly lower or higher fair value measurement for assets and liabilities.

DEBTORS

Uncertainties: At 31 March 2017, the authority had a balance of debtors of £36.012 million. A review of balances suggested that an allowance for doubtful debts of £22.093 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

Effect if actual results differ from assumptions: If collection rates were to deteriorate, a 10% increase in the amount of doubtful debts would require an additional £3.601 million to be set aside as an allowance.

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 9

5. 2015/16 RESTATEMENT

For 2015/16 the council is required to restate the financial statements to reflect material understatement of property, plant and equipment in relation to schools, PPP schools and council dwellings. The Council's accounting policy for recognition and valuation of assets is to revalue the assets on a quinquennial basis with material changes in asset valuations considered to be a result of capital additions during the year. The assets identified requiring material value adjustments were schools and council dwellings. The most recent revaluations relating to these categories were 1 April 2016 and 1 April 2015 respectively.

The Code of Practice on Local Authority Accounting requires assets to be valued at fair value. The council dwelling additions for 2015/16 had not been accounted for as Existing Use Value – Social Housing and therefore capital expenditure since revaluation was carried at cost. This resulted in the council dwellings being overstated by £12.261 million. A reclassification transfer to work in progress of £16.030 million was also required in respect of the council's new build council house programme.

The school valuations had materially increased over the five year period since revaluation at 1 April 2011 resulting in a revaluation increase of £426.125 million, the PPP school revaluation contributing a further £56.210 million.

The opening General Fund Balance for 2015/16 has been adjusted to account for developer contributions of £6.562 million funded from the Housing Revenue Account to be removed from creditors and to be accounted for as an earmarked reserve in the general fund.

The 31 March 2016 Balance Sheet and 2015/16 comparative figures have been restated in the 2016/17 Statement of Accounts to apply the changes. The changes to the version published in the 2015/16 Statement of Accounts are as follows:-

	2015/16 Audited Accounts £'000	Adjustments £'000	Revised Comparatives £'000
Balance Sheet at 31 March 2016			
Council Dwellings	419,966	(27,527)	392,439
Other Land and Buildings	628,251	481,327	1,109,578
Community Assets	570	244	814
Assets under construction	27,614	16,030	43,644
PROPERTY, PLANT AND EQUIPMENT	1,326,045	470,074	1,796,119
TOTAL LONG TERM ASSETS	1,326,982	470,074	1,797,056
Short Term Creditors	(84,447)	6,562	(77,885)
TOTAL CURRENT LIABILITIES	(184,944)	6,562	(178,382)
NET CURRENT ASSETS (LIABILITIES)	(19,104)	6,562	(12,542)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,307,878	476,636	1,784,514
TOTAL NET ASSETS	631,250	476,636	1,107,886
Financed By:			
USABLE RESERVES	121,902	6,562	128,464
UNUSABLE RESERVES	509,348	470,074	979,422
TOTAL RESERVES	631,250	476,636	1,107,886
Comprehensive Income and Expenditure Statement			
HRA	58,106	12,261	70,367
Net Cost of Services	461,751	12,261	474,012
(Surplus) or Deficit on Provision of Services	93,631	12,261	105,892
Surplus on revaluation of property, plant and equipment assets	(7,875)	(482,335)	(490,210)
Other Comprehensive Income and Expenditure	(122,228)	(482,335)	(604,563)
Total Comprehensive Income and Expenditure	(28,597)	(470,074)	(498,671)
Movement in Reserves Statement			
General Fund Balance 1 April	19,307	6,562	25,869
General Fund Balance 31 March	19,047	6,562	25,609
HRA			
Total comprehensive income and expenditure	(64,873)	(12,261)	(77,134)
Adjustments between accounting basis and funding basis	64,873	12,261	77,134
Total Usable Reserves			
Balance at 1 April	118,568	6,562	125,130
Total comprehensive income and expenditure	(93,631)	(12,261)	(105,892)
Adjustments between accounting basis and funding basis	96,965	12,261	109,226
Balance at 31 March	121,902	6,562	128,464
Total Unusable Reserves			
Total comprehensive income and expenditure	122,228	482,335	604,563
Adjustments between accounting basis and funding basis	(96,965)	(12,261)	(109,226)
Net increase (decrease) before transfers to other statutory reserves	25,263	470,074	495,337
Increase (decrease) in year	25,263	470,074	495,337
Balance at 31 March	509,348	470,074	979,422
Total Authority Reserves			
Balance at 1 April	602,653	6,562	609,215
Total comprehensive income and expenditure	28,597	470,074	498,671
Net increase (decrease) before transfers to other statutory reserves	28,597	470,074	498,671
Increase (decrease) in year	28,597	470,074	498,671
Balance at 31 March	631,250	476,636	1,107,886

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 9

6. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 6.1) £'000	Net change for the Pensions Adjustments (Note 6.2) £'000	Other Differences (Note 6.3) £'000	Total Adjustments £'000
Adjustments between Funding and Accounting Basis 2015/16				
Schools, Education Support	29,272	2,248	6,355	37,875
Planning, Economic Development and Regeneration	532	417	2,662	3,611
Operational Services	6,471	2,325	2,304	11,100
Housing, Customer and Building Services	4,452	1,634	5,262	11,348
Corporate Services	5,297	717	(17,477)	(11,463)
Social Policy – non IJB, Children's Services	1,209	2,993	7,604	11,806
Chief Executive, Finance and Property	18,044	828	(12,647)	6,225
Other Services	(225)	(1,760)	629	(1,356)
Net Cost of General Fund Services	**65,052**	**9,402**	**(5,308)**	**69,146**
Housing Revenue Account	81,348	-	(10,981)	70,367
Net Cost of Services	**146,400**	**9,402**	**(16,289)**	**139,513**
Other income and expenditure from the Expenditure and Funding Analysis	(47,064)	8,860	14,548	(23,656)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**99,336**	**18,262**	**(1,741)**	**115,857**
Adjustments between Funding and Accounting Basis 2016/17				
Schools, Education Support	73,769	1,346	8,633	83,748
Planning, Economic Development and Regeneration	(45)	239	1,307	1,501
Operational Services	9,003	1,432	2,336	12,771
Housing, Customer and Building Services	5,346	996	4,835	11,177
Corporate Services	6,140	410	(17,219)	(10,669)
Social Policy – non IJB, Children's Services	(224)	1,774	4,875	6,425
Chief Executive, Finance and Property	8,436	479	(2,405)	6,510
Other Services	(174)	(1,700)	(6,387)	(8,261)
Net Cost of General Fund Services	**102,251**	**4,976**	**(4,025)**	**103,202**
Housing Revenue Account	30,019	-	(11,875)	18,144
Net Cost of Services	**132,270**	**4,976**	**(15,900)**	**121,346**
Other income and expenditure from the Expenditure and Funding Analysis	(47,418)	6,246	17,800	(23,372)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**84,852**	**11,222**	**1,900**	**97,974**

6.1. Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

6.2. Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statue and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

6.3 **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Financing and investment income and expenditure** – the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and non-specific grant income and expenditure** – represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

6.4 **Income received to the General Fund and HRA Balance**

	2016/17 £'000	2015/16 £'000
Schools, Education Support	6,004	6,761
Planning, Economic Development and Regeneration	4,981	7,451
Operational Services	16,277	16,697
Housing, Customer and Building Services	33,396	32,062
Corporate Services	1,823	1,943
Social Policy – IJB, Adult and Elderly Services	24,420	-
Social Policy – non IJB, Adult and Elderly Services	-	16,036
Social Policy – non IJB, Children's Services	4,552	4,589
Chief Executive, Finance and Property	15,590	14,539
Other Services	49,075	49,638
General Fund Services Income	**156,118**	**149,716**
HRA	46,715	47,439
Total Service Income	**202,833**	**197,155**

7. EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows:

Expenditure	2016/17 £'000	2015/16 £'000
Employee Benefits Expenses	229,881	225,898
Other Services Expenses	303,288	240,934
Support Services Recharges	19,053	20,242
Depreciation, Amortisation, Impairment	141,748	157,275
Interest Payments	62,786	59,735
Gain on the Disposal of Assets	(2,559)	(1,877)
Total Expenditure	**754,197**	**702,207**
Income		
Fees, Charges and Other Service Income	230,769	166,169
Interest and Investment Income	29,240	25,637
Income from Council Tax	62,186	60,937
Government Grants and Contributions	336,787	343,572
Total Income	**658,982**	**596,315**
(Surplus) or Deficit on Provision of Services	**95,215**	**105,892**

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8. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - OTHER OPERATING EXPENDITURE

	2016/17 £'000	2015/16 £'000
Gain on disposal of non-current assets	2,559	1,877
	2,559	**1,877**

9. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17 £'000	2015/16 £'000
Interest payable and similar charges	29,480	27,333
Net interest on the defined benefit liability (asset)	6,246	8,860
Interest receivable and similar income	(2,180)	(2,095)
(Surplus) / Deficit on trading operations	(485)	4,168
	33,061	**38,266**

10. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - TAXATION AND NON-SPECIFIC GRANT INCOME

	2016/17 £'000	2015/16 £'000
Council tax income	62,186	60,937
Non domestic rates distribution	87,726	94,216
Non ring-fenced government grants	218,861	217,938
Capital grants and contributions	30,200	31,418
	398,973	**404,509**

11. MOVEMENT IN RESERVES STATEMENT - TRANSFERS TO OR (FROM) OTHER STATUTORY RESERVES - 2015/16

	General Fund £'000	HRA £'000	Insurance Fund £'000	Capital Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Transfer (to) / from Insurance Fund	(145)	-	145	-	-	-	-
Transfer (to) / from Capital Fund	(10,080)	-	-	10,080	-	-	-
	(10,225)	**-**	**145**	**10,080**	-	-	-
TRANSFERS TO OR (FROM) OTHER STATUTORY RESERVES - 2016/17							
Transfer (to) / from Insurance Fund	1,880	-	(1,880)	-	-	-	-
Transfer (to) / from Capital Fund	(4,986)	-	-	4,986	-	-	-
	(3,106)	**-**	**(1,880)**	**4,986**	-	-	-

12. MOVEMENT IN RESERVES STATEMENT - ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2015/16 Restated	General Fund £'000	HRA £'000	Insurance Fund £'000	Capital Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Depreciation and impairment of non-current assets	67,799	89,476	-	-	157,275	(157,275)	-
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(31,418)	-	-	-	(31,418)	31,418	-
Net loss (gain) on sale of non-current assets	(1,106)	(771)	-	-	(1,877)	1,877	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(422)	-	-	-	(422)	422	-
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under pension scheme regulations	17,992	270	-	-	18,262	(18,262)	-
Statutory provision for repayment of debt	(9,962)	(3,806)	-	-	(13,768)	13,768	-
Statutory charge for lifecycle capital (PFI)	(93)	-	-	-	(93)	93	-
Capital expenditure charged to the General Fund and HRA	(2,748)	(8,035)	-	-	(10,783)	10,783	-
Net transfer to / (from) earmarked reserves required by legislation (i.e. holiday pay accrual)	(1,319)	-	-	-	(1,319)	1,319	-
Capital receipts transferred to the Capital Fund	-	-	-	(6,631)	(6,631)	6,631	-
	38,723	**77,134**	**-**	**(6,631)**	**109,226**	**(109,226)**	**-**

2016/17	General Fund £'000	HRA £'000	Insurance Fund £'000	Capital Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Depreciation and impairment of non-current assets	103,833	37,915	-	-	141,748	(141,748)	-
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(30,200)	-	-	-	(30,200)	30,200	-
Net loss (gain) on sale of non-current assets	(495)	(2,064)	-	-	(2,559)	2,559	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(422)	-	-	-	(422)	422	-
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under pension scheme regulations	10,941	281	-	-	11,222	(11,222)	-
Statutory provision for repayment of debt	(10,551)	(4,109)	-	-	(14,660)	14,660	-
Statutory charge for lifecycle capital (PFI)	(168)	-	-	-	(168)	168	-
Capital expenditure charged to the General Fund and HRA	(1,507)	(7,802)	-	-	(9,309)	9,309	-
Net transfer to / (from) earmarked reserves required by legislation (i.e. holiday pay accrual)	2,329	(7)	-	-	2,322	(2,322)	-
Capital receipts transferred to the Capital Fund	-	-	-	(27,673)	(27,673)	27,673	-
	73,760	**24,214**	**-**	**(27,673)**	**70,301**	**(70,301)**	**-**

13. PROPERTY, PLANT AND EQUIPMENT

13.1 **Movements in 2015/16 Restated**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000
Cost or Valuation				
At 1 April 2015	**548,470**	**783,389**	**56,352**	**241,704**
Additions	34,893	17,825	7,175	14,573
Revaluation increases / (decreases) recognised in the Revaluation Reserve	875	353,882	-	-
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(157,222)	(27,649)	-	-
Derecognition - disposals	(3,293)	(8)	(513)	-
Other movements in cost or valuation	(16,030)	3,475	-	360
At 31 March 2016	**407,693**	**1,130,914**	**63,014**	**256,637**
Accumulated Depreciation and Impairment				
At 1 April 2015	**85,290**	**128,341**	**37,706**	**42,556**
Depreciation charge	15,831	34,095	7,093	6,228
Depreciation written out to the Revaluation Reserve	(64)	(134,913)	-	-
Depreciation written out to the Surplus / Deficit on the Provision of Services	(85,289)	(5,722)	-	-
Derecognition – disposals	(514)	-	(514)	-
Other movements in depreciation and impairment	-	(465)	-	-
At 31 March 2016	**15,254**	**21,336**	**44,285**	**48,784**
Net Book Value				
At 31 March 2016	**392,439**	**1,109,578**	**18,729**	**207,853**
At 31 March 2015	**463,180**	**655,048**	**18,646**	**199,148**

	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation				
At 1 April 2015	**529**	**10,534**	**23,062**	**1,664,040**
Additions	-	21,429	-	95,895
Revaluation increase / (decreases) recognised in the Revaluation Reserve	525	-	(364)	354,918
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(168)	-	-	(185,039)
Derecognition - disposals	(72)	-	(150)	(4,036)
Other movements in cost or valuation	-	11,681	514	-
At 31 March 2016	**814**	**43,644**	**23,062**	**1,925,778**
Accumulated Depreciation and Impairment				
At 1 April 2015	-	-	-	**293,893**
Depreciation charge	-	-	-	63,247
Depreciation written out to the Revaluation Reserve	-	-	(465)	(135,442)
Depreciation written out to the Surplus / Deficit on the Provision of Services	-	-	-	(91,011)
Derecognition - disposals	-	-	-	(1,028)
Other movements in depreciation and impairment	-	-	465	-
At 31 March 2016	**-**	**-**	**-**	**129,659**
Net Book Value				
At 31 March 2016	**814**	**43,644**	**23,062**	**1,796,119**
At 31 March 2015	**529**	**10,534**	**23,062**	**1,370,147**

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13.1 **Movements in 2016/17**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000
Cost or Valuation				
At 1 April 2016	**407,693**	**1,130,914**	**63,014**	**256,637**
Additions	48,087	21,837	8,501	9,813
Revaluation increase / (decreases) recognised in the Revaluation Reserve	-	(1,809)	(105)	-
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(20,639)	(9,325)	-	-
Derecognition - disposals	(5,412)	(431)	(122)	-
Other movements in cost or valuation	(15,285)	15,176	-	164
At 31 March 2017	**414,444**	**1,156,362**	**71,288**	**266,614**
Accumulated Depreciation and Impairment				
At 1 April 2016	**15,254**	**21,336**	**44,285**	**48,784**
Depreciation charge	16,328	86,952	7,943	6,611
Depreciation written out to the Revaluation Reserve	-	-	(105)	-
Depreciation written out to the Surplus / Deficit on the Provision of Services	-	(6,510)	-	-
Derecognition - disposals	(193)	(11)	(122)	-
Other movements in depreciation and impairment	64	(665)	-	-
At 31 March 2017	**31,453**	**101,102**	**52,001**	**55,395**
Net Book Value At 31 March 2017	**382,991**	**1,055,260**	**19,287**	**211,219**
At 31 March 2016	**392,439**	**1,109,578**	**18,729**	**207,853**

	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation				
At 1 April 2016	**814**	**43,644**	**23,062**	**1,925,778**
Additions	-	29,652	-	117,890
Revaluation increase / (decreases) recognised in the Revaluation Reserve	-	-	-	(1,914)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provision of Services	-	-	(1,061)	(31,025)
Derecognition - disposals	(244)	-	-	(6,209)
Other movements in cost or valuation	-	(1,241)	1,186	-
At 31 March 2017	**570**	**72,055**	**23,187**	**2,004,520**
Accumulated Depreciation and Impairment				
At 1 April 2016	-	-	-	**129,659**
Depreciation charge	-	-	-	117,834
Depreciation written out to the Revaluation Reserve	-	-	-	(105)
Depreciation written out to the Surplus / Deficit on the Provision of Services	-	-	(601)	(7,111)
Derecognition – disposals	-	-	-	(326)
Other movements in depreciation and impairment	-	-	601	-
At 31 March 2017	**-**	**-**	**-**	**239,951**
Net Book Value At 31 March 2017	**570**	**72,055**	**23,187**	**1,764,569**
At 31 March 2016	**814**	**43,644**	**23,062**	**1,796,119**

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13.2 **Property, Plant and Equipment - PPP Schools**

The value of assets held under two PPP contracts are as follows:-

	2016/17 £'000	2015/16 Restated £'000
Value as at 1 April	163,906	121,195
Additions	168	93
Revaluation adjustment	-	42,618
Value as at 31 March	**164,074**	**163,906**
Aggregate Depreciation		
Value as at 1 April	-	13,549
Charge for year	15,603	2,386
Revaluation adjustment	-	(15,935)
Value as at 31 March	**15,603**	**-**
Net Book Value		
As at 31 March	**148,471**	**163,906**

13.3 **Financial Liabilities - PPP Schools**

The value of financial liabilities resulting from two PPP contracts are as follows:-

	2016/17 £'000	2015/16 £'000
As at 1 April	**67,661**	**69,860**
Principal repayments	(2,197)	(2,199)
As at 31 March	**65,464**	**67,661**
Split		
Short term Creditors	2,392	2,197
Long term Creditors	63,072	65,464
	65,464	**67,661**

13.4 **Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below together with resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2016/17		2015/16	
	£'000	£'000	£'000	£'000
Opening Capital Financing Requirement		**624,099**		**595,672**
Capital Investment				
Property, Plant and Equipment		117,890		95,895
		741,989		**691,567**
Sources of Finance				
Capital Receipts	(35,280)		(11,448)	
Government Grants	(22,908)		(26,260)	
Contributions from Other Bodies	(7,292)		(5,158)	
Capital Financed from Current Revenue	(9,309)		(10,783)	
Long Term Debtors	(11)		42	
Finance Lease Principal (incl. PPP)	(2,470)		(2,533)	
Loans Fund Principal	(12,358)	**(89,628)**	(11,328)	**(67,468)**
Closing Capital Financing Requirement		**652,361**		**624,099**
Increase in Capital Financing Requirement		**28,262**		**28,427**

13.5 **Fixed Asset Valuation**

For assets included in the balance sheet at current value the undernoted valuation details apply:-

Date of Valuation	Council Dwellings £'000	Other Land & Buildings £'000	Surplus Assets £'000	Total £'000
1 April 2012	-	26,858	20,432	47,290
1 April 2013	1,030	43,863	887	45,780
1 April 2014	3,737	105,179	2,940	111,856
1 April 2015 Restated	369,738	454,058	150	823,946
1 April 2016	(35,924)	429,810	125	394,011
	338,581	1,059,768	24,534	1,422,883
Net historical cost alterations	75,863	507,121	(1,347)	581,637
Gross Valuation	**414,444**	**1,566,889**	**23,187**	**2,004,520**

Valuations of the above categories of assets were undertaken over a five year rolling programme by Chartered Surveyors of the council's Property Services Unit, in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The housing stock valuation at 1 April 2015, was carried out by D.M. Hall LLP, an external firm of chartered surveyors and included all Council Housing Stock.

Properties regarded by the council as operational were valued on the current value basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. The major components of each building are separately identified in the Plant and Equipment category and depreciated based on the assessed useful life of each component. The accounting policy for Componentisation is as detailed in Statement 9 note 1.

Plant and machinery for heating and lighting purposes is included in the valuation of the buildings, however items of specialised plant have been shown separately at depreciated historic cost. Non-operational assets have been valued on a fair value basis using the valuation techniques for level 2 inputs, i.e. open market value.

For assets other than those valued at 1 April 2016 the council considers that there is no permanent material change in value in 2016/17.

13.6 **Depreciation**

Assets other than land are being depreciated using the straight line method over their useful economic lives as follows:-

Council Dwellings	50 Years
Council Dwellings (Fixtures)	27 Years
Operational Buildings	20 - 60 Years
Plant and Equipment (Other)	10 - 25 Years
Plant and Equipment (Books)	3 Years
Motor Vehicles	4 - 10 Years
Fixtures and Fittings	3 - 10 Years
Infrastructure	40 Years

No depreciation is charged on Community Assets, Heritage Assets, Assets under Construction and Surplus Assets not yet available for sale.

The total depreciation charge for 2016/17 was £117.834 million (£63.247 million 2015/16).

13.7 **Capital Commitments**

At 31 March 2017 the council has commitments on capital contracts of £42.750 million (£79.890 million 2015/16) for the Housing Programme and £15.041 million (£35.443 million 2015/16) for the Composite Programme.

The Housing commitment of £42.750 million is a result of ongoing investment in the new council house build programme for 1,000 houses.

The committed expenditure in the Composite Programme is a consequence of several significant capital investment projects namely the refurbishment of primary schools (£1.685 million), the development of two partnership centres (£1.200 million), the construction of Whitehill Service Centre (£9.782 million) and expenditure in relation to various play areas (£0.751million). The remaining £1.623 million relates to committed expenditure on numerous projects.

13.8 **Finance Leases**

Included within the analysis of fixed assets in note 13.1 are the following assets acquired by finance leases, excluding PPP assets which are detailed in note 13.2 :-

		2016/17 £'000	2015/16 £'000
Operational Buildings	- Gross Cost	1,157	1,157
	- Aggregate Depreciation	998	945
	- Depreciation for the year	53	157
Vehicles	- Gross Cost	399	344
	- Aggregate Depreciation	217	140
	- Depreciation for the year	41	38
Finance lease interest for the year		17	24

The future obligations (net of finance charges) under these finance leases are:-		2016/17 £'000	2015/16 £'000
2017/18	(2016/17)	107	102
2018/19 to 2021/22	(2017/18 to 2020/21)	277	358
2022/23 onwards	(2021 onwards)	3	13

14. HERITAGE ASSETS

14.1 **Five-Year Summary of Transactions**

For the period 2012/13 to 2016/17 there was no acquisition, impairment or disposals of Heritage Assets. The carrying value remained at £0.677 million for the period to 2015/16. Following the revaluation at 31 March 2017, the carrying value increased to £0.779 million. Details as follows:-

Reconciliation of carrying value of Heritage Assets held

Cost or Valuation	**Artworks and Sculpture £'000**	**Civic Regalia £'000**	**Other Assets £'000**	**Total Assets £'000**
1 April 2015	**337**	**279**	**61**	**677**
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases recognised in the Revaluation Reserve	-	-	-	-
31 March 2016	**337**	**279**	**61**	**677**
1 April 2016	337	279	61	677
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases recognised in the Revaluation Reserve	64	22	16	102
31 March 2017	**401**	**301**	**77**	**779**

The council's collection of Civic Regalia, Artworks and Other miscellaneous Heritage Assets is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on a quinquennial basis.

The council's external valuer for its art work (Bonhams – Fine Art Auctioneers & Valuers) carried out a valuation of the full collection as at 31 March 2017. The valuations were based on market values. The collection has not suffered any downward revaluation during the 5 years since the previous valuation but has taken ownership of one donated asset, the Jessie Brash wedding dress, which has been valued by Bonhams at £800. There have been no disposals during the year.

14.2 **Heritage Assets – Further Information**

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the council in pursuit of its overall objective in relation to the maintenance of heritage.

The council's Heritage Assets are held in various locations throughout the authority, there are two main categories of asset: - Artworks and Sculptures and Civic Regalia (which includes Precious Metals, Fabric Items and Robes). All other assets are included in the Miscellaneous Other category.

The revaluation of Artworks and Sculptures includes a mural at Lowport Outdoor Education Centre £0.030 million and a shallow relief plaster wall artwork at Howden Park Centre £0.021 million, both of which were deemed to have no value in 2012. The significant increase in the valuation of civic regalia since the previous revaluation is a direct result of the increase in the market price of precious metals.

14.2 **Heritage Assets – Further Information (Continued)**

Heritage Assets are the responsibility of the Museums Service whose mission is to "enhance the quality of life by providing a museums service that serves the educational, cultural and leisure needs of the community now and in the future". Its key objectives include collecting objects appropriate to the heritage of West Lothian and providing access to these collections through exhibitions, reminiscence work, education and other outreach services.

A full copy of the museum Acquisition and Disposal Policy 2012 - 2017 can be viewed at http://www.westlothian.gov.uk/article/3794/Museum-Collections

Artworks & Sculptures

The art collection includes paintings (both oil and watercolour), sketches and marble busts.

The most valuable assets are a full length portrait of John, Earl of Hopetoun, by Sir Henry Raeburn (1820) valued at £0.220 million, a full length portrait of Sir Alexander Hope by Sir John Watson Gordon (1835) valued at £0.030 million and a full length portrait of John Adrian Louis by Robert Brough (1904) valued at £0.030 million. A significant revaluation increase was the mural at Lowport Outdoor Education Centre by James Cumming (1988) valued at £0.030 million and a shallow relief plaster wall artwork by Michael Visocchi Arsa (2010) valued at £0.021 million. The majority of artworks and Sculptures are on display in Operational Buildings and Arts Facilities throughout West Lothian, the remainder are in storage but remain accessible on request.

Civic Regalia

Civic regalia predominately relates to the council's collection of Chains of Office worn by office bearers at ceremonial and civic events (Provost, Magistrates and Convenors). The Regalia held relates to chains of office for predecessor authorities (West Lothian County Council, Armadale, Whitburn and Bathgate Town Councils and West Lothian District Council). Also included in this category are precious metals in the form of trophies, cups, medals and rose bowls.

The valuation of the regalia has increased significantly due to the increase in the market value of precious metals. The collection of Chains of Office are stored at secure locations and worn for events as required, the majority of the other items are on display in the council's libraries and museum.

It would be exceptionally rare for the council to purchase or dispose of items of civic regalia.

Archives

The Museums Service has responsibility for the collection and preservation of records of historical interest in relation to West Lothian in order to ensure that their heritage will survive for the future. These records include photographs, prints, negatives and slides, both original and copied from loans, recording the history of West Lothian. The majority of items within the collections have been acquired by donation over time and are held in the Archives and Records Centre and the Local History Library.

Archaeology

The council does not make any purchases of archaeological items and has a small reference collection of Bronze Age items in storage used in outreach workshops for touring exhibitions.

Memorials, Public Art and Monuments

The authority holds and maintains memorials, Public Art and monuments of historic significance, some of which are tributes to the war dead. These are recognised on the balance sheet where there has been capital spend to improve or refurbish the assets. It is considered that there is a lack of available, comparable market values to establish a 'fair value'. Assets which have not had enhancing capital spend are not recognised on the balance sheet as information on historical cost is not available.

It is unlikely that the authority would procure such assets but is more likely to refurbish or enhance existing assets. In this respect, the cost of those works will be capitalised at cost.

The details of the council's public artworks can be found at http://www.westlothian.gov.uk/publicart

15. CURRENT INTANGIBLE ASSETS - CARBON REDUCTION COMMITMENT ALLOWANCE

	Balance of Allowances at 31 March 2016 £'000	Allowances Discharged In Year £'000	Purchase of Allowances In Year £'000	Balance of Allowances at 31 March 2017 £'000
Carbon Reduction Commitment Allowance	**622**	594	564	**592**

The expenditure of £0.564 million on Intangible Assets relates to Carbon Reduction Commitment (CRC) Allowances purchased in a forecast sale in April 2016 for the purpose of settling 2016/17 CRC liabilities during 2017/18.

It is anticipated that the allowances will meet the estimated CRC liability of £0.555 million arising from the council's energy consumption during 2016/17.

16. FINANCIAL INSTRUMENTS

16.1 **Types of Financial Instrument**

Accounting regulations require the "financial instruments" (investment, lending and borrowing of the council) shown in the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of "financial instruments".

	Long-term		Current	
Investments and Lending	**31 March 2017 £'000**	**31 March 2016 £'000**	**31 March 2017 £'000**	**31 March 2016 £'000**
Loans, receivables and interest	-	-	125,585	100,466
Investments to cash equivalents	-	-	12,675	25,725
Long term investments	277	249	-	-
	277	**249**	**138,260**	**126,191**
Borrowing				
Financial liabilities at amortised cost	503,641	433,671	100,290	100,066
	503,641	**433,671**	**100,290**	**100,066**

Long Term Investments

The council has a shareholding in Lothian Buses Ltd, the shares in this company are not traded in an active market and therefore the fair value of £0.277 million has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on the current calculated share price multiplied by the council's shareholding.

16.2 **Fair Value of Assets and Liabilities carried at Amortised Cost**

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the balance sheet at amortised cost.

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Interest rates at 31 March 2017 for PWLB vary from 2.09% to 10.25% depending on the maturity profile of the loans and for other market loans (LOBO's) from 3.75% to 4.85% again based on the maturity profile of the loans.
- No early repayments or impairment are recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is assumed to be the invoiced or billed amount.

For both lending and borrowing the valuation basis adopted in this report uses level 2 Inputs i.e. inputs other than quoted prices that are observable for the financial asset / liability. The accounting policy for the Fair Value Measurement is included in Statement 9 note 1 on page 31.

The fair values are calculated as follows:	31 March 2017		31 March 2016	
Lending	**Carrying Amount £'000**	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
Loans and receivables - Cash The loans and receivables valuation is made by the prevailing benchmark rates	12,675	12,680	25,725	25,736
Loans and receivables - Fixed Term Deposits The fixed term deposit valuation is made by comparison of the fixed term investment with a comparable investment with the same / similar lender for the remaining period of the deposit	125,585	125,872	100,466	100,735
	138,260	**138,552**	**126,191**	**126,471**

The fair value is more than the carrying amount because the council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the council would receive if it agreed to early repayment of the loans. The fair value amount also includes accrued interest receivable on the loans of £0.585 million.

	31 March 2017		31 March 2016	
Borrowing	**Carrying Amount £'000**	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
Financial liabilities - PWLB For loans from the PWLB, Capita Asset Services have provided fair value estimates using both redemption and new borrowing (certainty rate) discount rates.	535,203	719,664	464,980	599,168
Financial liabilities - LOBO's and Temporary borrowing For non PWLB loans Capita Asset Services have provided fair value estimates using both PWLB redemption and new market loan discount rates.	68,728	103,150	68,757	89,920
	603,931	**822,814**	**533,737**	**689,088**

16.2 **Fair Value of Assets and Liabilities carried at Amortised Cost (Continued)**

The fair value is more than the carrying amount because the council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the council would have to pay if the lender requested or agreed to early repayment of the loans.

For both lending and borrowing the valuation basis adopted by Capita Asset Services uses level 2 Inputs i.e. inputs other than quoted prices that are observable for the financial asset / liability.

16.3 **Nature and Extent of Risks arising from Financial Instruments**

The council's management of treasury risks actively works to minimise the council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the council's customers. It is the policy of the council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2017 £'000	Historical experience of non-payment adjusted for market conditions at 31 March 2017 %	Estimated maximum exposure to default and uncollectability £'000
Deposits with banks and building societies	138,260	0%	-
Customers (council tax and other income)	36,782	2.25%	828

The council does not generally allow credit for customers, however, £29.818 million of the £36.782 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	579
Three to six months	795
Six months to one year	3,789
More than one year	24,655
	29,818

The council has provided £22.093 million against possible bad debts at 31 March 2017 (£21.641 million at 31 March 2016).

Liquidity Risk

The council's main source of borrowing is the Treasury's Public Works Loan Board. There is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments. The council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of possible uncertainty over interest rates. The council's policy is to ensure that not more than 15% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments. LOBO Loans are classified as maturing at the date of the next rate review but are unlikely to be repaid at that point.

The maturity analysis of financial liabilities, including LOBO Loans, is as follows:

	31 March 2017 £'000	31 March 2016 £'000
Less than one year	100,290	100,066
Between one and two years	25,000	25,030
Between two and five years	40,000	55,000
More than five years	438,641	353,641
	603,931	**533,737**

16.3 **Nature and Extent of Risks arising from Financial Instruments (Continued)**

Market risk
Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates. An increase in interest rates would also mean an increase in the income received on lending at variable rates.

Changes in market rates also affect the notional "fair value" of lending and borrowing. For example, a rise in interest rates would reduce the fair value of both lending and borrowing at fixed rates. Changes in the fair value of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the council.

- It is the policy of the council to ensure its variable rate borrowing is limited to a maximum of 35% of total borrowing. At 31 March 2017 the council had no debt subject to variable rates.
- During periods of falling rates and where it is economically advantageous to do so, the council will consider the repayment and restructuring of fixed interest rate debt.
- The council takes daily advice from its specialist treasury adviser and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

To illustrate the impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher for the financial year 2016/17, with all other variables held constant.

Impact on tax-payer and rent-payers	**£'000**
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate lending	(11,571)
Net effect on Income and Expenditure Account	**(11,571)**
Housing Revenue Account's Share	**(3,622)**

Price Risk
The council has 25,000 ordinary shares in Lothian Buses Limited (formerly Lothian Buses Plc). While the value of the shares held is not significant, there remains a risk arising from the movement in the price of Lothian Bus shares.

Foreign Exchange Risk
The council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

17. LONG TERM DEBTORS

Loan Advances	**Balance at 1 April 2016 £'000**	**Advances £'000**	**Write-offs/ Repayments £'000**	**Balance at 31 March 2017 £'000**
Small Business Loans	11	-	(11)	-
	11	**-**	**(11)**	**-**

Soft Loans are defined as those where concessions are offered to borrowers such as long repayment terms, below-market rate of interest etc. The scheme detailed in the note above, Small Business Loans is categorised as a soft loan.

18. INVENTORIES

	2016/17 £'000	**2015/16 £'000**
Building Maintenance	152	164
Transport	109	127
Printing	4	4
Canteens	98	104
Roads and Grounds Maintenance	720	504
Countryside Deer / Highland Cows	54	68
	1,137	**971**

19. SHORT TERM DEBTORS

	2016/17		**2015/16**	
	£'000	**£'000**	**£'000**	**£'000**
Central Government Bodies		13,338		15,057
Other Local Authorities		1,247		458
NHS Bodies		2,267		204
Public Corporations and Trading Funds		94		1,122
Other Entities and Individuals				
• Council Tax Debtors	27,282		28,358	
• Provision for Council Tax Debtors	(20,119)		(19,709)	
• Trade Debtors	4,134		4,526	
• Provision for Trade Debtors	(1,974)		(1,932)	
• Other Entities and Individuals	9,743		7,895	
		19,066		19,138
		36,012		**35,979**

20. SHORT TERM CREDITORS

	2016/17 £'000	2015/16 Restated £'000
Central Government Bodies	8,558	8,389
Other Local Authorities	2,686	3,216
NHS Bodies	378	338
Public Corporations and Trading Funds	368	103
Other Entities and Individuals	66,201	65,839
	78,191	**77,885**

21. PROVISIONS

	Balance at 31 Mar 2016 £'000	Provision in Year £'000	Payments in year £'000	Balance at 31 Mar 2017 £'000
Equal pay settlements	431	-	257	**174**

Equal Pay Provision

The council created an Equal Pay Provision in 2013/14 to meet the liability arising from the equal pay claims following the outcome of litigation involving Dumfries and Galloway Council. West Lothian is currently finalising discussions with claimants' representatives to establish settlement terms on the small number of claims outstanding. During 2016/17 £0.257 million was paid from the provision, leaving a remaining provision of £0.174 million to meet future claims.

22. LONG TERM CREDITORS

	Sum Outstanding 2016/17 £'000	Sum Outstanding 2015/16 £'000
Finance Leases - outstanding principal	280	371
Open Space Agreements	273	288
Economic Development Business Gateway	587	686
	1,140	**1,345**

OTHER LONG TERM LIABILITIES

PPP1 Schools	12,976	13,894
PPP3 Schools	50,096	51,570
	63,072	**65,464**

23. PENSION SCHEMES

23.1 **Pension Schemes**

As part of the terms and conditions of employment of its officers, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make payments and to disclose them at the time that employees earn their future entitlement.

As explained in Statement 9 note 1 of the Accounting Policies the council participates in two post-employment schemes:

- **Local Government Pension Scheme**
  The Local Government Pension Scheme (Lothian Pension Fund) is administered by City of Edinburgh council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2008. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.

- **Teachers' Pension Scheme**
  The Teachers' Pension Scheme is administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. However, as the Scheme is not able to identify each council's share of the underlying liabilities with sufficient reliability for accounting purposes, the pension costs are accounted for as if it were a defined contribution scheme.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to an extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

In 2016/17 the council paid an employer's contribution of £12.430 million (2015/16 £11.588 million) at the prescribed rate 17.2% (of 14.9% pre 30 August 2015 and 17.2% from 1 September 2015) of pensionable pay to the Scottish Government in respect of teachers' pension costs. An actuarial valuation was carried out at 31 March 2005. In addition, the council is responsible for all pension payments relating to added years together with related increases. In 2016/17 (2015/16) these amounted to £0.436 million (£0.378 million) representing 0.38% (0.34%) of pensionable pay.

The council recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council Tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

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23.2 Transactions Relating to Post-Employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement:

	2016/17		2015/16	
Comprehensive Income And Expenditure Statement	£'000	£'000	£'000	£'000
Cost of Services				
Current Service cost	28,769		32,993	
Past Service Costs	269	**29,038**	266	**33,259**
Financing and Investment Income and Expenditure				
Net Interest Expense		**6,246**		**8,860**
		35,284		**42,119**
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense	(147,763)		(12,772)	
Actuarial (gains) and losses arising on changes in demographic assumptions	-		-	
Actuarial (gains) and losses arising on changes in financial assumptions	251,395		(93,050)	
Other experience	(712)	**102,920**	(8,496)	**(114,318)**
Total Post-employment Benefits Charged to Comprehensive Income and Expenditure Statement		**138,204**		**(72,199)**

	2016/17		2015/16	
Movement in Reserves Statement	£'000	£'000	£'000	£'000
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with Code		**(114,142)**		**96,056**
Actual Amount charged against the General Fund Balance of pensions in the year				
Employer's contributions payable to the scheme		(22,113)		(21,717)
Contributions in respect of unfunded benefits		(1,949)		(2,140)
		(24,062)		**(23,857)**

The amount charged to taxation for the Lothian Pension Fund Scheme in 2016/17 (2015/16) was £23.808 million (£23.584 million).

23.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the council's obligation in respect of Lothian Pension Fund is as follows:-	31 March 2017 £'000	31 March 2016 £'000
Fair Value of Assets	950,082	772,175
Present Value of Funded Liabilities	(1,208,740)	(916,992)
Share of net liabilities	(258,658)	(144,817)
Present value of unfunded liabilities	(31,632)	(31,331)
Net pension liabilities arising from defined benefit obligation	**(290,290)**	**(176,148)**

23.4 Reconciliation of the Movements in the Fair Value of Lothian Pension Fund Assets

	31 March 2017 £'000	31 March 2016 £'000
Opening fair value of assets at 1 April	772,175	735,494
Interest income on plan assets	27,061	23,542
Remeasurement gain / (loss) - Return on plan assets (excluding the amount included in the net interest expense	147,763	12,772
Employer's contributions payable to the scheme	22,113	21,717
Contributions by scheme participants	6,598	6,483
Benefits paid	(25,628)	(27,833)
Closing fair value of assets at 31 March	**950,082**	**772,175**

23.5 Reconciliation of the Present Value of Lothian Pension Fund Liabilities

	31 March 2017 £'000	31 March 2016 £'000
Opening Balance at 1 April	(948,323)	(1,007,698)
Current Service costs	(28,769)	(32,993)
Interest cost	(33,307)	(32,402)
Contributions by scheme participants	(6,598)	(6,483)
Remeasurement gain / (loss):		
- Actuarial (gains) and losses arising on changes in demographic assumptions	-	-
- Actuarial (gains) and losses arising on changes in financial assumptions	(251,395)	93,050
- Other experience	712	8,496
Past service costs	(269)	(266)
Benefits paid	25,628	27,833
Unfunded benefits paid	1,949	2,140
Closing balance of liabilities at 31 March	**(1,240,372)**	**(948,323)**

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23.6 **Lothian Pension Fund Assets by Category**
The asset values below are at bid value as required by IAS 19

	2016/17		2015/16	
	£'000	**%**	**£'000**	**%**
Equity Securities:				
*Consumer	142,635	15%	117,598	15%
*Manufacturing	144,029	15%	91,073	12%
*Energy and Utilities	70,498	7%	61,337	8%
*Financial Institutions	66,342	7%	65,402	8%
*Health and Care	55,690	6%	51,329	7%
*Information Technology	47,021	5%	46,263	6%
*Other	65,469	7%	44,198	6%
Private Equity:				
*All	11,048	1%	8,666	1%
All	19,641	2%	25,103	3%
Investment funds and unit trusts:				
*Equities	-	-	-	-
Equities	-	-	-	-
*Commodities	2,786	-	2,142	-
Commodities	-	-	-	-
*Infrastructure	6,036	1%	4,297	1%
Infrastructure	78,982	9%	47,061	6%
*Other	-	-	-	-
Other	20,268	2%	18,500	2%
Equity	**730,445**	**77%**	**582,969**	**75%**
Debt Securities:				
*Corporate Bonds A (investment grade)	-	-	-	-
*Corporate Bonds (non-investment grade)	-	-	-	-
*UK Government	95,401	10%	49,690	6%
*Other	1,974	-	19,534	3%
Investment funds and unit trusts:				
Bonds	11,963	1%	4,184	1%
*Bonds	2,128	-	2,072	-
Derivatives:				
Inflation	-	-	-	-
Interest rate	-	-	-	-
*Foreign exchange	-	-	(45)	-
*Other	-	-	-	-
Bonds	**111,466**	**11%**	**75,435**	**10%**
Real Estate:				
UK Property	64,103	7%	66,051	9%
Overseas Property	-	-	-	-
Property	**64,103**	**7%**	**66,051**	**9%**
Cash and cash equivalents				
*All	44,068	5%	47,720	6%
Cash and cash equivalents	**44,068**	**5%**	**47,720**	**6%**
	950,082	**100%**	**772,175**	**100%**

Assets marked with an asterisk (*) have quoted prices in active markets and equate to £755.125 million (2015/16 £611.276 million) with prices not quoted in active markets totalling £194.957 million (2015/16 £160.899 million).

23.7 **Basis for Estimating Assets and Liabilities**
Liabilities are valued on an actuarial basis using the projected unit credit method which assesses the future liabilities of the fund discounted to their present value. The valuations are based on a valuation as of 31 March 2014 and updated for the following periods by Hymans Robertson, the independent actuaries to the Lothian Pension Fund. The significant assumptions used in the calculations for both the Lothian Pension Fund and discretionary payments are:

Mortality Assumptions
Life expectancy is based on the Fund's Vita Curves analysis (with improvements in line with the CMI2012 model) used in the formal funding valuation as at 31 March 2014. Based on these assumptions, the average future life expectancies at age 65 are summarised on page 55.

Investment Returns
The return on the Fund in market value terms for the period to 31 March 2017 is estimated based on actual fund returns as provided by the administering authority and index returns where necessary. Details are given below:

Actual Returns from 1 April 2016 to 31 December 2016	**17.1%**
Total Returns from 1 April 2016 to 31 March 2017	**22.6%**

23.7 **Basis for Estimating Assets and Liabilities (Continued)**

		2016/17 Years	2015/16 Years
Current Pensioners -	Males	22.1	22.1
	Females	23.7	23.7
Future Pensioners -	Males	24.2	24.2
	Females	26.3	26.3

Financial Assumptions	2016/17 %	2015/16 %
Rate of inflation	2.4%	2.2%
Rate of increase in salaries	4.4%	4.2%
Increase in Pensions	2.4%	2.2%
Rate for discounting scheme liabilities	2.6%	3.5%

23.8 **Sensitivity Analysis**

Accounting guidance requires disclosure of the sensitivity of the results to the methods and assumptions used. The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

	Approximate % Increase to Employer Obligation	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	11%	137,565
0.5% increase in the Salary Increase Rate	4%	47,798
0.5% increase in the Pension Increase Rate	7%	85,496

For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3 – 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominately apply at younger or older ages).

23.9 **Projected Pension Cost for period to 31 March 2018**

The deficit has increased due to a significant decrease in the net discount rate over the period, the negative impact of which has been partially offset by much greater than expected asset returns.

The figures presented in the actuary's valuation are prepared only for the purposes of IAS 19 and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes and have no impact on the employer's pension contribution rate.

The net pensions liability does not impact on the council's available reserves but the requirement to recognise the net pensions liability in the balance sheet has decreased the reported net worth of the council by 32% (16% 2015/16 Restated).

The projected pension expense for next year has also risen due to the lower net discount rate net of inflation, leading to a higher current service cost. The following table sets out the projected amount to be charged to operating profit for the year to 31 March 2018, based on assumptions as at 31 March 2017:-

	31 March 2018			
	Assets £'000	Obligations £'000	Net £'000	% of pay
Current service cost	-	(39,977)	(39,977)	(37.3%)
Past service cost including curtailments	-	-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	**-**	**(39,977)**	**(39,977)**	**(37.3%)**
Interest income on plan assets	24,719	-	24,719	23.1%
Interest cost on defined benefit obligation	-	(32,476)	(32,476)	(30.3%)
Total Net Interest Cost	**24,719**	**(32,476)**	**(7,757)**	**(7.2%)**
Total included in Profit or Loss	**24,719**	**(72,453)**	**(47,734)**	**(44.5%)**

The estimated Employer's contributions for the year to 31 March 2018 will be approximately £21.840 million.

23.10 **Impact on Council's Cash Flow**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the schemes' actuary to achieve a funding level of 100% over the long term. Funding Levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2017.

The estimated Employer's contributions for the year to 31 March 2018 will be approximately £21.840 million. Employer contributions have been set at 20.0% for 2017/18 (20.0% 2016/17).

24. USABLE RESERVES

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement and Notes 11 and 12.

24.1 **Revenue Statutory Funds**

	2016/17 £'000	2015/16 £'000
Insurance Fund		
Balance at 1 April	13,715	13,570
Appropriation	(1,880)	145
Balance at 31 March	**11,835**	**13,715**

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24.2 **Capital Fund**	**2016/17 £'000**	**2015/16 £'000**
Balance at 1 April	88,214	84,765
Transfer (to) / from Capital Adjustment Account	(27,673)	(6,631)
Appropriation	4,986	10,080
Balance at 31 March	**65,527**	**88,214**

25. UNUSABLE RESERVES

	2016/17 £'000	**2015/16 Restated £'000**
Revaluation Reserve	579,486	630,463
Available for Sale Financial Instruments Reserve	252	224
Capital Adjustment Account	533,501	542,245
Financial Instruments Adjustment Account	(9,260)	(9,682)
Pensions Reserve	(290,290)	(176,148)
Accumulated Absences Account	(10,002)	(7,680)
Total Unusable Reserves	**803,687**	**979,422**

25.1 **Revaluation Reserve**	**2016/17 £'000**	**2015/16 Restated £'000**
Balance at 1 April	630,463	147,840
Unrealised gains / (losses) on revaluation of fixed assets	(2,542)	490,210
Less: Depreciation on revaluations	(48,435)	(7,587)
Balance at 31 March	**579,486**	**630,463**

The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sales, and contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. The revaluations are depreciated over the life of the revalued assets with the corresponding credit charged to the Capital Adjustment Account.

25.2 **Available-for-Sale Financial Instruments Reserve**	**2016/17 £'000**	**2015/16 £'000**
Balance at 1 April	224	189
Revaluation of long-term investments at fair value	28	35
Balance at 31 March	**252**	**224**

25.3 **Capital Adjustment Account**	**2016/17 £'000**	**2015/16 Restated £'000**
Balance at 1 April	542,245	627,363
Depreciation and impairment	(141,748)	(157,275)
Government grants written off	30,200	31,418
Loans fund principal repayments	14,660	13,768
Capital financed from current revenue (General Fund)	1,675	2,841
Capital financed from current revenue (HRA)	7,802	8,035
Gain/ (Loss) on disposal of non-current assets	2,559	1,877
Revaluation Reserve - Depreciation on revaluations	48,435	7,587
Transfer of Capital Receipts to Capital Fund	27,673	6,631
Balance at 31 March	**533,501**	**542,245**

The balances on the former Fixed Asset Restatement Account and Capital Financing Account at 31 March 2007 have been transferred into the Capital Adjustment Account. Revaluation gains up to 1 April 2007 have been accumulated in the Capital Adjustment Account. This account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairment. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

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25.4 **Financial Instruments Adjustment Account**	**2016/17 £'000**	**2015/16 £'000**
Balance at 1 April	(9,682)	(10,104)
Appropriations (to) from Movements on Reserve Statement	422	422
Balance at 31 March	**(9,260)**	**(9,682)**

The Financial Instruments Adjustment Account is an accounting reserve arising from the re-measurement of financial instruments. It is a balancing account to allow for differences in statutory requirements and proper accounting practices for the council's lending and borrowing. The balance at 31 March 2017 represents:

	2016/17 £'000	**2015/16 £'000**
Deferred Premiums less Discounts from Debt Rescheduling	(6,671)	(7,064)
Market LOBO loans restated - balance sheet value	(63,169)	(63,198)
- Deduct: actual loans outstanding	60,580	60,580
	(9,260)	**(9,682)**

25.5 **Pension Fund Reserve**

The pension reserve mirrors the net pensions liability detailed in 19.3. The movements in the year are summarised as follows:	**2016/17 £'000**	**2015/16 £'000**
Balance at 1 April	(176,148)	(272,204)
Net surplus for year	(11,222)	(18,262)
Actuarial Gains (Losses) in Pension Plan	(102,920)	114,318
Balance at 31 March	**(290,290)**	**(176,148)**

25.6 **Accumulated Absences Account**	**2016/17 £'000**		**2015/16 £'000**
Balance at 1 April		(7,680)	(8,999)
Annual leave and flexitime accrual - previous year	7,680		8,999
Annual leave, maternity and flexitime accrual - current year	(10,002)		(7,680)
Statutory adjustment for the year		(2,322)	1,319
Balance at 31 March		**(10,002)**	**(7,680)**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave, maternity and flexitime entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or (from) the Account.

26. CASH FLOW STATEMENT - OPERATING ACTIVITIES	**2016/17 £'000**	**2015/16 Restated £'000**
The following amounts are included in the net cash flows from Operating Activities:-		
Interest paid	24,439	22,457
Interest element of finance lease rental payments including PPP contracts	3,818	3,983
Interest received	(1,236)	(1,204)
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:-		
Depreciation	117,834	63,247
Impairment and downward revaluations	23,914	94,028
Amortisation	(30)	(28)
Increase/(decrease) in creditors	377	6,819
(Increase)/decrease in debtors	(1,811)	(8,193)
(Increase)/decrease in Short Term Intangible Assets	30	14
(Increase)/decrease in inventories	(166)	(3)
Movement in pension liability	11,222	18,262
Gain / (Loss) on disposal of non-current assets	(2,559)	(1,877)
Other non-cash items	(113)	405
	148,698	**172,674**

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27. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2016/17 £'000	2015/16 £'000
Purchase of property, plant and equipment	(120,268)	(97,691)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment	9,278	3,689
Net decrease (increase) in short term investments	(25,000)	(9,978)
Net cash flows from Investing Activities	**(135,990)**	**(103,980)**

28. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2016/17 £'000	2015/16 £'000
Cash receipts of short and long term borrowing	100,000	70,000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts	(86)	(241)
Repayments of short and long term borrowing	(30,125)	(30,000)
Net cash flows from Financing Activities	**69,789**	**39,759**

29. CASH FLOW STATEMENT - CASH AND CASH EQUIVALENTS

	2016/17 £'000	2015/16 £'000
Cash held by officers	151	145
Bank current accounts	2,258	1,932
Short term deposits	12,675	25,725
Total Cash and Cash Equivalents	**15,084**	**27,802**

30. AGENCY SERVICES

Expenditure	2016/17 £'000	2015/16 £'000
Local Bus Services Cross boundary bus services where other local authorities contract for the services and charge West Lothian for shared cross boundary agreements.	76	67
Residential Schools and other Social Work payments Costs incurred in relation to residential care for children under the age of 18 who are deemed to be a significant risk to themselves or others in the community. Secure care is provided by third sector organisations. Secure care provides intensive support and safe boundaries whilst providing care, including health and education.	860	679
Special School Placements Costs incurred in respect of West Lothian children who are in receipt of supported education services provided by other local authorities outwith the West Lothian Area.	262	308
Other Provision of other services – Speech Therapy, Additional Needs Support, New business Start-up support, Childrens Panel etc.	1,077	1,346
Non Domestic Rates The council provides a collection service for Scottish Government in relation to Non Domestic Rates. The difference between funding received and costs incurred is fully funded by Scottish Government and is included as a debtor in the council's Balance Sheet.	93,058	85,516
Total Expenditure	**95,333**	**87,916**
Income		
Scottish Water Collection Services The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax for a collection fee.	553	576
Social Work Services Income in respect of delivery of support for people with alcohol and drug problems. This is delivered through West Lothian Council's Social Work Addictions Team and funded by National Health Service under our Alcohol and Drug Partnership contracts.	1,182	1,102
Local Bus Services Cross boundary bus services where West Lothian contract for the services and recharge other local authorities for shared cross boundary agreements.	161	226
Special School Placements Recovery of the cost of provision of supported education provided to Other Local Authority children living outwith the West Lothian boundary but receiving educational services in West Lothian.	355	377
Non Domestic Rates The council provides a collection service for Scottish Government in relation to Non Domestic Rates. The difference between funding received and costs incurred is fully funded by Scottish Government and is included as a debtor in the council's Balance Sheet.	90,619	80,308
Total Income	**92,870**	**82,589**

31. TRADING OPERATIONS

The Local Government in Scotland Act 2003 repealed the requirement to have separate DSO/DLO trading accounts and introduced a specific performance requirement for each significant trading operation to breakeven over a three year rolling basis.

Economic Development Properties have been identified as a significant trading operation. The Service involves the maintenance and letting of industrial units, office accommodation and shops. The portfolio contains around 500 individual rental units and the policy objective is to ensure an adequate supply of property to meet the requirements of business needs in West Lothian. Summarised details of the account are as follows:-

	2016/17 £'000	2015/16 £'000
Turnover	4,819	4,718
Expenditure	4,334	8,886
Surplus (Deficit) for year	**485**	**(4,168)**
Budget Surplus (Deficit) for year	**397**	**(4,225)**

Included in turnover is internal income of £0.325 million (£0.417 million 2015/16).

The requirement to charge notional interest was removed in the 2006 SORP. However, for the purposes of assessing whether the trading operation has met the statutory requirement to breakeven over a three year rolling period, interest still requires to be included in expenditure for this assessment. A share of General Fund loan interest has been made based on the net book value of Economic Development Properties fixed assets to the total net book value of General Fund fixed assets. The results are summarised as follows:-

	Surplus £'000	Loan Interest £'000	Net Surplus (Deficit) £'000
2014/15	912	813	99
2015/16	(4,168)	740	(4,908)
2016/17	485	531	(46)
	(2,771)	**2,084**	**(4,855)**

In the three years to 31 March 2017 the trading account sustained a statutory aggregate loss of £4.855 million, therefore not achieving the statutory financial requirement to breakeven over the three year period. This was as a result of charges for impairment of £4.477 million in 2015/16 and £0.644 million in 2016/17 on assets from the Economic Development Property Portfolio. The financial position excluding the impairment charges would have resulted in the following surplus.

	2016/17 £'000	2015/16 £'000	2014/15 £'000
Turnover	4,819	4,718	4,445
Expenditure	3,690	4,409	3,533
Surplus for year	**1,129**	**309**	**912**
Budget Surplus for year	**1,041**	**252**	**779**

	Surplus £'000	Loan Interest £'000	Net Surplus (Deficit) £'000
2014/15	912	813	99
2015/16	309	740	(431)
2016/17	1,129	531	598
	2,350	**2,084**	**266**

Excluding impairment charges incurred during 2015/16 and 2016/17, in the three years to 31 March 2017 the trading account would have made a statutory aggregate surplus of £0.266 million, therefore meeting the statutory financial requirement to breakeven over the three year period.

32. EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:-

	2016/17 £'000	2015/16 £'000
Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice.	318	331
The Accounts Commission for Scotland has appointed Ernst and Young LLP as the Council External Auditor for the financial years 2016/17 to 2020/21.	**318**	**331**

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33. CONTINGENT LIABILITIES

West Lothian Recycling

The council, under the terms of the Shareholder's Agreement with its partner Tarmac, has guaranteed to meet any loan from Tarmac to its related company, West Lothian Recycling Ltd. up to a maximum of £96,500, plus 50% of the related financing costs. There were no loans during 2016/17.

Equal Pay Provision

Before and after the council implemented its new pay and grading structure on 1 October 2007, a number of employees raised Employment Tribunal proceedings for equal pay compensation. These cases have been managed through the tribunal process in two separate batches – for claims covering the period before implementation (These have been detailed in note 21) and for claims covering the period after implementation which are currently being handled by an employment judge.

The council has made appropriate provisions for claims covering the period before implementation, as detailed in note 21, for all known outstanding claims relating to the first wave of equal pay claims, the council does however recognise the potential for future compensation claims in respect of cases not yet presented.

There are currently 101 post implementation equal pay claims with a total claim value of £1.8 million which have been lodged and served but are not actively being managed or pursued with the employment tribunal. The claims are subject to ongoing legal review and there are ongoing discussions taking place with claims representatives. At the current time, management have not recognised a provision relating to the second wave of claims due to the uncertainty around the amount that will be used to settle these claims.

Municipal Mutual – Scheme of Arrangement

The Municipal Mutual Scheme of Arrangement was triggered in November 2012. The scheme administrator announced that the initial levy rate was 15% of claims paid since 1993. The council has paid a total of £0.198 million in respect of West Lothian District Council and Livingston Development Corporation liability and £0.035 million in respect of the council's share of Lothian Regional Council liability. The council recognises that further levies will be imposed and therefore acknowledges a potential future liability.

Holiday Pay Liability

During periods of annual leave employees receive their basic contractual pay. This means that any non-contractual additional payments e.g. overtime, are not reflected in the rate of pay the employee receives while on annual leave. A decision made 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 remains under consideration by the employment tribunal system.

The council has received a number of claims for holiday pay. In accordance with Employment Tribunal procedures being applied across the UK, they are suspended until decisions are made in appeal proceedings which may clarify the legal position. No payments have been made by the council in relation to this issue.

34. POST REPORTING PERIOD EVENTS

The Head of Finance and Property Services, Donald Forrest CPFA, being the officer responsible for the council's financial affairs, authorised the issue of the unaudited annual accounts on 30 June 2017 and the audited annual accounts on 26 September 2017. Events after the balance sheet date have been considered up to 26 September 2017.

35. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2016/17 £'000	2015/16 £'000
Credited to Taxation and Non Specific Grant Income		
Capital Grants and Contributions		
- General Capital Grant	12,298	17,083
- Other Scottish Government Grant	10,610	9,177
- Developers Contributions	4,245	3,791
- Other Capital Contributions	3,047	1,367
Total Capital Grants and Contributions	**30,200**	**31,418**
Revenue Support Grant	218,861	217,938
Distribution from Non Domestic Rate Pool	87,726	94,216
Total Grants credited to Taxation and Non Specific Grant Income	**336,787**	**343,572**
Credited to Services		
Housing Benefits Grant	53,656	54,254
Administration of Benefits Grant	792	843
DWP Discretionary Housing Payment	971	287
Integration Joint Board	7,130	-
Education Maintenance Allowance	670	706
European Grants	837	3,535
Private Sector Housing Grant	732	732
Community Led Regeneration	37	34
Criminal Justice Grant	2,634	2,399
Economic Growth Plan	1,699	1,371
Home Energy Efficiency Programme for Scotland	693	2,880
Sport Scotland	388	460
Creative Scotland	224	381
Skills Development	257	89
Big Lottery Fund	212	13
Vehicle Emissions Testing	186	169
Syrian Resettlement Programme	340	120
Other Grants	2,996	1,896
Contribution from - Local Authorities	742	923
- Scottish Enterprise Edinburgh and Lothian	219	-
- NHS	7,084	7,032
Total Grants credited to Services	**82,499**	**78,124**

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36. GENERAL FUND BALANCE

The following amounts have been earmarked within the General Fund Balance.

	Balance at 1 April 2015 Restated £'000	Transfers Out 2015/16 £'000	Transfers in 2015/16 £'000	Balance at 1 April 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'0000	Balance at 31 March 2017 £'000
General Balance at 31 March	**25,869**			**25,609**			**25,262**
Movement in Earmarked Reserves							
Balances held by schools under a scheme of delegation	1,053	-	5	1,058	-	2	1,060
Energy Efficiency Fund	358	(7)	-	351	(2)	-	349
Weather Emergency Fund	1,000	-	-	1,000	(1,000)	-	-
Modernisation Fund	4,372	-	-	4,372	(608)	-	3,764
Senior Peoples Challenge Fund	88	-	-	88	(88)	-	-
Scottish Government Grant	4,812	-	386	5,198	(1,396)	1,736	5,538
Time Limited Projects	5,414	(1,674)	1,010	4,750	(2,060)	2,171	4,861
War Memorial Fund	50	-	-	50	(6)	-	44
Local Plan	110	-	-	110	-	-	110
Developer Contribution Fund	6,562	-	-	6,562	-	-	6,562
Use of Reserves to balance Revenue Budget	-	-	-	-	-	899	899
Demand Responsive Transport	50	(50)	-	-	-	-	-
Total Earmarked Reserves	**23,869**	(1,731)	**1,401**	**23,539**	(5,160)	**4,808**	**23,187**
Uncommitted General Fund Balance at 31 March	**2,000**			**2,070**			**2,075**

In accordance with both the School Boards Delegation and Devolved School Management schemes, a net credit balance of £1.060 million (£1.058 million 2015/16) is held within the General Fund. This sum represents the amount by which schools underspent their delegated schemes and may be used to supplement their 2017/18 budgetary provision. This sum, although held within the General Fund, must be spent on Education Services and is not available to the council for general use.

37. LEASING AND PPP PAYMENTS

Leases

The council uses leased cars, street sweeping vehicles, occupies certain offices financed under the terms of various operating leases and leases windows and doors in some of the council's housing stock. The amounts paid under these arrangements were as follows:-

	2016/17 £'000	2015/16 £'000
Plant and Vehicles	3,258	3,329
Property	361	546
	3,619	**3,875**

Assets acquired under finance leases have been capitalised and are detailed in note 13.8.

Operating Leases

The future cash payments required under operating leases are:-

			2016/17 £'000	2015/16 £'000
2017/18	(2016/17)	- Land and Buildings	353	218
		- Other Operating Leases	3,073	3,053
2018/19 to 2021/22	(2017/18 to 2020/21)	- Land and Buildings	566	644
		- Other Operating Leases	5,061	5,879
2022/23 onwards	(2021/22 onwards)	- Land and Buildings	1,476	1,575
		- Other Operating Leases	26	13

The cumulative value of leases where the council is a lessor is £5.573 million for 720 units.

Education Service PPP1 Schools Project

This is a 31 year PPP contract which was awarded in August 2001 for the construction, extension and refurbishment of existing facilities, for three high schools, three primary schools and two nursery schools in Bathgate, Broxburn, Whitburn and Linlithgow. The contractor is also responsible for the ongoing maintenance and operation of school facilities, which requires the ongoing procurement of construction services, plant and equipment. Contract expiry date is 7 November 2032.

The unitary charge is subject to annual RPI indexation. The PPP contractor has price risk for utilities, so the council may be due a rebate on the unitary charge and this is reviewed bi-annually. The contractor is also entitled to a change adjustment to reflect any relevant costs incurred by the contractor within the first eleven and a half years of the contract. The council is however entitled to receive a share of any Refinancing Gain in accordance with a formula linked to the Equity IRR.

37. LEASING AND PPP PAYMENTS (CONTINUED)

Education Service PPP1 Schools Project (continued)

The council has rights to access the school facilities each school day. The contract specifies standards for the services to be delivered by the PPP contractor, with payment deductions to be made if facilities become unavailable or performance falls below the required standards. The school facilities and any plant and equipment installed in them at the end of the contract will be transferred to the council for nil consideration. Both parties have rights to terminate the contract, but compensation may be payable.

A number of minor changes to the arrangements have been made in the period, but none significant enough to change the risk profile of the project.

Education Service PPP3 Schools Project

This is a 31 year PPP contract for the construction of new facilities, for two high schools in Livingston (Deans) and Armadale. The contractor is also responsible for the ongoing maintenance and operation of school facilities, which requires the ongoing procurement of construction services, plant and equipment. Contract expiry date is 16 August 2039.

The Unitary Charge is subject to annual RPI indexation. The parties share the benefit/cost of improving or not achieving the set utility consumption targets, so the council may be due a rebate on the unitary charge and this is reviewed annually. Whilst the council may have to meet any additional cost of insurance premiums, it may also benefit from their reduction. In addition, the council is entitled to receive a 50% share of a refinancing gain arising from a qualifying refinancing.

The council has rights to access the school facilities each week day, and each weekend. The contract specifies standards for the services to be delivered by the PPP contractor, with payment deductions to be made if facilities become unavailable or performance falls below the required standards. The school facilities and any plant and equipment installed in them at the end of the contract will be transferred to the council for nil consideration. Both parties have rights to terminate the contract, but compensation may be payable.

A number of minor changes to the arrangements have been made in the period, but none significant enough to change the risk profile of the project.

PPP Payments

The future cash payments under two PPP schools contracts are analysed as follows:-

	Principal £'000	Interest £'000	Lifecycle Capital Costs £'000	Operating Costs £'000	2016/17 Total £'000	2015/16 Total £'000
Within one year	2,392	3,675	177	6,217	12,461	12,201
2 to 5 years	9,352	13,040	1,144	29,027	52,563	51,463
6 to 10 years	12,311	13,221	2,213	44,544	72,289	70,771
11 to 15 years	17,720	9,263	1,810	51,602	80,395	78,702
16 to 20 years	15,528	4,004	198	36,684	56,414	62,365
21 to 25 years	8,161	593	-	18,111	26,865	37,686
	65,464	**43,796**	**5,542**	**186,185**	**300,987**	**313,188**

38. RELATED PARTIES

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Scottish Government

Scottish Government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government Departments are set out in note 35.

Councillors

Members of the Council have direct control over the council's financial and operating policies. The total of Councillors Remuneration allowances paid in 2016/17 are shown in the Remuneration Report note 2.3 on page 20. There are no related party transactions with members of the council.

Officers

There are no related party transactions with Officers of the Council.

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38. RELATED PARTIES (CONTINUED)

During the year, the council entered into a number of transactions with related parties which include Central Government, Other Local Authorities, the Joint Valuation Board and related companies.

EXPENDITURE	2016/17 £'000	Restated 2015/16 £'000
Government Payments		
PAYE and National Insurance	56,641	50,590
Superannuation – Teachers	12,430	11,588
Other Local Authority Payments		
Superannuation	23,808	23,584
Other Payments	950	1,336
Other Related Party Payments		
Joint Valuation Board	1,145	1,145
West Lothian Integration Board	60,584	10
West Lothian Municipal Bank Ltd.	-	-
West Lothian Leisure Ltd.	2,758	1,906
Councillors Remuneration	722	705
Criminal Justice Authority	3,498	3,169
SESTRAN / SESPLAN	69	69
	162,605	**94,102**
Other Related Party Income		
Other Local Authority Receipts	742	923
Criminal Justice Authority	2,634	2,399
	3,376	**3,322**
BALANCE SHEET		
The amounts due (to) or from related parties are detailed below:-		
Government departments	4,780	6,668
Other local authorities	(1,439)	(2,758)
Related companies		
- West Lothian Leisure Ltd.	13	205
- West Lothian Integration Board	(95)	-
	3,259	**4,115**

39. WEST LOTHIAN INTEGRATION JOINT BOARD (IJB)

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. Section 71(2) of the 2014 Act expressly repealed Sections 4A and 4B of the National Health Service (Scotland) Act 1978 which made provision regarding community health partnerships. That repeal took effect on 1 April 2015 and the West Lothian Integration Joint Board (IJB) superseded the West Lothian Community Health and Care Partnership (WLCHCP) arrangement in 2015/16. The IJB operated on a shadow basis until the West Lothian IJB was legally established on 21 September 2015.

The arrangements for the IJB's operation, remit and governance are set out in the integration scheme which was approved by West Lothian Council, NHS Lothian and the Scottish Government. The IJB's primary purpose is to set the strategic direction for the delegated functions through the development of a Strategic Plan. Relevant functions and resources from the council and NHS Lothian were delegated to the West Lothian IJB from 1 April 2016 to enable it to plan the delivery of functions and deliver on strategic outcomes. The IJB gives directions to the council and NHS Lothian as to the functions to be delivered and the resources available to deliver the functions. The level of resources associated with council functions delegated to the IJB in 2016/17 was £60.584 million (£0.010 million 2015/16).

HRA – INCOME AND EXPENDITURE STATEMENT — STATEMENT 10

PURPOSE	The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

		2016/17 £'000	2015/16 Restated £'000
INCOME			
	Dwellings Rent (gross)	(44,724)	(43,418)
	Non-Dwellings Rent (gross)	(550)	(592)
	Other Income	(1,174)	(3,179)
	TOTAL INCOME	**(46,448)**	**(47,189)**
EXPENDITURE			
	Repairs and Maintenance	15,011	13,973
	Supervision and Management	8,482	8,707
	Depreciation and Revaluation of non-current assets	37,915	89,476
	Bad or Doubtful Debts	512	517
	Other Expenditure	2,672	4,883
	TOTAL EXPENDITURE	**64,592**	**117,556**
	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	**18,144**	**70,367**
	HRA Services share of Corporate and Democratic Core (CDC)	94	93
	HRA Share of Accumulated Absences	(7)	-
	HRA share of Non Distributed Costs	12	8
	Net Cost of HRA Services	**18,243**	**70,468**
	HRA share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
	(Profit) / Loss on sale of HRA assets	(2,064)	(771)
	Interest payable and similar charges	7,766	7,175
	Net interest on the net defined benefit liability	269	262
	Deficit for the year on HRA Services	**24,214**	**77,134**

MOVEMENT ON THE HRA STATEMENT — STATEMENT 11

PURPOSE

This statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the HRA Balance.

MOVEMENT

	Note	2016/17 £'000	2015/16 Restated £'000
Balance on the HRA at the end of the previous year		(926)	(926)
Deficit for the year on the HRA Income and Expenditure Statement		24,214	77,134
Adjustments between accounting basis and funding basis under regulations	1	(24,214)	(77,134)
(Increase) or decrease in year on the Housing Revenue Account		-	-
Balance on the HRA at the end of the current year		**(926)**	**(926)**

NOTES

1. **Adjustments between accounting basis and funding basis under regulations**

	2016/17 £'000	2015/16 Restated £'000
Depreciation and Revaluation	(37,915)	(89,476)
Profit / (Loss) on sale of HRA fixed assets	2,064	771
Share of Accumulated Absences	7	-
Amount by which pension costs calculated in accordance with IAS 19 are different from contributions due to the Lothian Pension Fund	(281)	(270)
	(36,125)	(88,975)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
Loans fund principal	4,109	3,806
Capital expenditure funded by HRA	7,802	8,035
Adjustments between accounting basis and funding basis under regulations	**(24,214)**	**(77,134)**

2. **Housing Stock**

The council's stock at 1 April 2016 was 13,234 houses and at 31 March 2017 was 13,169 houses. As a result the council was responsible for managing an average of 13,202 dwellings during 2016/17.

	2016/17 No of Houses	2015/16 No of Houses
Stock movements can be summarised as follows:-		
Stock as at 1 April	13,234	13,275
Additions	214	88
Less Demolitions	(83)	(49)
Less Stock restated	(30)	-
Less Sales	(166)	(80)
Stock as at 31 March	**13,169**	**13,234**
Housing Stock Numbers by type are as follows:		
1 Bed	2,367	2,296
2 Bed	6,190	6,204
3 Bed	4,037	4,142
4 Bed	448	461
More than 4 Bed	127	131
	13,169	**13,234**

3. **Rent Arrears**

	2016/17 £'000	2015/16 £'000
Current Tenant Gross Rent Arrears at 31 March	1,220	1,247
Former Tenant Gross Rent Arrears at 31 March	1,033	980

4. **Losses on Void Properties**

	2016/17 £'000	2015/16 £'000
Losses on void properties at 31 March	266	250

5. **Bad Debt Provision**

	2016/17 £'000	2015/16 £'000
Bad Debt Provision for housing rent arrears and former tenant's debt.	1,543	1,559

COUNCIL TAX INCOME ACCOUNT — STATEMENT 12

PURPOSE

This statement shows the net income raised from Council Tax levied under the Local Government Finance Act 1992.

INCOME

	2016/17 £'000	2016/17 £'000	2015/16 £'000
Gross Council Tax levied and contributions in lieu		81,830	80,905
Less:			
Discounts	(6,712)		(6,705)
Provision for bad debts	(1,648)		(1,626)
Council Tax Reduction Scheme	(9,265)		(9,387)
Other deductions	(1,751)		(1,488)
		(19,376)	(19,206)
		62,454	**61,699**
Adjustments for previous years' Community Charge and Council Tax		(268)	(762)
Transfers to General Fund		**62,186**	**60,937**

NOTES

1. Calculation of the Council Tax base 2016/17

	PROPERTY BANDS								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	17,636	24,705	9,944	8,154	9,507	5,830	2,655	185	78,616
Exemptions	(787)	(620)	(206)	(103)	(55)	(36)	(14)	(12)	(1,833)
Disabled Relief	173	(70)	(21)	20	(37)	(24)	(41)	-	-
Discounts (10%)	(10)	(13)	(7)	(6)	(5)	(1)	(2)	-	(44)
Discounts (25%)	(2,440)	(2,403)	(948)	(535)	(418)	(173)	(56)	(3)	(6,976)
Discounts (50%)	(79)	(74)	(52)	(27)	(19)	(10)	(7)	-	(268)
Council Tax Reduction Scheme	(4,837)	(4,261)	(1,086)	(405)	(212)	(63)	(14)	(1)	(10,879)
Effective Properties	9,656	17,264	7,624	7,098	8,761	5,523	2,521	169	58,616
Ratio to Band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D Equivalents	6,435	13,428	6,777	7,098	10,707	7,979	4,201	337	**56,962**
Contributions in lieu									-
Level of non-payment provided for									**(1,424)**
COUNCIL TAX BASE									**55,538**

2. The level of Council Tax depends upon the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers i.e. single occupants. A Council Tax Scheme Reduction is available to taxpayers on a low income. Other deductions include Disabled Relief.

A bad debt provision of 2.25% of the net income from Council Tax has been provided, this represents a collection level of 97.75%.

3. The Council Tax charge for each band is as follows:-

Band	2016/17 Council Tax £	2015/16 Council Tax £
A	752.00	752.00
B	877.33	877.33
C	1,002,67	1,002.67
D	1,128.00	1,128.00
E	1,378.67	1,378.67
F	1,629.33	1,629.33
G	1,880.00	1,880.00
H	2,256.00	2,256.00

NON-DOMESTIC RATE INCOME ACCOUNT — STATEMENT 13

PURPOSE

This account shows the income from the rate levied on non-domestic property under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992.

INCOME

		2016/17 £'000	2015/16 £'000
Gross rates levied and contributions in lieu		108,458	101,518
Less			
Reliefs and other deductions	(14,783)		(19,231)
Provisions for bad and doubtful debts	(2,168)		(2,202)
		(16,951)	(21,433)
Net non-domestic rate income		**91,507**	**80,085**
Allocated:			
National non-domestic rate pool		91,648	80,218
Cost of council rate relief		(141)	(133)
		91,507	**80,085**

NOTES

1. The amount distributed to West Lothian Council from the national non-domestic rate income pool in 2016/17 was £87.726 million (£94.216 million 2015/16).

2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Lothian area. The National non-domestic rate poundage is determined by the Scottish Government, and was 48.4p per £ in 2016/17 (48.0p in 2015/16). The rate was 51.0p (49.3p in 2015/16) for properties with a rateable value of more than £35,000. Properties with a rateable value of £18,000 or less are subject to a reduced charge if they meet the qualifying criteria under the small business bonus scheme.

3. Rateable values at 1 April 2016

	Number	Rateable Value £'000
Shops, Offices and other Commercial Subjects	2,981	91,709
Industrial Subjects	1,759	79,844
Miscellaneous (Schools etc.)	1,115	44,473
Total	**5,855**	**216,026**

4. There is no retained income from the Business Rates Incentivisation Scheme for 2016/17.

TRUSTS AND MORTIFICATIONS — STATEMENT 14

PURPOSE

The council acts as sole trustee for 40 Trusts and Mortifications. The funds do not represent the assets of the council and therefore they have not been included in the Balance Sheet.

The figures below summarise the Income and Expenditure arising during the year and the aggregate Assets and Liabilities of the Trusts at the year end.

	INCOME AND EXPENDITURE STATEMENT	2016/17 £'000	2015/16 £'000
EXPENDITURE	Beneficiaries	7	4
INCOME	Loans Fund and Dividend Interest	5	5
SURPLUS / (DEFICIT)	For Year	(2)	1
	At 1 April	382	381
	At 31 March	**380**	**382**

BALANCE SHEET	2016/17 £'000	2015/16 £'000
Current Assets		
Investments	47	47
Revenue Advances to Loans Fund	333	335
	380	382
Current Liabilities	-	-
TOTAL ASSETS	**380**	**382**
Reserves		
Capital Fund	165	165
Revenue Fund	215	217
TOTAL RESERVES	**380**	**382**

NOTES

1. In order to preserve the capital value of Trust Funds, it is council policy to disburse only revenue income arising from them. This is done one year in arrears i.e. revenue income received during 2016/17 is disbursed in 2017/18.

2. The main fund balances where the Council is sole trustee at 31 March 2017 are:-

	Capital £'000	Revenue £'000
Irene Elizabeth Miller Trust	60	3
West Lothian Trust for the Benefit of People with Disabilities	41	18
Quarter Farm Trust	17	40
James Wood Bequest	14	53
Robert Turner of Armadale Trust	11	19

3. The council also administered five other trusts in 2016/17, which have external and council trustees. At 31 March 2017 the total assets of these trusts, valued at cost, was £0.210 million (£0.208 million at 31 March 2016).

COMMON GOOD ACCOUNT — STATEMENT 15

PURPOSE

The Common Good Fund was inherited from West Lothian District Council and the former Linlithgow Town Council at the respective reorganisations of local government in 1996 and 1975 and is administered by the Council. Income from the Fund may be applied for the benefit of inhabitants of Linlithgow.

The figures below summarise the Income and Expenditure arising during the year and the Assets and Liabilities of the Fund at the year end.

INCOME AND EXPENDITURE STATEMENT	**2016/17 £'000**	**2015/16 £'000**
Expenditure		
Donations	-	-
Income		
Interest	-	-
Surplus / (Deficit)		
At 1 April	14	14
At 31 March	**14**	**14**

BALANCE SHEET		
Non-Current Assets		
Heritable Property	1	1
Furnishings	4	4
	5	**5**
Current Assets		
Revenue Advances to Loans Fund	18	18
TOTAL ASSETS	**23**	**23**
FINANCED BY:		
Reserves		
Revenue Balance	14	14
Capital Reserve	9	9
TOTAL LOANS AND RESERVES	**23**	**23**

NOTES

1. Fixed Assets represent book values taken over from former councils as recorded in their Annual Accounts. They consist of:-

	£'000
Furnishings	4
Heritable Property	1
	5

2. LASAAC has issued guidance on the application of accounting requirements to Common Good assets. The council has not taken any action due to the insignificant amount involved (£5,000) and have not included this amount in their asset register.

3. Interest received in 2016/17 amounted to £147 (£157 2015/16).

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - GROUP

STATEMENT 16

PURPOSE	The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

		2016/17			2015/16		
	Group Note	**Gross Expend £'000**	**Gross Income £'000**	**Net Expend £'000**	**Gross Expend £'000**	**Gross Income £'000**	**Net Expend £'000**
Schools, Education Support		231,791	6,004	225,787	181,831	6,761	175,070
Planning, Economic Development and Regeneration		11,478	4,946	6,532	15,098	7,417	7,681
Operational Services		79,497	9,051	70,446	79,052	10,250	68,802
Housing, Customer and Building Services		21,761	5,458	16,303	22,146	5,078	17,068
Corporate Services		1,067	664	403	1,178	602	576
Social Policy – IJB, Adult and Elderly Services		145,587	85,003	60,584	10	-	10
Social Policy – non IJB, Adult and Elderly Services		-	-	-	75,041	16,036	59,005
Social Policy – non IJB, Children's Services		39,200	4,552	34,648	47,845	4,589	43,256
Chief Executive, Finance and Property		35,277	5,517	29,760	34,867	4,539	30,328
Joint Boards		1,214	-	1,214	1,214	-	1,214
Time Limited Expenditure		-	-	-	340	-	340
Other Services		58,171	58,306	(135)	59,285	58,990	295
Net Cost of General Fund Services		**625,043**	**179,501**	**445,542**	**517,907**	**114,262**	**403,645**
Housing Revenue Account		64,592	46,448	18,144	117,556	47,189	70,367
Net Cost of Services		**689,635**	**225,949**	**463,686**	**635,463**	**161,451**	**474,012**
Other Operating Expenditure		(2,559)	-	(2,559)	(1,877)	-	(1,877)
Financing and Investment Income and Expenditure		67,445	34,343	33,102	68,940	30,602	38,338
Share of corporation tax of Joint Venture		-	-	-	-	-	-
Taxation and Non-Specific Grant Income		-	398,973	(398,973)	-	404,509	(404,509)
(Surplus) or Deficit on Provision of Services		**754,521**	**659,265**	**95,256**	**702,526**	**596,562**	**105,964**
Share of Operating Results of Associates and Joint Ventures		4,929	4,126	803	3,212	3,602	(390)
(Surplus) or Deficit on Group		**759,450**	**663,391**	**96,059**	**705,738**	**600,164**	**105,574**
Items that will not be reclassified to the (Surplus) / Deficit on the Provision of Services							
(Surplus) / Deficit on revaluation of property, plant and equipment				2,542			(490,210)
Actuarial (gains) / losses on pension assets and liabilities				102,920			(114,318)
(Gains) / Losses on Investments in Associates and Joint Ventures				1,182			(1,264)
Items that may be reclassified to the Surplus / (Deficit) on the Provision of Services				**106,644**			**(605,792)**
(Surplus) / Deficit on revaluation of available for sale financial assets				**(28)**			**(35)**
Other Comprehensive Income and Expenditure				**106,616**			**(605,827)**
Total Comprehensive Income and Expenditure				**202,675**			**(500,253)**

MOVEMENT IN RESERVES STATEMENT - GROUP — STATEMENT 17

PURPOSE	The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the Statutory General Fund Balance and Housing Revenue Account Balance Movements in year following those adjustments.

MOVEMENT IN RESERVES STATEMENT - GROUP
AS AT 31 MARCH 2017

	Group Note	Single Entity Usable Reserves (Note 1) £'000	Single Entity Unusable Reserves (Note 1) £'000	Group Reserves (Note 2) £'000	Total Group Reserves £'000
Balance at 1 April 2015		**125,130**	**484,085**	**(2,407)**	**606,808**
Movement in Reserves during 2015/16					
Total comprehensive income and expenditure		(105,892)	604,563	1,582	500,253
Adjustments between accounting basis and funding basis under regulations		109,226	(109,226)	-	-
Net increase (decrease) before transfers to other statutory funds		3,334	495,337	1,582	500,253
Transfers to or from other statutory funds		-	-	-	-
Increase (decrease) in year		**3,334**	**495,337**	**1,582**	**500,253**
Balance at 31 March 2016	**G3**	**128,464**	**979,422**	**(825)**	**1,107,061**
Movement in Reserves during 2016/17					
Total comprehensive income and expenditure		(95,215)	(105,434)	(2,026)	(202,675)
Adjustments between accounting basis and funding basis under regulations		70,301	(70,301)	-	-
Net increase (decrease) before transfers to other statutory funds		(24,914)	(175,735)	(2,026)	(202,675)
Transfers to or from other statutory funds		-	-	-	-
Increase (decrease) in year		**(24,914)**	**(175,735)**	**(2,026)**	**(202,675)**
Balance at 31 March 2017	**G3**	**103,550**	**803,687**	**(2,851)**	**904,386**

1. Statement 6 and notes 11 and 12 to the Annual Accounts provide details of the Single Entity Reserves.
2. Note G3 to the Group Accounts provides details of the Combining Entities Reserves.

BALANCE SHEET - GROUP — STATEMENT 18

PURPOSE	The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Fund that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that are adjustment accounts that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

LONG TERM ASSETS	**Group Note**	**As at 31 March 2017 £'000**	**As at 31 March 2016 £'000**	**As at 31 March 2015 £'000**
Property, Plant and Equipment				
- Council Dwelling		382,991	392,439	463,180
- Other Land and Buildings		1,055,260	1,109,578	655,048
- Vehicles, Plant, Furniture and Equipment		19,287	18,729	18,646
- Infrastructure Assets		211,219	207,853	199,148
- Community Assets		570	814	529
- Assets under construction		72,055	43,644	10,534
- Surplus Assets, not yet held for disposal		23,187	23,062	23,062
		1,764,569	1,796,119	1,370,147
Heritage Assets		779	677	677
Long Term Investments		277	249	213
Long Term Debtors		-	11	53
TOTAL LONG TERM ASSETS		**1,765,625**	**1,797,056**	**1,371,090**
CURRENT ASSETS				
Short Term Investments		125,585	100,466	90,462
Inventories		1,137	971	968
Short Term Debtors		36,012	35,979	26,726
Cash and Cash Equivalents		15,084	27,802	25,241
Intangible Assets		592	622	636
TOTAL CURRENT ASSETS		**178,410**	**165,840**	**144,033**
CURRENT LIABILITIES				
Short Term Borrowing		(100,290)	(100,066)	(89,883)
Short Term Creditors		(78,191)	(77,885)	(70,080)
Provisions		(174)	(431)	(1,242)
TOTAL CURRENT LIABILITIES		**(178,655)**	**(178,382)**	**(161,205)**
NET CURRENT ASSETS (LIABILITIES)		**(245)**	**(12,542)**	**(17,172)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,765,380**	**1,784,514**	**1,353,918**
LONG TERM LIABILITIES				
Long Term Creditors		(1,140)	(1,345)	(1,042)
Long Term Borrowing		(503,641)	(433,671)	(403,796)
Defined Benefit Scheme Liability		(290,290)	(176,148)	(272,204)
Other Long Term Liabilities		(63,072)	(65,464)	(67,661)
Share of Net Liabilities of Associates and Joint Venture	**G3**	(2,851)	(825)	(2,407)
TOTAL LONG TERM LIABILITIES		**(860,994)**	**(677,453)**	**(747,110)**
TOTAL NET ASSETS		**904,386**	**1,107,061**	**606,808**
Financed by:				
USABLE RESERVES				
General Funds Balance		24,648	25,862	25,580
HRA Balance		926	926	926
Capital Fund		65,527	88,214	84,765
Insurance Fund		11,835	13,715	13,570
TOTAL USABLE RESERVES		**102,936**	**128,717**	**124,841**
UNUSABLE RESERVES		**801,450**	**978,344**	**481,967**
TOTAL RESERVES		**904,386**	**1,107,061**	**606,808**

The unaudited accounts were considered by the Audit Committee on 30 June 2017 and the audited accounts were authorised for issue on 26 September 2017.

DONALD FORREST CPFA, Head of Finance and Property Services **26 September 2017**

CASH FLOW STATEMENT - GROUP STATEMENT 19

PURPOSE	The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

	Group Note	2016/17 £'000	2015/16 £'000
Net Surplus or (Deficit) on Group		**(96,059)**	**(105,574)**
Adjust net surplus or deficit on the provision of services for non-cash movements		149,542	172,356
Net cash flows from Operating Activities		53,483	66,782
Net cash flows from Investing Activities		(135,990)	(103,980)
Net cash flows from Financing Activities		69,789	39,759
Net increase / (decrease) in cash and cash equivalents		**(12,718)**	**2,561**
Cash and cash equivalents at the beginning of the reporting period		**27,802**	**25,241**
Cash and cash equivalents at the end of the reporting period		**15,084**	**27,802**

NOTES TO THE GROUP ACCOUNTS — STATEMENT 20

G1. ACCOUNTING POLICIES

The group accounting policies are those specified for the single entity financial statements as detailed in Statement 9 note 1.

G2. WEST LOTHIAN INTEGRATION JOINT BOARD

The West Lothian Integration Joint Board (IJB) was established as a body corporate by order of Scottish Ministers on 21 September 2015, and is a separate and distinct legal entity from West Lothian Council and NHS Lothian. The arrangements for the IJB's operation, remit and governance are set out in the integration scheme which was approved by West Lothian Council, NHS Lothian and the Scottish Government.

The IJB's purpose is to set the strategic direction for the delegated functions through the development of a Strategic Plan. Relevant functions and resources from the council and NHS Lothian were delegated to the West Lothian IJB from 1 April 2016 to enable it to plan the delivery of functions and deliver on strategic outcomes. The IJB gives directions to the council and NHS Lothian as to the functions to be delivered and the resources available to deliver the functions.

The IJB meets on a six weekly basis and is made up of eight voting members, comprising four elected members appointed by West Lothian Council and four NHS Lothian non-executive directors appointed by NHS Lothian. The IJB Audit Risk and Governance Committee and Strategic Planning Group have been set up to support integrated policy and strategic development and to ensure IJB business adheres to the principles of good corporate governance.

The IJB is defined as a joint venture. The net expenditure of the IJB for 2016/17 is £60.584 million (2015/16 £0.010 million). It should be noted that this expenditure does not include support services such as Human Resources, Legal and Financial Services which are not delegated to the IJB and are provided free of charge to the IJB. The IJB does not employ staff directly delivering services and does not hold cash resources or operate a bank account. The IJB accounts for 2016/17 show the Balance Sheet with no assets, liabilities or reserves and, as a result, no values have been consolidated into the Group Balance Sheet in respect of the IJB.

G3. COMBINING ENTITIES

The council has a number of non-consolidation interests in other entities, full details of which are shown on pages 75 and 76. For the purposes of consolidation and incorporation within the Group Accounts the council did not have any subsidiary companies during 2016/17. It was assessed as exerting significant influence but not control over West Lothian Leisure Ltd and Lothian Valuation Joint Board, therefore these interests are deemed to be associates. However, during 2016/17 West Lothian Leisure Ltd converted to a company limited by guarantee and from 1 April 2017 will be treated as a subsidiary.

The council has joint control and right to net assets in West Lothian Recycling Ltd and West Lothian Integration Joint Board, which are both defined to be joint ventures.

The following shares of the accounts of these bodies have been included within the Group Accounts.

Associates		**2016/17**	**2015/16**
West Lothian Leisure Ltd.	- basis - WLC funding to total income	22.68%	16.69%
Valuation Joint Board	- basis - WLC funding to total funding	18.72%	18.72%
Joint Venture			
West Lothian Recycling Ltd.	- basis - 50% of share capital	50%	50%
West Lothian Integration Joint Board	- basis - WLC representation on board	50%	50%

The summarised Financial Information of the associates and joint venture are detailed below:

Council share of Associates and Joint Ventures		**Valuation Joint Board £'000**	**West Lothian Leisure £'000**	**West Lothian Recycling £'000**	**Total £'000**
Total Assets	**2016/17**	451	749	220	**1,420**
	2015/16	422	659	229	**1,310**
Total Liabilities and shareholders' equity	**2016/17**	(2,499)	(1,634)	(138)	**(4,271)**
	2015/16	(1,359)	(707)	(69)	**(2,135)**
Net Assets / (Liabilities)	**2016/17**	(2,048)	(885)	82	**(2,851)**
	2015/16	(937)	(48)	160	**(825)**
Included in Surplus / (Deficit) in Group	**2016/17**	(27)	(820)	3	**(844)**
	2015/16	(117)	403	32	**318**

The summarised reserves of the associates and joint venture are detailed below:

Council share of Associates and Joint Ventures		**Valuation Joint Board £'000**	**West Lothian Leisure £'000**	**West Lothian Recycling £'000**	**Total £'000**
General Fund Balance	**2016/17**	189	(885)	82	**(614)**
	2015/16	141	(48)	160	**253**
Capital Fund	**2016/17**	-	-	-	**-**
	2015/16	-	-	-	**-**
Capital Grants Unapplied A/C	**2016/17**	-	-	-	**-**
	2015/16	-	-	-	**-**
Capital Receipts Reserve	**2016/17**	-	-	-	**-**
	2015/16	-	-	-	**-**
Total Usable Reserves	**2016/17**	189	(885)	82	**(614)**
	2015/16	141	(48)	160	**253**

G3. COMBINING ENTITIES (Continued)

Council share of Associates and Joint Ventures		Valuation Joint Board £'000	West Lothian Leisure £'000	West Lothian Recycling £'000	Total £'000
Unusable Reserves	2016/17	(2,237)	-	-	**(2,237)**
	2015/16	(1,078)	-	-	**(1,078)**
Total Reserves	2016/17	(2,048)	(885)	82	**(2,851)**
	2015/16	(937)	(48)	160	**(825)**

The accounting period for the two Associates and the IJB is the 31 March 2017 while West Lothian Recycling Ltd is the 31 December 2016. There have not been any significant transactions or events between 31 December 2016 and 31 March 2017 and therefore no adjustment is required to the position of West Lothian Recycling Ltd. The associates and joint ventures, have been accounted for using the equity method.

The Trusts, Mortifications and the Common Good Fund, which the council manage, have not been included in the Group Accounts on the grounds of materiality. Full details of these accounts can be found in Statements 14 and 15 on pages 68 and 69.

G4. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Joint Venture on the Group Balance Sheet as at 31 March 2017 (2016) is to reduce the net assets by £2.851 million (£0.825 million) representing the council's share of net liabilities of these organisations. The net liabilities are attributable to the Lothian Valuation Joint Board which has significant pension liabilities under IAS 19 of £2.320 million (£1.168 million).

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

G5. GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

The 2016/17 (2015/16) share of Associates pension interest cost and expected return on pension assets is £0.042 million (£0.072 million). These figures are not included in the Group Comprehensive Income and Expenditure Account as they are part of the IAS 19 pension entries which are reversed out in arriving at the share of operating results of Associates for the year.

G6. NON-CONSOLIDATION INTEREST IN OTHER ENTITIES

The council has a relationship with the following companies which have been set up for specific purposes. The following companies are not consolidated into the Group Accounts as it is not considered that the council is able to exert a significant influence over any of the entities and participation is deemed to be immaterial.

Accounts of the companies may be obtained on application to the Head of Finance and Property Services.

6.1 WL Ventures Group Limited

The company is limited by guarantee and was set up to promote industry and commerce within West Lothian. The council has a right to nominate six members and directors.

The unaudited (audited) accounts for the period ended 31 March 2017 (2016) show a loss before and after tax of £1,950 (£192,000 profit) with net assets of £712,068 (£662,000).

6.2 West Lothian Enterprise Limited

The company is limited by guarantee. The principal activity is the management of funds designed for investments in industrial and commercial businesses with a view to promoting economic development. The company commenced in 2012/13.

The unaudited (audited) accounts for the period ended 31 March 2017 (2016) show losses before and after tax of £1,950 (£2,000) with net liabilities of £24,320 (£22,000).

West Lothian Enterprise Limited is in the process of being wound up and it is anticipated this will be completed by November 2017.

6.3 Visit West Lothian Limited

Visit West Lothian Limited was set up in August 2008 as a company limited by guarantee. The company consists of one employee, the Tourism Executive, and a board of 7 Directors comprising 1 council representative and 6 stakeholders. The purpose of the company is to promote and develop West Lothian as a visitor destination. As part of this the company aims to maximise the economic impact of West Lothian's visitor potential, improve the quality of the visitor experience and raise the profile of the locality. The company is funded by the council but also works to access available funding sources and generate additional revenue.

The unaudited (audited) accounts for the year ended 31 March 2017 (2016) show a breakeven position before tax (£18,747 loss) and breakeven after tax (£18,743 loss) with net assets of £25,413 (£25,413).

6.4 The West of Scotland Archaeology Service

This body was set up in 1997 as a Joint Committee of local authorities in the area. It is currently funded by 11 local authorities and Historic Scotland for Specific Projects. Its primary purpose is to provide planning related archaeological advice to its members, permitting them to discharge their duties in respect of Scottish Executive planning guidance for the treatment of archaeological remains in the planning process. During the year, the council made a contribution of £12,691 (£12,691 2015/16) representing 7.19% (7.40% 2015/16) of the Committee's estimated running costs for the year to 31 March.

6.5 South East of Scotland Transport Partnership (SESTRAN)

The council is a member of SESTRAN, one of seven statutory regional transport partnerships set up under the Transport (Scotland) Act 2005. SESTRAN has a membership of 8 local authorities and they have a statutory duty to produce a Regional Transport Strategy Plan and provide the council with capital grant for West Lothian projects within the plan. During the year, the council made a contribution of £22,884 (£22,892 2015/16) and had a voting share of 12.5%.

NOTES TO THE GROUP ACCOUNTS STATEMENT 20

G6. NON-CONSOLIDATION INTEREST IN OTHER ENTITIES (Continued)

6.6 SESplan is the Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan)

The council is a member of SESplan. SESplan is composed of 6 local authorities that have a statutory duty under Section 4 of the Planning (Scotland) Act 2006 to work together to prepare, and keep under review, a Strategic Development Plan (SDP) for the South East of Scotland. During the year, the council made a contribution of £46,550 (£46,550 2015/16) to the running costs of SESplan, representing 17% (17% 2015/16) of the authority's running costs. The council has a voting share of 17%.

6.7 Scotland Excel

Scotland Excel was launched in April 2008 to establish a centre of procurement expertise for the local government sector in Scotland. Its remit is to work collaboratively with the 32 local authority members and external suppliers to raise procurement standards, secure best value for customers and to improve the efficiency and effectiveness of public sector procurement in Scotland. During 2016/17, the council made a contribution of £113,930 (£104,121 2015/16), 3.3% (3.3% 2015/16) of Scotland Excel's funding.

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West Lothian Council
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West Lothian Council

AUDIT COMMITTEE

LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2016/17

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To provide the Audit Committee with a summary of the report *Local Government in Scotland Financial Overview 2016/17* published by the Accounts Commission on 28 November 2017 and to outline officer responses to the points included in the scrutiny tool for councillors.

B. RECOMMENDATION

It is recommended that the Audit Committee:

1. Notes the key messages included in the report;
2. Notes officer responses to the points raised within the councillors scrutiny tool which can be used by elected members to help them better understand the council's financial position and to scrutinise financial performance.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making the best use of our resources, working in partnership.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The council has a statutory duty to consider Accounts Commission reports.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	The recommendations within this report could facilitate the maintenance of performance in activities that support delivery of the council's agreed priorities.
V	**Relevance to Single Outcome Agreement**	The Accounts Commission overview reports are intended to assist councils in delivering services that achieve local single outcome agreements.
VI	**Resources - (Financial, Staffing and Property)**	Based on initial assumptions, it is forecast that the council will have a revenue budget gap of £73.3 million over the five years 2018/19 to 2022/23.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	Corporate Services

D. TERMS OF REPORT

D.1 Introduction

The Accounts Commission's series of local government overview reports provide a summary of their views on how councils are managed and perform, including the progress councils are making in managing their finances and achieving Best Value. The reports draw upon recent audit work completed by Audit Scotland and other audit firms and provides an independent view on progress.

The report provides a high level view of the challenges facing councils, how well councils are addressing these challenges and what more councils can do to maintain or improve services for the public within reduced resources. The Accounts Commission expects councillors to use this report, along with the scrutiny tool, to better understand their council's financial position and to scrutinise financial performance.

D.2 Key Messages

The overview report includes a number of key messages for councillors. It is acknowledged that councils are facing increasing challenges which require a flexible approach that balances immediate needs, sound long term financial planning and limited financial resources. It is important that stakeholders understand the individual context faced by each council in terms of demand for services and available resources, but consideration also has to be given to a rapidly changing public sector landscape with various external complex changes.

The financial outlook remains constrained for local government with real terms reductions in Scottish Government funding, and savings becoming increasingly difficult to identify and deliver. Effective leadership and financial management is becoming increasingly critical and councils can only achieve financial resilience and sustainability if they have medium term financial strategies and well developed savings programmes.

In summary, the key messages are:

- The financial challenges facing councils continue to grow with funding restrictions compounded by increasing costs and demands for services and councils needing to deliver ambitious savings plans.
- Councils are showing increasing signs of financial stress and are finding it difficult to identify and deliver savings, with more councils using reserves to fund routine service delivery.
- Debt increased as councils took advantage of low interest rates. Although debt levels are not currently considered problematic, councils need to keep this under review to ensure the long term affordability of borrowing.
- Although budget setting process for 2016/17 was complicated by the late confirmation of Scottish Government funding, there is a need for budget setting to become more robust and reliable.
- Financial management could be improved in some councils with the final accounts being used to more clearly explain financial performance to improve scrutiny.
- The financial outlook remains challenging with deliverability of savings being vital to financial sustainability. In this circumstance, robust medium term financial strategies and effective leadership become increasingly critical.

D.3 Part 1 – Councils Income and Budgets for 2016/17

This section of the Accounts Commission report focuses on local authority income and budgets in 2016/17. Key messages in this section of the report include:

- Real terms reduction in revenue funding from the Scottish Government
  Councils received a significant reduction in revenue funding for 2016/17 with Scottish Government revenue funding falling by 5.2% in real terms. Although the Scottish Government transferred an additional £250 million from the health budget to support health and care integration, the total revenue funding for councils fell.

- Additional grant funding is largely linked to supporting national priorities
  The majority of new funding since 2008/09 has been given to councils as additional funding specifically directed at delivering particular national priorities. With the proportion of council funding being earmarked for national priorities increasing, and with this approach likely to expand further, councils have reduced flexibility in managing budgets across a full range of services.

- Councils faced increased budgetary pressures in 2016/17
  In addition to real terms reduction in funding, councils faced a number of additional pressures in delivering UK and Scottish Government policy commitments such as single state pension, living wage and maintaining teacher numbers. Councils continue to face ongoing demand pressures which are often difficult to forecast therefore there is a need for adequate budget contingency and robust arrangements for responding to changes in demand. There is a pattern of larger reductions to relatively smaller service areas. It is vital that resources should be aligned to priorities and the impact of reductions on smaller service areas assessed for their impact on other priority service areas.

- Councils have been seeking to maximise income through charging for services
  Councils generate approximately 8% of their total income through charging for services. Councils have been seeking to maximise income through the introduction of new charges and increasing existing charges. It is acknowledged that increasing income requires difficult decisions that balance the need to generate income whilst delivering corporate objectives that focus on access to services and reducing inequality. Effective leadership, sensitive management, good communication and community engagement can help smooth the impact of price increases.

- Integrated Joint Boards (IJBs) added further complexity to the budget setting process
  The creation of IJBs has been a complex exercise compounded by the differences in the approach and timing of budget setting between NHS boards and councils. The operation of IJBs will be considered further in 2018.

- Capital programmes were larger in 2016/17 funded by increased borrowing
  Although Scottish Government capital grants fell, capital investment increased. Councils are free to determine what they consider prudent, affordable and sustainable and it was assessed that the increased borrowing was affordable.

D.4 Part 2 – Councils Financial Performance 2016/17

This section of the Accounts Commission report focuses on local authority financial performance in 2016/17. Key messages in this section of the report include:

- All councils received an unqualified audit opinion but more could be done within the accounts to clearly explain financial performance in the management commentary which presents the financial story of the council over the year.
- Councils are showing signs of financial stress with 20 councils drawing upon their usable reserves and actual use of reserves being different from what was originally planned.
- Budget setting and financial management needs to be improved in some councils.
- Councils that have been proactive in making difficult decisions will be better placed to face the challenges ahead.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified the rapid decline of usable reserves as one of the symptoms exhibited by councils under financial stress, especially where reserves are used to support service delivery. A summary of CIPFA's report on financial resilience is included in Appendix 1 for information.

The Accounts Commission highlighted that councils that have a track record of effective leadership, self evaluation, robustly addressing the financial challenges and implementing effective medium to long term strategies will be in a better position than those who have avoided difficult decisions or not made sufficient changes to service delivery. Given the increasing demand for services and the likely funding available to councils, the effectiveness of council leadership will be tested further in the coming years.

D.5 Part 3 – 2017/18 Finance and the Challenges Ahead

This section of the Accounts Commission report focuses on the financial outlook facing councils. Key messages in this section of the report include:

- The outlook is challenging with constrained funding and cost and demand pressures
  Councils received a further real terms reduction in funding of 2.3% in Scottish Government funding for 2017/18. The reductions in grant funding were only partly offset by the end of the council tax freeze and councils have reduced budget setting flexibility due to the continuation of funding earmarked to deliver national policy commitments.

- Robust medium term financial strategies and savings plans are critical
  Within 2017/18 budgets councils have had to take into account a number of new cost pressures including the apprenticeship levy, the living wage and non domestic rates revaluation. Examples of the types of savings delivered by councils in 2017/18 is summarised in Appendix 2. It is important that savings plans are clear and that the impact on services is understood by all relevant parties. Savings should be realistic and achievable and risks should be made explicit and considered by councillors as part of their scrutiny role. CIPFA's report on building resilience and managing financial stress emphasises the importance of planning for savings over at least three years and the need for the robust challenging of plans. Long term planning is essential for effective financial management and this is especially the case where councils have low levels of usable reserves. Medium term financial strategies will help to ensure that revenue and capital budgets are aligned with corporate plans and deliver agreed priorities.

- Councils need to be careful when using reserves to fund service delivery
  Some councils have relied more heavily than others on using their reserves to bridge funding gaps. This approach is risky however as councils who use their reserves to support services in the current year will have to identify larger savings in 2018/19 or further deplete their reserves balances.

- Strong leadership is increasingly important
  The Accounts Commission recognises that the financial challenges facing councils will mean that councillors will need to make difficult choices and take decisions that may not sit neatly with the manifestos upon which they were elected. This will increase the need for effective political leadership and effective communication with all stakeholders to identify and deliver the savings necessary to ensure budgets are balanced.

- Addressing the underlying demand for services is key to sustainability
  The scale of the challenge facing councils means that the sustainability of some services will become increasingly dependent on the ability of councils and partners to address the underlying demand. Council transformation programmes will be essential in identifying and delivering changes in the nature of service delivery over the longer term.

D.6 Implications for West Lothian Council

On 20 February 2017, West Lothian Council agreed that the established integrated approach to corporate and financial planning should continue for the five year period 2018/19 to 2022/23. The budget motion agreed that:

- The council will continue to adopt the approach of integrating corporate planning and financial planning over the next five year period 2018/19 to 2022/23, with a Corporate Plan, revenue plan, capital plan and treasury management plan to be considered at the same Council meeting, to ensure a joined up approach is taken.

- In accordance with Audit Scotland and CIPFA best practice, the council will prepare a priority based revenue financial plan for 2018/19 to 2022/23, to set out how the Corporate Plan priorities will be delivered over this period.

- Officers should prepare a consultation with West Lothian citizens, to include council tax levels to be set over the next five years.

A report on the updated projected 2018/19 to 2022/23 budget gap and consultation exercise was considered by the Council Executive on 19 September 2017. It was acknowledged that the financial position facing the council is very challenging therefore officers are required to undertake preparatory work on options for future potential savings. This includes continuing to monitor the challenges and pressures ahead to ensure that resources are targeted towards achieving the council's priorities as demonstrated by the quarterly budget model update presented to the Partnership and Resources PDSP.

West Lothian Council has a solid base to address the challenges that will be faced in delivering key priorities. This is acknowledged in the auditor's report on the 2016/17 financial accounts where it was concluded that the council has generally sound financial management arrangements and the council's financial position is generally sound. Although the council will have significant cost pressures associated with demographic change, it has a good basis to address this challenge through having an established process for aligning the financial strategy to priorities.

This assessment is further supported by the council's Best Value Assurance Report published on 23 November 2017. This report recognises that the council has been managing its finances effectively and has robust financial management but it must address significant challenges, such as projected large increases in older people. The report will be considered by Council in January 2018. Officers are continuing to develop savings for the five year financial plan, however some significant changes to service delivery will be required. To help elected members better understand the council's financial position and scrutinise financial performance, officers have provided comments and responses to the issues raised in the report and the councillors scrutiny tool. The detailed responses are included in Appendix 3.

E. CONCLUSION

The Accounts Commission's *Local Government in Scotland Financial Overview 2016/17* report outlines the major financial challenges facing local government. The report highlights that councils are increasingly showing signs of financial stress as while funding has reduced, costs and demands have increased. In addition, a rising proportion of funding is directed to national priorities which is making it difficult for councils to identify and deliver savings to balance budgets.

The Accounts Commission believes that councils who demonstrate effective leadership and robust planning will be in a better position to manage the challenges ahead. Consideration of the issues within the report, and the detailed responses to the scrutiny tool, will assist in ensuring that the council continues to be well placed to deliver agreed priorities within reduced financial resources.

F. BACKGROUND REFERENCES

Local Government in Scotland Financial Overview 2016/17
http://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201617

CIPFA Building Financial Resilience – Managing Financial Stress in Local Authorities
http://www.cipfa.org/cipfa-thinks/insight

Appendices/Attachments:

Appendix 1 – Summary of CIPFA Building Financial Resilience Report
Appendix 2 – Measures Taken by Councils to Close Funding Gaps in 2017/18
Appendix 3 – Local Government Financial Overview 2016/17 Scrutiny Tool for Councillors

Contact Person: Lynda Ferguson, Group Accountant
Email: lynda.ferguson@westlothian.gov.uk, Tel: 01506 281293

Donald Forrest
Head of Finance and Property Services
18 December 2017

Appendix 1 - Summary of CIPFA Building Financial Resilience Report

Following the financial crisis in 2008, public services acknowledged that there would be several years of efficiencies and cuts as the government tried to eliminate the budget deficit. It is now clear that constrained public sector funding is likely to continue for some time to come, possibly beyond the next five years.

Within this context, public organisations need to ensure they have the resilience to deliver annual savings and manage significant financial shocks while still delivering against priorities for local communities. This often means that tough decisions on service delivery are required at a local level. Financial resilience is the ability of local authorities to remain viable, stable and effective whilst facing pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

CIPFA published an insight report on financial resilience for local authorities in June 2017. The report is intended to help chief financial officers (CFOs) and local authorities build financial resilience into all aspects of planning and operations. It identifies the warning signs of financial stress and explains the pillars upon which financial resilience depends.

1. Financial Stress – The Warning Signs

Councils at risk of "falling over" have typically not felt able to take tough decisions, sometimes claiming that there are statutory reasons why changes to service delivery cannot be made. The symptoms of stress include:

- Running down of reserves
- Failure to plan and deliver savings to ensure the council lives within its means
- Shortening of medium term financial planning horizons – a failure to plan ahead could indicate a lack of strategic thinking and unwillingness to confront tough decisions
- An increase in the balance to be found savings meaning the council has not specified how savings will be achieved and firm plans have not been identified
- Increased occurrence of unplanned overspends and/or carrying forward undelivered savings into future years

2. The Four Pillars of Resilience

CIPFA has identified four key areas upon which CFOs and financial management teams should focus their attention:

- **Getting routine financial management correct**
  Senior management teams need to have a clear understanding of the authority's financial position and how that compares to others. Everyone needs to understand the long term financial strategy, what needs to be done to deliver it and their personal responsibility for delivery.

- **Benchmarking**
  It is important that councils compare costs, income and activity levels with similar authorities. Councils should have a firm understanding of their position compared to national benchmarks and significant over and under spends need to be analysed and understood. Councils need to share information with their neighbours to identify basic facts and having a shared approach to issues, such as managing the social care market, is likely to have benefits.

- **Clear plans for delivering savings**
  Each council needs a single consolidated, living document which tracks saving plans as well as having realistic timescales and investment requirements.

- **Managing reserves**
  Some use of reserves to manage a clear and transparent savings programme over the medium term can be sensible however the one off use of reserves to avoid a cut in service levels is unlikely to be a sustainable policy. This approach does not enhance financial resilience and makes the following years even tougher in terms of the scale of budget reductions to be made.

3. Challenging the Robustness of Financial Plans

The CFO is legally responsible for creating a deliverable budget. Savings should be planned over at least three years to allow policy changes to be agreed and delivered. Using this approach, rather than trying to plan and implement savings in one year alone, should ensure delivery of financial objectives. While long term saving plans will inevitably include more detail in the first years, a good understanding is needed of where savings will be found in future years.

The focus should be on the detail of execution where policy goals are translated into savings. Authorities need to look out for warning signs that savings plans may not be deliverable, especially where a service is continually reporting overspends. It is also important that officers rigorously examine and challenge goals, underlying assumptions and implementation plans.

Further areas which require consideration include:

- Being realistic about potential commercial income sources and ventures
- Creation of robust business cases that include a detailed analysis of the financial context and risk and the implications for long term financial planning
- Appropriate governance and management with the introduction of change programmes not detracting from core financial management functions
- Being honest and open with political leadership and senior managers about what is possible through providing detailed analysis, options and advice that is supported by tangible evidence to prevent optimism bias in decision making

4. Annual Budget Report

The report setting out the proposed budget for the coming year and the medium term financial strategy is a key document for any authority. It needs to demonstrate all the features of a financially resilient authority including:

- Openness
- Clarity
- Robust and constructive challenge
- Long term planning
- Clear analysis of risks
- Realistic savings plans built upon a sound strategy for implementation

5. The Risks of Big Solutions

As the financial position gets increasingly difficult, with the easier savings gone and councillors facing ever more unpalatable choices, there is a temptation to consider big and bold solutions that consider reducing costs whilst maintaining or improving services. These proposals should be considered where relevant, however there are no simple solutions to the difficult choices facing every council.

In this situation, senior management teams need to be honest about the capacity and capability of the organisation to deliver a massively disruptive change programme. Transformation programmes tend to have an optimism bias that creates the impression that the same level of service can be provided for drastically less cost. Doing a bit more for less is not transformation but is efficiency, therefore transformation should only be used to describe a new solution.

Delivering savings and implementing new ways of working is about more than sound financial planning, it is about effective leadership and cultural change. Everyone must own the plan and contribute to its delivery. Councils need to be realistic about their project management capacity as it requires dedicated resources and skills.

Appendix 2 – Measures Taken by Councils to Close Funding Gaps in 2017/18

Options taken by councils in Scotland to close funding gaps in 2017/18 include:

REDUCE REVENUE SPENDING

1. **Economies and Efficiencies**

- People
  - Reduced numbers usually delivered as part of restructure and service design
  - Reduced costs including overtime, use of agency, consultancy, training, allowances and sickness absence
- Premises – estate rationalisation, reduced cleaning and utility savings
- Supplies and Services – procurement savings and reductions/efficiencies for commissioned services
- Transport – elimination of unnecessary travel, efficient use of fleet and redesign of school transport
- Roads – LED street lighting and review of maintenance
- Capital Financing Costs - use of capital receipts to repay debt

2. **Reduced and Stopped Services**

- Statutory Services – tightening of eligibility criteria for care, review of care packages and reduced frequency of waste collection
- Non Statutory Services – community wardens, economic regeneration services, public conveniences and bus subsidies

3. **Transformation**

- Partnership Working and Shared Services – Integrated Joint Boards
- Externalisation and Third Sector – use of third sector providers to improve services and access to alternative sources of funding
- Digitalisation and Customer Self Service

4. **Capitalisation**

INCREASE INCOME

- Council tax – percentage increase and removal of 10% discount on second homes
- Improve collection performance
- Increase activity/charges – planning and building standards, waste disposal, care services, burial charges, car parking, building services, halls and event, sports development and music fees.
- Introduce new charges for existing services – public conveniences, archivist services, garden waste.
- Introduce new service and charges (commercialisation) – advertising and sponsorship
- Increased capital receipts – from disposal of surplus property to repay debt however will reduce the money available for capital investment

Appendix 3 – Local Government Financial Overview 2016/17 Scrutiny Tool for Councillors

This scrutiny tool captures a number of potential questions for councillors. It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's financial position and to scrutinise financial performance.

Budget Setting

Questions for Councillors to Consider	Officer Comments and Additional Information
Does your council have a medium term financial strategy aligned with corporate objectives?	In January 2013, the council implemented a new approach to corporate and financial strategy incorporating eight priorities and an integrated approach to corporate and financial planning. Priorities were used to underpin the strategies, helping to ensure that constrained resources were allocated to achieve desired outcomes and value for money. This assisted in the prioritisation and allocation of resources to activities that have the greatest impact on outcomes for the five years 2013/14 to 2017/18. It has also allowed the council to generate savings whilst aiming to minimise the impact on direct services. Audit Scotland and the Chartered Institute of Public Finance and Accountancy (CIPFA) have both identified the need for public bodies to focus on their medium to long term financial sustainability. They have advised that public bodies should develop strategies that are based on defined priorities, providing a clear road map for service delivery within constrained budgets. The continued constrained financial position faced by the council means that resources will continue to be prioritised on an ongoing basis. Given the magnitude of the challenge faced in delivering essential services whilst financial resources are constrained, as agreed by full Council on 20 February 2017, officers are preparing a priority based revenue financial plan for 2018/19 to 2022/23, to set out how the Corporate Plan priorities will be delivered over this period. This will be considered by Council in February 2018.
How does annual budget setting link to medium term financial planning?	The council's revenue and capital budget strategies and annual budgets are based upon the shared priorities outlined in the Corporate Plan and Single Outcome Agreement. These priorities underpin all of the council's activities and were considered when developing the budget measures required to ensure balanced budgets to 2017/18. This approach to linking corporate planning and financial strategies has been approved as the basis to develop long and medium term strategies for the next term of the council. In the future, annual budgets will be based on the agreed five year financial plan.

Questions for Councillors to Consider	Officer Comments and Additional Information
How is your council preparing for any further real terms reduction in Scottish Government funding?	As reported to Council Executive in June 2017, the projected budget gap of £73.3 million for 2018/19 to 2022/23 includes an assumption that there will be a reduction of £8 million for 2018/19 and £7 million in 2019/20 in Scottish Government grant funding, which is based on forecasts from the Fraser of Allander Institute. There is an ongoing process in place to identify options for savings to meet the estimated budget gap. If there are material changes to these assumptions and the local government settlement is less than anticipated, the budget model will be updated accordingly and options provided on how to address the additional budget gap.
If your council plans to raise council tax do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?	As noted in the Transforming Your Council consultation, the budget model assumes that council tax will be increased by 3% per annum from 2018/19 to 2022/23. The consultation noted that if council tax is not increased, then this would increase the budget gap by £16.9 million, which would need to funded by another source, either replacement income or further cuts to services.
What impact will savings have on the delivery of services? What are the potential risks?	As noted above, the council's robust approach to corporate and financial planning has assisted in the prioritisation and allocation of resources to activities that have the greatest impact on outcomes for the five years 2013/14 to 2017/18. It has also allowed the council to generate savings whilst aiming to minimise the impact on direct services. As noted in the Transforming Your Council consultation, changes in demographics mean that demand for council services continues to rise and the level of Scottish Government funding continues to be insufficient to cover these costs. It is therefore likely that further savings will have a much greater impact on delivery of services and that there will be fundamental changes to council services over the next five years. The consultation document set out measures proposed by council officers. The revenue budget report to Council will set out the impact of budget saving measures on service performance and quality.

Financial and Savings Plans

Questions for Councillors to Consider	Officer Comments and Additional Information
What is your council's financial position? What particular challenges does the council face?	The council approved detailed revenue plans for 2015/16 to 2017/18 on 29 January 2015 and the council has a balanced budget position for 2017/18. Initial estimates of the financial position facing the council over the next five years, 2018/19 to 2022/23, were presented to Council Executive in June 2017, with an updated position being reported in September 2017. The current estimated position is that there will be a budget gap of £73.3 million from 2018/19 to 2022/23. The Council Executive reports set out the overall economic position and challenges facing the council and notes the assumptions that have been made in determining the anticipated budget gap. One of the largest challenges facing West Lothian Council is the growth in elderly population numbers which impacts on council elderly people budgets. As outlined in the previous local government overview report, West Lothian will have the largest growth in population of those aged over 75 with a forecast increase of 130.8% in the elderly population.

Does your council have a savings plan? What are the options to close future funding gaps?	The council approved detailed revenue plans for 2015/16 to 2017/18 on 29 January 2015. This report included a detailed schedule of revenue budget reduction measures totalling £29.544 million for 2015/16, 2016/17 and 2017/18, which was based on the responses received from the Delivering Better Outcomes consultation held in Autumn 2014. The budget reduction measures were updated in a further revenue budget report covering 2016/17 and 2017/18 on 23 February 2016 and again in the revenue budget report for 2017/18 on 20 February 2017. Updates on the progress of these agreed savings are provided to Council Executive on a quarterly basis and detailed reports on major, complex projects are presented to Council Executive as required.
	
	On 20 February 2017, council agreed that the same approach to corporate and financial strategy, incorporating eight priorities and an integrated approach to corporate and financial planning should be continued for the next five year period. It was agreed that officers would develop the revenue budget strategy for 2018/19 to 2022/23 as follows:
	
	<u>Prioritisation</u>
	• Priority analysis of services against the council's current priorities and enabler themes.
	• Review of each activity with reference to the following:
	   ▪ Should the service continue to be provided?
	   ▪ If the activity should continue, should it be at a greater, similar or lower level?
	• Prioritisation savings to be identified based on contribution to priorities.

Questions for Councillors to Consider	Officer Comments and Additional Information
	Modernisation and Efficiencies • Following prioritisation, consideration will be given to how services can continue to be delivered in the most efficient way. • As required by Best Value legislation, this will include consideration of whether the council delivers the service directly, commissions the service or procures the service from a third party. • Consideration will be given as to whether services should continue to be delivered in the same way or if they could be redesigned. • This will allow options for efficiency savings to be identified. Budget Savings Options • Budget savings options incorporating the results of the analysis in the two stages identified above will be developed. Savings options for 2018/19 to 2022/23 are currently being developed, taking into account the agreed actions outlined above and the results of the Transforming Your Council consultation.
What measures in the council's corporate and transformational plans are aimed at addressing the underlying demand for some services?	Savings options for 2018/19 to 2022/23 are currently being developed, taking into account the agreed actions outlined above and the results of the Transforming Your Council consultation.

Reserves

Questions for Councillors to Consider	Officer Comments and Additional Information
What is the council's reserves policy?	The principle focus, in considering future financial strategy and a reserves policy, is to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events, and to provide a reasonable sum to address the potential impact of the range of risks and uncertainties. The council's current minimum uncommitted General Fund Balance is £2 million in 2017/18, which is equivalent to approximately 0.5% of annual baseline revenue expenditure. The council's reserves at 31 March 2017 were: **£'m** General Fund Balance 25.3 Housing Revenue Account 0.9 Insurance Fund 11.8 Capital Fund 65.5

Questions for Councillors to Consider	Officer Comments and Additional Information
	The audit of the 2016/17 annual accounts noted that the council's uncommitted general fund balance is one of the lowest uncommitted general fund balances held by all Scottish local authorities. This was identified as a risk that the uncommitted balance may not meet unforeseen circumstances. Officers considered if the level of uncommitted reserves remained appropriate and, taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves remains appropriate. The level of uncommitted reserves is reviewed on a regular basis and as part of the revenue budget setting process. It is subject to a specific recommendation in the annual revenue budget report. The Council Executive agreed on the 14 November 2017 that the forecast underspend in 2017/18 would be retained pending the finance settlement to help supplement the council's level of uncommitted reserves.
What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?	Earmarked general fund reserves have broadly been maintained at the same level over the past few years and provide the council with the ability to deliver key initiatives such as employability, holiday clubs etc. The main movement in total reserves in 2016/17 was utilisation of the Capital Fund to support the capital programme and investment in the council's assets.
What are the different types of reserves your council holds? Do you know what these can be spent on?	**General Fund Balance** - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted General Fund Balance will be a minimum of £2 million. **HRA Fund Balance** - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted HRA Fund Balance will be a minimum of £0.926 million. **Insurance Fund** - this is the funding mechanism for the control of insurable risk and includes premiums and self-funded insurance costs. The fund balance is to cover all known insurance liabilities and is independently valued on a triennial basis to ensure its value is sufficient to meet potential liabilities. **Capital Fund** - established to ensure that borrowing decisions and capital programme management are based on best value considerations. The Fund forms the basis of the funding package for the council's capital programme in future years.

Questions for Councillors to Consider	Officer Comments and Additional Information
What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?	The approved revenue budget for 2017/18 includes £2 million of funding from the Insurance Fund and £1 million of funding from the General Fund Balance (previously earmarked as the Winter Maintenance Fund). The forecast revenue funding gap for 2018/19 to 2022/23 is £73.5 million. The approved 2017/18 capital budget includes £9.947 million of funding from the Capital Fund.
What are the levels of reserves held by our council's IJB? Are these in line with the IJB's reserve policy?	There are no reserves held by the West Lothian IJB. The target level of IJB reserves is 2% of the IJB revenue budget. No underspends were available in 2016/17, the IJB's first year of budgets being delegated, to put to reserves.

Levels of Debt and Affordability

Questions for Councillors to Consider	Officer Comments and Additional Information
What share of your council's budget is taken up with interest payment and debt repayment?	West Lothian Council is required to approve prudential indicators as part of the annual revenue budget process. This includes the key affordability indicator of financing costs to the net revenue stream for General Services and HRA. This indicator clearly demonstrates the proportion of the annual revenue budget committed to repaying borrowing. When considering alternative options, detailed long term forecasting is undertaken, including consideration of the impact on key prudential indicators, reserves and revenue, capital and treasury strategies. To assist councillors in their scrutiny of prudential indicators, officers provide current year performance and information on key implications, along with detailed treasury management reports provided three times a year. The indicators for 2016/17 and 2017/18 are as follows: **2016/17 Actual** / **2017/18 Estimate** General Fund: 7.3% / 6.4% Housing: 26.6% / 28.6% As these indicators demonstrate, the council's capital plans are assessed to be prudent, affordable and sustainable.

Questions for Councillors to Consider	Officer Comments and Additional Information
What proportion of the council's debt is linked to inflation (i.e. subject to indexation)? What does that mean for longer term affordability?	All of the council's current debt has been secured at fixed rates, therefore it is not linked to inflation. As set out in the Annual Treasury Management Plan, council officers, in conjunction with our treasury advisors, continually monitor prevailing interest rates and market forecasts to identify the most opportune time for borrowing during the year. This allows for a higher degree of certainty and more accurate forecasting of longer term affordability.

Budget Outturn Reports and Management Commentaries

Questions for Councillors to Consider	Officer Comments and Additional Information
Do budget monitoring reports clearly explain performance against plans and any changes to plans?	In-year budget monitoring reports are provided to Council Executive on a regular basis, which include a forecast outturn and a final out-turn position at the year end. During 2016/17 there were no major fluctuations in the outturn projections provided to members, demonstrating good financial control and an understanding of the budget and in-year management of financial pressures. Actions to address service pressures are included in monitoring reports, enabling members to have appropriate oversight of the financial position. Monitoring reports also include in-year analysis against approved budget reduction measures on a red, amber and green assessment of their achievement and any action required to ensure deliverability.
Do management commentaries clearly explain council performance and any changes to plans?	The management commentary is a narrative report that relates to the financial statements and provides explanations of the amounts presented, specifically the council's financial position, financial performance and cash flows. It also provides commentary on future risks and other information not presented in the financial statements. The management commentary serves as a basis for understanding management's objectives and its strategies for achieving those objectives. The management commentary covers all aspects of the council's performance and is presented in a clear, concise and straightforward manner. It focuses on the most important information in a manner intended to inform the reader.

Financial Scrutiny

Questions for Councillors to Consider	Officer Comments and Additional Information
What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?	A key aspect of ensuring that elected members have the appropriate training for their roles is completion of personal development plans and implementation of six monthly training plans. Training courses mainly focus on providing elected members with the necessary skills and support to undertake their scrutiny roles with many of the training sessions focusing on governance, legislative changes and alternative models of service delivery. Officers respond to individual or group requests for training, for example providing training on council finances and the role of elected members in setting budgets. There is also a section on the council's intranet which contains source documentation for councillors in addition to an elected member section within My Toolkit.

Charging for Services

Questions for Councillors to Consider	Officer Comments and Additional Information
Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?	Yes, the council has an income and concessions policy. The council approved detailed revenue plans for 2015/16 to 2017/18 on 29 January 2015. This report included a detailed schedule of fees, charges and concessions for 2015/16, 2016/17 and 2017/18, which was based on the responses received from the Delivering Better Outcomes consultation held in Autumn 2014. The consultation outlined that additional income of £2.2 million could be delivered through a review of discretionary charges, income levels and budgets. It was agreed that discretionary charges would be reviewed to bring them in line with Scottish averages or with charges of other service providers. In addition, income levels were reviewed to take account of increased demand for services, actual levels of income currently being received and, in some cases, by setting charges to recover the full cost of services. Detailed proposals for setting fees, charges and concessions were set out in Appendix 2(a) of the budget report, which also sets out the rationale for each charging proposal and additional concession proposal. A review of income and concessions is one of the elements of the Transforming Your Council consultation, the results of which will help to inform fees and charges for the next five year strategy period and will be reported to Council as part of the overall revenue budget setting process in February 2018.
What information do you need to be able to explain increases in fees and charges to your constituents?	It is planned that detailed proposals for setting fees, charges and concessions will be set out in the revenue budget report, along with the rationale for each charging proposal and additional concession proposal.

Exit Packages

Questions for Councillors to Consider	Officer Comments and Additional Information
Are staff severances in line with the council's workforce plan?	Yes, requests for severance are only approved if supported by a robust business case. This includes an overview of the implications of removing the post and the costs associated with doing so. The cost of all severance packages must be recovered within a three year period.
How does the council ensure that councillors have the capacity to deliver transformational changes?	Elected member training and briefings are essential to ensure knowledge is complete and up to date. Councillors can also access external resources made available by bodies such as the Improvement Service, providing master classes and e-learning which provide a general overview of local government issues. In addition, relevant officers discuss reports with elected members in advance of committee and council meetings to aid understanding. Feedback is also provided on reports and information considered at PDSP, committee and council meetings to help inform future reporting standards and methods. There are also Group Meeting events whereby officers are invited to provide updates on specific topics.
Do you know the implications of your council's pension liabilities of staff retiring early?	Yes, requests for severance are only approved if supported by a robust business case. This business case includes details of costs associated with the early retirement, including future pension liabilities. The approval process requires sign off by the Chief Executive and the Council Leader. Severance information is reported regularly to the Council Executive.

Capital Programmes

Questions for Councillors to Consider	Officer Comments and Additional Information
How clearly does the council's capital programme link with the asset management plan and corporate objectives?	The current Corporate Asset Management Strategy was agreed in January 2013 and individual Asset Management Plans for each asset category were approved throughout 2013. Asset management provides appropriate structures and governance arrangements to ensure the council's assets are utilised appropriately in support of service delivery. The General Services capital programme supports the delivery of the council's eight priorities incorporated in the Corporate Plan. The programme also takes into consideration comments received during budget consultations where there was support for the managing our assets and reducing energy use workstreams. It is important that resources are prioritised on an ongoing basis to ensure investment has the maximum impact on the core assets required to sustain existing service delivery. Asset Management Plans are reported annually to PDSPs to demonstrate best value, continuous improvement, sound performance management, partnership working and sustainable development. It was agreed in February 2017 that this approach would be continued and officers are currently developing a new ten year capital programme, as well as producing an updated Corporate Asset Management Strategy and updated Asset Management Plans. The capital plan and the asset management strategy are intrinsically linked.
Has non delivery of the capital programme (i.e. slippage) been significant at your council in recent years? Why?	No. Updates on the progress of the capital programme are provided quarterly to Council Executive. These updates include summarised actual and projected expenditure against each asset category, details of projects with major variances forecast against budget and actions being taken to minimise these variances. The report also notes material risks to the delivery of the capital programme and sets outs proposed actions to mitigate these risks. Careful planning and forecasting has meant that implementation of the General Services capital programme has been very successful in recent years, with accelerated spending being achieved.

West Lothian Council

AUDIT COMMITTEE

AUDIT SCOTLAND – PRINCIPLES FOR A DIGITAL FUTURE: LESSONS LEARNED FROM PUBLIC SECTOR ICT PROJECTS

REPORT BY HEAD OF CORPORATE SERVICES

A. PURPOSE OF REPORT

To provide the Audit Committee with a summary of the Audit Scotland report, Principles for a Digital Future : Lessons learned from public sector ICT projects and a gap analysis report identifying areas for improvement in the management of Council ICT Projects.

B. RECOMMENDATION

It is recommended that the Audit Committee

1. Notes the key findings and recommendations of the Audit Scotland report and
2. Notes the areas for improvement identified in the gap analysis report attached at Appendix 1.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable; providing equality of opportunities; developing employees; making best use of our resources;
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	ICT Strategy 2015/17
III	**Implications for Scheme of Delegations to Officers**	None
IV	**Impact on performance and performance Indicators**	None
V	**Relevance to Single Outcome Agreement**	
VI	**Resources - (Financial, Staffing and Property)**	None
VII	**Consideration at PDSP**	N/A

VIII Other consultations IT Programme Board

D. TERMS OF REPORT

Introduction

Audit Scotland published a report in May 2017 entitled “Principles for a Digital Future: Lessons Learned from Public Sector ICT Projects”. The report draws on the recommendations from previous Audit Scotland reports on failed Scottish public sector ICT projects and experiences from around the world.

The report recognises the importance of effective digital processes in supporting transformation of public services, but notes that public authority ICT projects and programmes have not always been successfully managed. A set of common themes and issues are identified, which have been developed into “Principles for Success” to be considered by all public sector organisations when planning and implementing digital programmes and projects.

Principles for Success

The Principles for Success which are set out in the report are:-

- Comprehensive Planning, setting out what you want to achieve and how you will do it
- Active governance, providing appropriate control and oversight
- Putting users at the heart of the project
- Clear leadership sets the tone and culture and provides accountability
- Individual projects set in a central framework of strategic oversight and assurance

These principles are not intended to sit in isolation and should be supported by appropriate knowledge and experience of those who are engaged in delivering projects.

The report sets out actions or issues to be considered under each principle, with case studies to illustrate and highlight the key messages.

West Lothian Gap Analysis

A gap analysis has been undertaken to review the measures which are already in place in West Lothian Council to address the lessons learned and to identify areas for improvement. The gap analysis report is attached at Appendix 1.

There are many areas where the Council already exhibits good practice in each of the Principles in the delivery of ICT projects.

The key areas which are highlighted for consideration relate to project governance across all project portfolios and an understanding how ICT projects relate to wider change programmes, the importance of quality risk management, having the right professional advice at the right time and the importance of benefits realisation.

E. CONCLUSION

The Council can evidence good practice in many of the areas highlighted in the Audit Scotland report in relation to the delivery of ICT Projects. The actions which are set out in the gap analysis report could further improve governance around change programmes.

F. BACKGROUND REFERENCES

Audit Scotland : Principles for a digital future: Lessons learned from public sector ICT projects, May 2017

http://audit-scotland.gov.uk/uploads/docs/report/2017/briefing_170511_digital_future.pdf

Appendices/Attachments:

1. West Lothian Council Gap Analysis Report

Contact Person: Ian Forrest, Interim IT Services Manager

01506 281081, ian.forrest@westlothian.gov.uk

Julie Whitelaw

Head of Corporate Services

Date of meeting: 18 December 2017

West Lothian Council

PROJECT DOCUMENTATION

Gap Analysis Report – Principles for a Digital Future
Lessons Learned from Public Sector ICT Projects

Project Name: N/A
Project Ref No: N/A

Draft Version: *0.1*

Date: 2 October 2017

Author: J. Ballantyne, Service Portfolio & Programme Manager

Owner: IT Services Manager

Client: Corporate Services - IT

Document Number: N/A

Exception Report History

Document Location

This document is only valid until replaced by a later version.
The source of the document will be found in the EDRM filing system (Meridio) under:
IT Services > Service Management>Corporate Services>IT>Documentation> 2017
Please refer to the above location for the most recent version of this document.

Revision History

Date of this revision: 2 October 2017 (first draft)

Revision Date	Previous Revision Date	Summary of Changes	Changes Marked
	N/A	**First Issue**	**N/A**

PEER Review

This document does not require a PEER Review.

PEER Name	PEER Title	Date Review Completed	PEER Review Approved/ Declined	Changes Emailed to PM	Date Returned to PM
N/A					

Service Reviewers

This document has been reviewed by:

Name	Title	Date of Issue	Version
Julie Whitelaw	Head of Corporate Services		0.1
Graeme Struthers	Depute Chief Executive		0.1

Approvals

This document requires the following approvals.

Name	Signature/Email Approval	Title	Date of Issue	Version
Ian Forrest		IT Services Manager (acting)		0.1
ICTPB		Members of ICT Programme Board		

Overview

Purpose of Document

The purpose of this gap analysis is to review the following report:

Principles for a Digital Future - Lessons Learned from public sector ICT projects prepared by Audit Scotland May 2017

in relation to the current delivery of IT projects within West Lothian Council.

The report addresses the 5 'Principles for Success' detailed in the above report and explores the sub topics within each of the 5 'Principles for Success'.
For each sub-topic the report details what actions WLC IT Services already do to address the 'lessons learned' and also identifies any actions that WLC may wish to consider to further support the 'lessons learned'.

Contents

This report contains the following topics:

1. Comprehensive Planning setting out what you want to achieve and how you will do it

Clearly define the need and benefits

WLC IT Response:

- Project Brief is created by the appropriate Service Area to outline 'the need'.
- Project Brief incorporates:
    - Outline Business Case
    - Rationale for Change
    - Relationship with Delivering Better Outcomes (link to corporate strategy)
    - Options incl. outline of option, benefits. risks, costs, savings
    - Recommended option
    - Project Definition incl. Objectives, Scope, Outline Project Deliverables, Exclusions, Constraints, Dependencies, Interfaces, Project Tolerances (cost, time, risk), Customer Quality Expectations, Acceptance Criteria, Risks, IT Resources
    - Appendices incl. IT resource costs and project brief approval
- Following approval of the Project Brief to proceed as an approved IT project, project initiation will further define the aspects above and agree this with the Project Executive and Board members (governance).

WLC Actions to Consider:

Roles and Responsibilities	Project Board members must understand their 'Role' and the 'Responsibility' of the role with regard to the objectives of the project as it starts life.
Roles and Responsibilities	The Project Executive/Project Board must ensure that there is data and methods available to understand that benefits will be realised.

Understand and appreciate the likely complexity

WLC IT Response:

- Project initiation enables the Project Manager to understand in more detail the outputs that the project must deliver and undertake more detailed planning to ensure realistic timescales.
- Project Managers will engage with other authorities if we are aware that a similar project has been completed in another authority.
- A central lessons learned log is being created as part of the Post Implementation Review procedure to assist Project Managers in learning and from previous experience.

WLC Actions to Consider:

Roles and Responsibilities	Project Executive and Project Board members must be willing to acknowledge the guidance from Project Managers with regard to realistic project timescales.

Identify people with the right skills and experience

WLC IT Response:

- Project Managers will identify if there are specific skill areas that are required to deliver project outputs e.g. Business Analysis.
- Project Managers feed IT resource/skill estimates to the IT project portfolio resource analysis that enable IT Services to understand gap areas and engage the right resources at the right time in the project.
- WLC IT will engage experienced IT Project Management, Business Analysis, Test Lead resources as required to meet the demands of the IT project portfolio .
- Resources will be recruited through an interview selection process .

WLC Actions to Consider:

Programme Management	WLC IT do not currently provide formal Programme Management. Within the portfolio of projects there are some identified 'programmes' of work, this can often be identified within a Service Area e.g. Housing, Customer & Building Services.
Programme Management Boundaries	Programme Management cannot be isolated purely to the IT aspects of a project and must look at the wider business implications including business resource availability and other change happening within that Service Area in conjunction with the need to ensure 'business as usual' continues to be delivered
Project Governance	Some staff undertaking Project Board roles have no formal project experience and therefore may not understand the responsibility of their role. This carries a high risk to successful project delivery.

Break the project down into manageable stages

WLC IT Response:

- The Project Brief may set out a staged approach at the outset and the Project Manager will develop the staged plan as they progress with initiation.
- At Project Initiation, the Project Manager may recommend to the Project Board that a staged approach should be considered and make recommendations.

WLC Actions to Consider:

Roles and Responsibilities	Project Board members understanding the benefits of a controlled and staged delivery of a project as recommended by a Project Manager.

Be aware of optimism bias

WLC IT Response:

- A central lessons learned log is being created as part of the Post Implementation Review procedure to assist Project Managers in learning and from previous experience.
- Project Tolerances are considered within the Project Brief on Time, Cost and Risk. This allows the Project Executive to allow for a level of tolerance to be authorised without the requirement to take a project in to exception .

WLC Actions to Consider:

Project Brief/Project Tolerances	The business must understand why Project Tolerance is considered within a Project Brief and consider appropriate levels of tolerance when the Project Brief is drawn up
Project Brief	The business must be realistic about the timescales in which the project outputs and realistically achievable including the impact on the business to implement the change e.g. business processes

Consider the procurement options early

WLC IT Response:

- Corporate Procurement Unit(CPU) are consulted with at the outset of every IT project. The Project Brief is sent to CPU for review and approval prior to submission to the ICT Programme Board.
- At Project Initiation the Project Manager will give consideration to the engagement required with CPU and at what point this requires in planning this needs to be progressed.
- Where appropriate, CPU can have a place on the Project Board as a ‘Senior Supplier’. This may be appropriate on a large and complex project e.g. P329 CHRIS Replacement.
- The benefits of Business Analysis resource has been more widely considered in acknowledged in recent IT projects. This is a positive step and ensure the business understand and document their requirements clearly thus ensuring ‘the right’ solution is procured.

WLC Actions to Consider:

Roles and Responsibilities	The role required by CPU in IT projects is becoming more crucial due to the profile of IT projects. It is crucial the specialist procurement advise is available to ensure quality contracts, supplier management

	and that the correct solution is procured to meet the business needs. There is potentially a need for CPU to have a specialist role focusing on IT related procurements.
New Procurement Routes	Digital Marketplace (G-Cloud) – This is a fairly new route that has become available the public sector. There are pros and cons that need to be considered and this exercise should be completed aside to any specific procurement consideration e.g. P329 CHRIS Replacement. CPU should prepare a report to fully explore and considerations, advantages and disadvantages of his route.
Project Board	For large complex projects that have a procurement aspect, CPU should attend the project Board as a 'Senior Supplier' during the procurement stage of the project.
Exception Report Themes	Supplier and contract management is a key theme falling out of recent Exception reports. The council needs to consider methods that could be applied to better manage suppliers e.g. penalty clauses or staged payments. This should done in conjunction with support from a 'legal specialist'.

2. Active governance providing appropriate control and oversight

Ensure governance is active and dynamic

WLC IT Response:

- Senior Management support the creation of Project Boards for all IT projects.
- There is a level of flexibility that can be agreed with regard to the governance from the Project Board dependent on the size and complexity of the project and this should be approved by the Project Executive.
- There is a growing appreciation of the need and benefits to be gained from project governance.
- Roles within the Project Board will be reviewed, predominantly at stage boundaries, to ensure the correct stakeholders are at the table.
- The ICT Programme Board provides strategic governance for the IT project portfolio and will scrutinise and challenge Project Board decisions where required e.g. Exception reports.

WLC Actions to Consider:

Roles and Responsibilities	The staff taking on roles within the project environment must understand project governance at a foundation level and understand the responsibilities of the Board and their role on the Board.
Commitment to Governance	Commitment must be given to project roles incl. attendance at meetings, prompt attention to project correspondence and undertaking report reviews and sign off/approval e.g. Exception reports
Decision Making	Must be prompt to avoid unnecessary project delays. If the managers assigned roles within the Board are unable to make decisions and require to seek guidance out with the Board then consideration must be given to 'the right people' being assigned roles within the Board.

Integrate risk management

WLC IT Response:

- IT Services apply project governance based on PRINCE 2 incorporating risk and issue management.
- A Risks, Actions, Issues, Decisions (RAID) logs are maintained throughout the life of the project.
- Whilst the Project Executive can instruct otherwise, all High and Very High risks should be considered with current status at Board meetings

WLC Actions to Consider:

Project Board	Ensure appropriate time and attention is given to Risks and Issues within a Board meeting

Roles and Responsibilities	Board members should have a basic understanding of risk management within a project environment. Training should be considered.
Programme Management	Formal Programme Management is not undertaken on the IT project portfolio and therefore risk levels at a Programme level cannot easily be identified and managed.

Use an appropriate project management methodology

WLC IT Response:

- IT Services apply project governance based on PRINCE2 (Managing Successful Projects with PRINCE2) methodology.
- All Project Managers that are permanent staff (Service Project Manager) are accredited PRINCE2 Practitioners. Re-accreditation is required every 5 years.
- All contract Project Managers are considered with regard to skills and experience with PRINCE2.

WLC Actions to Consider:

Varying Project Management Methods within the Organisation	The standards and governance applied to the portfolio of IT projects is not consistent across the council with differing terminology, templates, roles and responsibilities etc. This causes confusion and lack of understanding and is ultimately a high risk issue for the council.

Be an intelligent client

WLC IT Response:

- As part of standard governance within the IT project portfolio, Exception Reports must be created where a project deviates (out with tolerance levels) e.g. Time, Budget.
- An Exception report explores the 'cause of deviation' and a common theme identified and discussed at the ICT Programme Board is supplier and contract management thus supporting the statement made within the report.

WLC Actions to Consider:

Corporate Procurement Specialist	Assigned to 'project support' for all IT projects within the council. This should be considered for all council projects ideally, not just IT projects.
Corporate Legal Specialist	Assigned to 'project support' for all IT projects within the council. This should be considered for all council projects ideally, not just IT projects.
Lessons Learned	The council must learn from lessons and understand what can be

	done to better manage suppliers and contracts in future. Corporate Procurement Unit and Legal Services must work closely to ensure the best contractual supplier management.

Develop appropriate independent assurance arrangements

WLC IT Response:

- IT Services adopt the 'Project Assurance' role as identified within PRINCE2. This is not deemed mandatory role with a Board but will be put in place on large/complex projects or where another need is identified that supports the requirement for the role.
- The 'Project Assurance' role will be nominated to an appropriate individual that will act as a 'critical friend' and scrutinise and challenge key decisions and project progress.
- Internal Audit will select certain IT projects and undertake an audit of the project governance.
- External Audit have also visited IT Services and spent time reviewing and reporting on the project governance applied overall.

WLC Actions to Consider:

Project Assurance Role	Consider wider use of the Project Assurance role across projects within the council.

Ensure honest and accurate project monitoring

WLC IT Response:

- The role of the Service Portfolio & Programme Manager provides a level of scrutiny and challenge across the IT project portfolio with regard to reporting.
- Governance levels are applied through the use of Project Boards and the ICT Programme Board.
- A standard set of project information and reports and provided to Project Board members.
- Portfolio information is gathered and presented to the ICT Programme Board for scrutiny and challenge at a corporate level.

WLC Actions to Consider:

Roles and Responsibilities – Project Boards	Board members must take the time to read, understand and challenge information that is presented to the Board on project progress.
Roles and Responsibilities – ICT Programme Board Members	Focus must be given to scrutiny that is applied by the ICTP Board members over and above the Project Executive and Board members on individual projects.
Wider Organisation Change	With the current profile of projects and programmes across the council there are unclear lines of governance and a lack of clarity on how the council understand progress on the portfolio of change

	.across the organisation as a whole. This is crucial where the council has to maintain 'BAU' service delivery whilst also undertaking significant business change.

Build in appropriate quality assurance processes

WLC IT Response:

- Project Managers will consider, as appropriate for each project, the level and nature of testing required pre 'go live'.
- Project Boards will assess the level of risk with regard to proceeding with a 'go live' if there are a large number of high priority errors that are unresolved.
- If required, a Project Board will take a project in to 'exception' if errors remains unresolved e.g. P252 Open System Business Rates
- Specialist test resource will be engaged where it is deemed necessary e.g. P295 EDRM Replacement project

WLC Actions to Consider:

Standards and Consistency	There is not an overall standard applied to a testing strategy across the council and this should be considered to ensure the 'quality' of testing.

3. Putting users at the heart of the project

Identify all users and understand their needs

WLC IT Response:

- Within PRINCE2 there is the role of the Senior User that sits on the Project Board. At the outset of the project, during initiation, the Project Board will be created and appropriate stakeholders will be considered for the role of Senior User.
- There can be more than 1 senior User on the Project Board and this may be appropriate where there are different Service Areas impacted by the output(s) from the project e.g. P344 CONFIRM upgrade. Whilst the project is owned by Operational Services and there will be a Senior User from Operational Services, consideration has also been given to a Senior User from Housing, Customer & Building Services as there is integration between the Customer Relationship Management system used by the Customer Service Centre and the CONFIRM system.
- Senior Users can assist the Project Manager in understanding the right people to be involved at a lower level on the project e.g. Project Team level e.g. there are representatives from all Service Areas on the P295 EDRM Replacement project team.

WLC Actions to Consider:

Roles and Responsibilities	Staff that undertake the role of Senior User need to be clear about the responsibilities associated with the role.
Business Resource Availability	Business resources must me allowed time away from 'Business as Usual' to deliver change and understand the impact on, and changes required, to supporting business processes.

Sustain engagement with users

WLC IT Response:

- The points made above are also valid in response to 'sustain engagement with users'
- User/stakeholder engagement is not only crucial at the outset of the project but must be maintained through the life of the project both at a governance (Project Board) level and at a Project Team level. Current IT projects will use project governance to support the user engagement requirement and raise any related risks and issues with the Project Board as appropriate.
- The Business Case should be revisited to ensure that it remains valid and this will be done within the Project Board forum

WLC Actions to Consider:

Roles and Responsibilities	Staff that undertake the role of Senior User need to be clear about the responsibilities associated with the role.

Business Resource Availability	Business resources must me allowed time away from 'Business as Usual' to deliver change and understand the impact on, and changes required, to supporting business processes.

Help people make change happen

WLC IT Response:

- IT projects will identify where there is a need for business change to be progressed in conjunction with the project.
- The Project Manager will look to secure the appropriate business resources to support and drive change from within the business.
- The Project Manager will draw up a 'communications strategy' where required to outline the communications plan for different stakeholders

WLC Actions to Consider:

Perception- IT projects are about Technology	There is a perception that IT projects are indeed about implementing a new IT technical solution however, in most cases, this cannot be done in isolation without the business giving consideration to how the new technology will impact business processes and procedures.
Benefits Realisation	If the business does not give adequate time to managing the business change in conjunction with the new technology then they will not realise the benefits that they are trying to achieve.
Benefits Realisation	The organisation/council is not mature with regard to scrutiny of a business cases and evidencing benefits realisation after a project has closed.
Programme Management	Service Areas do not have a clear understanding of the overall change they are trying to deliver within their business area in conjunction with delivering Business as Usual. Understanding the full programme of work enables Services Areas to prioritise their scarce resources on the priority projects.

Prioritise knowledge transfer

WLC IT Response:

- IT Services have been focusing activity recently on the Transition to Operational aspects of project management linking in with the IT Infrastructure Library (ITIL) and best practice IT service management. This ensures that, as part of project closure, there is service documentation including supplier details, service levels, business ownership, budget liability etc.
- Related to the previous points in this section, the project will have had ongoing interaction with the business during the life of the project.

WLC Actions to Consider:

Life after Project Closure	Just as IT Services holds details of IT services, it is important that the business take on business ownership for their services and understand who within the business as responsibility for the service provision. This is particularly important where we are going through a period of change with staff leaving or changing role. A poor example of business ownership is the Public Access WiFi service that has been made available in many public facing buildings.

4. Clear leadership that sets the tone and culture and provides accountability

Ensure senior leadership show drive and commitment

WLC IT Response:

- All Project Briefs submitted to the ICT Programme Board must be supported by the Head of Service.
- By default the Head of Service will take on the role of Project Executive providing leadership, drive and commitment to the project.
- The Head of Service can delegate the role to an appropriate senior manager however that decision must come from the Head of Service.
- The Project Executive is responsible for ensuring that the project is focused throughout its life achieving its objectives and delivering a project a product that will achieve its forecast benefits.
- The Project Executive has to ensure that the project gives value for money, ensuring a cost-conscious approach to the project, balancing the demands of business, user and supplier.
- The Project Executive is expected to attend Project Board meetings thus ensuring the project is progressing as expected and deal with any matters, requiring escalation to Board, level in a prompt and timely manner.

WLC Actions to Consider:

Roles and Responsibilities	Some staff undertaking the Project Executive role on a project, or projects, do not have formal project skills or experience and therefore may not fully understand the responsibility of their role as Project Executive.
Wider Organisation Change	Alongside IT project there are other projects and programmes of activity being progressed across the council. A Project Executive on an IT project may be a Senior Responsible Officer on other projects or programmes of work. This can cause a lack of clarity with regard to how the projects and programmes link together and how a senior office prioritises their time against the projects and programmes. This can dilute the quality of project and programme management tracking across the organisation.
Project Executive – Conflicting Priorities	If A project Executive is covering too many projects they may try to merge Project Board meetings in to a single meeting. This method carries risk and will dilute the quality of individual project tracking.
Project Executive – Conflicting Priorities	Project Executives must give the commitment to attend Project Board meetings to ensure they are driving the project forward. Lack of attendance on a regular basis gives the message that the project does not have priority and therefore the business case should be questioned.

Project Executive – Appropriate Senior Manager	The manager assigned to the role of Project Executive must have the correct level of authority to drive the project forward, understand and champion the business case and the authority to make decisions that have been escalated to Board level.

Clearly define lines of accountability

WLC IT Response:

- All IT projects have an assigned Project Executive and Project Board created at project initiation.
- The Project Board provides a governance forum for the project to report on project progress and identify and manage risks and issues impacting the project and its potential success.
- Above the Project Board is the ICT Programme Board (ICTPB). The Board is chaired by a Depute Chief Executive thus providing scrutiny at a strategic level with regard to the portfolio of IT projects.
- The ICTPB is attended by Heads of Service supporting the chair if the overview and scrutiny of the portfolio.
- Resourcing decisions, with regard to priorities and the portfolio of projects, are made by the ICTPB and scrutiny is also applied by the Board with regard to projected resourcing spend against actual.

WLC Actions to Consider:

ICTPB Attendance	Some Heads of Service are unable to attend ion a regular basis and will send a deputy. This can impact the quality of the ITPB scrutiny and decision making process. The deputies are quite often not familiar with the portfolio of projects and may not have had an opportunity to review papers in advance of the meeting.
ICTPB Attendees	Not all Heads of Service and extended an invite to a standard ICTPB meeting (4 times per year). This results in that Head of Service not being directly accountable in that forum for projects within their Service Area and any issues arising e.g. exception reports.
Programme Management	WLC IT does not currently provide formal Programme Management. Within the portfolio of projects there are 'programmes' of work that can often be identified however these are managed informally through 'interdependency' meetings.
Wider Organisation Change	In the wider organisation there appears to be confusion about what is a project, programme and portfolio of change. This along with IT projects in conjunction with other projects and programmes of work within the council leads to a lack of clarity with regard to accountability.

Maintain stability and develop succession planning

WLC IT Response:

- IT projects will have an assigned Project Executive and Project Board set up at project initiation and the aim will be to retain this group of individuals for the duration of the project.
- Any changes with regard to individuals will be managed on an individual basis with the replacement being identified at the earliest opportunity.
- Any specific risks to the project, or issues, related to staff changes will be tracked in the Risk and Issue log and raised with the Project Board.
- IT Services do use contract Project Managers (PM) and this carries a risk as a contract PM, in general, can give a 1 week notice period. This will be monitored by the Service Portfolio & Programme Manager (SPPM) and if a project has been impacted by multiple PM changes action will be taken to assign a permanent member of staff where the action can be taken.

WLC Actions to Consider:

Project Executive Role	More awareness needs given to any changes with regard to the Project Executive role as this can, and has, impacted negatively the focus and culture of projects.
Contract Project Managers	The ICT Programme Board must continue to assess and manage the risk associated with using contract Project Managers.
Corporate Structure Changes	When there are changes to the corporate structure across the council, consideration should be given to ongoing projects and programmes of work and where roles will be impacted by the changes made.

Recognise the role of culture and tone at the top

WLC IT Response:

- IT Project Managers will support the Project Executive and other Project Board members in the roles they are undertaking.
- IT Project Managers will give advice and guidance to the Board if there are risks to the project that may be falling out of the 'culture and tone at the top'. This can be a sensitive area and the Project Manager will consider how this is addressed at the Board however the Project Manager has a responsibility if there is a potential impact on the successful delivery of the project.

WLC Actions to Consider:

Roles and Responsibilities	It is crucial that the Project Executive and other Board members understand the role the play and the detrimental impact it can have on a project with regard to the 'message coming from the top'.
ICT Programme Board	Members of the Board must be clear on the remit of the group and their individual role within the group and associated responsibilities.

5. Individual projects set in a central framework of strategic oversight and assurance

Work within a central assurance framework

WLC IT Response:

- WLC IT manage all IT projects using a standard governance approach on all projects.
- The portfolio of projects is managed by the Service Portfolio & Programme Manager (SPPM).
- The SPPM can undertake a project assurance role on projects that are large, complex, encountering issues or high profile providing a level of independent scrutiny and challenge and providing support to the Board members.
- The SPPM is accountable to the ICT Programme Board (ICTPB) for reporting on the portfolio.
- The ICTPB is chaired by a Depute Chief Executive and is attended by Heads of Service. This provides a level of challenge and scrutiny at a corporate strategic level.

WLC Actions to Consider:

Wider Organisation Change	Alongside IT project there are other projects and programmes of activity being progressed across the council. This can cause a lack of clarity with regard to how the projects and programmes link together and what the overall priorities are for the council and for individual service areas. This can dilute the quality of project and programme management tracking across the organisation.
ICTPB Attendees	Not all Heads of Service are extended an invite to a standard ICTPB meeting (4 times per year). An absent Head of Service cannot be directly accountable, in that forum, for projects within their Service Area that may have issues arising e.g. exception reports. The absent Head of Service will also not have an understanding of the portfolio of change happening across the council and will not have an opportunity to be engaged in the wider scrutiny and challenge applied by the ICTPB.
ICTPB and Digital Transformation – Information Flow & Reporting	As the Digital Transformation agenda progresses the organisation must understand the portfolio of change across the organisation and how that drills down in to programmes of work and individual projects. Management of the change must be consistent and standard across the organisation with absolute clarity on Project Boards, Programme Boards, roles and responsibilities and the information flow between the forums to the highest level.
ICTPB and Digital Transformation – IT Services	IT Services must have a place at the table with the Digital Transformation agenda as technology will be the driver behind many of the projects and programmes of work that will achieve the council

	efficiencies and savings. Therefore the technology solutions must be considered at the outset as part of Digital Transformation project/programme design and planning

Recognise that strategic oversight adds value

WLC IT Response:

- WLC IT projects are run based on PRINCE2 project management methodology. One of the 'products' from PRINCE2 is the 'Lessons Report'. This report can be created at any stage in the project and will feed in to the Project Closure report.
- As part of the Post Implementation Review process, the 'Lessons Report' can be reviewed and updated to include any further lessons.
- The individual project 'Lessons Report' will also feed in to a central 'Lessons Report' where a central repository will be maintained in order that Project Managers and the organisation can benefit from lessons learned in previous projects.

WLC Actions to Consider:

Wider Organisation Change	The organisation out with IT Services could, and should, review and benefit from lessons learned on individual projects.
Lessons Learned – Ability to Make Change	Some of the lessons learned require change at a wider organisational level and there had to be a route for these lessons to be reviewed and considered with regard to any action to be taken.

Summary

The report has addressed the 5 ‘Principles for Success’ that were detailed in the:
Principles for a Digital Future - Lessons Learned from public sector ICT projects prepared by Audit Scotland May 2017
and explored the sub topics within each of the 5 ‘Principles for Success’.

For each sub-topic the report detailed what actions WLC IT Services already do that address the ‘lessons learned’ and also called out any actions that WLC may wish to consider to further support the ‘lessons learned’.

In summary, there are many areas evidenced where good practice is already in place however there are actions that could be taken to further improve.
The majority of recommendations are out with the scope of IT Services to implement as they would require the wider support and direction at a corporate level to be able to successfully implement the changes.

Key Areas of Action Relate To:

Level 1 Area	Level 2 Area	Level 3 Area
Roles and Responsibilities	Project Board	
	Project Executive Role	
	Project Executive – Conflicting Priorities	
	Project Executive – Appropriate Senior Manager	
	Corporate Procurement Specialist	New Procurement Routes
	Corporate Legal Specialist	
	Project Assurance Role	
	Contract Project Managers	
Project Brief	Project Tolerances	
Programme Management	Programme Management Boundaries	
Project Governance	ICTPB Attendance	
	ICTPB Attendees	
	Varying Project Management Methods within the Organisation	
	Commitment to Governance	
	Decision Making	
	Benefits Realisation	
Lessons Learned	Lessons Learned – Ability to Make Change	
	Exception Report Themes	
Business Resource Availability		
Wider Organisation Change	Corporate Structure Changes	
Standards and Consistency		
Digital Transformation	ICTPB and Digital Transformation – Information Flow and reporting	
	ICTPB and Digital Transformation – IT Services	
Perceptions – IT projects are about Technology		
Life after Project Closure		

West Lothian Council

AUDIT COMMITTEE

AUDIT SCOTLAND – EQUAL PAY IN SCOTTISH COUNCILS

REPORT BY HEAD OF CORPORATE SERVICES

A. PURPOSE OF REPORT

To provide the Audit Committee with a summary of the findings of the Accounts Commission's report on Equal Pay in Scottish Councils.

B. RECOMMENDATION

It is recommended that the Audit Committee notes the key findings and recommendations of the report.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	being honest, open and accountable; providing equality of opportunities; developing employees; making best use of our resources;
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	Compliance with the Equality Act 2010.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	None.
V	**Relevance to Single Outcome Agreement**	Priority 5: Minimising poverty, the cycle of deprivation and promoting equality. The public sector equality duty requires public authorities to take a proactive approach to tackling discrimination.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	Not required.
VIII	**Other consultations**	None.

D. TERMS OF REPORT

D1 Introduction

The Accounts Commission undertook an audit of equal pay activity across Scottish Local Government, focusing on five main themes:

- How councils implemented the Single Status Agreement.
- How much councils have spent settling equal pay claims.
- How councils demonstrate that they are dealing effectively with equal pay claims and minimising future risk.
- How effective the governance and oversight arrangements of the Single Status Agreement are.
- What lessons can be learned for the future?

The audit was carried out using a mixture of face to face meetings with six sample councils and requested specific information from all 32 councils. The survey for costs covers the financial periods 2004/05 to 2015/16. The outcome report was published in September 2017, a copy of which is attached as Appendix 1.

D1 Background

Over previous decades, women have commonly received less pay than men for undertaking work of comparable value, through the use of bonus schemes which applied to typically male dominated jobs. The Equal Pay Act 1970 was the first piece of legislation enshrining the right to pay equality between men and women in all contractual terms of employment, including pay. The Equality Act 2010 replaces the Equal Pay Act 1970.

D2 Equal Pay in Scottish Councils – Key Messages

The report contains 7 key messages which are summarised below:

1. Historically the pay and conditions of council employees were governed by different national agreements. In 1999 Scottish councils and trade unions negotiated an agreement to harmonise employment terms and conditions and eliminate pay inequality; this agreement was known as the Single Status Agreement (SSA).

2. It is recognised that implementing the SSA was a complex process that required councils to undertake a large scale job evaluation exercise. All but one council missed the implementation date of 2004. It wasn't until 2010 that all council's had the agreement in place.

3. Lack of collective national leadership to overcome the challenges in a timely manner is cited as an issue. This is evidenced by a lack of national guidance

4. Councils received no additional funding to implement their new pay and grading structures. The SSA brought significant costs by way of higher salaries for some and conservation of salaries for others, and some councils' found themselves balancing the risk of industrial unrest with affordability. This meant that councils put pay protection arrangements in place that were later found to be discriminatory.

5. As a result of delays in implementing the SSA, compensation was offered to employees who were identified as historically being unfairly paid by offering payments if they signed a compromise agreement. Councils paid around £232 million to approximately 50,000 workers in this way.

6. All councils received equal pay claims after SSA implementation, including claims against pay and bonus protection arrangements. Since 2004, around 70,000 equal pay claims have been lodged against councils. The costs of compensation agreements, settling claims and legal fees amounts to around £750m.

   The number of claims made against councils varies widely and some of this variation can be explained simply by council size, However, the number of claims is also known to be heavily influenced by how actively 'no−win no−fee' lawyers pursued employees to bring forward their claims.

7. To mitigate any risk of future claims, councils need to ensure they continue to have an equality proofed pay structure in place and have appropriate measures in place e.g. equal pay audits to monitor pay equality, in line with their public sector equality duty.

D3 **Key Findings – West Lothian Council**

- **Exhibit 1 – Single Status Implementation Date**

  This shows that out of the 32 councils, 6 councils implemented before West Lothian, with the remaining 19 taking up to 3 years after. West Lothian Council implemented the output of the job evaluation exercise using the Scottish Joint Councils' Job Evaluation Scheme for the new combined Local Government Employee Group, with effect from 1 October 2007.

- **Exhibit 2- Cost of Payment by Council**

  The report highlights the cost of the compensation payments made by each Council. West Lothian is shown as the 13th highest at a cost of £5.1 million, These payments assisted in mitigating the councils exposure to future equal pay claims lodged at tribunal.

- **Exhibit 4 – Number of Equal Pay Claims by Council**

  This details the number of tribunal claims by Council showing West Lothian with 635 claims, the 15th lowest of the 32 Councils. The reduced number of actual tribunal claims lodged can be attributed to the mitigation work undertaken by the council in respect of settlements offered to employees reducing the necessity for claims to be lodged.

- **Exhibit 5 – The Total Cost of Equal Pay Claims and Compensation**

  This shows the total cost of compensation and equal pay claims for West Lothian as £9.7 million.

- **Exhibit 7 – Live Claims as a Percentage of all Equal Pay Claims Lodged against Councils**

  At the time of the audit, the council had 190 unresolved live claims. These cases are being actively managed through the Employment Tribunal Service.

D4 Reducing the Gender Pay Gap

The causes of the gender pay gap are complex. As well as discrimination in pay and grading systems, other factors including occupational segregation can contribute to female workers earning less than their male counterparts.

Since 2013, public bodies have been required to publish information on their gender pay gap every two years. The council's gender pay gap of -1.21%for all employees is at present 6.19% lower than the average rate for Scottish Local Authorities (4.98%) as reported in the 2015/16 Local Government Benchmarking Framework.

D5 Governance and Oversight of Equal Pay

The public sector equality duty requires public authorities to take a proactive approach to tackling discrimination. A key action from the report is for councils to ensure that they are fulfilling their public sector equality duties in relation to equal pay. West Lothian Council has a clear commitment to equal pay, which is set out in its Equal Pay Policy statement.

E. CONCLUSION

The council is in a strong position with respect to its historical management of equal pay claims and it has a clear plan to deal with the small number of claims still remaining.

The ongoing governance and oversight of equal pay is robust and in line with the Audit Commission recommendations.

F. BACKGROUND REFERENCES

None

Appendices/Attachments: 1. Accounts Commission Report - Equal Pay in Scottish Councils

Contact Person: Lesley Henderson, HR Services Manager, 01506 281408,
lesley.henderson@westlothian.gov.uk

Julie Whitelaw
Head of Corporate Services

Date of meeting: 18 December 2017

Equal pay in Scottish councils

ACCOUNTS COMMISSION

Prepared by Audit Scotland
September 2017

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

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

About equal pay

What is equal pay?

The campaign for equal pay has a long history. Over time, women have often received less pay than men for doing comparable jobs. The Equal Pay Act 1970 was the first piece of legislation enshrining the right to pay equality between women and men. This Act made it unlawful for an employer to discriminate between women and men in all contractual terms of employment, including pay. The Equality Act 2010 replaces the Equal Pay Act 1970. All employers, public and private sector, must comply with equal pay legislation.

The Equal Pay Act 1970 set out ways an employee's work can be determined to be equal to that of another employee. These are restated in the Equality Act 2010 as:

- like work – work that is the same or broadly similar
- work rated as equivalent – when a job evaluation has rated two jobs as being the same or similar
- work of equal value – work found to be of equal value, for example in terms of effort, skill or decision-making.

Equal pay in councils

Historically, the pay and conditions of council employees were governed by different national agreements, for example pay and conditions for manual workers differed from those of administrative, professional, technical and clerical (APT&C) workers. These differences between groups of employees arose from national bargaining arrangements with different unions and historically favoured roles traditionally carried out by men. Equal pay claims about these differences were common in the 1990s and councils made expensive settlements for historical discrimination. National negotiations in the late 1990s began to find a new structure that would ensure councils complied with equal pay legislation.

What is the Single Status Agreement (SSA)?

In 1997, a UK-wide agreement was reached to unify the pay structures of different groups of council employees. This became known as the Single Status Agreement (SSA) or the 'Red Book'. This agreement covered around 1.4 million workers across the UK. Scottish councils and trade unions negotiated the Scottish version of the SSA in 1999. By harmonising employment terms and conditions, and grading all jobs on the same scale, this agreement sought to eliminate pay inequality for all.

Guiding principles

The guiding principles for the Single Status Agreement are to support and encourage the following:

- High-quality services delivered by a well-trained, motivated workforce with security of employment. To this end, councils are encouraged to provide training and development opportunities for their employees.
- Equal opportunities in employment; equality as a core principle that underpins service delivery and employment relations; and removing all discrimination and promotion of positive action.
- A flexible approach to providing services to the communities while meeting the needs of employees, as well as employers.
- Stable industrial relations and negotiation and consultation between councils as employers and recognised trade unions.

Source: *Single Status Agreement*, Scottish Joint Council, 1999

About the audit

This audit examines equal pay in local government, focusing on the following five themes:

- how councils implemented the Single Status Agreement (SSA)
- how much councils have spent settling equal pay claims
- how councils demonstrate that they are dealing effectively with equal pay claims and minimising future risks
- how effective the governance and oversight arrangements of the SSA are
- what lessons can be learned for the future.

This audit provides an insight into how the SSA has been implemented. But it does not investigate councils' job evaluation schemes, or consider individual staff terms and conditions at councils.

Although it reports on the number of equal pay claims, it does not look at individual claims, or make audit judgements on past litigation.

We reviewed a range of documents during our audit. We interviewed a range of staff at six sample councils and requested information from all 32 councils. Data for costs relates to financial years 2004/05 to 2015/16. Other data such as number of claims lodged relates to 2004/05 up to 30 September 2016. Appendix 1 has more information about our methodology.

In carrying out this audit, we faced considerable difficulty due to the lack of good-quality data relating to the implementation of equal pay.

Equal pay and the gender pay gap are different but related issues. Equal pay focuses on discrimination where a woman is paid less than a man for doing the same or broadly similar work, work of equal value or work rated as equivalent. The gender pay gap calculates the difference between men and women's earnings and presents this as a percentage of men's earnings. The gender pay gap is influenced by a range of factors such as:

- occupational segregation, where women are still more likely to be in low-paid jobs
- unequal caring responsibilities
- a lack of flexible working, which makes it difficult to combine caring with employment
- men continuing to make up the majority of those in the highest paid and most senior roles.

The factors that contribute to the gender pay gap have not been the focus of this audit, but where appropriate we highlight the links between equal pay and the gender pay gap.

Key messages

1 Under equality legislation all employers have a legal responsibility to ensure that women and men receive equal pay for equal work. In 1999, Scottish councils and trade unions reached the Single Status Agreement. The aim of the agreement was to harmonise local government pay and employment terms and conditions, and eliminate pay inequality.

2 Implementing the Single Status Agreement was a complex process that required all councils to undertake a large-scale job evaluation exercise. Councils underestimated the challenges involved and all but one missed the agreed implementation date of 2004. It was not until 2010 that all councils in Scotland had single status in place. This was 11 years after the agreement was signed, with implementation taking twice as long as initially planned.

3 There has been a lack of collective national leadership to overcome the challenges and address equal pay issues in a timely way.

4 Councils initially worked on the basis that they could offset the costs of implementing single status with savings from changes to staff conditions and by improving staff productivity. Councils received no additional funding to implement their new pay and grading structures. In reality, single status brought significant costs and some councils and trade unions found themselves balancing the risk of industrial unrest with affordability. This meant that some of the approaches taken by councils when implementing single status did not always prioritise pay equality and were later found to be discriminatory.

5 Councils sought to compensate workers who had historically been unfairly paid by offering payments if they signed compromise agreements. Councils paid around £232 million to approximately 50,000 workers in this way. The payments made were often of a relatively low value compared with the difference in pay over time, so some people refused them. Even while councils were implementing single status, they continued to receive thousands of equal pay claims for historical pay discrimination.

6 All councils received equal pay claims after implementation. There were many reasons for these claims, for example claims against pay and bonus protection given to predominately male workers and discrimination in job evaluation schemes. Since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounts to around £750 million. The number of claims made against councils varies widely. Some of this variation can be explained by how actively 'no-win no-fee' lawyers have encouraged claims in different council areas. There are almost 27,000 live equal pay claims and workers could potentially still make new claims against councils.

7 Councils need to be confident they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. Elected members need to continue to oversee, scrutinise and challenge councils' approaches to delivering equal pay and reducing the gender pay gap.

Single Status Agreement

Pay inequality is rooted in long-standing traditional attitudes about women's place in society

Historically, women have often received less pay than men for doing comparable jobs. Many social and economic drivers led to discriminatory pay systems and the long-standing pattern of inequality. During the 1920s and 1930s, UK policy even reflected this practice of lower wages for women. Fundamentally, society often undervalues women's competencies and skills. In the local government context, roles predominantly done by women, for example catering, cleaning and caring, had lower pay scales than male-dominated roles such as grave-digging or refuse-collecting, even though they required similar skill levels. The campaign for equal pay continued throughout the decades, and the Equal Pay Act was passed in 1970. This prohibits any less favourable treatment between men and women in terms of pay and conditions of employment. Equal pay provisions are now in the Equality Act 2010.

In the late 1980s, councils attempted various measures to comply with legislation and address equal pay issues, for example by putting job evaluation schemes in place for manual workers. This exercise re-valued some women's jobs, and placed them on the same grade as jobs done by their male colleagues.

However, many of the male-dominated jobs included bonus schemes *i* or attracted other allowances, providing men with extra pay. This meant that, even where female-dominated roles had been re-valued, women continued to receive less money than their male colleagues for work of equal value.

Background to bonus schemes

These locally negotiated schemes were initially introduced in the 1960s to address low pay and productivity within public sector manual working at a time of pay freeze. The schemes were typically applied to full-time roles carried out by male manual workers. So, for example, refuse collectors often received bonuses, while women in similar-level jobs, such as cleaning, did not. Over time, councils stopped monitoring productivity and the bonuses became an expected part of those workers' pay.

> 'Access to bonus payments is a crucial factor in determining employee earnings. Overall, more than half of male full-time manual staff receive bonuses, compared with only five per cent of female staff. According to a 1996 survey of council manual workers by the Local Government Management Board, bonus payments represented 15 per cent of average male earnings compared with just over one per cent of female earnings.'

Source: *Equal Opportunities Review No 76 November/December 1997*, edited by Michael Rubenstein

Increasing equal pay claims and difficulties in eliminating pay inequality led to single status being agreed

Before the SSA, councils used different pay and grading structures across manual workers and administrative and clerical workers (APT&C); this made it difficult to identify and eliminate pay inequalities for similar work between these workers. In the 1990s, equal pay claims resulted in expensive settlements, mostly in relation to women being excluded from male-dominated bonus schemes. This led Scottish councils and trade unions to agree the SSA in 1999. The SSA replaced the old separate agreements and bargaining arrangements for different occupational groups, manual and APT&C employees. It aimed to harmonise both pay and employment terms and conditions and sought to eliminate pay inequality for all.

The original SSA signed in 1999 specified that single status should be in place by April 2002. This proved too ambitious and a revised date of April 2004 was agreed between councils and trade unions (Exhibit 1, page 8).

As separate employers, councils across Scotland took individual approaches to implementing single status and each one followed local processes to reflect its own circumstances. The Scottish Joint Council (SJC) issued guidance to help councils with their local implementation of the SSA. In 2006, an inquiry by the Scottish Parliament's Finance Committee into the cost of single status reported that unions preferred a national agreement covering all aspects of single status, but that councils sought to have local flexibility in all arrangements.[1] The Finance Committee recommended that councils, unions and COSLA urgently enter into discussions at a national and local level, facilitated by the then Scottish Executive, to ensure implementation within 12 months. There is no evidence this recommendation was taken forward, highlighting the lack of collective leadership nationally.

1. *4th Report, 2006 (Session 2):Report on the Financial Implications of the Local Authority Single Status Agreement*, Finance Committee, Scottish Parliament, 2006.

Exhibit 1

Councils' Single Status Agreement implementation dates

2003

- South Lanarkshire

2004

Agreed national SSA implementation date

2005

2006

- East Ayrshire
- Glasgow City
- North Lanarkshire
- Moray
- Falkirk

2007

- Aberdeenshire
- Renfrewshire
- Fife
- East Renfrewshire
- North Ayrshire
- Perth and Kinross
- West Lothian

2008

- Argyll and Bute
- East Dunbartonshire
- Angus
- Dundee
- Highland
- Orkney Islands
- East Lothian
- Eilean Siar
- Inverclyde
- Scottish Borders

2009

- Stirling
- West Dunbartonshire
- Shetland Islands
- Aberdeen City
- Midlothian
- South Ayrshire

2010

- Clackmannanshire
- City of Edinburgh
- Dumfries and Galloway

Some councils' implementation dates were backdated:

Renfrewshire	1 April 2006
East Renfrewshire	1 July 2006
Orkney Islands	1 April 2007
Eilean Siar	1 April 2007
Dumfries and Galloway	1 April 2009

Source: Audit Scotland information request to Scottish councils, 2016

Councils were required to undertake an extensive job evaluation as part of implementing single status

Before the SSA was implemented, there were separate bargaining arrangements in local government for pay and terms and conditions of different groups of staff, for example, manual workers and APT&C. This approach to pay and collective bargaining was not unique to local government. Before implementing Agenda for Change, the NHS had more than 20 committees bargaining separately for different groups of staff such as nurses and allied health professionals.

In 1993, there was a significant test case in England where female senior NHS speech therapists named male senior pharmacists and male clinical psychologists as comparators in their equal pay claim.[2] The Court of Justice ruled that an employer could not rely alone on the fact that the two jobs were paid according to two different collective bargaining agreements as a defence to comparing different occupations. To help deal with any inequalities in their approach to remunerating different groups of staff, employers across the public sector began introducing new **job evaluation** *i* schemes.

In 1999, to help councils implement SSA, the SJC developed a national job evaluation scheme (JES). Councils did not have to use the national scheme but most did. South Lanarkshire Council had established its own scheme before the national JES was developed. Glasgow City Council and the City of Edinburgh Council used other schemes. Regardless of the scheme, if done correctly job evaluation should have provided assurances that a council had a fair and transparent equal pay structure and protected it from future equal pay claims.

Developing a new pay and grading structure that was fair and accurate took time. But this aspect of the single status programme proved more time-consuming for some councils than others. For example, the number of jobs councils had to evaluate varied. Some larger councils had thousands of different types of jobs to evaluate, whereas others had only hundreds.

What does job evaluation entail?

A key part of single status involved councils evaluating jobs under a single system that provides a consistent approach to defining their relative worth across the whole organisation.

Job evaluation does not determine actual pay, but places jobs in a rank order according to overall demands placed upon the job holder.

The SJC's JES scheme defines these demands across a range of factors such as knowledge and skills, responsibility, working environment, and dealing with relationships. Councils score local jobs and rank them through their locally agreed pay and grading structures. This approach across local government differs from the NHS's job evaluation scheme under Agenda for Change, which had a central negotiating group and enabled most jobs to be matched to nationally evaluated profiles.

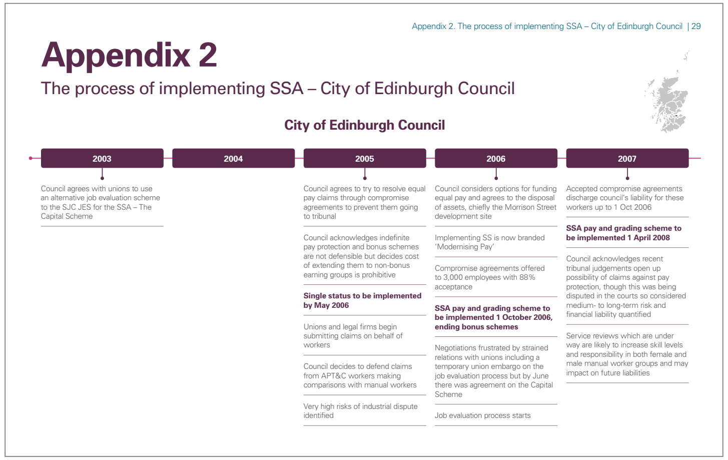
Once each council had completed its job evaluation exercise for single status, it transferred manual and APT&C employees to the new single pay and grading structure.

2. *Enderby v Frenchay Health Authority* [1993] EUECJ C127/92.

Councils were expected to evaluate jobs and implement their pay and grading structures under the SSA in agreement with trade unions.

Some councils and trade unions faced difficulties reaching agreement on specific job evaluations and on new terms and conditions. This led to protracted negotiations and some councils faced industrial relations issues such as work-to-rule and industrial action. Our case study on City of Edinburgh Council (Appendix 2) and The Highland Council (Appendix 3) highlights how different the process was depending on local challenges. Some councils reported that dealing with the protracted and difficult negotiations on grading structures, along with equal pay claims, put a significant strain on their HR resources. Trade unions also faced this problem.

In its inquiry into the cost of single status in 2006, the Scottish Parliament's Finance Committee found that councils and unions failed to engage properly in constructive negotiations to implement single status agreements.[3] Ultimately, only eight councils introduced their new pay and grading structures in agreement with trade unions.


Appendix 2. The process of implementing SSA – City of Edinburgh Council | 29

Appendix 2

The process of implementing SSA – City of Edinburgh Council

City of Edinburgh Council

2003
- Council agrees with unions to use an alternative job evaluation scheme to the SJC JES for the SSA – The Capital Scheme

2004

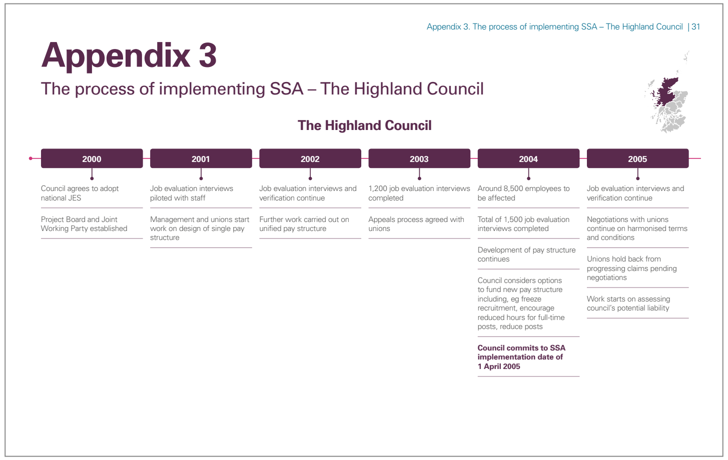
2005
- Council agrees to try to resolve equal pay claims through compromise agreements to prevent them going to tribunal
- Council acknowledges indefinite pay protection and bonus schemes are not defensible but decides cost of extending them to non-bonus earning groups is prohibitive
- **Single status to be implemented by May 2006**
- Unions and legal firms begin submitting claims on behalf of workers
- Council decides to defend claims from APT&C workers making comparisons with manual workers
- Very high risks of industrial dispute identified

2006
- Council considers options for funding equal pay and agrees to the disposal of assets, chiefly the Morrison Street development site
- Implementing SS is now branded 'Modernising Pay'
- Compromise agreements offered to 3,000 employees with 88% acceptance
- **SSA pay and grading scheme to be implemented 1 October 2006, ending bonus schemes**
- Negotiations frustrated by strained relations with unions including a temporary union embargo on the job evaluation process but by June there was agreement on the Capital Scheme
- Job evaluation process starts

2007
- Accepted compromise agreements discharge council's liability for these workers up to 1 Oct 2006
- **SSA pay and grading scheme to be implemented 1 April 2008**
- Council acknowledges recent tribunal judgements open up possibility of claims against pay protection, though this was being disputed in the courts so considered medium- to long-term risk and financial liability quantified
- Service reviews which are under way are likely to increase skill levels and responsibility in both female and male manual worker groups and may impact on future liabilities

City of Edinburgh Council

Appendix 2


Appendix 3. The process of implementing SSA – The Highland Council | 31

Appendix 3

The process of implementing SSA – The Highland Council

The Highland Council

2000
- Council agrees to adopt national JES
- Project Board and Joint Working Party established

2001
- Job evaluation interviews piloted with staff
- Management and unions start work on design of single pay structure

2002
- Job evaluation interviews and verification continue
- Further work carried out on unified pay structure

2003
- 1,200 job evaluation interviews completed
- Appeals process agreed with unions

2004
- Around 8,500 employees to be affected
- Total of 1,500 job evaluation interviews completed
- Development of pay structure continues
- Council considers options to fund new pay structure including, eg freeze recruitment, encourage reduced hours for full-time posts, reduce posts
- **Council commits to SSA implementation date of 1 April 2005**

2005
- Job evaluation interviews and verification continue
- Negotiations with unions continue on harmonised terms and conditions
- Unions hold back from progressing claims pending negotiations
- Work starts on assessing council's potential liability

The Highland Council

Appendix 3

3. *4th Report, 2006 (Session 2):Report on the Financial Implications of the Local Authority Single Status Agreement*, Finance Committee, Scottish Parliament, 2006.

Councils faced difficulties in funding the changes under the SSA, slowing progress

Another factor in the slow progress in moving to single status pay and conditions was the cost. Councils did not receive any additional money to implement these new pay and grading structures. COSLA pay circulars in 2000 set out the intention to negotiate new pay structures on a cost-neutral basis.[4] In signing the SSA, councils and unions expected to offset the additional cost of addressing pay inequalities for one group of staff (predominately women) by modernising their workforces, reducing the pay of another group (predominately men), or doing both. In 2006, COSLA reaffirmed to the Finance Committee the intention to deliver single status on a cost-neutral basis.[5]

South Lanarkshire Council reported that it had managed the impact of single status on its budget by implementing it alongside a programme of Best Value reviews.[6] These delivered savings to offset the cost of single status. Councils considered various other measures to offset costs, such as recruitment freezes, encouraging staff to reduce their hours and rationalising terms and conditions. In reality, councils found it difficult to deliver single status on a cost-neutral basis. Some councils estimated the impact on their own local payroll. For example, the City of Edinburgh Council estimated it would add around £10 million each year to its wage bill. But nationally, the full cost of single status is unknown. There is no evidence of the cost to councils being estimated at a national level using cost modelling.

Negotiations with trade unions over cost-offsetting measures proved long and difficult. Our case study of implementation in City of Edinburgh Council and The Highland Council highlights these difficulties. Trade unions had to balance a number of priorities during the discussions with councils about new pay structures. In striving for equal pay, they were both representing their women members who were pursuing equal pay claims and trying to negotiate protection for the salaries of their male members.

The delays in implementing the SSA resulted in prolonged inequality and had financial implications. In 2004, councils began making compensation payments where they knew workers had been unfairly paid, generally to female manual workers who had been excluded from bonus schemes (Exhibit 2, page 12). In accepting these payments, workers were required to sign compromise agreements (now referred to as settlement agreements). Around 50,000 employees received this type of compensation.

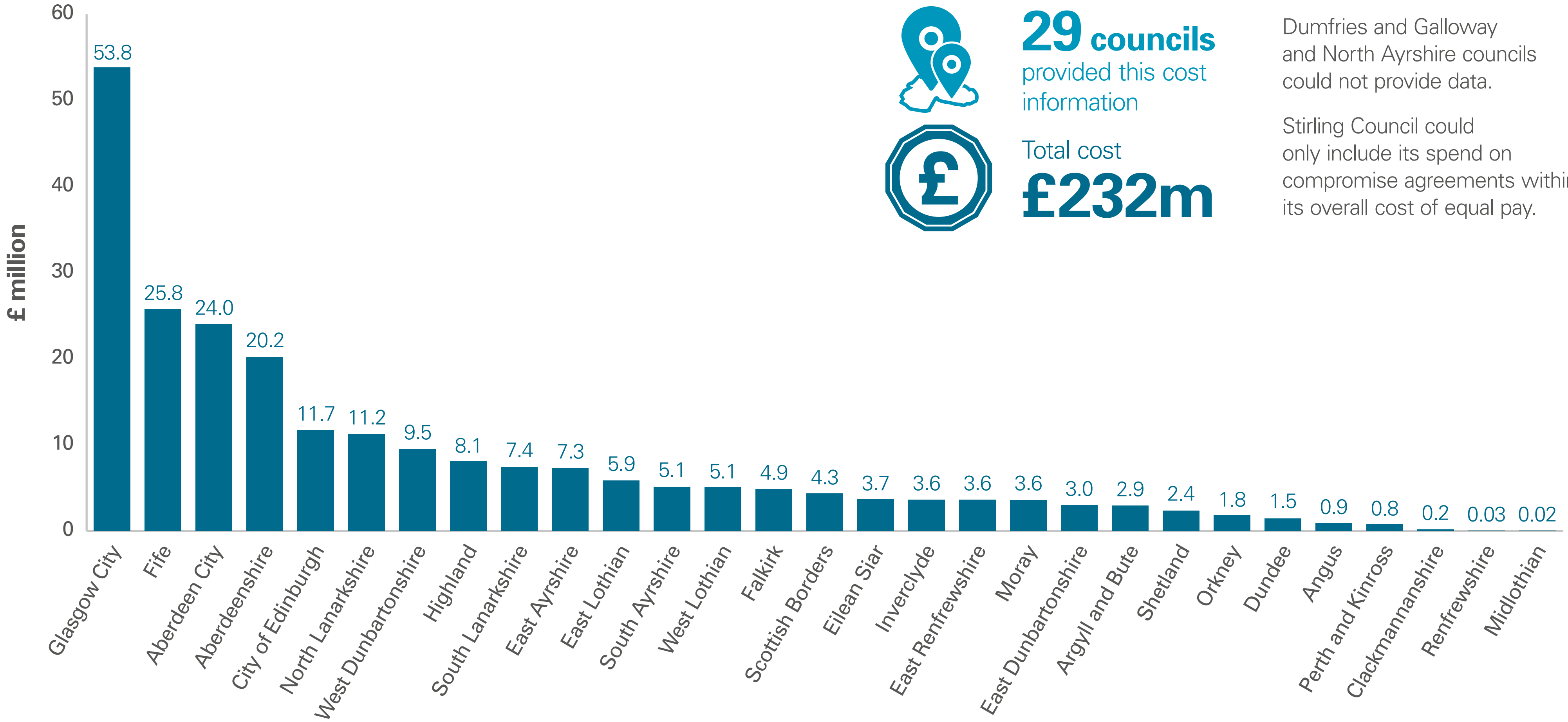
In accepting compensation payments, employees agreed not to pursue claims with the Employment Tribunal Service (ETS). In 2003, amendments to the Equal Pay Act extended the limit on compensation for back pay from two to five years. In councils where the implementation date for SSA slipped they made additional compensation payments to female workers. These payments covered the gap for the period between the original date of SSA implementation in 2004 and the actual date that staff moved across to each council's new pay structure.

In 2009, a Local Government and Communities Committee inquiry into Equal Pay in Local Government reported that compromise agreements had not always been accepted by employees because settlement offers were too low.[7] No national and comparable data about the amount paid to employees in compensation is available.

However, the Allen and others v GMB tribunal case found that the settlements were much lower than the real value of employees' claims.[8] In some cases employees received 25 per cent or less of the value they could have been entitled to. When compromise agreements were not reached, many workers went on to lodge an equal pay claim.

4. *Industrial Relations: 1l2000, 2000 pay negotiations – local government employees,* Personnel Services Circular, COSLA, February 2000.
5. *4th Report, 2006 (Session 2):Report on the Financial Implications of the Local Authority Single Status Agreement*, Finance Committee, Scottish Parliament, 2006.
6. *Efficiency Statement 2006/07,* South Lanarkshire Council, 12 September 2007.
7. *12th Report, 2009 (Session 3): Equal Pay in Local Government*, Local Government and Communities Committee, Scottish Parliament, June 2009.
8. *Allen and others v GMB* [2008] EWCA Civ 810; [2008] ICR 1407.

Exhibit 2
Cost of compensation payments by council



29 councils provided this cost information

Total cost **£232m**

Dumfries and Galloway and North Ayrshire councils could not provide data.

Stirling Council could only include its spend on compromise agreements within its overall cost of equal pay.

Source: Audit Scotland information request to Scottish councils, 2016

Councils' strategies for protecting some workers' pay were later found to be discriminatory

In implementing their JES, councils faced criticism from unions about the lack of clarity and information about how some roles were scored and evaluated. This affected the willingness of unions and councils to agree on pay and grading matters and impacted on the time it took to implement the SSA.

The outcome of the job evaluation for some workers was that pay for their new grade was lower than their old grade, particularly for the male-dominated roles that had historically received bonuses. Councils were concerned that any widespread pay cuts could bring about industrial relation difficulties and in extreme circumstances lead to industrial action. To lessen the impact for those who would lose earnings, councils used a range of measures, for example they **protected pay** for some staff, predominately male, at the higher level for a period of time. This practice is known as red circling. SJC guidance stated that payment protection could be offered by councils for up to three years, but not how councils should apply it. As a result, the way in which councils used payment protection varied across Scotland.

Some councils protected basic pay and, despite a history of claims about women being excluded from bonus schemes, most councils also protected bonuses for a period of time after transferring to new pay structures.

Another approach councils adopted was to enrich some roles so that they would be graded at a level that prevented or minimised any potential loss in salary for some male workers.

The option of increasing the women's pay to the same level as the men – often referred to as levelling up – was consistent with the intention of single status and equal pay legislation. Councils did not pursue this option on the basis of affordability, although there is limited evidence to demonstrate that they fully costed this option. Ultimately the measures councils adopted kept men's salaries higher than women performing equivalent roles.

Protected pay

Protection at assimilation on to the new spinal column for all employees including bonus earners will be for three years on a cash-conserved basis. This timescale has regard to the increased potential for equal pay claims should protection be allowed to extend beyond that period.

It is important to emphasise that bonus schemes may not in themselves be discriminatory provided they meet real business objectives and access is available to all. Councils should therefore be free to introduce council-wide reward strategies where this is considered desirable and following the full involvement of the trade unions.

Source: *Single Status Agreement*, Scottish Joint Council, 1999

Pay protection arrangements were the focus of various legal cases

From 2007 onwards, legal challenges started to be made to locally negotiated arrangements for men whose pay was protected. In the cases of Redcar & Cleveland Borough Council v Bainbridge and Others, and Surtees and Others v Middlesbrough Borough Council, the Court of Appeal held that, except in limited circumstances, discriminatory pay protection arrangements could not be justified.[9]

In the Redcar case, the court found no evidence that the council had taken account of any negative impact on female employees when only offering payment protection to the male employees. Councils subsequently received many claims against discriminatory payment protection schemes. We cover the number of all claims councils received in (Exhibit 3, page 16).

In 2009, the Local Government and Communities Committee recommended that COSLA consult with trade unions and publish guidance to help councils understand the main points that were emerging from the complex case law about pay protection and what they should be doing to ensure that any pay protection scheme was fair.[10] There is no evidence any updated guidance was ever issued, highlighting a further lack of collective national leadership.

9. *Redcar and Cleveland Borough Council v Bainbridge and others; Surtees and others v Middlesbrough Borough Council* [2008] EWCA Civ 885 CA.
10. *12th Report, 2009 (Session 3): Equal Pay in Local Government*, Local Government and Communities Committee, Scottish Parliament, June 2009.

Equal pay claims

Workers made equal pay claims after councils had implemented single status

While councils were implementing single status they all received claims relating to historical bonuses. Councils also experienced equal pay litigation following implementation of single status.

Employees of Scottish councils lodged more than 70,000 equal pay claims against their employers between 2004/05 and 30 September 2016 (Exhibit 3, page 16).

Some councils had several discrete waves of claims. Exhibit 4 (page 17) shows the number of claims lodged by council. 'No-win no-fee' solicitors signed up many claimants. This impacted on the number of claims made against specific councils, particularly the larger councils such as City of Edinburgh, South Lanarkshire, Glasgow City and North Lanarkshire.

As many claims are resolved outwith a tribunal, the details are not generally published, but from the information that is available we know that workers have made claims against:

- payment protection
- job evaluation scheme issues including job grading.

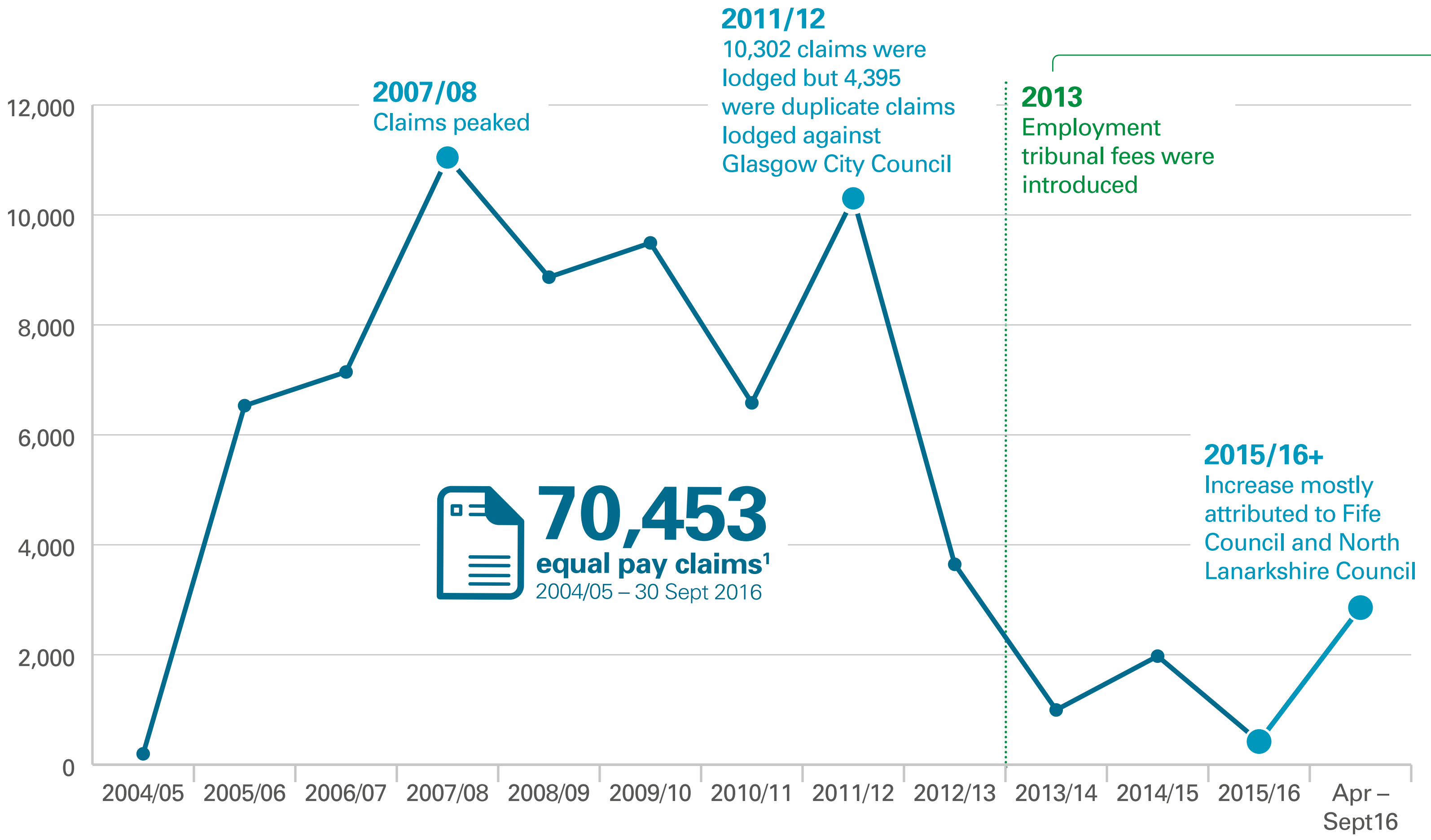
Some councils used job enrichment measures to prevent workers losing pay under single status. A job enrichment scheme typically includes 'measures that can improve earning opportunities and significantly reduce loss of pay or bonus'. Measures could include the creating of new roles, or re-adjusting the job weightings of workers – in predominantly male jobs – under the single status job evaluation scheme. If a council does not offer female employees the same measures, it can continue inequality in pay. There is little published information on the claims for this reason in Scotland, although it has been the subject of many legal and academic papers, for example in *Are litigation and collective bargaining complements or substitutes for achieving gender equality? A Study of the British Equal Pay Act*.

From 2004/05 to September 2016, the total cost of settling claims, including all compromise agreements and legal costs, has been around £750 million across all Scottish councils. Exhibit 5 (page 18) shows the cost by council over this period.

In 2009, the Scottish Government introduced a 'capitalisation' scheme. This was to allow councils to borrow capital to settle equal pay claims. Between January 2009 and April 2012 it granted 11 councils (Aberdeen City, Clackmannanshire, East Dunbartonshire, City of Edinburgh, Falkirk, Glasgow City, Highland, Midlothian, North Ayrshire, Scottish Borders and West Dunbartonshire) consent to borrow a total of £83 million. Six of these councils (Aberdeen City, Falkirk, Glasgow City, Midlothian, North Ayrshire, and West Dunbartonshire), used the scheme to borrow capital with the amount borrowed totalling almost £37 million. Only two councils (Glasgow City and North Ayrshire) borrowed up to their full allocation.[11]

11. *Consents to Borrow – Equal Pay*, Scottish Government, April 2013

Exhibit 3
Total number of equal pay claims lodged with the Employment Tribunal Service against councils, 2004/05 to September 2016



Employment tribunal fees

Employment tribunal fees were introduced in 2013. People had to pay up to £1,200 to lodge a case with the ETS. This was potentially unaffordable for some and therefore a barrier to pursuing their equal pay claim.

In July 2017, the Supreme Court ruled that tribunal fees were unlawful under both UK and EU law because 'it has the effect of preventing access to justice.

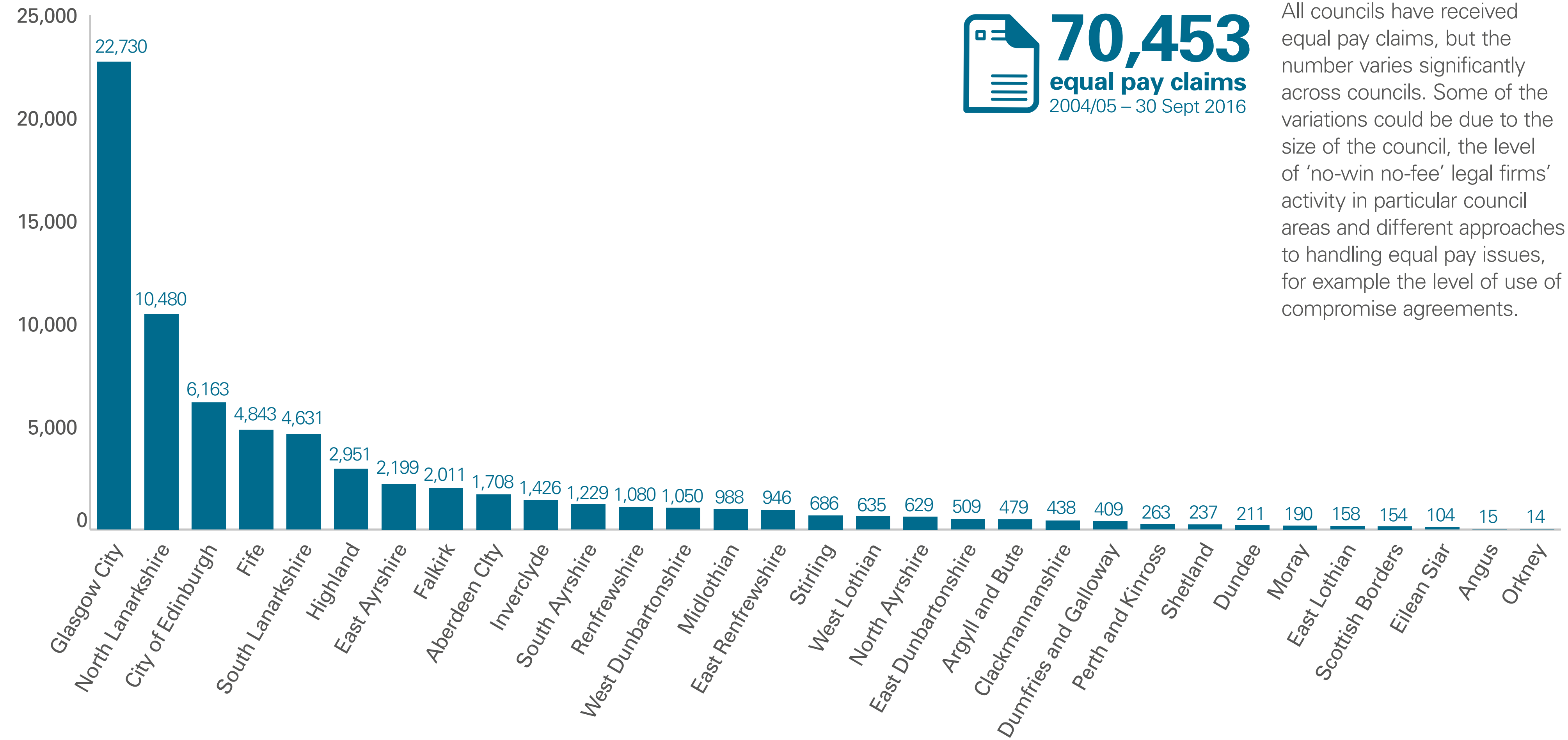
The UK government has agreed to take immediate steps to stop charging fees.

Notes:
1. Includes a minimum of 6,607 duplicate claims lodged across the 11 years.
2. Aberdeenshire Council could not provide the total number of claims lodged as it removes claims from its database once they have been settled. As at September 2016, it had 887 lodged claims that were live.
3. Falkirk Council has an additional 395 claims which have been withdrawn but for which it does not have dates when lodged. These are included in the Scotland total.
4. Eight councils hold data by calendar year and submitted their figures to the nearest financial year.
5. Angus Council's information provided is based on settlement dates not when lodged.
6. South Lanarkshire Council's figures represent the number of claimants rather than number of claims.

Source: Audit Scotland information request to Scottish councils, 2016

Exhibit 4

Number of equal pay claims by council, 2004/05 to September 2016



70,453
equal pay claims
2004/05 – 30 Sept 2016

All councils have received equal pay claims, but the number varies significantly across councils. Some of the variations could be due to the size of the council, the level of 'no-win no-fee' legal firms' activity in particular council areas and different approaches to handling equal pay issues, for example the level of use of compromise agreements.

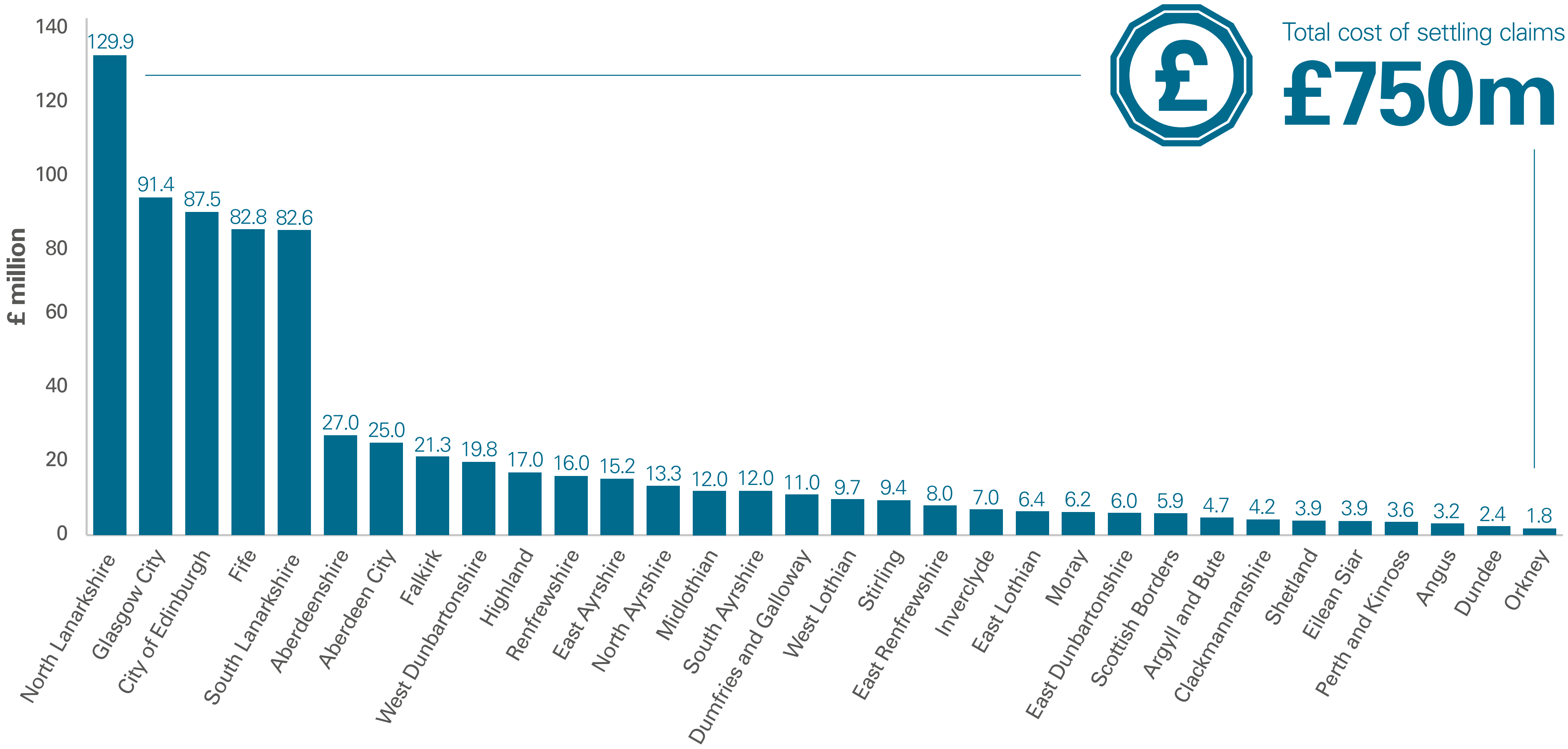
Notes:
1. Includes a minimum of 6,607 duplicate claims lodged across the 11 years.
2. Aberdeenshire Council could not provide the total number of claims lodged as it removes claims from its database once they have been settled. As at September 2016, it had 887 lodged claims that were live.
3. Claims lodged against Glasgow City Council ALEOs are included.
4. South Lanarkshire Council's figures represent the number of claimants rather than number of claims.

Source: Audit Scotland information request to Scottish councils, 2016

Exhibit 5

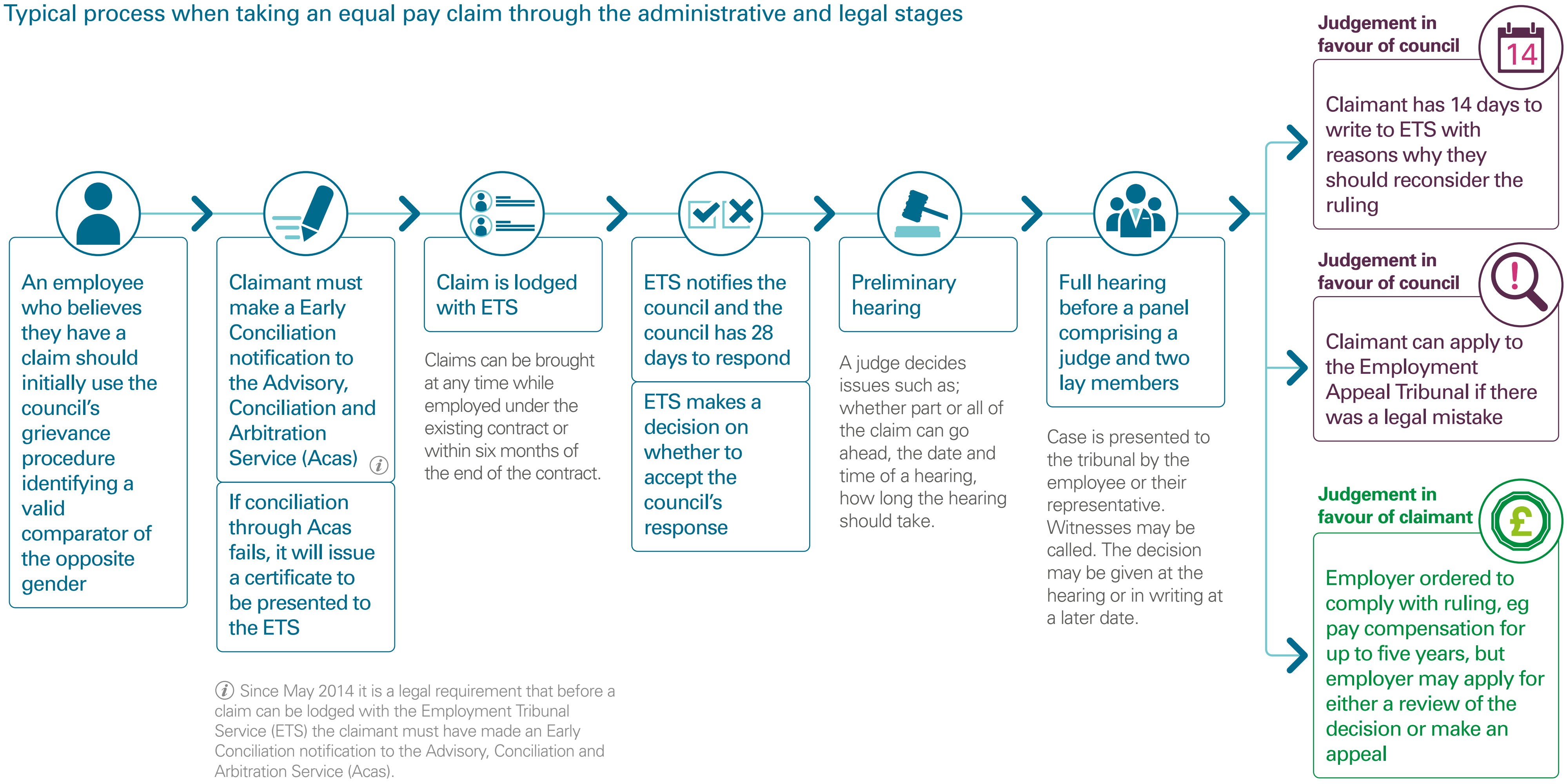
Total cost of equal pay claims and compensation, by council 2004/05 to 2015/16

This includes legal costs, costs of equal pay claims and settlement/compromise agreements



Source: Audit Scotland information request to Scottish councils, 2016

Exhibit 6
Typical process when taking an equal pay claim through the administrative and legal stages



Source: Audit Scotland, 2017

Managing equal pay claims is an extremely complex process. A claim can escalate through many stages until agreement is reached. Negotiations between councils and employees' representatives may continue during the process and they can reach an agreement at any stage.

The process of taking an equal pay claim through the administrative and legal stages required to reach a conclusion can be very long and costly. Many claims are settled before they reach a tribunal hearing.

In bringing a claim, a claimant has to first establish a comparator for like work, work rated as equivalent and/or work of equal value. If a councils choses to defend the claim, the legal grounds on which pay differences can be justified are very complex.

There are almost 27,000 pending or unresolved equal pay claims

At the end of September 2016, 27 councils reported almost 27,000 equal pay claims remained live with the ETS (Exhibit 7, page 21). Angus, Dumfries and Galloway, reported East Lothian, Orkney and Renfrewshire had no live claims. Nine out of ten live claims are from female workers. Live claims represent over a third of all claims lodged with the ETS since 2004/05. Seven councils have over 50 per cent of all their claims still recorded as live. Thousands of claims currently in the system in Scotland have been live for over a decade.

Reasons reported by councils for the length of time taken in resolving live claims include:

- processing and assessing the validity of claims
- waiting for full information on the nature of the legal challenge
- the grounds for a claim changing, for example if an individual changes their legal representation
- time taken for claims to progress through the ETS
- waiting for the outcome of tribunals.

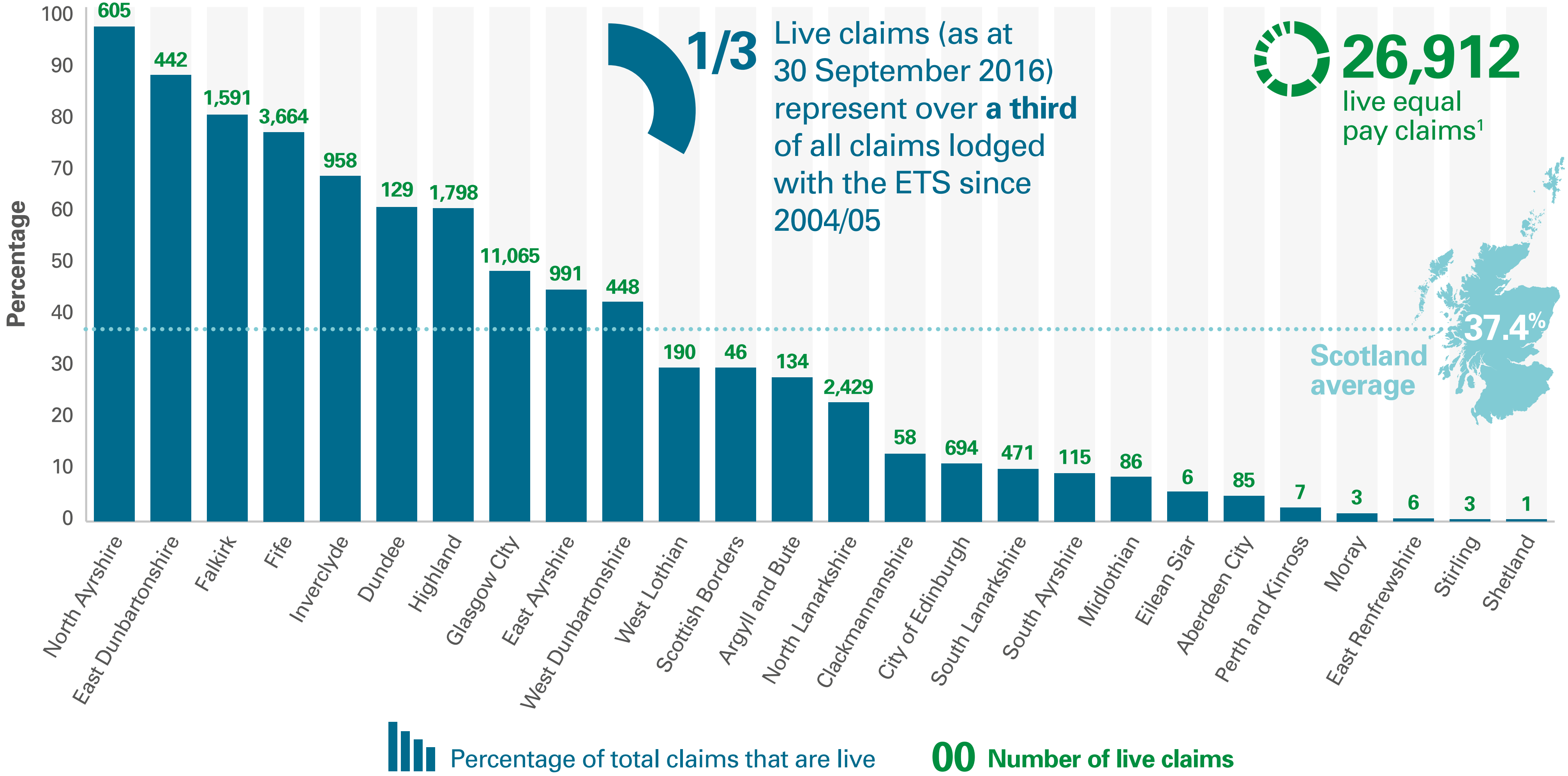
Challenges to councils' approaches to implementing the SSA across the UK created a complex legal environment. This includes significant cases where employment tribunal rulings have been appealed and taken as far as the UK Supreme Court, with different rulings at each stage. Councils have commonly waited on legal rulings in national test cases in determining whether to defend claims as part of their strategies to minimise costs. Employees have successfully challenged how some councils have handled and defended claims. For example, in Cannop and others v Highland Council, female claimants successfully challenged the council's approach to delaying and defending claims on procedural grounds.[12]

Another example of councils' defences against equal pay claims was that female workers and their male comparators had to be co-located for a claim to be valid. For example, more than six years after claims were raised, Dumfries and Galloway Council lost a UK Supreme Court ruling in 2013 that clarified that women and men can compare earnings across locations for the same employer, as set out in EU law.[13] Similarly, City of Edinburgh Council lost a tribunal appeal from workers comparing themselves across locations.[14]

In another lengthy and complex case in 2014, the Court of Session ruled that female workers working in Glasgow City Council's arm's-length organisations (ALEOs) could legitimately compare their terms and conditions with male workers in the council.[15]

12. *Cannop and others v Highland Council* [2008] CSIH38; [2008] IRLR 634
13. *North v Dumfries and Galloway Council* [2013] UKSC 45
14. *City of Edinburgh Council v Wilkinson* [2011] CSIH 70
15. *Glasgow City Council v Unison and Fox Cross Claimants* [2017] CSIH 27

Exhibit 7
Live claims as a percentage of all equal pay claims lodged against councils



Notes:
1. Aberdeenshire Council could not provide the total number of claims lodged as it removes claims from its database once they have been settled. As at September 2016, it had 887 live claims which are included in the total.
2. Angus, Dumfries and Galloway, East Lothian, Orkney and Renfrewshire Council did not have any live claims as at 30 September 2016.
3. South Lanarkshire Council reported claimants not claims.

Source: Audit Scotland information request to Scottish councils, 2016

Reducing the gender pay gap

The causes of the gender pay gap are complex. As well as discrimination in pay grading systems, other factors, including occupational segregation and inflexible working practices can contribute to female workers earning less than their male counterparts.

Ensuring women and men receive equal pay for equal work should contribute to closing the gender pay gap. But in Scotland, the pay gap between all male and female employees (full-time and part-time workers) is currently estimated at about 15 per cent.[16]

Since 2013, public bodies have been required to publish information on their gender pay gap every two years. However, this is reported in different ways by different organisations, which makes it very difficult to determine the true scale of the issue.

Identifying a direct link between equal pay and a reduction in the gender pay gap is difficult given the complex factors involved (Exhibit 8, page 23). Only 15 councils provided information on the difference in their gender pay gap since implementing SSA. Even where councils have provided information, the way they measure the gender pay gap varies, making it difficult to assess performance.

In June 2017, the Scottish Parliament's Economy, Jobs and Fair Work Committee recommended that the Scottish Government:

- develop a suite of indicators to measure the underlying causes of the gender pay gap, using comprehensive data
- change the way it measures and reports the gender pay gap in its National Performance Framework (NPF) to take into account part-time workers in Scotland.[17]

Close the Gap

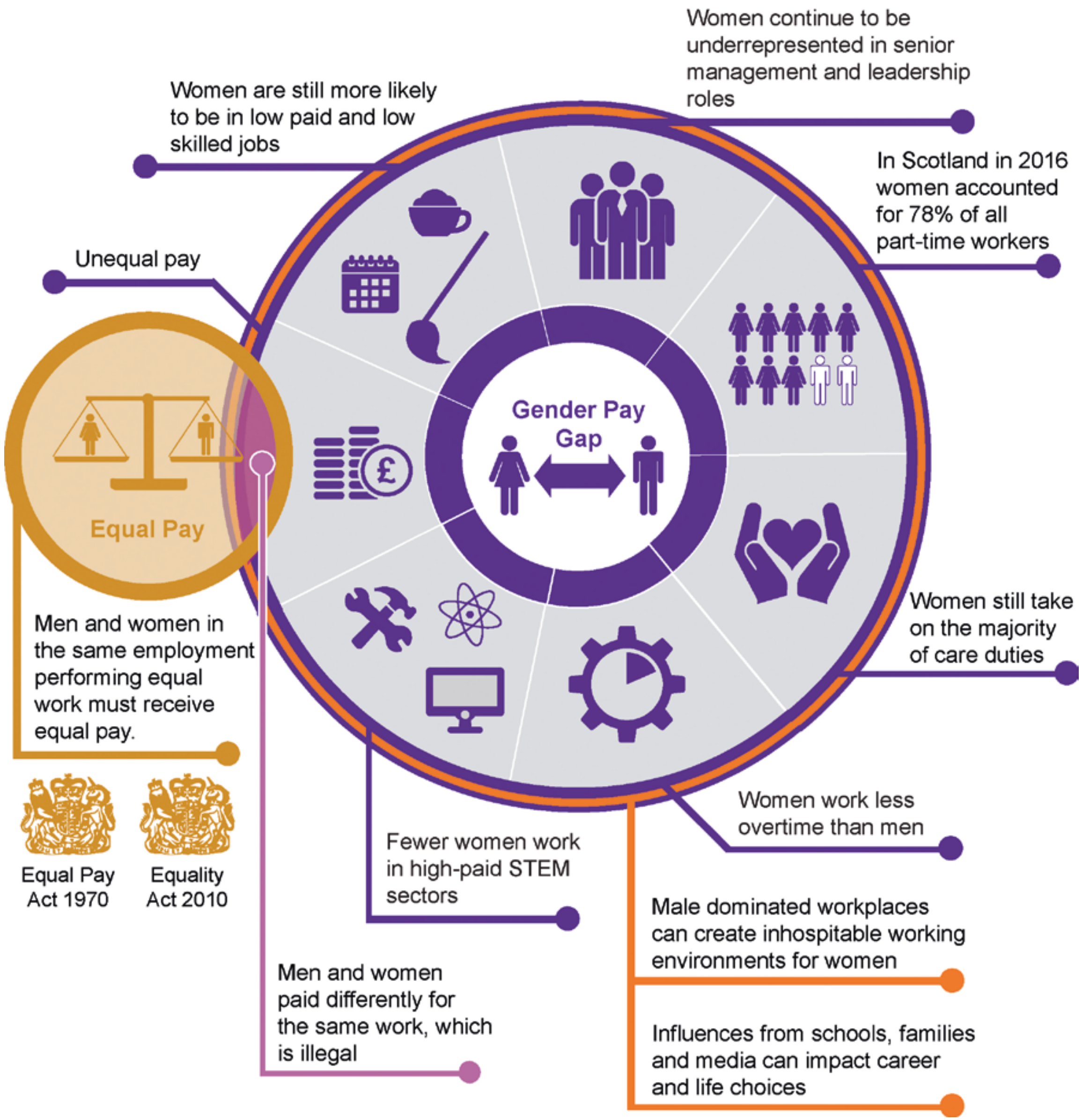
Close the Gap works in Scotland to influence and enable action to address the causes of women's inequality at work. Along with the Equality and Human Rights Commission (EHRC), it has highlighted limitations in the way public sector bodies calculate and report the gender pay gap. For example, in 2015 Close the Gap found that:

- only 50 per cent of the public bodies it examined published adequate gender pay gap information
- 35 per cent published inadequate gender pay gap information
- 15 per cent did not publish any gender pay gap information.

It also found there was limited evidence of the specific actions taken by public sectors bodies to tackle the causes of the gender pay gap. In 2016, Close the Gap published revised guidance to help improve compliance and promote good practice. It also recommended publishing an appropriate suite of measures, including both the mean and median pay gap figures for all employees, the full-time pay gap and the part-time pay gap.

16. *Annual Survey of Hours and Earnings (ASHE) – gender pay gap by country April 1997 to 2016*, Office for National Statistics, October 2016. This was calculated on the median hourly earnings excluding overtime.
17. *No Small Change: The Economic Potential of Closing the Gender Pay Gap*, Economy, Jobs and Fair Work Committee, June 2017.

Exhibit 8
What's the difference between equal pay and the gender pay gap?



Source: *No Small Change: The Economic Potential of Closing the Gender Pay Gap*, Economy, Jobs and Fair Work Committee, June 2017

Governance and oversight of equal pay

The public sector equality duty was created under the Equality Act 2010 and came into force in April 2011. The public sector equality duty requires public authorities to take a proactive approach to tackling discrimination. Scottish specific duties were introduced in 2012. These set out a number of steps that employers must take to meet their public sector equality duty. For example, they must publish an equal pay statement every four years which contains their equal pay policy. They must also publish equality impact assessments on new or revised policies or practices. The Equality and Human Rights Commission (EHRC) guidance states that the equal pay policy should contain:

- a commitment to monitoring pay regularly in partnership with trade unions or employee representatives
- objectives and actions the council will take on equal pay, with a named senior manager responsible for implementation of the policy
- a commitment that the organisation will apply appropriate resources to achieve equal pay.

The EHRC also highlights that the most effective way of checking compliance with equal pay obligations is to carry out an equal pay audit. An equal pay audit involves comparing the pay of men and women doing equal work. Employers should look at the causes of any differences in pay. Where there are no valid reasons for the differences, they should take action to eliminate the inequality. Only 20 councils provided us with their latest equal pay audit but not all audits met with EHRC guidance.

Councils, along with all public bodies, published their most recent equal pay statements in April 2017. Close the Gap is assessing public bodies' compliance with the gender and employment aspects of the duty. The findings will be published in October 2017.

Councils should ensure that their pay system delivers equal pay, particularly as they go through periods of organisational change. For example, when delivering services through integration authorities for health and social care and ALEOs. Councils should take appropriate steps and follow good practice to go beyond legal compliance, to ensure they are meeting all their equalities duties (Exhibit 9, page 25).

Elected members have a corporate responsibility to ensure that the council is taking all the necessary steps to comply with equal pay legislation. As part of that responsibility, elected members should ensure that the council has appropriate arrangements in place to manage outstanding equal pay claims. Elected members need to know how many equal pay claims are outstanding at any one time and how the council is dealing with these claims. Of the 21 councils that have more than ten live claims, only four provided elected members with routine update papers on equal pay litigation between September 2015 and September 2016.

Elected members also have a broader duty to promote equality. As part of discharging their equality obligations, elected members should regularly receive monitoring information on the progress their councils and, where appropriate, integration authorities and ALEOs that deliver services on their behalf, are making in reducing the gender pay gap. They should use this information to challenge officers on this progress.

Exhibit 9
Actions for councils and elected members

Councils must ensure they are fulfilling their public sector equality duties in relation to equal pay

This includes:

- publishing an equal pay statement and equal pay policy
- assessing the impact of any changes that may affect equal pay
- publishing gender pay gap information.

In complying with good practice, councils should:

- use EHRC guidance for example when undertaking equal pay audits and developing equal pay policies
- use Close the Gap's guidance on meeting the public sector equality duty
- ensure their risk registers are up to date.

For those councils using the SJC job evaluation scheme, they should ensure they implement the most recent edition.

Questions for elected members in overseeing, challenging and scrutinising equal pay

- Have I been updated on the number of ongoing equal pay claims at my council? Am I satisfied they are being dealt with effectively?
- Have I been updated on the potential cost of equal pay claims?
- Have I been updated on the steps my council is taking to mitigate against the risks of equal pay claims? For example:
  - Have I seen my council's equal pay audit? Did it meet EHRC good practice guidance? Are there any pay gaps? Can we sufficiently justify any differences in pay gaps?
  - Have I seen action plans and progress reports against my council's equal pay policy?
  - Have I been updated on changes in case law that might affect my council?
  - Have I seen equality impact assessments on any changes to my council's pay and grading system?
  - Has my council fully implemented the SJC third edition guidance and recommendations?
- Have I been informed about whether my council has allocated adequate resources to proactively carry out equality work around equal pay/gender pay gap beyond responding to equal pay claims?

Source: Audit Scotland, 2017

Appendix 1

Methodology

Documents we reviewed for our audit

We reviewed a wide range of documents during our audit, including the following:

- *The National Agreement on Pay and Conditions of Service for Local Government Employees* (The Red Book), which includes guidance on implementing Single Status.
- The Equality Act 2010
- Financial audit information and other work already carried out by local auditors.
- Delivering Equal Pay in Scottish Local Government, Unison Scotland submission to the Accounts Commission, May 2017.
- Scottish court papers.
- Inquiries carried out by Parliamentary committees in 2006 (Finance Committee), 2008 (Equal Opportunities Committee) and 2009 (Local Government and Communities Committee).

We asked councils for copies of:

- relevant minutes, papers and agendas for council meetings and appropriate council committees such as the Resources or Policy and Strategy Committee
- equality impact assessments and audits
- information on their gender pay gap.

Research

We commissioned an employment law specialist to independently review the historical development of equal pay law.

Data analysis

There is limited published information on equal pay in local government. We collected information from 32 councils across Scotland on the following:

- the number of equal pay claims lodged with the ETS (2004-16), how many are still live, and the outcome of those settled
- the cost of claims to councils
- when they implemented single status pay and grading structures
- if they used compromise agreements and how much they cost if they did
- information about how councils monitored progress with equal pay
- what challenges councils faced and lessons they learnt from implementing equal pay.

Councils record equal pay data in different ways, which made it difficult for us to directly aggregate and compare data. For example:

- some councils record claims by calendar year, others by financial year
- one council only maintained information on live claims on its database and did not hold information about claims that had been settled
- some councils could identify and quantify duplicate claims, while others could only indicate that their data included duplicates without specifying how many or when they had been lodged
- one council recorded data by the date settlements were made rather than when claims were lodged
- one council recorded the number of claimants rather than the number of claims.

Interviews we carried out for this audit

We selected six councils to visit to further our understanding of how single status had been implemented. These were Angus Council, East Ayrshire Council, the City of Edinburgh Council, The Highland Council, North Lanarkshire Council and South Lanarkshire Council. These councils represent a mix in terms of size, rurality, the number and cost of claims, the job evaluation scheme used, and the length of time they took to implement single status.

At each of these councils we conducted interviews with typically:

- the chief executive
- the director or head of finance
- the director or head of human resources and legal
- other appropriate council officers
- the council leader and conveners of relevant committees
- union representatives from Unite and Unison.

We also interviewed the following stakeholders:

- The Convention of Scottish Local Authorities
- Trade unions at national level, including the Scottish Trades Union Congress and Unison (STUC), and some local representatives
- The Scottish Government
- Close the Gap
- The Society of Personnel and Development Scotland
- A Queen's Counsel, specialising in employment and discrimination law
- HM Court and Tribunal Service
- Consultant to the COSLA job evaluation consortium
- Legal Office of the NHS
- A lawyer and an independent equal pay consultant.

Appendix 2

The process of implementing SSA – City of Edinburgh Council

City of Edinburgh Council

2003

Council agrees with unions to use an alternative job evaluation scheme to the SJC JES for the SSA – the Capital Scheme

2004

2005

Council agrees to try to resolve equal pay claims through compromise agreements to prevent them going to tribunal

Council acknowledges indefinite pay protection and bonus schemes are not defensible but decides cost of extending them to non-bonus earning groups is prohibitive

Single status to be implemented by May 2006

Unions and legal firms begin submitting claims on behalf of workers

Council decides to defend claims from APT&C workers making comparisons with manual workers

Very high risks of industrial dispute identified

2006

Council considers options for funding equal pay and agrees to the disposal of assets, chiefly the Morrison Street development site

Implementing SS is now branded 'Modernising Pay'

Compromise agreements offered to 3,000 employees with 88% acceptance

SSA pay and grading scheme to be implemented 1 October 2006, ending bonus schemes

Negotiations frustrated by strained relations with unions including a temporary union embargo on the job evaluation process but by June there was agreement on the Capital Scheme

Job evaluation process starts

2007

Accepted compromise agreements discharge council's liability for these workers up to 1 Oct 2006

SSA pay and grading scheme to be implemented 1 April 2008

Council acknowledges recent tribunal judgements open up possibility of claims against pay protection, though this was being disputed in the courts so considered medium- to long-term risk and financial liability quantified

Service reviews which are under way are likely to increase skill levels and responsibility in both female and male manual worker groups and may impact on future liabilities

The process of implementing SSA – City of Edinburgh Council (continued)

City of Edinburgh Council

2008

Legal advice is to defend claims by males who have not yet lodged ET applications

Negotiations with unions on the new pay structure begin but suspended pending the outcome of the Bainbridge case

SSA package includes; new pay structure, working time arrangements, 3-year pay protection, 36 hr week and conversion to monthly pay

2009

Job evaluation completed and EIA carried out by external assessor

Around 10% of staff covered by the SSA identified as losing income at the end of the pay protection period

Council set deadline of March to conclude formal negotiations with the unions

Legal advice following the Bainbridge judgement is to retain the 3-year protection period and offer compromise agreements to female staff

Legal advice and advice from COSLA recommend continuing to defend claims from APT&C staff

Refuse and street cleaning staff reject pay proposals and begin industrial action

2010

Modernising Pay now part of a wider transformation programme, 'Future State'

SSA to be implemented 4 October 2010

Neighbourhood worker post created for street cleaning staff to mitigate loss of earnings at end of pay protection

All staff except refuse collectors resolve industrial dispute in July. Refuse collectors are balloted and continue to reject pay package. Council adopts contingency arrangements employing private contractors

After 80 formal meetings over 4 years, the final pay package was rejected by the unions in October. Management invoked a statutory change process in November. Bonus payments to end via the statutory change process

Pay protection applied for max of 3 years from 1 Oct 2010. Unions disagree on the methodology for calculating level of protection

2011

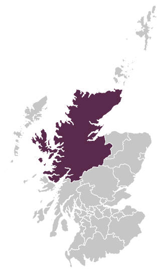
Over 1,500 claims made against the council have yet to be settled, but none have been considered by the ETS. It is not possible to predict how long it will take to settle cases through the legal process

The total cost of settlements between 2006 and March 2011 was £47.1 million, discharging liability for the 2,071 employees concerned up to that date

Formal notification of the end of industrial action received on 11 October 2011

Appendix 3

The process of implementing SSA – The Highland Council



The Highland Council

2000

- Council agrees to adopt national JES
- Project Board and Joint Working Party established

2001

- Job evaluation interviews piloted with staff
- Management and unions start work on design of single pay structure

2002

- Job evaluation interviews and verification continue
- Further work carried out on unified pay structure

2003

- 1,200 job evaluation interviews completed
- Appeals process agreed with unions

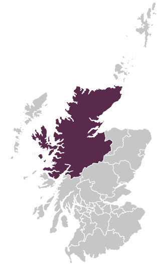
2004

- Around 8,500 employees to be affected
- Total of 1,500 job evaluation interviews completed
- Development of pay structure continues
- Council considers options to fund new pay structure including, eg freeze recruitment, encourage reduced hours for full-time posts, reduce posts
- **Council commits to SSA implementation date of 1 April 2005**

2005

- Job evaluation interviews and verification continue
- Negotiations with unions continue on harmonised terms and conditions
- Unions hold back from progressing claims pending negotiations
- Work starts on assessing council's potential liability

The process of implementing SSA – The Highland Council (continued)



The Highland Council

2006

Initial assessment of potential liability based on a proposed National Framework for settling equal pay liabilities consistently across Scotland. Ultimately a National Framework was never agreed and each council had to reach their own local agreement with the unions

Package of harmonised terms and conditions for SSA presented to unions for consideration

Development of grading structure continues

Over 2,500 compensation offers made to staff, with over 2,300 accepting

Process puts pressure on HR resources

2007

Council attends a pre-hearing at the Employment Tribunal to clarify certain legal issues around the statutory grievance procedure

Unions given until March to respond to terms and conditions package for SSA

Work ongoing to match 8,000 employees to a job family and generate job rank order reducing the number of grades from 115 to 15

Council begins assessing impact on pay bill and the number of red circled employees

Proposed date for SSA implementation now 1 October 2006

2008

Gap compromise payments made to cover period from Sept 2006 to April 2008

After 2 years of negotiations, SSA terms and conditions to be subject to union ballot

Pay structure undergoes EIA by external assessor and **SSA implementation date 1 April 2008**

10,000 employees to be advised how the job evaluation exercise affects them (subsequently delayed)

Council and unions work on transition programme on job redesign to deliver service improvements and minimise any negative impact on staff

2009

EIA assessor requests more work on new harmonised terms and conditions

Deadline of March set to agree harmonised terms and conditions

Job evaluation letters finally sent to staff in February

New pay structure implemented from 1 March 2009 and backdated to 1 April 2008

Council reflects on Bainbridge ruling – unions request pay protection be extended to other employees whose comparators are red circled. Council decides it is unaffordable and invites unions to negotiate a local agreement in place of the 3-year pay protection

Council decides in August that statutory procedure be invoked if agreement on harmonised terms and conditions can't be reached. Letters to be sent to staff in October

Almost 2,000 job evaluation appeals received. Council estimates it will take 9 months to work through first stage of the process

2010

Unions to ballot on proposed terms and conditions. Unions respond to council by April with sticking points, including: transition to monthly pay, working pattern enhancements and overtime rates

Craft operatives in Transport, Environmental and Community Services opt into the job evaluation process. This would remove bonuses and reduce liability for equal pay claims

Collective agreement on harmonised terms and conditions implemented September

2011

33% of the 2,575 stage one job evaluation appeals were successful

11% of stage two appeals were successful

Pay protection period ended on 31 March – management look at options to support staff about to lose income

Settlement offers made to 1,000 claimants to settle liability up to the introduction of SSA in 2008

Council decides to defend pay protection claims

Equal pay in Scottish councils

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 911494 37 9

This publication is printed on 100% recycled, uncoated paper

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West Lothian Council

AUDIT COMMITTEE

COUNTER FRAUD REPORT FOR FIRST SIX MONTHS OF 2017/18 (APRIL TO SEPTEMBER)

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of the performance and activities of the Counter Fraud Team (CFT) during the first half of financial year 2017/18.

B. RECOMMENDATION

It is recommended that the Audit Committee notes the performance and activities undertaken by the Counter Fraud Team during the first half of 2017/18.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	Fraud investigations are undertaken in accordance with the council's Anti-Fraud and Corruption Policy.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Weaknesses in the council's framework of internal control are likely to have an adverse impact on performance.
V	**Relevance to Single Outcome Agreement**	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI	**Resources - (Financial, Staffing and Property)**	None.
VII	**Consideration at PDSP**	None.
VIII	**Other consultations**	Audit, Risk and Counter Fraud staff.

D. TERMS OF REPORT

D.1 Background

The Annual Counter Fraud Plan 2017/18 was approved by the Audit and Governance Committee on 27 February 2017. The main activities of the Counter Fraud Team (CFT) involve maintaining the council's whistleblowing process, conducting investigations into allegations of fraud and irregularity, working in partnership with Police Scotland, administering the biennial National Fraud Initiative (NFI) data matching exercise, providing a counter fraud advice, and delivering fraud training sessions.

D.2 Fraud Investigations 2017/18 (April to September)

The CFT maintain the whistleblowing hotline (01506 282002), whistleblowing mailbox (WhistleBlowing@westlothian.gov.uk) and on 7 September 2017 the CFT launched a new online whistleblowing e-form. This is available internally on the intranet and allows staff to submit whistleblowing referrals electronically and still remain anonymous.

The CFT consider all referrals in accordance with the council's Whistleblowing Policy. The CFT also receive fraud referrals directly from management who have identified potential concerns during the course of their duties. These referrals are dealt with in line with the Anti-Fraud and Corruption Policy and are therefore classified as 'Anti-Fraud' rather than 'Whistleblowing'.

The CFT aims to risk assess all referrals and make a decision to either accept or reject the referral within three working days of receipt. Between 1 April 2017 and 30 September 2017, a total of 20 referrals were received: nine whistleblowing referrals and 11 Anti-Fraud referrals. A total of 16 referrals were accepted by the CFT and investigations were undertaken. 12 investigations from 2016/17 were carried forward.

The table below summarises the referrals received by CFT during the first six months of 2017/18:

Referrals to CFT	Number
Whistleblowing Referrals Accepted	5
Whistleblowing Referrals Rejected	4
Anti-Fraud Referrals Accepted	11
Anti-Fraud Referrals Rejected	0

Total Number of CFT Referrals	**20**
Total Number of Accepted Referrals	**16**
Investigations Carried Forward from 2016/17	*12*

Rejected Referrals 2017/18 (April to September)

During the period from April 2017 to September 2017, four whistleblowing referrals were rejected. Three of these were rejected as these were issues required to be dealt with under other council policies (e.g. Code of Conduct). One whistleblowing referral was rejected due to insufficient information.

Accepted Referrals 2016/17 (April to September)

During the period from April 2017 to September 2017, 16 referrals were accepted and 12 investigations were carried forward, giving a total of 28 CFT investigations to be progressed. The table below summarises the outcomes of the CFT investigations:

Outcome of CFT Investigations	**Number**
Complete – No Fraud/Irregularity Established	12
Complete – Fraud/Irregularity Established	7
In Progress (as at 30 September 2017)	9
Total	**28**

From the 16 referrals accepted and the 12 investigations carried forward:

- 12 investigations were completed and identified no evidence of fraud or irregularity. These investigations covered allegations against council employees regarding drugs, cash theft, material and equipment theft and material malpractice;

- Seven investigations established that a fraud or irregularity had taken place. These investigations substantiated allegations such as cash theft, undeclared criminal convictions, procurement fraud and sickness absence fraud. The total value of fraud and irregularity established by the CFT was £15,260.93. Where relevant, an action plan was agreed with the service to help improve internal controls in these areas. The cases where fraud and irregularity was established in the first six months of 2017/18 are summarised in Appendix 1;

- Nine investigations were in progress as at 30 September 2017.

D.3 Fraud Awareness

The CFT are committed to the prevention, as well as detection, of fraud against West Lothian Council. The CFT carry out a number of initiatives to raise awareness of fraud to council employees and work closely with Police Scotland, NHS Scotland Counter Fraud Services and other local authorities to jointly raise fraud awareness.

In the first half of 2017/18, the CFT delivered a number of counter fraud training sessions. These sessions have focused on raising awareness in corporate fraud, housing tenancy fraud, procurement fraud and ID Document fraud.

Counter fraud and corruption sessions have also been delivered in conjunction with Police Scotland. Feedback is requested after each training session. To date, 100% of respondents rated the CFT training as either good or excellent.

A summary of the counter fraud training sessions delivered in the first half of 2017/18 is provided in Appendix 2 of this report.

D.4 National Fraud Initiative (NFI)

The CFT administers the National Fraud Initiative (NFI) biennial data matching exercise. The 2016/17 matches were received in January 2017. The NFI exercise identified 7,966 matches of which 2,101 were recommended matches.

These are matches which, in the opinion of the NFI administrators, are more likely to result in fraud or error being identified. It is important to appreciate that a data match does not necessarily indicate wrongdoing.

As at 7 December 2017, 2,009 recommended matches have been investigated to a conclusion. The investigative process has identified a total overpayment of £25,701.97, which relates to Housing Benefit, Council Tax Reduction Scheme, and VAT overpayment. The full amount £25,701.97 has been classified as error. There has been no fraud identified. 92 of the recommended matches are still being investigated. The table below provides a summary of the NFI exercise:

Total matches	Total Processed	In progress	Fraud	Errors	Amount
2101	2009	92	0	9	• Six - CTRS = £13,019.54 • One - VAT Overpaid = £596.74 • Two - HB Student Loan = £12,085.69
					£25,701.97

D.5 Working in Partnership with Police Scotland

During 2017/18 the CFT have continued to work in close partnership with Police Scotland. In line with the Data Protection Act (DPA) 1998, the CFT have responded to over 170 DPA requests from Police Scotland for personal information to assist with ongoing criminal investigations.

The CFT administer the Data Washing Information Sharing Protocol (ISP) between Police Scotland and West Lothian Council. This process involves the collation and sharing of information from various systems across the council regarding individuals linked to Serious and Organised Crime Groups (SOCGs).

The CFT meet with the Police Scotland Divisional Intelligence Unit (DIU) on a periodic basis to review the effectiveness of the current working arrangements and to review any relevant CFT cases where Police Scotland may be able to assist.

D.6 CFT Performance Indicators

<u>IA039 6b.5 – Percentage of fraud referrals assessed and decided within three days</u>

The CFT aim to risk assess all referrals and make a decision to either accept or reject the referral within three working days of receipt. The CFT received 20 referrals in the period 1 April 2017 to 30 September 2017. All 20 were risk assessed and decided within three working days.

IA040_9b.1a - Average length of time to issue draft fraud reports.

The CFT aim to complete an investigation and issue a draft report within 12 weeks from the start date of the investigation. Performance is reported quarterly using a rolling 12 month average of the number of weeks taken to issue draft reports. 32 counter fraud reports have been issued in the 12 months to 30 September 2017, taking an average of 17.4 weeks to issue.

The main reason for performance not being in line with target is the completion of cases carried forward from 2016/17. These were previously allocated to a member of staff who left in December 2016. Completion of higher priority investigations meant that lower priority cases were not completed within the 12 week target. The target for 2017/18 remains at 12 weeks and will be kept under review.

IA037_6a.7 - Percentage of customers who rated the overall quality as good or excellent.

The CFT invite feedback from all customers at the conclusion of each investigation. Performance for the first six months of 2017/18 was 93%. 16 customer surveys were received and 15 customers rated the overall quality of the CFT service as either good or excellent. Further clarification was sought from the customer regarding the negative feedback. This was input into our comments database and discussed at our monthly team meeting.

The CFT aim to receive at least one feedback response per investigation. The response rate is currently 44% per person (16 responses from 36 issued) and 67% per investigation (10 responses 15 issued). For the investigations where feedback has not been provided a reminder e-mail is sent.

Performance in both 2015/16 and 2016/17 was 100%. The target for 2017/18 remains at 100%. A summary of all CFT performance indicators is provided in Appendix 3 of this report.

E. CONCLUSION

This report highlights the performance and activities of the Counter Fraud Team (CFT) during the first six months of financial year 2017/18. The work of the CFT is carried out in accordance with the council's Anti-Fraud and Corruption Policy and Whistleblowing Policy, and in accordance with the council's zero tolerance approach to fraud.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee on 27 February 2017: Counter Fraud Plan 2017/18

Report to the Audit Committee on 30 June 2017: Counter Fraud Report 2016/17

Appendices/Attachments:

Appendix 1 – Summary of Fraud/Irregularity Established in 2017/18 (Apr to Sep)
Appendix 2 – Counter Fraud Training Sessions Delivered in 2017/18 (Apr to Sep)
Appendix 3 – CFT Performance Indicators 2017/18 (Apr to Sep)

Contact Person:

Stuart Saunders, Senior Compliance Officer, stuart.saunders@westlothian.gcsx.gov.uk
Tel No. 01506 281574

Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 18 December 2017

APPENDIX 2

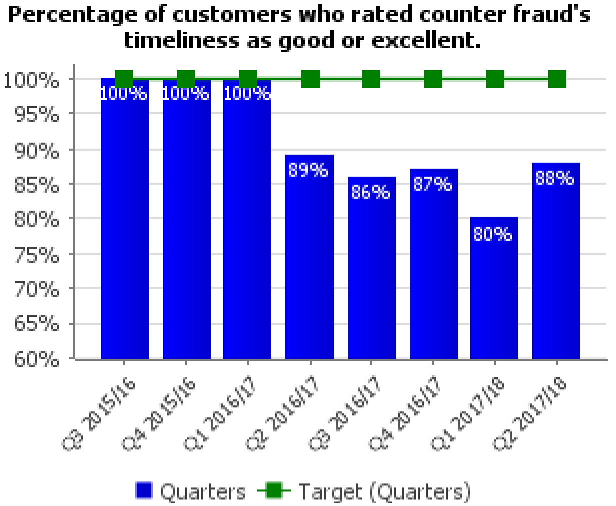
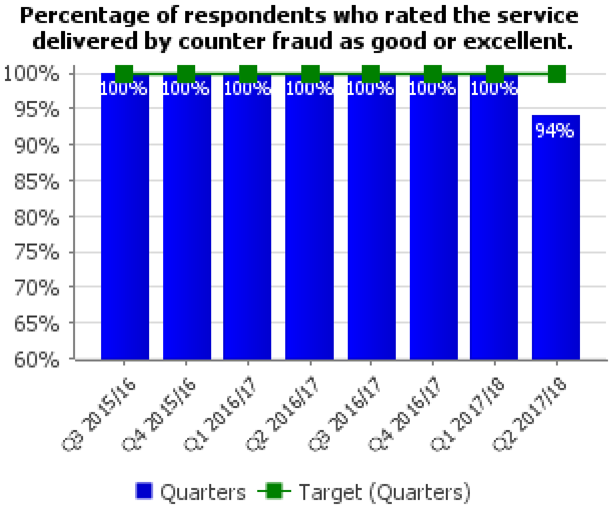
COUNTER FRAUD TRAINING SESSIONS DELIVERED IN 2017/18 (APR TO SEP)

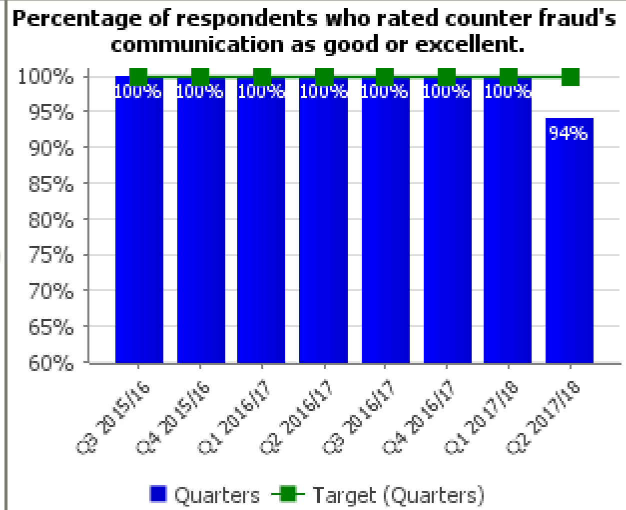
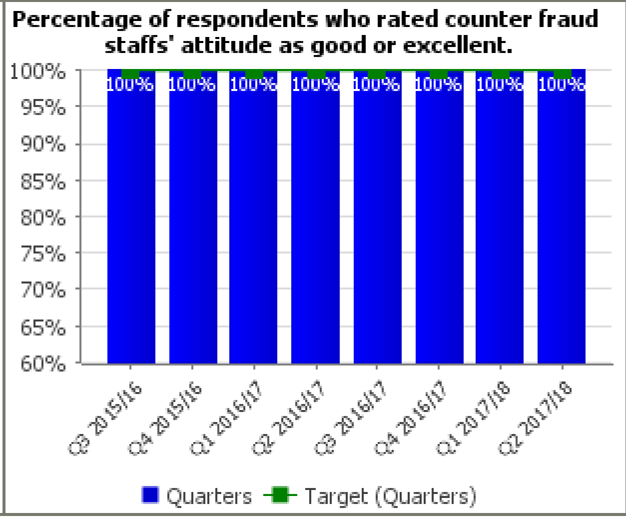
Date Delivered	Counter Fraud Training Session	Delivered To	Number of Attendees	Delivered By
Ongoing (Monthly)	Quick Quote User Training*	Council Wide	13	Corporate Procurement Unit
12-May-17	Quick Quote – Procurement Fraud	NHS Fraud	5	CFT
24-May-17	Fraud Awareness Session	HR - Policy and Advice Team	6	CFT
14-Jun-17	Tenancy Fraud and Fraud Awareness Session	Customer Information Services	5	CFT
14-Jun-17	Tenancy Fraud and Fraud Awareness Session	Customer Information Services	5	CFT
20-Jul-17	Fraud Awareness Session	Property Management and Development	15	CFT
23-Aug-17	ID Document Awareness Training	Council Wide	20	CFT / Police Scotland
13-Sep-17	Fraud Awareness Session	Financial Management Unit	43	CFT

* A procurement fraud slide has been prepared by the CFT and is incorporated in to the Quick Quote user training that is delivered by the Corporate Procurement Unit. This training is delivered on an ongoing basis to a variety of council staff responsible for procuring supplies and services via the PCS Quick Quote module.

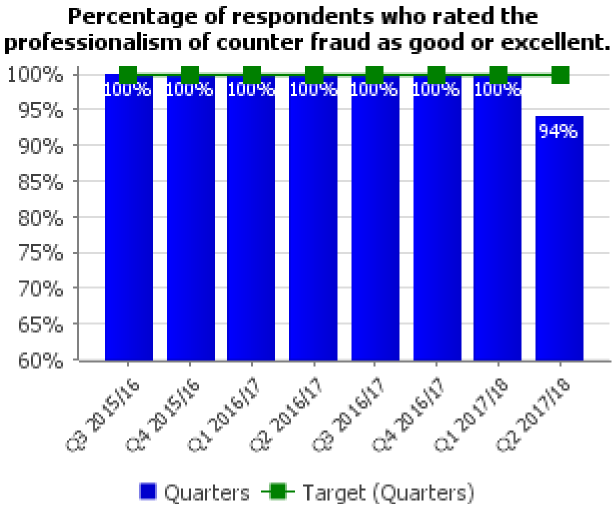
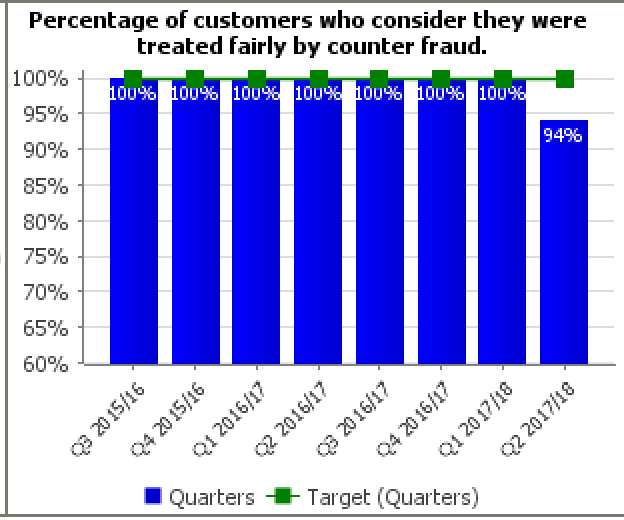
APPENDIX 3

CFT PERFORMANCE INDICATORS 2017-18 (APRIL TO SEPTEMBER)

PI Code & Short Name		Trend Chart	Current Target	Current Value	Last Update	Latest Notes
IA030_6a.1 Percentage of customers who rated counter fraud's timeliness as good or excellent.			100%	88%	Q2 2017/18	14 out of 16 responses ranked as either good or excellent. One response ranked as adequate. One response ranked as very poor. The length of time to complete an investigation sometimes exceeds the target of 12 weeks due to the complexity of the case.
IA031_6a.2 Percentage of respondents who rated the service delivered by counter fraud as good or excellent.			100%	94%	Q2 2017/18	- 16 customer feedback forms received in Q2 2017/18. - 15 customers rated Service Delivery: The service you received compared to the agreed objectives' as either good or excellent, one responded very poor. - performance is 15/16 = 94%

PI Code & Short Name		Trend Chart	Current Target	Current Value	Last Update	Latest Notes
IA032_6a.3 Percentage of respondents who rated counter fraud's communication as good or excellent.			100%	94%	Q2 2017/18	- 16 customer feedback forms received to Q2 2016/17. - 15 customers rated Communication: The way counter fraud staff kept you informed of progress' as either good or excellent. - performance is 15/16 = 94%
IA033_6a.4 Percentage of respondents who rated counter fraud staffs' attitude as good or excellent.			100%	100%	Q2 2017/18	Performance in Q2, 2017/18 is 16/16 = 100%.

2

PI Code & Short Name		Trend Chart	Current Target	Current Value	Last Update	Latest Notes
IA034_6a.5 Percentage of respondents who rated the professionalism of counter fraud as good or excellent.			100%	94%	Q2 2017/18	Performance in Q2, 2017/18 is 94%. 15 out of 16 responses were ranked as either good or excellent (one response ranked as very poor).
IA035_6a.6 Percentage of customers who consider they were treated fairly by counter fraud.			100%	94%	Q2 2017/18	Performance in Q2, 2017/18 is 94%. 15 out of 16 responses stated Yes - they were treated fairly.

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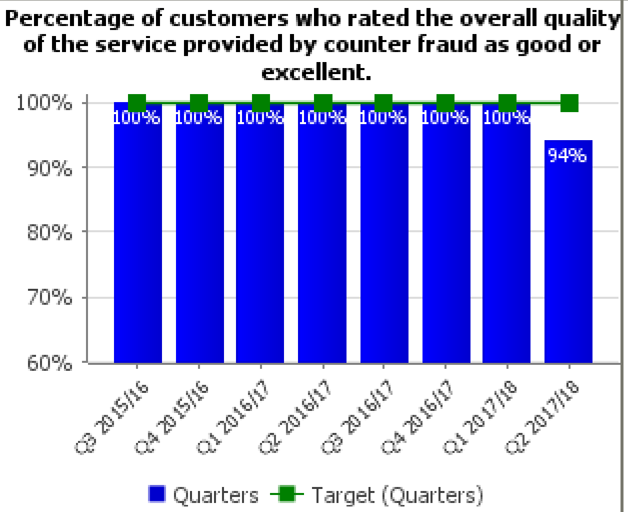
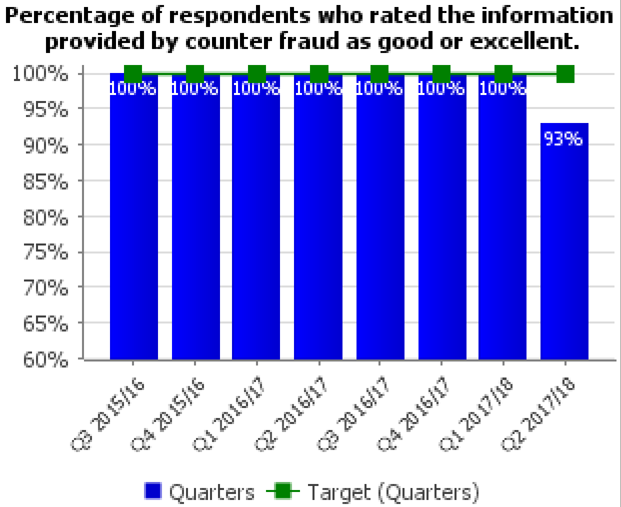
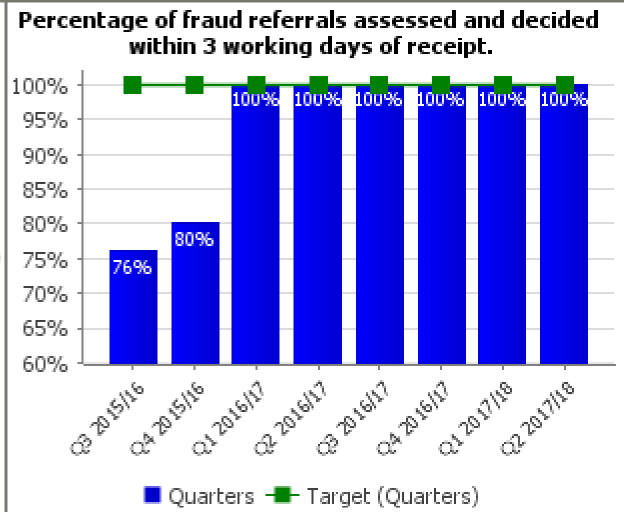
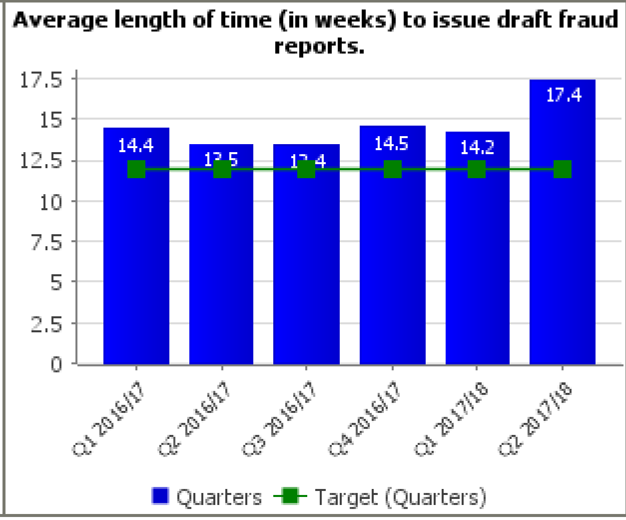
PI Code & Short Name		Trend Chart	Current Target	Current Value	Last Update	Latest Notes
IA037_6a.7 Percentage of customers who rated the overall quality of the service provided by counter fraud as good or excellent.			100%	94%	Q2 2017/18	Performance in Q2, 2017/18 is 94%. 15 out of 16 responses were ranked as either good or excellent (one response ranked as very poor).
IA038_6a.8 Percentage of respondents who rated the information provided by counter fraud as good or excellent.			100%	93%	Q2 2017/18	Performance in Q2, 2017/18 is 93%. 14 out of 15 responses were ranked as either good or excellent (one response ranked as very poor).

4

<table>
<tr><th>PI Code & Short Name</th><th></th><th>Trend Chart</th><th>Current Target</th><th>Current Value</th><th>Last Update</th><th>Latest Notes</th></tr>
<tr><td>IA039_6b.5 Percentage of fraud referrals assessed and decided within 3 working days of receipt.</td><td></td><td>
</td><td>100%</td><td>100%</td><td>Q2 2017/18</td><td>Cumulative performance in Q2, 2017/18 was 100%. 20 referrals received to date, all assessed within 3 days.</td></tr>
<tr><td>IA040_9b.1a Average length of time (in weeks) to issue draft fraud reports.</td><td></td><td>
</td><td>12</td><td>17.4</td><td>Q2 2017/18</td><td>- 12 counter fraud reports were issued in Q2, 2017/18. 32 counter fraud reports have been issued in the last 12 months, taking an average of 17.4 weeks to issue.</td></tr>
</table>

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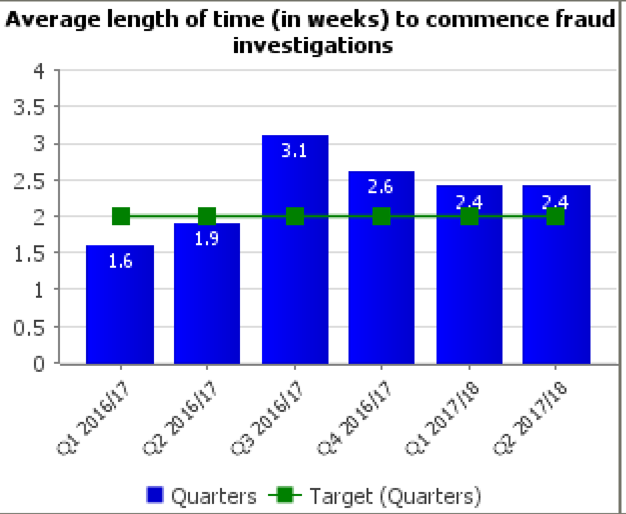
PI Code & Short Name		Trend Chart	Current Target	Current Value	Last Update	Latest Notes
IA043_9b.1a Average length of time (in weeks) to commence fraud investigations			2	2.4	Q2 2017/18	Nine counter fraud referrals were accepted in Q2, 2017/18. The average length of time to commence fraud investigations during this period was 2.3 weeks. Six investigations commenced within the two week target (67%). Due to other work being prioritised in line with Counter Fraud Team (CFT) resources, three investigations commenced after the two week target. Over the previous 12 months, 28 counter fraud referrals were accepted, 22 investigations commenced within the two week target (79%) and the average length of time to commence fraud investigations during this period was 2.4 weeks.

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MEETING AUDIT COMMITTEE

DATE 18 December 2017

ITEM NO. 16

Counter Fraud Report for First Six Months of 2017/18 (April to September) – Report by Audit, Risk and Counter Fraud Manager - Appendix 1(herewith)

Not for publication - contains exempt information in terms of Paragraphs 1, 6 and 14 **of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973.**