East Lothian Council

MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 17 SEPTEMBER 2024, 10AMAM
COUNCILS HYBRID SYSTEM

1

Committee Members Present:
Councillor Bruce
Councillor Jardine
Councillor McFarlane
Councillor McLeod
Councillor Menzies - Chair
Councillor Ritchie

Other Councillors Present:
N/A

Council Officials Present:
Ms S Fortune, Executive Director for Council Resources
Ms E Dunnet, Head of Finance
Mr D Stainbank, Service Manager – Internal Audit
Mr C Grilli, Service Manager – Governance, Council Resources
Ms L Brown, Executive Director for Education & Children’s Services
Ms W McGuire, Head of Housing
Ms C Rodgers, Head of Communities & Partnerships
Ms H Barnett, Head of Corporate Support
Ms J Boyle, Quality Improvement Manager for Equity & Inclusion
Mr A Stubbs, Service Manager for Roads

External Audit:
N/A

Clerk:
Ms M Scott

Apologies:
Councillor McGuire

Declarations of Interest:
N/A

1.

a) MINUTE OF AUDIT & GOVERNANCE COMMITTEE ON 11 JUNE 2024

The minutes from the Audit and Governance Committee from 11 June 2024 were approved as an accurate record.

b) MINUTE OF AUDIT & GOVERNANCE COMMITTEE ON 17 JUNE 2024

The minutes from the Audit and Governance Committee from 17 June 2024 were approved as an accurate record.

2. INTERNAL AUDIT REPORT: SEPTEMBER 2024

A report was submitted by the Service Manager for Internal Audit to inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee and provide an update on progress made against the 2024/25 annual audit plan.

Duncan Stainbank, Service Manager for Internal Audit reported since the last meeting of the Committee a final report had been issued for Additional Support Needs, Capital Expenditure Contract Cost Management, Musselburgh Flood Protection Scheme, Tyne and Esk Funding and Scottish Housing Regulator Annual Assurance Statement, Mr Stainbank added that Additional Support Needs, Capital Expenditure Contract Cost Management and the Musselburgh Flood Protection Scheme were all graded with reasonable assurance and Tyne and Esk Funding was graded with substantial assurance. The Scottish Housing Regulator Annual Assurance Statement was not graded.

Mr Stainbank provided an update of the key findings and recommendations for all completed audits, noting the completion dates for each.

Councillor Jardine asked if there was any evidence on why the number of pupils with ASN had increased by 84% between 2014 and 2023 compared to an 11% increase in overall pupil numbers and how did this compare to other localities. Jennifer Boyle, Quality Improvement Manager for Equity & Inclusion stated East Lothian's ASN numbers were comparable with national data and a number of factors contributed towards this, one of which were the conditions following the pandemic. She added there is also now better identification of children and young people with additional support needs and advances in medicine mean more young people are living with greater complexity in their lives.

Responding to a further question from Councillor Jardine, Mr Stainbank explained the process of maintaining a complete register of costs for each project that was under review fell out of practice due to workload and sickness within the team. He added there was a variety of processes being undertaken by individual officers which is now going to be reversed and go back to the previous process to ensure we have accurate details for each project. Tom Reid, Head of Infrastructure stated the main issue for him was not that officers were not being robust in the way they challenged the need for variations but instead the quality of the record keeping that demonstrated the robustness of the challenges that were put forward and the reasons for the variations had fallen down. He added they have reverted back to what was done historically and looked to see how this can be improved and made more simplistic with the resources we have available.

Councillor Jardine asked if it would be fair to say inflation, austerity and the impact of Brexit may have had an impact on the speed officers were trying to respond to things. Mr Reid said it could have impact in terms of variations, but it tends to be around scope and how things are designed. He provided an example of this regarding to an IT cooling system and was happy to send Councillor Jardine further examples if this would be helpful. He added there can sometimes be a lack of availability of materials but usually when we are locked into a tender this has been covered and a fixed price is agreed.

Responding to multiple questions from Councillor McLeod, Ms Boyle stated traditionally places for specialist provision were agreed as a result of the child planning framework which would mean professionals and parents around that child would make a request for specialist provision but within the last year there has been a marked increase in the number of parents making placing requests which is in line with the national trend. She explained the child planning framework is used to determine the children and young people would meet the criteria for specialist provision and then would be considered by the Education Resource Group. Ms Boyle confirmed the staffing s generous within the specialist provision and is guided by the SNCT and is protected within the ASL budget but due to the increase in the number of requests and the number of children meeting that criteria staffing would have to increase to meet demand. Ms Boyle also confirmed complaints have always been tracked and learning has always been put in place within schools. She added the tracker in place this year is more robust, with changes in staffing but it is not a new process.

Councillor Bruce asked for more details around the internal procurement document that was signed off by a manager for an amount above their authorisation. Mr Stainbank reported the officer in question had a £50,000 limit for resource expenditure and a higher limit for capital expenditure and signed off a document for £70,000 for a topographical survey. He added financial processes have now changed and that officer can now sign off documents with a £100,000 limit.

Responding to a further question from Councillor Bruce, Mr Stainbank noted the report was very specifically worded on the basis we have moved the right people round to be involved in that project board with the right skills and therefore it was catching the documentation up that was written in 2016 to match the skills and experiences of the individuals now on the project board. Alan Stubbs, Service Manager for Roads confirmed there are appropriate skill sets within the board with him being a certified civil engineer and is supported by other specialists in various areas along with external consultants who have been appointed who have the required skill sets and are part of the overall project team.

Councillor Bruce asked if the full business case for the Musselburgh Flood Protection Scheme will also consider the cost of the project given the financial cost has risen significantly. Mr Stainbank confirmed this to be correct. He also explained that the costs of the project had been brought up to Council and the escalating costs have bene identified and within that we can have substantial assurance that the costs are being looked at and reviewed appropriately for the design that is being approved. Mr Reid reaffirmed that the project totally is entirely different from that in 2015/2016 as it has grown in the level of threat, impact and functionality so it would not be appropriate or realistic to compare the project today with the one that started. He explained the costs put forward are an assessment of where we are at with the current design, the final costs will not be known until full tender is completely but assured Members those costs are robustly interrogated as will the final designs.

Responding to a final question from Councillor Bruce regarding adequate consultation, Mr Stainbank confirmed it was a measurement of a number of events taken place and who was there to answer questions but as Internal Audit do not attend the events, he was unable to provide further insight.

Mr Stainbank, Ms Boyle and Nicola McDowell, Head of Education continued to answer questions from Members and provided information on how the Pupil Equity Fund was awarded to schools and confirmed that staff numbers would be increased if required to meet additional support needs.

Mr Stainbank provided further information on the audit evidence gathering process and how this is presented to Committee as requested by Councillor McMillan. He confirmed there was a system of control within the audit department around every report.

Councillor Menzies asked if there was any evidence on what was driving the higher number of referrals for ASN from parents. Ms Boyle stated there was no specific evidence for this but now there was more pressure from parental groups, social media and parents understanding it is there right to ask for this referral.

Councillor Jardine stated the scale of increase in needs over recent times it was reassuring that we have a reasonable assurance however she looked forward to seeing the impact of improvements and for us to be able to say we have improved the access and delivery to those with additional support needs. She commented the cost management report highlighted the need for consistency in how we administer important projects and the answers to questions today provided information on how those inconsistencies arose. Councillor Jardine thanked Mr Stainbank for his explanation on how he and his teams standards are required to be adhered to and this should give everyone a degree of comfort.

Councillor Menzies also thanked Mr Stainbank for his report which was insightful and had the right levels of comfort and awareness. She also stated the cost and controls element raised in questions is for Councillors to decide when the full business case comes forward and the rise in costs could not be compared as the project that came before Council years ago is vastly different to the one now. Councillor Menzies stated the Musselburgh Flood Protection Scheme is one of the most consulted on projects and Councillors need to draw the distinction between being listened to and agreeing with.

Decision

That the Audit and Governance Committee note:

i. the main findings and recommendations from the Internal Audit reports issued during the period from June 2024 to September 2024 as contained in Appendix 1 and covered in the Scottish Housing Regulator item;
ii. Internal Audit's progress against the annual audit plan for 2024/25 as set out in Appendix 2.

3. REVISED INTERNAL AUDIT PLAN 2024/25

A report was submitted by the Service Manager – Internal Audit to inform the Audit and Governance Committee of Internal Audit's revised operational plan for 2024/25.

Duncan Stainbank, Service Manager for Internal Audit reported the annua audit plan had been prepared in accordance with Public Sector Internal Audit Standards (PSIAS) and key changes in the plan were the removal of the following auditable areas to the plan; PPP Contact Management, Performance Management, Comments and Complaints Management and Contact Centre/Council Contact resolution. This was a result of temporary reduction in resource due to the retirement of a senior internal auditor and a service review is ongoing to resolve the resource and a plan is included within the report.

Councillor Bruce asked what the decision making process was for deciding what was removed from the plan, especially the decision for removal of PPP Contract Management. Mr Stainbank explained the team redo a risk assessment to look at where key risks are and in relation to PPP Contract Management, a new team has been put in place that are more proactively reviewing this and therefore the decision was to allow that to embed before completing a review on it. He added that the teams work on this had provided assurance the risk had reduced in relation to PPP Contract Management. Ms Lesley Brown, Executive Director for Education & Children's Services stated she is the Councils sponsor for the PPP Project which means she has oversight on the payment of invoices, the project management and monthly monitoring and she also attends the Innovate Board as part of the monitoring process. She hoped this gave Councillor Bruce reassurance that all aspects of the PPP Contract were scrutinised.

In response to a question from Councillor Jardine, Mr Stainbank stated there are numerous factors taken into account including the approved risk registers, when areas were last reviewed, both internally and externally and any findings that come from those are discussed with senior management across the Council to identify any causes for concern or changes likely to come through which then comes to the plan presented at Committee.

Councillor McMillan asked if the plan could be changed if the Audit and Governance requested it. Councillor Menzies stated that the plan would absolutely be changed if emerging risks arose and would react quickly otherwise the Committee cannot offer assurance to the public. Mr Stainbank added there are a number of ways the Committee could request changes to the plan such as contacting himself or the senior management of the Council which would then be filtered down and considered as appropriate. He explained the process has changed from setting an annual plan and sticking with it and now risks are assessed at least 6 monthly and monitoring risks as they change throughout the year.

Responding to a question from Councillor McLeod, Mr Stainbank provided information on the procurement process in general and highlighted the work of the procurement manager who works with each service to procure the goods and services required in an appropriate manner, providing the best value for the Council.

Councillor Menzies thanked Mr Stainbank for his report.

Decision
A roll call vote was carried out and the Audit and Governance Committee agreed to unanimously approve the revised Audit Plan for 2024/25.

4. AUDIT AND GOVERNANCE COMMITTEE ANNUAL/END OF TERM REPORT 2023/24

A report was submitted by the Service Manager – Internal Audit to present the outcome of the 2023/24 Audit and Governance Committee self-assessment and seek approval from the Audit and Governance Committee to present the Annual/End of Term Report 2023/24 to the Council.

Duncan Stainbank, Service Manager – Internal Audit highlighted the areas of improvement that have been agreed as part of the Audit and Governance Committee Annual / End of Term Report 2023/24. Councillor Menzies explained the job of this committee is to scrutinise the Councils work which can only be done if members know what they are scrutinising and how to do this, which had been a steep learning curve. She felt the important part of self-evaluation was it allowed the public to have confidence that Members are scrutinising to the best of their ability and if any weaknesses are found they are willing to coopt people in to ensure that proper scrutiny is being done. Councillor Menzies highlighted the change Members voted to make, which is for senior officers to give feedback to the Committee on if the scrutiny has been effective and if they are doing the job well.

Councillor Jardine asked what extent we may need someone to be coopted into the Committee and what the opportunities and chances are of this happening. Mr Stainbank stated the key skills which are always useful in this type of Committee that often aren't there in totality are experience in technical experience in respect of audit and accountancy as well as legal experience. He noted finding people with those skills is extremely difficult in the current market and the guidance on coopted Members is for all Scottish local authorities and there are only a small number who have coopted Members. Mr Stainbank added Midlothian Council attempted to get independent Members in 2022 but were unable to get any applicants.

In response to a question from Councillor McMillan, Councillor Menzies stated the self-assessment has come first to be able to see clear skills gaps and then could tap into our own networks to see if the Committee does need someone to be coopted on. Mr Stainbank was in agreement with Councillor Menzies.

Councillor Jardine stated that while the scrutiny role was new to a few Councillors it is a core part of duties and all officers had allowed members to challenge themselves and explore a wide range of factors we need to take into consideration and try to represent inquiries of our constituents. She also looked forward to the outcome of the skills and knowledge assessment.

There were comments from Members in relation to the good scrutiny from the Committee and the relationship with officers to give the public confidence the Council are doing all the things they are required to do. Councillor Menzies added specific thanks to Audit Scotland and Mr Stainbank and his team.

Decision
A roll call vote was carried out and it was a unanimous decision to approve the Audit Committee Annual/End of Term Report 2023/24 and its self-assessments using the CIPFA Audit Committee Guidance and agreed that the Audit Committee Annual/End of Term Report 2023/24 should be presented to the Council.

5. HOUSING ANNUAL ASSURANCE STATEMENT

A report was submitted by the Executive Director for Place to advise the Audit and Governance Committee of the Scottish Housing Regulator's regulatory framework and in particular, the requirement for East Lothian Council to produce an Annual Assurance Statement, which requires to be signed off by the Senior Internal Auditor on behalf of the Council and to obtain approval for East Lothian Council's Annual Assurance Statement as laid out in appendix 1.

Wendy McGuire, Head of Housing reported in 2019 the Scottish Housing Regulator (SHR) revised its regulatory framework and therefore placed a requirement on all social landlords to formally submit an Annual Assurance Statement to the SHR by the end of October each year. She added this must confirm the relevant committee is assured that the landlord is complying with all regulatory requirements and standards or highlight any areas of material non-compliance and how the landlord will address these. Ms McGuire explained the process for gathering evidence to ensure the committee has the necessary level of assurance it needs to sign the statement is more important than the statement itself and the submitted report highlighted key evidence of where the Council demonstrates compliance with the new regulatory framework. She asked Members to note the robust processes in place with sign off at service manager level together with the Scottish Social Housing Charter and Performance Groups who also consider the evidence gathered as well as the scrutiny and performance structures in place to ensure going performance and service delivery together with appropriate governance structures.

Ms McGuire confirmed that as a result of this evidence gathering and assessment the Councils complies with the regulatory requirements set out in chapter 3 of the framework, subject to 3 exceptions; Lead Water Pipe Programme, Fire Heat Alarms and the continued breach of the Unsuitable Accommodation Order.

Councillor Bruce asked what legal implications the Council could face for breaching the Unsuitable Accommodation Order. Ms McGuire confirmed the Scottish Government do not issue fines or take punitive action and prefer to take a preventative approach and the Council continue to work closely with the Housing Regulator to mitigate the risks. She added a progress report has recently been submitted to the Housing Regulator showing significant improvement in that area. Ms McGuire noted the Council continued to face threat of judicial review from Shelter.

In response to a question from Councillor Jardine, Ms McGuire stated the Regulator has been happy with the positive progress the team have made and they will continue to work with us and monitor that. She added that the number of breaches last year was around 150 and this year has reduced to around 120. Ms McGuire also provided information on why East Lothian was one of six local authorities regularly breaching the Unsuitable Accommodation Order and the recently approved changes to the policy that will hopefully help to improve the situation of single person homeless households. She stated she was confident these policy changes would make a difference with improvements showing by the end of the financial year.

Ms McGuire continued to answer questions from Members providing information on why the Council had breached the order, that 32 of these breaches were families which were a mix of being out of area accommodation and bed and breakfasts. She also made Members aware there were 61 properties outstanding for lead water pipe checks which is due to no access to the property, but the team will be looking at forced entry to complete these checks if they are not able to gain access. Ms McGuire also confirmed there was only one property out of over 9000 that was outstanding for fire detection provision work which is a very complex case and there is a multiagency approach to ensure the necessary works are undertaken.

Councillor McLeod and Councillor Menzies thanked Ms McGuire for her report and comments.

Decision

The Committee agreed to note:

i) The regulatory framework and the requirement for the Senior Internal Auditor to sign-off the Annual Assurance Statement (AAS) on behalf of the Council

ii) The regulatory framework requires the submission of the AAS no later than the 31st October 2024.

A roll call vote was carried out and the Audit and Governance Committee agreed unanimously to approve the Annual Assurance Statement as detailed in appendix 1 noting that East Lothian Council was partially compliant with the regulatory requirements for the financial year 2023/24 and partially compliant for the first quarter of 2024/25.

6. HOUSING RISK REGISTER

A report was submitted by the Chief Executive to present to the Audit and Governance Committee the Housing Risk Register for discussion, comment and noting.

Wendy McGuire, Head of Housing stated Very High risks are unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position; high risks may be tolerable providing the Council is assured that adequate and effective control measures are in place; medium risks are tolerable with control measures that are cost effective; and low risks are broadly acceptable without any further action to prevent or mitigate risk.

The current Housing Risk Register includes 1 Very High Risks, 9 High Risks, 8 Medium Risks and 4 Low Risk. In accordance with the Risk Management Strategy only Very High and High risks identified in the Corporate Risk Register will be subject to closer scrutiny by the Councils Management Team, the Cabinet and the Audit and Governance Committee. Ms McGuire noted the highest risk on the Housing Risk Register was also included in the Corporate Risk Register around Homelessness and the risk presented in this register are live and monitored continually and there is a risk that R70 will increase over the next few weeks.

Councillor Ritchie asked what structures and systems the Council has in place to deal with the budget pressures we are facing. Ms McGuire explained this area is under close monitoring and we have received resource allocation from the Scottish Government over the next three years and sets out affordability parameters but at the moment we are unable to fulfil all the projects coming forward. She provided examples of what the resource from the Scottish Government would be able to cover and added that the team continue to work with government to look at innovative forms of finance to ensure we can maximise of the delivery of units.

Responding to a question from Councillor Jardine, Ms McGuire confirmed the Council continue to work closely with the Scottish Government to better understand if there is likely to be any new investment in Scotland. She also stated that accessible housing is an area of concern as there is a limited amount of new stock that meets varying needs, and it is putting added pressure on existing stock and budgets to be able to adapt properties. This is something the Council are also working with government on to try and maximise investment as much as possible. In a follow up question Councillor Jardine asked if there was scope to require other developers to build properties to a higher standard. Ms McGuire said this was an area the Scottish Government are keen to see come through the new Local Development Plan (LDP) and this is something planners will consider, and robust evidence will be needed to back that up and the housing strategy and development team have done a huge amount of work around that. She stated there is some control over the affordable housing requirement and a percentage is set to ensure affordable units coming through private developers will meet housing for varying needs as a minimum.

Councillor Menzies asked if there was any progress with new MMR builds coming through in the foreseeable. Ms McGuire explained the team were continually looking at opportunities for mid-market homes holding 60 to date. She added there is an investment tax force group and a short life working group looking at lease models as well as continuing to engage with Scottish Government to look at ways to maximise the delivery of mid-market rent going forward.

Councillor Jardine and Councillor Menzies made comments in relation to the pressures on the Scottish Government and the Council in regard to the housing crisis.

Decision

The Committee agreed to note the Housing Risk Register and in doing so, the Committee noted that:

- i) The relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- ii) The total profile of the Housing risks could be borne by the Council at this time in relation to the Council's appetite for risk.
- iii) Although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer-term risks for Housing and are likely to be a feature of the risk register over a number of years.

7. THE BRUNTON THEATRE TRUST REPORT

A report was submitted by the Team Manager for Arts to provide the Audit and Governance Committee with an update on the Brunton Theatre Trust programme from March 2023 – 2024.

Richard Butt, Trustee highlighted the challenges the Trust have faced including the continued recovery from Covid and the discovery of RAC in the roof which resulted in the programme being moved to Loretto School Theatre and North Esk Church in Musselburgh and also later taking over the lease of Haddington Corn Exchange. He stated there were costs incurred to make sure these venues were the correct standard for programmes and also none of these venues held the same capacity as the Brunton therefore income was down. Mr Butt explained all of this meant reserves had to be used to maintain operations and the business models put them in a difficult situation.

He also highlighted what the Trust had been able to deliver including film screenings, drama performances and the continued offer of the arts service but this cannot be continued indefinitely because the forecasted deficit would take out half of remaining reserves and would bring the trust to £27,000 above the minimum three month reserve policy level. Mr Butt stated this was partly due to reduction in income and increased expenditure but also East Lothian Councils decision to reduce our grant by £200,000. He made Members aware that within the next financial year, if the reduction in funding from the Council continued, they would breach their reserves policy so serious discussions have taken place internally and with auditors to see if accounts can be signed off as an ongoing concern.

Michael Stitt, Chair of the Brunton Theatre Trust added the two critical messages he wanted to make to committee were the Trust urgently needs the funding reinstated and urgently needed transparency around where we are regarding RAC as it has been 18 months and there is huge frustration from the Trust and within the community. He said the Trust was unable to go on like this from a funding perspective but also from a transparency perspective.

Councillor Menzies informed all Members this Committee was not able to consider the RAC or funding issue at the Brunton but instead are there to scrutinise the Brunton Theatre Trust. Mr Reid confirmed consultants have been working flat out on the RAC issue, but the two high schools diverted some resource and capacity as they were statutory. He noted the Council are still not in a position to be able to give clarity on the options appraisal, but it is being worked on and the hope is to bring a report to Council in October, and he will reach out to Mr Stitt and Mr Butt to provide information on the levels of decay, the options available and the decisions the Members will have to look to take but the Council, but the Council position has to be updated first.

Councillor Jardine asked if the Trust had taken into consideration the steps noted in their report to maximise income. Mr Butt confirmed the Trust had submitted an application to Creative Scotland, but they have faced their own challenges and funding is not guaranteed. He added that the accounts included receiving a grant from Creative Scotland therefore the deficit would be similar to the size of this year. Mr Butt said the Trust could reduce their programme, but this would affect the likelihood of them receiving a grant from Creative Scotland.

Responding to a question from Councillor Bruce, Mr Reid explained whatever the fix is on the Brunton it will not be short term and he will make this clear within the options appraisal. Mr Stitt agreed the solution to the RAC issue will not be fixed any time soon but highlighted the move of the programme to Haddington Corn Exchange, Loretto School and North Esk Church was a good solution to keep the Brunton Theatre Trust going but they require support to do so.

Councillor Ritchie asked for more information on the Trusts plan going forward and for a timeline on the Creative Scotland grant application. Mr Stitt confirmed they would hear the result of the Creative Scotland application by late October. He said in the future the Trust want to build on what has worked well such as community arts groups and the Brunton youth theatre programme and the opportunity to engage new audiences from having multiple venues across East Lothian. Mr Stitt highlighted the work of Kirsty Sommerville developing screen work and working with local festivals, but he said creative ambition is difficult to deliver in current circumstances but the team wherever they can.

Responding to questions from Councillor Menzies, Mr Stitt stated the arts sector is under siege in regard to funding and it is not realistic to have a service like the Brunton that relies on that exclusively. He said there needs to be critical grant support from the local authority to make things happen and he felt it was extremely important that message was driven home. Mr Stitt felt the business model will work in the longer term but when applying to trusts and foundations it requires a more independent governance structure. He added while he has been Chair, they have tried to apply for more funding, but a resource is needed within the team to be dedicated to raising funds for the Brunton and this is something they are trying to prioritise. Mr Stitt also confirmed there were barriers to the Trust being an arm's length body of the Council and this has been shown by auditors each year as they want to see tangible independence. He felt public funding for Trusts went hand in hand and stated it was the reality for many others but that the Brunton was in unique position in terms of RAC as the coverage they have received is very negative which could spook a lot of funders.

Members praised the Trust and thanked them for their hard work as many people within the community benefit from their services and shows they provide. They felt there had been a real adaptability over the last four years which was worth noting and praising and they looked forward to continued work between the Trust and the Council.

Councillor Bruce highlighted the power of work that has to go into finding out the extent of RAC issues and the options to deal with it but if the report was not available for the October Council meeting that a special meeting should be arranged to discuss this in terms of governance for the future of the Trust.

Councillor Menzies stated our language around this will be vitally important as the Bruton Theatre Trust is alive and well and have acts ongoing but is a growing concern and we need to ensure we do all we can to support it. She explained there are major concerns with the Brunton Theatre building itself but that doesn't necessarily make the whole picture.

Decision
The Committee agreed to note the contents of the report.

8. FINANCIAL MANAGEMENT CODE UPDATE

A report was submitted by the Executive Director for Council Resources to provide the Audit and Governance Committee with an update on the Council's compliance with CIPFA'S Financial Management Code (the FM Code), and proposed actions to improve and enhance this.

Ellie Dunnett, Head of Finance reported in September 2023 the Audit and Governance Committee considered officers initial assessment of compliance with the FM Code and that this report provided an update on the assessment and the progress of the agreed actions.

She stated we remain broadly compliant with the principals of the code and highlight were in the report Members could find the steps taken to enhance this. Ms Dunnett explained a recent internal audit of financial management identified that the Council hadn't formally adopted the code, and this would be within the remit of Cabinet to make this decision and therefore this report recommends that it is taken to Cabinet proposing that the code is formally adopted which will support effective financial management and sustainability.

There were no questions or comments on this report.

Decision
The Committee agreed to note:

i) The updated assessment of compliance against the FM Code and proposed actions documented within Appendix 1.
ii) The conclusion that overall, the Council remains compliant with the seven principles of the code.
iii) The progress that has been made to implement agreed actions at paragraph 3.8 and agree the further actions at paragraph 3.9

A roll call vote was taken, and the Audit and Governance Committee unanimously agreed to recommend that a report is taken to Cabinet proposing that the principles of CIPFA's Financial Management Code should be formally adopted by the Council.

Signed ....

Councillor Lee-Anne Menzies
Convener of the Audit and Governance Committee

East Lothian Council

REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	17th December 2024
BY:	Chief Executive
SUBJECT:	Communities, Corporate Support, Development and Finance Risk Registers

2

---

1 PURPOSE

1.1 To present to the Audit and Governance Committee the Communities, Corporate Support, Development and Finance Risk Registers for discussion, comment and noting.

1.2 These Risk Registers are developed in keeping with the Council's Risk Management Strategy and are live documents, which are reviewed and refreshed on a regular basis, led by the Local Risk Working Groups (LRWG) within each service.

2 RECOMMENDATIONS

2.1 It is recommended that the Audit and Governance Committee notes these Risk Registers and in doing so, the Committee is asked to note that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- the total profile of the risks can be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer-term risks and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

3.1 The Risk Registers has been compiled by the respective LRWGs. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 5) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable, and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The four risk registers presented include the following number of risks.

- Communities Risk Register includes 1 Very High, 6 High, 17 Medium and 3 Low risks.
- Corporate Support Risk Register includes 1 Very High, 4 High, 14 Medium and 10 Low risks.
- Development Risk Register includes 3 High, 3 Medium and 5 Low risks.
- Finance Risk Register includes 8 High, 5 Medium and 6 Low risks.

As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - It is the consideration of the respective LRWGs that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Registers should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Council Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of these registers will require the support and commitment of the Risk Owners identified within the registers.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Communities Risk Register

7.2 Appendix 2 – Corporate Support Risk Register

7.3 Appendix 3 – Development Risk Register

7.4 Appendix 4 – Finance Risk Register

7.5 Appendix 5 – Risk Matrix

AUTHOR'S NAME	Lee Wright
DESIGNATION	Emergency Planning and Resilience Officer
CONTACT INFO	lwright@eastlothian.gov.uk 01620 827250
DATE	5th December 2024

East Lothian Council Communities Risk Register

Risk ID	Category	Title	Description	Impact	Probability	Current Risk Score	Residual Risk Score	Corrective Actions	Latest Update	Review Date
R97	Impact on Service Objectives	Failure of IT customer interface systems	Failure of IT customer interface systems (including Telephony) Would render the Council: Unable to deliver customer services some of which are vital 'life and limb' services i.e. community alarm/telecare services for 3 Councils and 2 Housing associations/adult and children's social work calls/out-of-hours emergency calls Data unable to be inputted onto databases Customers unable to access self-service and get on-line Services unable to meet customer expectations resulting in reputational damage, service level breach, poor publicity and failure to provide essential services.	5	4	20	15	222 - Work ongoing to simplify and improve interfaces between systems to reduce technical failures. 223 - Replacement of analogue with digital enabled alarms 224 - Upgrade of Netcall 225 - Complete planned upgrade of existing Digital system to cope with both analogue and digital alarms. 226 - Technology solutions that may enable bulk communication to end users	17/10/2024	10/04/2025
R98	Business Continuity	Loss or damage of assets	Loss or damage or delayed repair of assets due to fire, explosion, storm, flood, malicious damage, theft, lack of repair/maintenance, lack of adequate security measures, loss of utility supply or lack of facility support.	4	4	16	9	229 - Exploration of CCTV for Prestongrange site 230 - Exploration of appropriate insurance cover and insurance quotations for ELC Arts and Museum collections 231 - Fencing will be installed around a number of buildings at Prestongrange	06/11/2024	31/01/2025
R100	Impact on Service Objectives	Service Capacity – Staffing	Staffing pressures across the breadth of Community Services service delivery county-wide may impact on the ability to safely deliver services e.g. Customer Services and Libraries, Contact Centre, Community Centres, Food Safety Inspections etc.	4	4	16	9	237 - Explore graduate intern and KickStart opportunities 238 - Roll-out of service offering within the Customer Platform improving linkages to other systems 240 - Review Customer Services and Connected Communities Service physical assets	14/10/2024	28/02/2025

R104	Impact on People	Failure in Contact Centre Community Response	This is a call service for telecare/community alarm customers for East Lothian Council, Midlothian Council and Scottish Borders Councils. A failure in Community Response processes i.e. staff not dealing with calls appropriately, not following scripts, not asking appropriate questions, making assumptions about what is wrong/who the caller is, not dealing with requests timeously/not noting key information etc. could result in: Serious injury to customers Fatality of customers Loss in confidence by stakeholders/partners/customer Financial loss due to liability claims HSE involvement The Council could become unable to respond to customer requests at the first point of contact. All of the above could lead to reputational and or financial damage to the council and poor publicity.	5	3	15	10	226 - The Local Govt Digital Office is setting up a group to work on this national issue and ELC will be part of that. ELC is also looking at technology solutions that may enable bulk communication to end users to advise them of a fault and help to prioritise support to those who need help urgently. 225 - Complete planned upgrade of existing Digital system to cope with both analogue and digital alarms. 223- Replacement of analogue with digital enabled alarms (won't work with existing ARC system).	17/10/2024	10/04/2025
R99	Financial Impact	Appropriate Insurance Cover	Failure to identify, source and secure effective insurance cover for the Council e.g. public liability and employers' liability, property and vehicle assets (both ELC owned and leased) insurance cover etc. would leave the Council vulnerable to significant risk in respect of claims received. This could lead to financial loss and reputational damage. Should the Council's Insurance Service fail to operate effectively, risks may increase regarding effective management of insurance claims handling, policy compliance and accurate information being provided to the insurers (as required under the Insurance Act 2015). This, in turn, could lead to fraudulent claims, uninsured financial loss and reputational damage. Failure to declare accurately the risks within the Council to our insurers could result in cover being withdrawn and / or additional premiums or deductibles being incurred (leaving the Council at greater financial risk) Failure to maintain and implement / audit policies and procedures, including appropriate insurance MIS and records management and safeguarding of insurance claims data, could lead to a deterioration in the Council's claims experience. This will increase the premiums that the Council will have to pay. This may impact on the value of the Corporate Insurance Fund held within the Council's Reserves. The Council has never held insurance for the Council's museum/art collection or for items exhibited in museums or libraries. Any damage to or loss of these items due to water/fire damage etc. may result in request for no compensation and / or cause reputational damage. This could mean the loss of items of local/national significance, which could not be replaced, impacting on the ability of the Museums Team to meet service objectives.	4	3	12	8	232 - Focus on the Service Management Team re lessons learned to be delivered directly and preventative measures to be shared 234 - Development of Insurance e-learning for all staff including information about the policies in place, requirements for annual declarations and also emerging insurance risks.	06/11/2024	21/02/2025

R102	Impact on People	Fatality, Major Injury, Serious Incident in ELC enforced Workplace	Under the Health & Safety at Work Act 1974, ELC is the enforcing authority for a significant number of workplaces in East Lothian. In the event of a fatality, major injury or serious incident, officers from Protective Services will be required to investigate and identify any legislative breaches which may result in prosecution. Officers may also be required to give evidence at a Fatal Accident Enquiry. Failure to meet these obligations could lead to significant reputational damage for ELC. Risk Factors: In 2010, UK Gov significantly reduced pro-active inspections of workplaces. This has reduced experience of officers and therefore competency levels. Investigations are time consuming and resource intensive adding pressure to existing team to deliver other statutory duties. There is currently a national shortage of qualified Environmental Health Officers which may have future implications for resourcing levels. Investigation processes and procedures need to be robust as most prosecutions are taken on summary indictment. Increased media attention / Information requests Third party insurance claims made against the Council. Depending upon the nature of the incident, the area may require evacuation and/or decontamination.	4	3	12	8	246 - Business Continuity Plan to be reviewed to include actions where resource is deployed into a major investigation. 247 - Annual Service Plan to include initiatives that will increase pro-active activities e.g. topic visits, table-top scenarios, consistency exercises etc. 248 - Competency Framework and Matrix to be developed to ensure required skills and knowledge are gained and maintained. 249 - Any competency gaps to be identified and addressed vis PRD process. 250 - Out of hours provision requires review.	11/07/2024	22/05/2025
R113	Impact on People	Outbreak of Communicable Disease	An outbreak of infectious disease in the East Lothian area will involve participation of Environmental Health Officers in the investigation, control and management of the outbreak under the Public Health (Scotland) Act 2008. Failure to efficiently respond to such an incident could result in serious illness or fatalities to the public as well as reputational risk to the Council. Risk Factors: Increased Global travel post-covid can see a rise in imported and unusual disease. Lack of post-brexit border checks may compromise food safety and may result in increased illness. Investigations are time consuming and resource intensive adding pressure to existing team to deliver other statutory duties. There is currently a national shortage of qualified Environmental Health Officers which may have future implications for resourcing levels. Such incidents attract significant media interest Matter may result in a public enquiry/formal investigation into the incident, which would affect the deployment of Council resources to carry out day-to-day work. Led to third party insurance claims to be made against the Council. Depending upon the nature of the incident, the area may require evacuation and/or disinfection.	4	3	12	6	286 - Protective Services Service Review to generate increased service capacity and resilience 287 - Business Continuity Plan to be reviewed 288 - Competency Framework and Matrix to be developed 289 - Any competency gaps to be identified and addressed 290 - Regular training on outbreak response and management to be developed and rolled-out to staff 291 - Review out of hours provision	31/07/2024	22/05/2025

Appendix 2

East Lothian Council Corporate Support Risk Register

Risk ID	Category	Title	Description	Impact	Probability	Current Risk Score	Residual Risk Score	Corrective Actions	Latest Update	Review Date
R127	Impact on Reputation	External IT Security Threats	Council IT systems are compromised by criminal 3rd party (e.g. hacker, terrorism) - causing the loss of a system(s) and/or loss/disclosure of data due to a a virus/Trojan/ransomware infection. The Council's increased participation in shared services escalates this risk as the council's network boundaries are being opened up to enable data sharing with other agencies. Due to the current conflicts in Ukraine and the Middle East there is a continuous risk of Nation State led cyberattacks on the UK which could potentially affect National Infrastructure in a way that has a direct impact on East Lothian Council.	4	5	20	16	310 - Recruit to the vacant IT Specialist IT Security Post.	01/11/2024	31/01/2025
R128	Impact on Reputation	Internal IT Security Threats	Council IT systems are compromised by the actions of an internal employee - causing the loss of a system, virus/trojan/ransomware infection or loss/disclosure of data.	4	4	16	12	311 - Recruit to the vacant IT Specialist IT Security Post.	02/10/2024	31/01/2025
R129	Impact on Reputation	Data Breaches and Compliance	Breach of personal data through: - accidental disclosure or loss of personal data in transmission; - lack of staff awareness - intentional or malicious misuse of personal data; - lack of appropriate provisions for storage or disposal of personal data; Risks include: - breach of relevant laws; - breach of duty of care; - harm to individuals; - legal action and fines; - requirement to pay compensation; - adverse publicity; - damage to the Council's reputation. The Council has shifted its focus to digital Service delivery and changes to working practices continue to evolve, Information Governance controls must remain resilient and responsive.	4	4	16	12	314 - Revise our disciplinary policy and procedures to ensure that a deliberate data breach is a clear disciplinary matter attracting major sanctions as gross misconduct. 315 - Data Breach Dashboard currently in development to support high-level reporting to senior managers re: trends in data breaches and contributing factors. 316 - Undertake procurement exercise to identify best value for Digital Strategy document management services to improve storage, security and service improvement.	06/11/2024	09/05/2025

R132	Business Continuity	Legal Service Staffing	Unplanned loss of a key employee or employees due to resignation, long-term sickness absence etc. may affect the quality and scope of the legal service resulting in a failure to meet statutory objectives and provide an adequate legal service. Following a number of recruitment exercises and service reviews there remain one vacant post of Principal Solicitor – Commercial remains vacant. Despite repeated recruitment campaigns it has not been possible to recruit to this posts. Due to this lack of resource and increased demand for Legal Services the team continue to find it difficult to fulfil service requests timeously without considering outsourcing at an additional cost to the Council. The increased workload falling on the remaining members of the team may result in further absence due to stress. Outsourcing legal work to external firms incurs unbudgeted costs for client services, which can be significant for complex matters.	4	4	16	9	317 - On a temporary basis consideration will be given to bringing in suitably qualified solicitors through agencies and/or outsourcing to external legal firms. While these may assist these people may require training etc. which will take some time.	06/11/2024	31/03/2025
R135	Legal	Legal Advice	Giving inaccurate or incorrect legal advice or failing to give appropriate legal advice could result in the Council failing to comply with its statutory duties and/or acting ultra vires leading to legal action and loss of reputation. Due to current staff shortages/work load the team may not have the resource to comply with all of the mitigation measures at any given time which may lead to mistakes being made either in advice or in process. Due to financial pressures, client services may be unable to meet the cost of specialist external legal advice.	4	3	12	9	321 - On a temporary basis consideration will be given to bringing in suitably qualified solicitors through agencies and/or outsourcing to external legal firms. While these may assist these people may require training etc. which will take some time. 322 - To ensure capacity within the team remains on a long-term basis the priority is to fill the current two vacant posts of Principal Solicitor – Commercial and Solicitor – Litigation.	06/11/2024	09/06/2025

East Lothian Council Development Risk Register

Risk ID	Category	Title	Description	Impact	Probability	Current Risk Score	Residual Risk Score	Corrective Actions	Review Date	Latest Update
R86	Impact on Service Objectives	Failure to facilitate supportive environment for economic growth	If the Council fails to facilitate a conducive environment for business formation, recovery, and growth then there will be fewer new start-ups, fewer growing businesses, fewer businesses relocating to East Lothian, lower private sector investment, and East Lothian will be less prosperous with increasing inequalities.	4	4	16	16	202 - Long term planning for provision development enablement by ELC of land to allow for business growth and expansion. 203 - Develop new 10 year Local Economy Strategy and Action Plan. 204 - Deliver remediation and masterplan for former Cockenzie Power Station site 205 - Explore individually and with others the identification of alternative funding streams	28/02/2025	21/08/2024
R89	Impact on Service Objectives	Future development of the Blindwells expansion proves technically undeliverable, unviable or unaffordable	Larger new town is a long term project that is likely to span several economic and political cycles, and generate significant capital and revenue requirements and additional demands for services and facilities as it is developed and once operational. Work that is currently being undertaken on the business case for expansion will consider technical requirements, and capital and revenue impacts of the development, and may demonstrate that there is no technically sound, viable or affordable future for the expansion area or no technical, viable or affordable future without public sector financial support from either or both Governments. The level of potential solution, including capital and revenue support to be identified, quantified and agreed with both Governments as a commitment through business case development, if required, before any expansion scheme is committed to by ELC. May lead to development requirements needing to be met elsewhere in East Lothian in whole or part.	3	4	12	8	207 - Ministerial engagement with UKG SG 208 - Engage with Depute First Minister to start a dialogue 209 - Ensure landowners base proposals on sound technical work 210 - Test the robustness of the viability model prepared by the landowners and agree development prgramme and phasing model 211 - Encourage equalisation agreement between landowners. 212 - Consider if any need for shared control of land for shared infrastructure. 213 - If allocated, identify and quantify additional revenue and public loan or grant investment required, facilitate arrangements between public-private-third sectors if needed. 214 - Identify method to protect any public loan investment, including though engagement with SFT.	30/04/2025	08/11/2024

R85	Property	Failure of Parking Management Project	Parking demand in many of East Lothian's town centres can be high, especially at peak periods. Growth in car ownership and a lack of spaces for short stay parking makes it difficult for people to access amenities and local businesses. Improving the availability of short stay parking in the town centre increases turn-over making it easier to access the town centre and local services. Opposition raised from the business community stating parking charges will deter shoppers. Income generated would assist in delivering the investment required to introduce and maintain parking management arrangements and to achieve safer streets, parking space turnover and wider investment in active travel and sustainable transport provision. Income generated can be used to encourage greater use of public transport and promote active travel such as walking and cycling to address the Climate Emergency. Resources are required to implement and manage the project timeously to avoid delay and disruption in the delivery of proposed interventions (infrastructure and personnel) on a yearly basis. Political and public opposition to the proposals may increase levels of challenges, scrutiny and objections elongating delivery or potentially abandoning the project.	3	4	12	9	196 - Undertake full economic impact assessments, demand assessments and technical work for all East Lothian towns. 197 - Provide consistent approach to consultation on an individual town by town basis commencing in Musselburgh. 198 - Engage with community leaders, businesses, area partnerships early to explore their concern. 199 - Identify partners and allies to keep messages positive. 200 - Exploring and identifying additional off street parking intervention(s) where appropriate.	31/03/2025	06/11/2024

Appendix 4

East Lothian Council Finance Risk Register

Risk ID	Category	Title	Description	Impact	Probability	Current Risk Score	Residual Risk Score	Corrective Actions	Review Date	Latest Update
R248	Financial Impact	Market Conditions and Supply Chain Disruption	There is a risk that suppliers may not participate in tenders or request that response periods be extended due to lack of market/supplier/internal resource availability. This could result in returned tender proposals exceeding allocated budget. There is a risk that the Care at Home providers are not able to recruit to deliver complex care packages and may seek to hand back packages or stop operating in EL. There is a risk to the supply of roads materials due to 60% of Bitumen supply coming through Russia, resulting in delays and price uplifts between 20-40%.	4	4	16	12	477 - Enhanced value engineering.	28/02/2025	06/11/2024
R254	Financial Impact	Finance Staffing Issues	Loss of key finance staff, external recruitment pressures, on-going complexity and continuing financial challenges may result in the Finance service not being able to provide an appropriate level of financial support to the Council and wider services. The team may not have the appropriate skills, and due to the increasing obligations, may not be able to meet statutory financial accounting requirements such as completion of statutory annual accounts. There has also been an increasing number of staff turnover including ill health and retirements of experienced staff members. Turnover of staff also means that knowledge is leaving the team and it will take time for new staff to get up to speed and the current controls on recruitment may result in an increased number of vacancies within the team. The implementation of a new Finance System had added pressure and additional workload to the team.	4	4	16	6	495 - Enhance the number of relevant qualified accountancy staff to meet statutory accounting requirements.	31/01/2025	08/10/2024
R249	Financial Impact	HRA income and Rent Arrears	A fall in HRA income may impact on our ability to provide services and deliver on capital investment plans. Any increase in rent arrears would reduce income to the HRA. Times continue to be challenging and many households are facing financial hardship with cost-of-living pressures.	3	4	12	9	482 - A draft Rent Income Management Policy has been developed and is currently pending awaiting input from the Housing Service in relation to homelessness arrears. 483 - The Rent Income Team has been working with Housing Quality Network (HQN) Consultant, in relation to staff training.	12/11/2024	11/11/2024

R250	Financial Impact	Loss of General Services Income	A reduction in income via reduced collection of Council revenue, including Council Tax, Business Rates and Sundry Accounts could impact adversely on the Council's ability to provide quality services. Many households and businesses now facing financial hardship and cost of living pressures. Individuals who fraudulently claim Council Tax Single Person Discount have a detrimental impact on the revenue coming into the Council, directly affecting funding for vital services for local people. Council tax banding reviews present a risk to the level of income which the council is able to collect. However, we are not aware of any planned reviews within the current year.	3	4	12	9	484 - East Lothian Council's Corporate Fraud Officer is carrying out work, in conjunction with the Council Tax & Debt Management team, through the National Fraud Initiative (NFI) data matching system	02/05/2025	11/11/2024
R251	Financial Impact	Scottish Welfare Fund	The level of administration funding received from the Scottish Government does not reflect the actual level of resource deployed by the Council to administer the SWF scheme (crisis grants and community care grants). The level of programme funding received from the Scottish Government does not reflect the increased demand for SWF payments. Demand has increased in recent years and continues to remain high as a result of the cost of living crisis. It may become unsustainable for the Council to continue to provide top up funding to meet the demand for crisis and community care grants.	4	3	12	8	486 - Participate in Scottish Government led Practitioner groups and work with SG and CoSLA colleagues to review the current funding model. 487 - Consider moving to high and most compelling for crisis grants, possibly from December 2024, to reduce risk of current year overspend.	02/05/2025	11/11/2024
R252	Financial Impact	Key Financial Controls	Lack of key financial controls which may cause an instance of serious financial fraud or corruption resulting in financial loss and wider reputational loss to the authority. There is an increased risk of fraud as a result of changes in processes linked to new ways of working, limited staff resources in some services, and the impacts of the cost-of-living crisis.	4	3	12	6	519 - New financial system is being developed	30/05/2025	07/11/2024
R253	Financial Impact	Key Financial Systems	A failure of key financial systems e.g. Pecos, the revenues system and the financial management system due to technical problems and/or supplier failure or loss of key staff could lead to service failure and incomplete management information. Statutory functions may not be completed on the back of a system failure.	4	3	12	6	492 - Purchase 2 Pay review is ongoing, which will review our strategic approach to procuring and paying goods and services. 493 - A new financial system has been procured and work to implement this is underway. 494 - Project to implement cloud-based solution for the revenues system is ongoing.	31/01/2025	06/11/2024

R255	Financial Impact	Internal Audit Effectiveness	Internal Audit fails to effectively assess internal controls. Audit reviews fail to identify control weaknesses. Internal audit staff may not have the specialist skills required to undertake audit assignments. Failure by management to implement internal audit recommendations. All the above could lead to inaccurate assurances being given.	3	4	12	6	518 - Complete a service review and review staffing capacity in the team following retirement of key member of staff	30/05/2025	07/11/2024

East Lothian Council Risk Matrix

Appendix 5

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	>90% chance of occuring
Probable	4	70%-90% chance of occurrence
Possible	3	30-70% chance of occuring
Unlikely	2	10-30% chance of occuring
Rare	1	<10% chance of occuring

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Physical and/or Psychological Impact on People	Impact on Time	Impact on Reputation	Impact on Assets	Business Continuity	Legal & Regulatory
Catastrophic	5	Catastrophic failure in service delivery and key service standards are not met, long-term catastrophic interruption to operations, several major partnerships are affected	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances. Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves. The Council is expected to hold a reserve to budget ratio of 2%.	Single or Multiple fatality and or physcological impact, within council control, leading to fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved. Prolonged regional and national condemnation.	Significant disruption to building, facilities, vehicles or equipment (Loss of building, vehicles, rebuilding required, temporary accommodation required, vital equipment lost without replacement capability available resulting in services being unable to be delivered).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions, including substantial involvment from regulators.
Major	4	Major impact to service quality, multiple service standards are not met, long-term disruption to operations, multiple partnerships affected.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty). Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves.	Number of extensive injuries (major permanent harm) or major physcological impact to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Serious negative national or regional criticism and publicity.	Major disruption to building, facilities, vehicles or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required, equipment or vehicles unavailble to provide significant elements of service delivery and no appropriate contingency arrangements in place).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council, fines and regulatory action publicly enforced.
Moderate	3	Significant fall in service quality, major partnership relationships strained, serious disruption in service standards.	Moderate impact on budgets (can be contained within overall directorate budget).	Serious injury requiring medical treatment or moderate physcological impact to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Adverse national media public attention with elected members becoming involved.	Moderate disruption to building, facilities, vehicles or equipment (loss of use of building for medium period, loss of equipment or vehicles requires contingency arrangements to be employed and has moderate impact on overall service delievery).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council, regulator action and or improvement required of the Council .
Minor	2	Minor impact to service quality, minor service standards are not met, short-term disruption to operations, minor impact on a partnerships	Minor impact on budgets (can be contained within service head's budget).	Non life changing injury or physcological impact to staff or member of the public requiring treatement.	Some - between 2 and 6 months to recover.	Minor adverse local, public or media attention and complaints.	Minor disruption to building, facilities, vehicles or equipment (alternative arrangements in place and covered by insurance, equipment or vehicles unavailable for small period of time minor impact on service).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council, regulator advice and improvement requested of the Council.
Minimal	1	No impact to service quality, limited disruption to operations.	Minimal impact on budgets (can be contained within unit's budget).	Minor injury or minor physcological impact to employee, service user or public.	Minimal - Up to 2 months to recover.	Public concern restricted to local complaints and of no interest to the media.	Minimal disruption to building, facilities, vehicles or equipment (alternative arrangements in place, equipment or vehicles alternative quickly available to replace or subsitute).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council, regulator suggested improvements requested.

Risk	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	17 December 2024
BY:	Service Manager – Internal Audit
SUBJECT:	Internal Audit Report – December 2024

3

1 PURPOSE

1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee, provide details of Internal Audit's follow-up work undertaken and provide an update on progress made against the 2024/25 annual audit plan.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note:

i. the main findings and recommendations from the Internal Audit reports issued during the period from September 2024 to December 2024 as contained in Appendix 1;

ii. the findings from Internal Audit's follow-up work, per Appendix 2;

iii. Internal Audit's progress against the annual audit plan for 2024/25 as set out in Appendix 3.

3 BACKGROUND

3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: IT Education Software Purchasing and Treasury Management - Income Generation.

3.2 The main objective of the audits was to ensure that the governance, risk management and internal controls in place were operating effectively. A summary of the main findings and recommendations from the IT Education Software Purchasing and Treasury Management - Income Generation audits are contained in Appendix 1.

3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

- IT Education Software Purchasing – Reasonable Assurance
- Treasury Management - Income Generation – Reasonable Assurance

3.4 Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for two audits that were reported in previous years. Recommendations that have not been fully implemented are detailed in Appendix 2 with revised dates for implementation. Our findings are detailed below:

Utilities Cost Management

3.5 The Internal Audit report on Utilities Cost Management was issued in December 2023. The report made 6 recommendations. Our follow-up review identified that 5 recommendations have been partially implemented and 1 recommendation has yet to be implemented. It is understood that resources in this area are constrained and one of the actions that is being taken forward is a Service Review to create the business case for additional resource, which may then assist with the implementation of the other recommendations.

Performance Indicators

3.6 The Internal Audit report on Performance Indicators was issued in December 2023. The report made 10 recommendations, of which; 4 have been fully implemented, 4 have been partially implemented and 2 are yet to be implemented. The outstanding recommendations should now all be complete by June 2025.

Progress Report 2024/25

3.7 A progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the revised annual audit plan for 2024/25.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 Appendix 1 - Executive Summary: IT Education Software Purchasing

Appendix 2 - Outstanding Recommendations

Appendix 3 - Internal Audit progress Report 2024/25

AUTHOR'S NAME	Duncan Stainbank
DESIGNATION	Service Manager – Internal Audit
CONTACT INFO	dstainbank@eastlothian.gov.uk
DATE	6 December 2024

Appendix 1 Executive Summary: IT Education Software Purchasing

Conclusion: Reasonable Assurance

Education related software purchases are overseen by a combination of the central IT team and staff within the central Education team. The IT team have responsibility for the core systems and the Education team have responsibility for specialist education software used across East Lothian Schools. Over the last year procedures relating to requests for software purchases from schools have been revised by Education to ensure that appropriate software isn't already available within East Lothian and that the Council's security requirements are complied with. Processes for ensuring that all school staff are aware of the software available and training is progressed still require further improvement. A single register of all Education software is also required.

Background

Education use a combination of both windows based equipment and Chrome books. IT services are provided to the Council's schools via a combination of the central IT teams together with an Educational Support Officer and Learning Technologist within the central Educational Team. IT have responsibility for purchasing and installing software onto computers used by Education, while the staff within Education have responsibility for reviewing applications to be used with Chrome books and ensuring the Data Protection Impact Assessments are carried out to ensure that software being requested complies with both the Council's Information Governance and Information Security requirements.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager – Strategy & Operations & Service Manager IT** :

- A library of google apps has been prepared for use by the schools with guidance document and procedures not in place at the time of the audit now having been developed and a soft roll out commenced with a further role out to all teaching staff during 2025. *Management have agreed that these documents will be rolled out to all staff* ***by February 2025***.
- Within the Primary Schools the main point of contact was usually one of the school admin staff, management have now developed a Digital Community to fulfil this role in a different way. *Management have agreed to continue to develop the digital community to aim to ensure representation from all schools* ***by April 2025****.*
- Two separate registers of software used are maintained by IT and Education with the Education team not having access to the records held by IT. *Management should ensure that Education staff are aware of all contracts* ***on an ongoing basis****.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	3	1	4
Prior report	N/A	N/A	N/A	N/A*

* This control review is new and no prior report exists for comparison

Materiality

Over a variety of software a total of 32,132 licences are held by the Council and software disclosed as an intangible asset within the Council's accounts has a written down value of £395,405.

Headlines

Objectives	Conclusion	Comment
1. Adequate software asset management (SAM) policies, procedures and guidelines, including staff training and awareness are in place.	Reasonable	Policies and procedures have been updated to reflect how the central Education team want to engage with the Council's central IT team to ensure that both sides are aware of the software being used across the Education estate. However, there was at the time of the audit no recorded specific IT point of contact for each East Lothian School, particularly within the Primary Schools. Management are in the process of developing the Digital Community to provide coverage across each school to provide support for training of staff in the recommended apps that are being allowed for use on the East Lothian Council network.
2. Educational software is appropriately assessed for Data Protection implications (e.g. Data Protection Impact Assessments – DPIAs), educational benefit and best value;	Reasonable	A Data Protection Impact Assessment has been developed to ensure that all requests for new software are considered from both an Information Governance and Information Security perspective. A library of appropriate software applications has been put together and will be available to all schools during the academic year 2024/25 and this will be developed going forward. Prior to purchasing software a review is undertaken by the central Education team to confirm that an equivalent piece of software isn't already in place and that it meets and educational need.
3. Adequate SAM controls and processes are in place including user access controls, monitoring and management of software utilised within the Service.	Reasonable	Appropriate user access controls are in place and there has recently been work completed on identifying software being used. Further work following implementation of the approved list of applications may be required to continue to monitor the usage of these applications and ensure that that the appropriate applications are available to staff. Processes are in place to facilitate this.
4. Software licensing terms and conditions are adhered to, proof of entitlement is in place for all installed software and non-compliance is identified and remediated as required.	Reasonable	Two software registers are maintained, one by IT of the software they oversee and the second is held by Education of the software overseen by Education. The register maintained by the Council IT team is monitored with diary notes and suppliers informing the team when licences are due to expire. A shared set of details would assist in monitoring the software budget and allowing decisions on software purchasing to be made with complete information.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A data protection impact assessment form has been put in place and needs to be completed prior to software being purchased.
2.	Registers are maintained setting out the software being used within schools together with the number of licences held by the Council and the expiry date of these licences.

Recommendation Grading/Overall opinion definitions

Recommendation	Definition
High	Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Executive Summary: Treasury Management – Income Generation

Conclusion: Reasonable Assurance

The Council has a generally sound system of internal controls in place for Treasury Management Income Generation, including a detailed cashflow for the Council on which investment decisions are made where possible, in conjunction with external treasury advice, and within the Council Treasury Strategy. Procedures and practice documents are in some cases out of date or in need of finalising, and some improvements could be made to improve the value of income made when possible, this should be balanced against the resource input required.

Background

The Council's Treasury Management team has responsibility for overseeing the Council's cash flow and long-term funding. As part of this they should be making best use of any excess funds that the Council holds by investing these in appropriate short-term investments in accordance with the prudential code and the approved treasury management strategy to reduce overall interest being paid by the council and maximise interest earned. Short-term cash surpluses are invested with low-risk counterparties. The list of these approved counterparties are reviewed on a regular basis and the Council continues to follow the longstanding view that only UK based counterparties and Local Government will be used.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager – Corporate Accounting**:

- A Treasury Management Practices document has been in draft since 2023*. Management have agreed that this will be finalised and approved* ***by February 2025****.*
- The Council's Standing Orders do not reflect the most up-to-date Code of Practice and Regulations. *Management have agreed that these will be updated* ***by December 2024****.*
- A short-term investments basic procedure was put together for the audit. *Management have agreed to complete that detailed guidance will be drafted and approved* ***by December 2024****.*
- Whilst a detailed Cashflow is maintained by the Finance team for Treasury Management purposes large value property payments are included at expected times, more regular updates to this information would allow occasionally for greater interest by the Council. *Management have agreed to all Services will provide sufficient cashflow information when requested* ***by December 2024***
- While investments have been made during the period there have been balances available where investments have not been made as a result of timely approvals not being achieved*. Management have agreed to review authorisation processes and ensure wherever possible investments are made* ***by December 2024.***

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	2	6
Prior report *	n/a	n/a	n/a	n/a

* This control review is new and no prior report exists for comparison.

Materiality

In the period under review a total of 35 investments have been provided the Council with approximately £550,000 of income.

Headlines

Objectives	Conclusion	Comment
1. Clear, accessible, relevant and appropriate Council Treasury Management strategies, policies and procedures are in place covering investment of available cash reserves.	Reasonable	The Council has a treasury management strategy in place, the Treasury Management Strategy 2024 – 2029 had been approved by the Council at its meeting on 24 February 2024. However, a document is required to clearly link the strategy to the CIPFA Treasury Management Code of Practice and in particular the Treasury Management Practices.
2. The council maintains an appropriate cashflow forecast on a daily, weekly and monthly basis identifying excess funds available for placing, on an accurate basis.	Reasonable	A cashflow is maintained and updated on a regular basis however some services who make high value payments could be asked to provide more regular updates to provide sufficient detail to allow further investment income to be generated by the Council.
3. Additional cash funds are placed with appropriate counterparties at best rates and for appropriate lengths of time as identified in the treasury strategy, following an appropriate authorisation process with trained and qualified staff, following appropriate treasury guidance.	Reasonable	The Council's Standing Orders set out which senior officer has overall responsibility for overseeing Treasury Management. Day-to-day operation of Treasury Management is carried out by the Treasury & Banking team. Requests for investments to be made are generally approved promptly. While investments have been made during the period there are occasions where funds could have been invested but weren't as approvals could not be provided on a timely basis. Consideration should be given to widening the group of staff marginally who can make specific treasury investment decisions with clear risk-based limits.
4. Management should ensure that the approved list of counterparties for placement of funds is monitored regularly and counterparties removed if they do not meet the treasury strategy requirements, or advice indicates the risk has increased.	Substantial	A review of the cashflow showed that 36 investments had been made and that each of these had been with counterparties from the advisers Credit Rating List. A revised Credit Rating List is provided by the Council's Treasury adviser on a weekly basis. All of the counterparties in accordance with the treasury strategy.
5. The council's bank accounts are appropriately grouped to ensure maximisation of interest payments.	Substantial	While the Council has seven bank accounts these are operated as a pooled account and on an end of day basis interest, is added to the General account, based on the overall end of day balance. Consideration should be given to developing an arrangement with the Councils' Banking provider to include a higher interest account for transferring funds not required without requiring specific transfer of funds to another investment provider.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A Treasury Management Strategy for 2024-25 to 2028-29 has been put in place and approved by the Council.
2.	There is adequate segregation between staff authorised to approve investments and those making the payments.
3.	Under the current bank contract interest is paid monthly on the end of day pooled bank balances.
4.	A cash flow is maintained and used to identify occasions when there are sufficient funds available to put excess funds into investments.
5.	All investments purchased are via counterparties identified in the Council's external advisers weekly Credit Rating Reports.

Recommendation Grading/Overall opinion definitions

Recommendation	Definition
High	Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

APPENDIX 2

OUTSTANDING RECOMMENDATIONS

UTILITIES COST MANAGEMENT (DECEMBER 2023)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
1.1	**Partly Implemented** Management should clearly document an operational Heating Policy.	Medium	Service Manager – Engineering Services & Building Standards	A documented Operational Building Heating Protocol will be developed that will sit behind both the Council's Asset Strategy and Climate Change Strategy.	March 2024	June 2025
1.2	**Partly Implemented** Management should ensure that the procedures to be carried out by the Energy Officer are formalised and documented.	Medium	Service Manager – Engineering Services & Building Standards	The Job Overview that is already in place for the Energy Officer does include some of this detail, however there is an intention to review and update this following approval of the Assistant Energy Officer post.	March 2024	May 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
1.3	Partly Implemented A business case should be put forward to provide further resource to complete basic administrative tasks of meter reading, data entry and building entry for the Energy Officer, in order that this Officer can complete more energy saving measures to make costs savings above the cost of that additional resource.	High	Service Manager – Engineering Services & Building Standards	Job Description has been prepared for an Assistant Energy Officer and is currently with the Job Evaluation Team for consideration. Draft Service Review document has been prepared and is being progressed.	March 2024	May 2025
3.1	Partly Implemented Evidence should be retained of the checks carried out to confirm that the rates charged by the suppliers are in agreement with the Scottish Procurement rates.	Medium	Service Manager – Engineering Services & Building Standards	Price checks are carried out electronically on the Teams Software used. Rate changes will normally apply on 1st April each year, and these are checked from the first payment date in May and every payment thereafter. This is all flagged up and checked electronically. Going forward we will take screen dumps of these checks identifying rate changes applied and where we check to ensure the correct rates are being applied. These will be stored in a "rate check file" for any future auditing purposes.	March 2024	May 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
3.2	<u>Partly Implemented</u> Checks should be undertaken to confirm that the Council is obtaining best value under the Scottish Procurement utilities contracts before confirming that the Council will continue to use these contracts.	Medium	Transformation & Digital Portfolio Manager	Are currently exploring alternative frameworks for Electricity and are awaiting various responses from the main framework providers.	March 2024	May 2025
4.1	<u>Awaiting Implementation</u> Management should add an overhead charge onto the utilities costs that are recharged to third parties in line with the Council Charging Policy.	Medium	Service Manager – Engineering Services & Building Standards	Agreed, however we need to discuss and agree any re-charging / management charges with Estates colleagues when rental agreements are reviewed in order for this to apply. This has not been applicable to any reviews taking place since the date of the audit.	March 2024	May 2025

PERFORMANCE INDICATORS (DECEMBER 2023)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
3.1	**<u>Partly Implemented</u>** **Management should ensure that the Top 50 Council Plan Report provides complete and comprehensive information for each of the 50 indicators.**	**Medium**	**Transformation & Digital Portfolio Manager**	**The Council Plan 2022-2027 Top 50 Performance Report presented to PPRC on 19 September 2024 included a small number of indicators without commentary. Aim to have commentary in place for all indicators by the March 2025 PPRC.**	**December 2023**	**March 2025**
3.2	**<u>Awaiting Implementation</u>** **Management should aim to present the LGBF annual report to the March PPRC meeting.**	**Medium**	**Transformation & Digital Portfolio Manager**	**The LGBF report for 2022-23 was delayed and was scheduled to be reported to the June 2024 PRRC meeting, however this meeting did not take place and the report was not presented to the PPRC (the report was submitted to Members' Library instead). The release of the 2023-24 LGBF report is unlikely to be in time for the March 2025 PPRC, and the report will be presented to the June 2025 PPRC meeting.**	**March 2024**	**June 2025**

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
4.1	<u>Partly Implemented</u> An action list of reports should be developed, to reflect requests from Members on specific areas that have arisen out of the performance data.	Medium	Head of Corporate Support	Work is ongoing to refine the way we record actions from all committee meetings, and these will be implemented consistently across all committees going forward. Should be in place for the March 2025 PPRC.	December 2023	March 2025
4.3	<u>Awaiting Implementation</u> The PPRC should meet four times per year as scheduled, to allow performance to be considered for each quarter.	Medium	Transformation & Digital Portfolio Manager	The June 2024 PPRC meeting was not held. This is the second year that only three of the four scheduled PPRC meetings have taken place (The March 2023 PPRC meeting also did not take place). All four scheduled PPRC meetings will be held in 2024-25.	March 2024	June 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
5.1	<u>Partly Implemented</u> Management should ensure that the Quarterly PI reports provided to PPRC are complete and contain all relevant details, including up to date figures and comments for each indicator.	Medium	Transformation & Digital Portfolio Manager	The 2023/24 Q4 and 2024/25 Q1 Performance Indicators Report as presented to the PPRC on 19 September 2024 was very comprehensive, although for a small number of indicators commentary was not provided. However the Quarter 2 2024/25 Performance Indicator Report (Appendix 1 to 12 December 2024 PPRC Report) does not include a commentary for each indicator, we are advised this is due to a system error and hopefully should be rectified for the Quarter 3 report in March 2025 (note however that the covering report has sought to provide commentary for many of the key indicators).	December 2023	March 2025
5.2	<u>Partly Implemented</u> Where service areas do not provide PI details to the Policy & Performance team by the required deadline, this should be escalated to Head of Service level.	Medium	Transformation & Digital Portfolio Manager	Linked to 5.1 above – will escalate where appropriate commentary is not provided.	December 2023	March 2025

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Procurement	Examine the processes in place to ensure appropriate contract management, particularly ensuring contracted goods and services are being provided at the price in the contracts, is in place across the Council to meet our statutory requirements and ensure that procurement continues to be monitored against achievement of the outcomes agreed during tendering, including best value and community benefits.	March 2025	In Progress
Adult Social Care Case Management, including Contract Award, Billing and Payment	Review the revised processes following upgrading of the Mosaic system to ensure that the case management processes have appropriate control over contract award, billing and payment processes, linked to professional assessment of need in line with appropriate procedures and guidelines.	March 2025	In Progress
Sickness and Absence Monitoring	Review the processes in place to record and manage sickness and absence across the Council to ensure that it is being effectively and consistently used and monitored to improve the efficiency and effectiveness of staff.	March 2025	In Progress
Housing Voids	Carried over from the 2023/24 Internal Audit Plan. Examine the processes in place within the Housing and Property Maintenance teams to manage the timely return of void properties to a compliant standard for operational use.	March 2025	In Progress

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Pupil Equity Funding/Strategic Equity Fund	Review the processes in place to identify appropriate outcomes, identify expenditure against these outcomes, manage and report this expenditure and report against outcomes from the Pupil Equity Funding provided to individual schools across the Council area.	June 2025	
Partnership Funding	Review the grant funding provided to external organisations by the Council and review the processes in place to ensure that funding is linked to specific outcomes and organisational sustainability is promoted.	June 2025	
Building Asset Data	Review the processes to maintain accurate, up to date and reliable information on building assets across the Council. Particularly examine the data cleansing and transfer processes that have been put in place as a result of the transfer of building data from Badger to CIPFA systems.	June 2025	
IT Education Software Purchasing	Review the processes in place to ensure that only appropriately vetted and authorised software is in use across the schools' network and that data is only uploaded into verified software.	December 2024	Complete
Roads	Brought Forward from the 2023/24 Audit Plan. Examine the Roads trading account operation and establish that this is operating in a best value format for the Council.	June 2025	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is sometimes required to provide a statement of compliance with grant conditions on an annual basis.	September 2024	Complete
Scottish Housing Regulator (SHR) Annual Assurance Statement	Work required to provide assurance on the regulatory requirements set out in the Scottish Housing Regulator's Chapter 3 of the Regulatory Framework.	September 2024	Complete
Assurance Reviews	Where resources allow, undertake assurance reviews on areas of key controls for new or evolving systems of control to provide support for developing systems. Potentially including the following: ➢ Transformation Project Management reviews; ➢ Financial Systems project reviews developing new processes; ➢ School Transport; and ➢ Asylum and Refugee scheme funding monitoring.	Not yet scheduled, dependent upon in year resource availability.	

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	17 December 2024
BY:	Executive Director, Council Resources
SUBJECT:	Internal Audit Charter

4

1 PURPOSE

1.1 The Public Sector Internal Audit Standards (PSIAS) require an Audit Charter to be in place in each local authority.

1.2 The PSIAS require the Internal Audit Charter to be reviewed periodically and presented to Senior Management and to the Audit and Governance Committee for approval.

1.3 East Lothian Council's Internal Audit Charter was approved by the Audit and Governance Committee in December 2023. The Charter has been reviewed and updated to include further details as required in recommendation 1 of the External Quality Assessment reported to the March 2024 Audit and Governance Committee. The updated Internal Audit Charter is being presented to the Audit and Governance Committee for approval.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee approves the updated Internal Audit Charter.

3 BACKGROUND

3.1 The Internal Audit Charter has been drawn up in line with PSIAS requirements and is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter is attached as Appendix A.

3.2 The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Service Manager – Internal Audit's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

3.3 A change from PSIAS to Global Internal Audit Standards, for audit work being completed to support assurance statements after the year ending 31 March 2025, is being proposed in the UK public sector Internal Audit Standards Advisory Board advisory note consultation that ended in October 2024. This change in standards is likely to require a revised Internal Audit Charter to be developed and approved and a revised charter will be submitted to the Audit and Governance Committee following full confirmation from the Internal Audit Standard setters, including the Code of Practice for Governance of Internal Audit in UK Local Government currently being developed by CIPFA.

3.4 A comparison of current practice against the revised standards will be completed during 2025 and where changes to current practice are required this will be highlighted to the Audit and Governance Committee.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 Appendix 1 - East Lothian Council Internal Audit

AUTHOR'S NAME	Duncan Stainbank
DESIGNATION	Service Manager – Internal Audit
CONTACT INFO	dstainbank@eastlothian.gov.uk
DATE	6 December 2024

Appendix 1

EAST LOTHIAN COUNCIL
INTERNAL AUDIT

INTERNAL AUDIT CHARTER

INTERNAL AUDIT CHARTER

1. Introduction

1.1 The work of East Lothian Council's Internal Audit activity is governed by the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 and were revised from 1 April 2017. The PSIAS are mandatory for all internal auditors working in the UK public sector.

1.2 PSIAS defines that the mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

1.3 The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the Council, including the nature of the Service Manager-Internal Audit's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

2. Definitions

2.1 The PSIAS comprise a definition of internal auditing, a Code of Ethics for internal auditors working in the public sector and the International Standards for the Professional Practice of Internal Auditing.

2.2 The PSIAS require that the Internal Audit Charter defines the terms "Board" and "Senior Management" in relation to the work of Internal Audit. For the purposes of Internal Audit work in East Lothian Council, the Board refers to the Audit and Governance Committee which has responsibility for overseeing the work of Internal Audit. Senior Management is defined as the Council Management Team (Chief Executive, Executive Directors and Heads of Service).

2.3 The PSIAS also refer to the 'Chief Audit Executive' which in East Lothian Council is the Service Manager-Internal Audit. The Service Manager-Internal Audit is responsible for the effective review of all aspects of risk management, control and governance processes, throughout the full range of the Council's activities.

3. Purpose

3.1 Internal Audit's purpose is to provide an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In carrying out its activities Internal Audit aims to contribute to:

- building strong and effective risk awareness and control consciousness within East Lothian Council;

- continuously improving the risk management, control and governance processes so they operate at optimum effectiveness and cost efficiency and reflect best practice.

4. Scope

4.1 Internal Audit's scope of work extends to the entire control environment of Council Services. Internal Audit determines what areas within its scope should be included within the annual Internal Audit Plan by adopting an independent risk based approach, and through engagement with Senior Management.

4.2 Internal Audit provides assurance as to whether the Council's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Achievement of the Council's strategic objectives.
- Compliance with policies, standards, procedures and applicable laws and regulations.
- Reliability and integrity of financial and operational information.
- The safeguarding, verifying and accounting for assets.
- Economic and efficient use of resources.

4.3 Internal Audit participates in the National Fraud Initiative (NFI) and is also responsible for carrying out ad-hoc investigations into potential fraud & irregularities or Bribery and corruption concerning the provision of Council services, providing advice as and when required in relation to control and compliance issues.

5. Authority

5.1 The PSIAS require that the Internal Audit Charter establishes Internal Audit's rights of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as is considered necessary to fulfil its responsibilities. Internal Audit's rights of access to records, information and explanations are set out in Section 7, paragraphs 2(a) and 2(b) of The Local Authority Accounts (Scotland) Regulations 2014.

6. Responsibility

6.1 Internal Audit is accountable for developing and delivering a programme of assurance aimed at validating the effective management of key business risks.

6.2 The annual Internal Audit Plan takes cognisance of the areas of greatest risk within the Council. The planning approach includes consideration of any risks or concerns identified by management.

6.3 The annual Internal Audit Plan is approved by the Audit and Governance Committee. The Audit Plan is reviewed to identify any amendments needed to reflect changing priorities and emerging risks.

6.4 Internal Audit is accountable for reporting its findings, conclusions and recommendations to the Audit and Governance Committee and to Senior Management. In addition, Internal Audit is responsible for ensuring timely follow-up on management actions.

6.5 Internal Audit assists as needed in the investigation of significant suspected fraudulent activities within the Council and notifies management and the Audit and Governance Committee of the results of any investigations. To provide greater resource in this area a specific Counter Fraud Officer is in place within the team.

7. Independence

7.1 Internal Audit must be independent from management at all times in order to be effective in executing its work freely and objectively. In this regard:

- Internal Auditors will have no responsibility or authority over any operating activities reviewed;
- Internal Audit is prohibited from performing management activities, including performing operational duties;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply tools and techniques, and to obtain the necessary assistance and specialised services within or outside the Council to accomplish its objectives;
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management.

8. Accountability

8.1 Day to day management of the Internal Audit team will be performed by the Service Manager-Internal Audit. The Service Manager Internal-Audit reports administratively to the Executive Director for Council Resources and has unrestricted access to the Chief Executive, the Monitoring Officer and the Chair of the Audit and Governance Committee.

8.2 The Service Manager-Internal Audit shall be accountable to the Audit and Governance Committee for:

- providing at least annually an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of risk management, control and governance;
- reporting significant issues relating to the processes for controlling the activities of the Council, including recommendations and status of implementation of improvements;
- periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources, line with the committee terms of reference, this is completed by quarterly updates on approved audit plan progress and approval of a fully resources audit plan, any issues are raised also through the finance risk register; and
- co-ordination with other significant assurance functions, including external audit, Education Scotland, Care Inspectorate and Risk Management when this is practical and reasonable to achieve.

9. Management Responsibilities

9.1 An Internal Audit function can only be effective if it receives the full cooperation of management. By approving this Internal Audit Charter, the Audit and Governance Committee and the Chief Executive are mandating management to cooperate with Internal Audit in the delivery of the service by:

- providing Internal Audit with full support and cooperation, including complete access to all records, assets, personnel and premises relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay, subject to all relevant legal obligations and restrictions;
- responding to draft Internal Audit reports including provision of management responses to recommendations;
- implementing agreed management actions in accordance with the agreed timescales and updating Internal Audit with progress made on management actions;
- informing Internal Audit of proposed changes and developments in processes and systems and of newly identified risks.

9.2 Management is responsible for the effective identification of risk and the maintenance of adequate systems of controls. Management is responsible for corrective actions on reported weaknesses.

9.3 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility.

9.4 In accordance with the Council's Strategy for the Prevention and Detection of Fraud and Corruption, management will notify Internal Audit of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

10. Advisory Work

10.1 The Public Sector Internal Audit Standards (PSIAS) recognise that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Council, providing:

- the objectives of the consulting engagement address governance, risk management and control processes to the extent agreed upon with the Council;
- the request has been approved by the Council Management Team;
- Internal Audit is considered to have the right skills, experience and available resources;
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

10.2 When performing consulting services, Internal Audit staff must maintain objectivity and not take on management responsibility.

10.3 The Service Manager-Internal Audit is responsible for ensuring that all requests for consulting engagements are reviewed in accordance with the above criteria and for making the final decision.

11. Quality Assurance

11.1 Public Sector Internal Audit Standards (PSIAS) require that the Audit function is subject to a Quality Assurance and Improvement Programme (QAIP) that must include both internal and external assessments.

Internal assessments

11.2 On an annual basis, an internal review is undertaken to ensure that the Internal Audit function is fully compliant with the PSIAS. All Internal Audit engagements are subject to a thorough review of quality to ensure that the work meets the standards expected from all Internal Audit staff. For example the internal file quality reviews undertaken by the Service Manager Internal Audit cover the following:

- All work undertaken is in accordance with PSIAS.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- Sampling is undertaken in accordance with an Internal Audit methodology.
- The conclusions are fully supported by the detailed work undertaken and appropriate audit evidence is held on file to support the conclusions reached.

External assessments

11.3 An external quality assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Service Manager Internal Audit will discuss options for the external assessment with the Executive Director for Council Resources and with the Audit and Governance Committee.

12. Approval

12.1 Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

Updated: December 2024

REPORT TO:	**AUDIT AND GOVERNANCE COMMITTEE**
MEETING DATE:	17 December 2024
BY:	Executive Director for Council Resources
SUBJECT:	Annual Accounts 2023-24

East Lothian Council

5

1 PURPOSE

1.1 To provide the Committee with an update on any changes arising during the audit of the draft financial statements, and to ask the Committee to approve the audited accounts for 2023-24, noting that some further changes to the accounts are still being finalised.

2 RECOMMENDATIONS

2.1 Members are recommended to:

- Approve the audited Accounts for the Council and Group components, subject to final amendments.
- Delegate responsibility to the Council's Chief Finance Officer and Chair of the Audit & Governance Committee to agree appropriate changes to the Accounts, subject to completion of audit work relating to asset valuations, and formal sign off from External Audit.
- Approve the 2023-24 audited accounts for the Dr Bruce Fund

3 BACKGROUND

3.1 The draft Accounts were formally submitted to Audit Scotland prior to the statutory deadline of 30 June 2024, and were formally considered at Council on the 27 August 2024. The commencement of the audit was deferred due to external audit scheduling arrangements and the audit commenced in September 2024 and was completed in December.

3.2 In accordance with statutory requirements, the draft accounts were made available for public inspection for a 3 week period starting from 1 July 2024. No objections were received during this period.

3.3 East Lothian Council's statutory accounts includes the financial results for both the Council and its group components. The audited financial accounts are set out in Appendix 1, and include an independent audit opinion on the financial statements, and as also highlighted in the auditor's draft annual audit report, I am pleased to report that an unmodified audit opinion has been presented signalling that the financial statements presented represent:

- A true and fair view of the affairs of the Council and the wider Group and are properly prepared in accordance with the financial reporting framework;

- The audit part of the remuneration report, management commentary and the annual governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

<u>Subject to Amendment: Value of Land and Building Assets</u>

3.4 Audit work remains ongoing in relation to the valuation of the council's land and building assets. The valuations reflected in the draft accounts represent initial estimates which will be updated following conclusion of a desktop valuation exercise and audit work to verify this.

3.5 These balances are material and so represent a significant audit risk in terms of material misstatement, therefore they will require to be amended before the final audited accounts are signed. However movement in these balances does not represent cash and therefore will not impact on the council's usable reserves or spending power. The movements may impact on the Council's unusable reserves. Members will be kept fully updated of any changes that arise, and full details of the changes and the audited accounts will be submitted into Members Library Service.

<u>Prior Period Adjustment to the Pensions Liability £9.629 million</u>

3.6 The treatment and determination of the 'asset ceiling' which is applicable where pension fund assets exceed funded pension liabilities has resulted across the UK in further review of accounting standards. Consequently the pension liability at 1 April 2022 has been increased by £9.629 million. This relates to the recognition of minimum funding requirements, in the form of employer secondary contribution rates, which were in place at that time. A balancing increase in the Pension Liability of this amount was also recognised and this restatement therefore does not affect Usable Reserves.

<u>Unadjusted Item: VAT Refund £1.447 million</u>

3.7 After the annual accounts were submitted for audit HMRC confirmed that a refund claim made by the Council was valid and have paid the Council £1.447 million as a result. The potential for this was disclosed in the submitted accounts as a 'contingent asset'. It is not proposed to adjust the reported outturn in the annual accounts for this event but instead it is disclosed as a 'non-adjusting' event and income will be recognised in the 2024/25 financial year. Non-adjustment will be noted as a non-material error in the annual audit report. If an adjustment was made this would have resulted in a benefit to the General Fund balance of £1.447 million, and an increase in the debtor for VAT with HMRC of £1.447 million.

Dr Bruce Fund Accounts

3.8 In addition to the Council's financial statements, Audit Scotland also provide an audit opinion of the Dr Bruce Trust which is administered by the Council. The final audited accounts are included within Appendix 2, of this report for Members information, and an unqualified audit opinion has been issued.

Approval and Signing of the Annual Accounts

3.9 In line with statutory guidance, following approval of the annual accounts by those charged with governance, the 2023-24 accounts will be formally signed by the Council (Chief Executive, Council Leader and Chief Finance Officer) as well as Audit Scotland once the Audit checks relating to the valuations obtained have been completed.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with this request.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other - none

7 BACKGROUND PAPERS

7.1 Council 27 August 2024 – Draft Annual Accounts 2023-24 (Item 2)

AUTHOR'S NAME	Ann-Marie Glancy
DESIGNATION	Service Manager – Corporate Accounting

CONTACT INFO	aglancy@eastlothian.gov.uk
DATE	09 December 2024

Appendix 1

East Lothian Council

ANNUAL ACCOUNTS 2023–24

Sharing achievements
Delivering council priorities
Reporting on our financial position
Plans for the future

Contents

Management Commentary and Assurance

1

Management Commentary

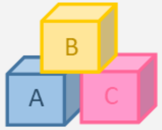
About East Lothian

East Lothian Council provides the council's c.113,000 residents with a wide range of services including education, adult and children's wellbeing, planning, economic development, roads, community housing, transportation, environmental health and food safety, trading standards, refuse collection and recycling, street cleaning, community learning and development, sports, recreation, parks and countryside, libraries, museums, registration of marriages, births and deaths, and burial grounds.

Around 4,987 (4,144 full-time equivalent) people work for the Council.

Each Year the Council:

Educates some **15,117** pupils in our primary and secondary school



Provides Early Learning and Childcare to **2,458** children

Serves **1.4 million** school meals

Looks after over **184** vulnerable children in care homes, foster care and other care settings

Provides:

- **19,711 hours** of care at home each week to vulnerable adults and older people
- Looked after **616** over 65 year olds in residential and nursing homes

Carries out:

- Approximately **5.8 million** domestic waste collections
- Collects some **49,000 tonnes** of waste
- Recycling rate of about **53%**

Maintains:

- **283** parks, pitches, play areas and burial grounds
- **1,141 km** of roads
- **19,669** street lights (95% of which are LED)
- Repairs **3,416** potholes

Manages and maintains over **450** property assets (excluding parks) to support public services including:

- Schools, early learning and childcare facilities
- Social care homes and centres
- Business development properties
- Community properties, including community centres, museums and libraries
- Public facilities including car parks and toilets

Provides over **9,300** council dwellings and **1,100** garages for council tenants

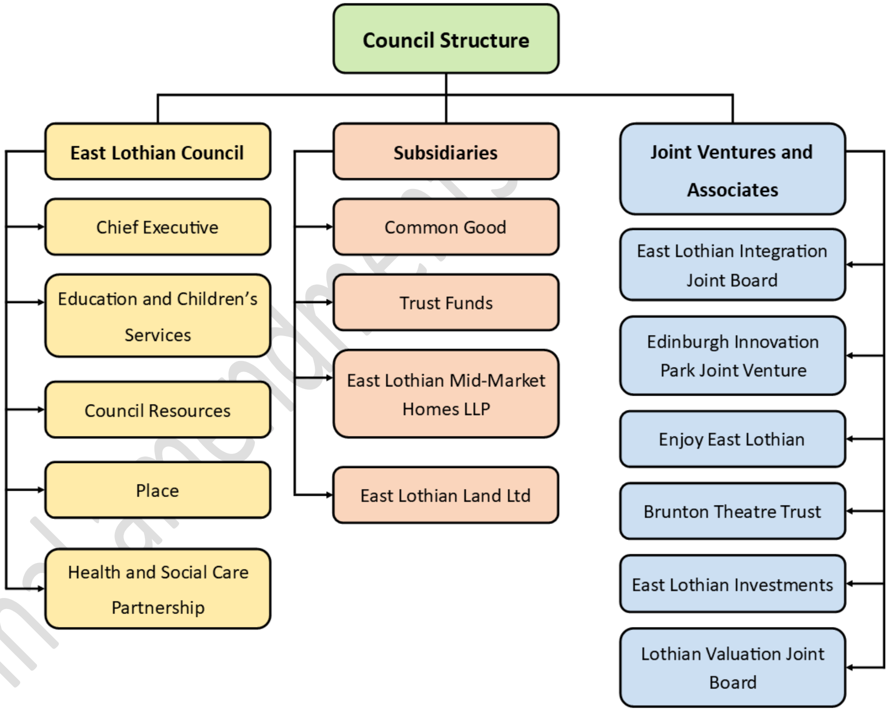
About East Lothian Council's Group Entities

The Council's activities and assets predominantly relate to services provided for and on behalf of taxpayers and housing tenants. The Council also however has control of, or influence on, other bodies and activities where they consist of a separate and distinct responsibility or entity. In most cases these activities or entities are subject to different or specific legislative frameworks compared to the Council's normal taxpayer and housing tenant activities.

These other bodies, generally referred to as group entities, comprise:

- Subsidiaries: where the Council effectively has full control of and responsibility for the activity; and
- Joint Ventures and Associates: where the Council has joint control or significant influence, but not full control.

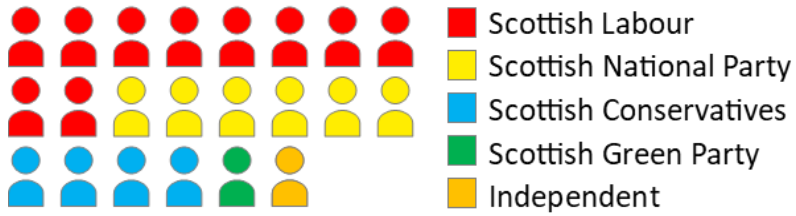
The Subsidiaries, Joint Ventures and Associates are illustrated in the following diagram. More detail on the nature and purpose of these bodies is provided in the financial strategies section of this management commentary, as well as in Notes G1 to G6 of the financial statements.



Political Structure

East Lothian Council has [22 elected councillors](#) who are responsible for setting the Council policies that determine how services are delivered, and for setting the Council budget that determines how the Council's money is spent.

The Council's political structure during 2023/24 was established by the Council elections held in May 2022. The political make-up of the Council was ten Scottish Labour, seven Scottish National Party, four Scottish Conservative and Unionist and one Scottish Green Party councillors. In early 2023 one of the SNP councillors resigned from the SNP and now sits as an Independent Councillor. The Council is led by a minority Labour Administration.



Management Structure and Decision Making

The [Council's Management Team] is made up of senior officers and is led by the Chief Executive. Financial plans and monitoring reports for 2023/24 reflected the following Directorates:

- Education and Children's Services
- Council Resources
- Health and Social Care Partnership
- Place

Specific financial planning and reporting is also undertaken for the Housing Revenue Account.

Scheme of Administration

The Council's Standing Orders and Scheme of Administration (revised April 2024) sets out the Council's governance arrangements. These include:

- Full council meetings take place every two months and are the focus for local democracy and carrying out the Council's statutory requirements, with an additional meeting to set the budget.
- Cabinet meets every two months and makes decisions on areas such as policy, strategy, financial reporting and partnership working.
- Service specific committees within the Council include Education & Children's; Education Appeals, Petitions and Community Empowerment Review; and Planning. There are also a number of sub-committees in operation.

Scrutiny of the performance, decisions and plans of the Council is carried out by Elected Members (who are not part of the Cabinet) through the Council's Audit and Governance Committee and Policy and Performance Review Committee. In addition, the Council has a Police, Fire and Community Safety Scrutiny Committee which scrutinises the performance of Police Scotland and the Scottish Fire and Rescue Service in East Lothian. A full list of Committees is available online.

The East Lothian Integration Joint Board (IJB) is a partnership between East Lothian Council and NHS Lothian and was established in order to integrate how health and social care services are planned, commissioned and delivered.

Furthermore, scrutiny and inspection is carried out by external bodies including the Council's External Auditors (Audit Scotland) and national inspection agencies such as Education Scotland, the Scottish Housing Regulator and the Care Inspectorate.

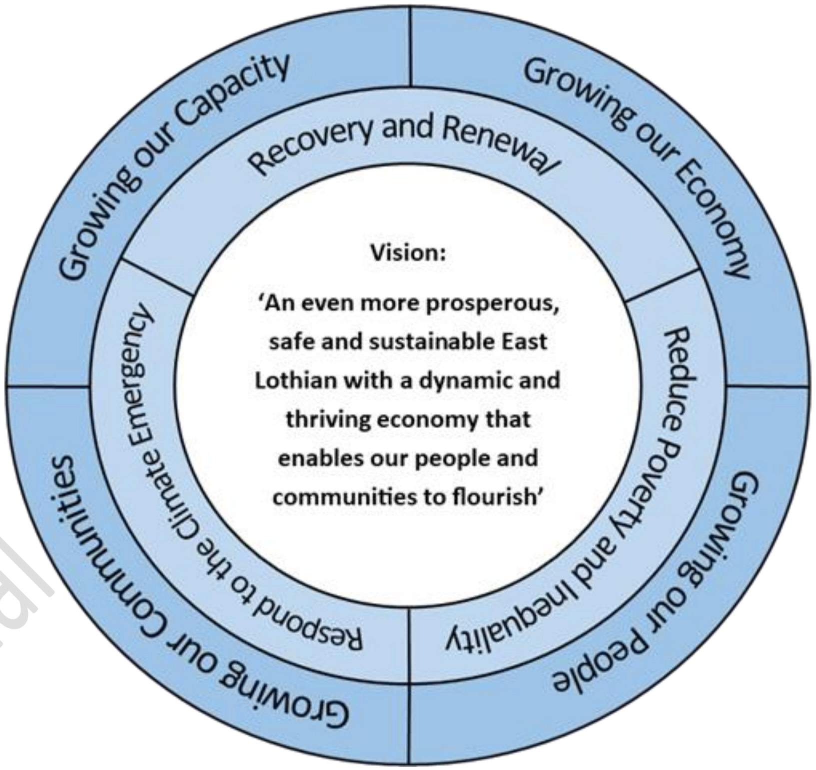
Strategy and Priorities

The 2022-2027 East Lothian Council Plan, was approved by the Council in August 2022. The Plan sets out the Council's ambitious vision of '***an even more prosperous, safe and sustainable East Lothian with a dynamic and thriving economy that enables our people and communities to flourish.'*** It establishes three overarching objectives that have been set in response to the fundamental challenges the council faces:

- ➢ ***Recovery and Renewal** – recovering from the COVID pandemic by investing in regeneration and a sustainable future*
- ➢ ***Reduce poverty and Inequality** – supporting our communities to deal with the growing levels of poverty and inequality*
- ➢ ***Respond to the Climate Emergency** – meeting our net zero climate change targets*

And it re-affirmed the four thematic objectives that were established in previous Plans:

- ➢ ***Growing our Economy** – to increase sustainable and inclusive economic growth as the basis for a more prosperous East Lothian.*
- ➢ ***Growing our People** – to give our children the best start in life and protect vulnerable adults and older people.*
- ➢ ***Growing our Communities** – to give people a real say in the decisions that matter most and provide communities with the housing, transport links, community facilities and environment that will allow them to flourish.*
- ➢ ***Growing our Capacity** – to deliver excellent services as effectively and efficiently as possible within our limited resources.*



The Council also adopted the Council Plan Action Plan that sets out the key actions which will deliver the 2022-2027 Council Plan objectives, predominantly through key strategies and plans, including the:

- Recovery and Renewal Plan
- Poverty Plan
- Equality Plan
- Climate Change Strategy
- Economic Development Strategy
- Education Improvement Plan
- IJB Strategic Plan
- Local Housing Strategy
- Local Transport Strategy
- Financial Strategy

In February 2024 the Council agreed to adopt three new inter-linked short-term priorities to respond to the growing financial and demographic challenges it faces. These new priorities are aligned to the Council's overarching and long-term thematic objectives. The new priorities are as follows.

Ensure the financial sustainability of the Council through the delivery of approved savings and transforming the way we deliver services.
This clearly contributes to the long-term objective: *Grow our Capacity: deliver excellent services as effectively and efficiently as possible within our limited resources*. It means setting a sustainable balanced budget over the next five years and prioritising the delivery of transformation projects that deliver savings and transform the way we deliver services, including digital by default, the redesign of services to generate efficiencies and making the best use of our assets.

Target resources on statutory services and focus on the highest risks and those most in need.
This sits under the long-term objective: *Grow our People: give our children the best start in life and protect vulnerable and older people.* It means prioritising funding and staff resources to deliver statutory services such as education and social care, over non-statutory services, whilst targeting resources to meet the needs of the most vulnerable in our communities. This will also contribute to the Council's overarching objective to: *Reduce Poverty and Inequality* and the Council Plan action to: *Target services and resources, led by data and evidence, to those people and areas most in need.*

Deliver key infrastructure, economic development and environmentally sustainable projects within available council resources and maximising external funding.
This contributes to the long-term objectives: *Grow our Economy and Grow our Communities.* It means maximising funding from Scottish and UK Government funding streams such as the City Region Deal and Levelling Up funds, to deliver projects such as the QMU Innovation Hub, flood protection schemes, active travel routes, and the development of the former Cockenzie Power Station site that are critical to supporting the sustainable future of East Lothian and responding to the climate emergency.

Financial Outlook for the Council

The financial outlook for the Council is particularly challenging, in both the near term and further ahead. The cost, demand and funding pressures which became evident and more pressing during 2022/23 continue to be a significant challenge for the Council. During 2023/24 the Council has maintained its focus on addressing these. "Managing the Financial Environment" remains the highest ever scoring risk on the Corporate Risk Register and continues to represent the key corporate priority risk due to the potential impact on the services and support provided for the people and organisations of East Lothian.

The Council has continued, and increased, previously agreed mitigation actions during 2023-24, as well as using statutory flexibility relating to the funding of PPP service concession assets. The latter has allowed a non-recurring adjustment to increase the General Fund balances by £14.193 million. The council will be able to borrow against this balance and has committed to do so in order to fund the transformation activity which is needed to support financial sustainability.

Although this accounting adjustment has resulted in a net increase in reserves in 2023/24, without the use of the PPP service concession and capital grant flexibilities the General Fund balance (excluding HRA) would have reduced by £8.753 million. A reduction in reserves of this level is not sustainable, and the level of general reserves at 31 March 2024 is consequently recognised as being neither sufficient nor appropriate to adequately support the annual revenue budget into the future.

This is especially important given the population growth experienced, and expected to continue, in East Lothian. This increases the demand for services, and the assets needed for those services. The financial pressures arising however are not projected to be offset by a similar increase in taxpayer funding, whether through local taxation or from Scottish Government funding resources.

These pressures mean that the council is facing a significant funding gap which presents a risk to the future security of services for the people of East Lothian which will require some very difficult decisions, and open dialogue. This however will be necessary in order to support the delivery of a balanced budget as required by legislation. The financial sustainability of the Council is a critical priority for the financial governance of the Council, the stewardship of public funds, and ultimately and most importantly the provision of services for the people of East Lothian.

In seeking financial sustainability the Council's future plans, including the Local Development Plan 2, and current projects in progress (detailed further below), need to allow for the different challenges and opportunities arising. Factors affecting these plans include the needs of the people of East Lothian, population growth, forecast funding levels, income generation options, financial management opportunities within the statutory framework, service transformation and redesign, digital services, and asset usage reviews.

More details on the mitigation actions and the statutory adjustments utilised in 2023-24 are provided later in this Management Commentary (see the Financial Statements Overview Section) and in the Financial Statements.

Best Value

As part of a new approach to Best Value with an initial focus on leadership, Audit Scotland undertook a thematic Best Value Audit of Leadership in all 32 Scottish local authorities in 2023. The reviews were carried out as part of the Annual Audit of accounts undertaken by external auditors.

The key messages and findings of the East Lothian Council's Best Value Leadership Audit (see the Annual Audit Report 2022/23) were:

1. The council has set clear priorities but recognises that decisions need to be made urgently to ensure a sustainable approach to delivering those priorities.
2. The council's leadership have been effective in setting out a clear vision and priorities in the Council Plan 2022-27.
3. The council faces unprecedented financial challenges which is likely to require difficult decision making around priority services. The council recognises the need to engage with members and the wider public to ensure that decisions are driven by the needs and priorities of the people of East Lothian. This is reflected through cross party budget working group and acknowledged in the latest financial strategy and plans.
4. Community engagement and working with local communities is a key element of the council's vision. The council drew on existing community engagement when developing its vision and priorities rather than consulting separately on its Council Plan.
5. The council priorities clearly reflect the need to reduce inequalities and climate change. It is too early to assess if the strategic plans will successfully deliver these objectives.
6. The council has set out its Top 50 performance indicators to monitor delivery of its priorities. Not all performance indicators have specific targets set. It is important the council is clear on the level of performance outcomes it aims to achieve. It is important that the indicators monitored continue to reflect strategic priority areas and risks.

7. The council is a complex organisation and has a range of plans and strategies which underpin the Council Plan. Its financial, workforce, asset and digital plans are aligned with the council's priorities, but the council is revisiting its delivery plans to address the increasing financial challenges it faces.
8. There is evidence of collaborative working between members and with members and officers. However, this is an area for improvement. It is essential for members to work together to make strategic decisions when the council faces increasingly hard choices to ensure financially sustainable service delivery.
9. The council has a clear commitment to leadership development to empower officers to make informed decisions.

The audit concluded with three recommendations:

- Performance monitoring targets: The council has not set targets for all of its Top 50 performance indicators (or for all of the performance measures in its delivery plans). This makes it difficult to assess whether the council is on track to deliver its strategic priorities.
  Council response: This recommendation has been included in the 2024 Council Improvement Plan. A number of the indicators were new this year and take time for the council to embed and set realistic, measurable targets. The remainder of the targets were in place by June 2024.

- Financial planning to address increasing challenges: The council faces uncertainty over future funding and increasing financial pressures. Radical solutions are needed to deliver sustainable services and robust long term financial planning is needed to support strategic decision making. The council should develop its longer-term financial planning including scenario planning using a range of assumptions to identify service delivery options as future funding remains uncertain.
  Council response: This recommendation has been taken on board with the report on longer-term financial planning included in the 2024-2029 Financial Strategy.

- Investment needed to deliver sustainable services: The council has identified the need to invest in digital technology to drive transformation. There are many council systems which are older and identified as due for replacement but the resources to fund this are not available. Investment in new technologies needs to be well managed and requires well planned investment as pressures to cut costs could lead to failure and increased costs in the longer term.
  Council response: This recommendation has been included in the 2024 Council Improvement Plan. A review of current Transformational Priorities is on-going and includes Digital pipeline and prioritisation work. The Council has agreed an updated Reserves strategy which includes Digital support as a key enabler to support transformational change. The Digital Strategy Board will consider and prioritise critical digital investment and future plans.

2023/24 Service Performance

The Council adopted a new set of Top 50 Council Plan indicators to report on progress with the 2022-2027 Council Plan in February 2023.

The Annual and 'Top 50' Council Plan Performance Indicators Report provides an overview and summary of how the council performed in 2022/23 reviewing the Top 50 and Annual indicators.

The Top 50 Council Plan Indicators have different reporting timeframes and many rely on national data which are not yet available. In addition, five indicators rely on the results of the residents' survey carried out by the council. The survey that was hoped would be carried out in 2023 was delayed until 2024. [The 2024 survey results were reported to Council on 29 October 2024 (Item 10).] Based on the information available as at September 2024 only 37 of the Top 50 indicators had up-to-date comparable data that allowed comparison to be made with previous year's results.

An analysis comparison of the 37 Top 50 indicators for which comparable data is available for 2023/24 and 2022/23 shows that overall, 15 (40.54%) of these indicators improved in performance over the last year, eight (21.62%) maintained performance and 14 (37.84%) showed a decline in performance. An analysis of whether indictors were on or above target (Green), just below or moving towards target (Amber) or below target (Red) showed that three quarters of the Top 50 indicators for which up-to-date data and targets were available were either Green or Amber whilst a quarter were Red.

Performance of Top 50 Indicators		
Green (above target)	Amber (moving towards target)	Red (below target)
16	12	9
43.24%	32.43%	24.32%

Ten of the Top 50 indicators have been designated as Top 10 indicators. There was up-to-date comparable data for seven of these indicators. Only two of these Top 10 indicators declined and were below target – *% of children living in households with less than 60% of average income after housing costs*. The data for this indicator comes from End Child Poverty and has a two-year lag. Therefore, the latest data available is for 2022/23, which is compared to the previous year, 2021/22. This shows that child poverty in East Lothian increased from 21.1% to 21.3% but is below the Scottish average of 24%. The second Top 10 indicator to decline was *Business base – number of businesses* – a key indicator of economic activity. The latest count saw the number of businesses fall to 3,110 compared to the previous value of 3800, which is below the target of 3,300.

Five of the Top 10 indicators showed improvement or maintained performance in 2023/24:

- There were no re-registrations of children on the child protection register within 24 months so the percentage remained at 0
- The percentage of people aged 65 or over with long-term care needs receiving personal care at home remained at around 56% and was just above the target of 55%
- The number of affordable house completions and Open Market acquisitions increased from 196 to 452 which means that the target of 392 has been met.
- The percentage of total household waste that is recycled remained at 53.1% which is above the target of 50%
- The number of on-line form transactions increased from 41,644 to 52,022.

Other Top 50 indicators that are of particular interest include:

Reduce unemployment

During the COVID-19 pandemic unemployment (the % of working age population seeking work) had reached a high of 5.4% in March 2021. It had fallen to 3.5% by October 2021 and continued to fall during 2022 so that by March 2023 it was at 2.5%, slightly less than 2.6% at the start of the pandemic in March 2020, unemployment has remained below the pre Covid-19 level at 2.4%. East Lothian's unemployment rate in March 2023 was 0.8% lower than the Scottish average (3.3%). However, it should be noted that unemployment across Scotland and in East Lothian increased slightly through 2023.

Improve employability

The number of people participating in East Lothian Works employability programmes increased from 723 in 2022/23 to 836 in 2023/24. The number of people participating has increased by 15.6% from the previous year which relates to an increase in external funding to target disadvantaged EL residents. Although the number participating in employability programmes has increased, the percentage progressing into employment has fallen from 30% to 22%.

Town Centre vacancy rates

This measure of town centre vitality remained at 9% in 2023/24 and remained above the 5% target. This could be due to the long-term impact of COVID and on-line shopping changing consumer shopping habits as to the actual viability of town centres.

Reducing poverty related attainment gap

Only the 2022/23 academic year indicators used to track progress in reducing the poverty related attainment gap were available at the time of producing this report. Both these indicators showed improvement on the 2022 results. The attainment gap between quintiles 1 and 5 for primary 1, 4 and 7 combined in literacy reduced from 30% to 23.3%, below the target of 27.6%; and in numeracy increased slightly from 22.1% to 23.6%, against a target of 24.2%.

Participation rates/ positive destinations for school leavers

The participation rate for 16-19 year olds increased from 93.2% to 96.1%, above the Scottish average of 94.3%. The percentage of young people receiving After Care who were in a positive destination increased slightly from 54% to 60% meeting the target of 60%.

Older people staying cared for at home

The number of days people aged 75+ spent in hospital when they were ready to be discharged (per 1,000 population) increased from 206.3 to 238 but remained below the target of 245 (average of the previous 3 years) and was well below the Scottish rate of 902. Activity aimed at reducing the time people spend in hospital once medically fit to be discharged was a priority for the Health & Social Care Partnership. This included the work of the Integrated Care allocation Team, delivery of a multi-disciplinary Daily Flow Huddle, and ongoing delivery and development of Intermediate Care services.

Re-letting vacant housing properties

The average number of days taken to re-let vacant houses fell from 66.2 to 49.9 and remained above the target of 42 days. Issues causing this below target performance included, staff vacancies in the council property maintenance team and contractors, as well as rises in costs.

Connected Communities Activity & Volunteering

The total number of volunteering hours volunteers engaged in Connected Communities activity also increased from 2,948 to 12,183. Volunteering involves a wide range of activities including Duke of Edinburgh award scheme, Area Partnership meetings and networks, management committees and youth provision.

Staff engagement and attendance management

The employee engagement survey, recorded a maintained percentage of non-school based staff agreeing that the Council is a great place to work with 83%. The average number of sickness absence days lost per employee, including teachers increased from 9.54 days in 2022/23 to 11.87 days 2023/24.

Council Tax collection and rent arrears

The percentage of income due from Council Tax received by the end of the financial year fell by only 0.8% between 2023 and 2024 from 97.6% to 96.8%, exceeding the collection target of 96.5%. However, the gross rent arrears as at 31st March as a % of rent due for that year increased from 5.8% in 2023 to 6.3% in 2024.

Property Structural Defects Assessment

The historic use of Reinforced Autoclaved Aerated Concrete (RAAC) in buildings has been noted by the Institution of Structural Engineers as presenting a risk of the existence of potential structural defects. This is considered to require identification and assessment of buildings with RAAC. During 2022/23 the Council commenced a review of the structural integrity of its property portfolio in relation to the use and condition of RAAC. Remedial works have been undertaken in Preston Lodge High School and Ross High School. Other properties affected are either long term unoccupied or partially unoccupied due to area usage restrictions being implemented.

A significant consideration for the Council in relation to RAAC is the structural integrity of the Brunton Hall in Musselburgh. Substantial parts of the building have already been vacated. The Council meeting of 29 October 2024 debated a report which concluded that rectification work was unaffordable. The report therefore recommended:

- relocating services still currently using the Hall,
- decommissioning the building,
- undertaking a statutory public consultation regarding demolition of the building, and
- undertaking a place-based development project on options for future arts service delivery arrangements in the Musselburgh area.

Future Plans: Projects in Progress

The Council has a focus on ensuring existing and new communities continue to be great places in which to live and work, with an even more dynamic local economy. Between now and 2033, the population of south east Scotland is expected to grow by 220,000 people. East Lothian Council's Local Development Plan allocated land capable of delivering 10,050 new homes to 2024. It also identifies some 200 hectares of employment land for job creation.

The Council has a number of key development projects in progress including:

- **Edinburgh Innovation Hub**

The Edinburgh Innovation Hub forms part of the Edinburgh and South East Scotland City Deal, a £1.3 billion regional investment programme funded by the UK and Scottish Governments and regional partners, including East Lothian Council. The Hub is funded by £28.6 million from the UK Government, £1.4 million from the Scottish Government and £10 million from East Lothian Council.

The development of the Hub will create a nationally significant facility to capture, support and grow innovation-led enterprise in East Lothian and the wider Edinburgh region. The Hub will be a best in class innovation facility developed as the first phase of a wider Edinburgh Innovation Park, a new and unique development for innovation-led enterprise adjacent to Queen Margaret University, on land owned by the Council.

The Hub will provide services and fitted commercial laboratory and office space for high growth tech and innovation-based businesses. The Hub will become a vibrant innovation cluster where high growth SMEs and innovation-led businesses co-locates with research and business networks under one roof to deliver a specialist service offering for commercial innovation.

The Hub will be a regional and national resource that will enable cross-sector collaborations and interactions at all levels. Business will benefit from a network of business support and people and businesses will be brought together to share knowledge and skills at the ‘crossing point’ between R&D and commercialisation.

Companies locating to the Hub will benefit from facilitated access to the University, its social and intellectual capital and to its business support services. Co-location will encourage mentoring and peer support. Close access to business development staff and business support intermediaries will enhance the support on offer, facilitating connections with investors and enabling business collaboration.

A contractor for the Innovation Hub was appointed in December 2023 with work commencing on the Hub in January 2024. Completion is expected at the end of the Summer 2025.

- **New Council Housing**

The Housing Revenue Account plans to continue to invest in new council housing with £117.428 million of investment planned over the next five years

Completed in 2023/24:

- Letham, Haddington – 54 units
- Craighall, Musselburgh – 36 units
- Lempockwells, Pencaitland – 30 units
- Levenhall, Musselburgh – 12 units
- Pencraig, East Linton – 28 units
- Windygoul, Tranent – 49 units

Planned for completion in 2024/25:

- Fa’side Lodge, Wallyford – 28 units
- Windygoul, Tranent – 11 units
- Craighall, Musselburgh – 9 units
- Letham, Haddington – 18 units
- Longniddry – 16 units
- Shaw Road, Prestonpans – 2 units

With 209 units completed in 2023/24 and a further 84 units expected in 2024/25 this highlights the Housing Revenue Accounts continuing investment into affordable housing for our community.

- **Former Cockenzie Power Station site**
  Purchased in 2018 to promote economic development and employment opportunities, East Lothian Council is working to further understand and realise the full potential of the [Former Cockenzie Power Station](), a 200-acre brownfield site. Our priority is to secure an outcome which supports the local economy and contributes to enhancing vibrant neighbouring communities. The Council welcomes the removal of planning constraints on the site contained within the new National

Planning Framework 4 and will seek to plan the future development of the site in line with this. A small parcel of land, approximately 7 acres has been sold to an offshore wind development company and construction of their onshore transmission substation commenced in February 2023. The Council continues to work closely with the renewable energy sector and has an option agreement in place for another offshore wind onshore substation and heads of terms established for a battery energy storage development. Planning permissions have also been granted for on site road infrastructure to open the site up for development. The Council has also been successful with a bid to the UK Government Levelling Up Fund for funds that will assist with site remediation and enabling works on this complex site to prepare it for future development. In 2023/24 the project designs for void infill, bund removal and coal store regrading were completed and the planning application was submitted.

- **Investing in people and learning**

Reducing inequalities and improving attainment and closing the gap are key priorities for our Council. We aim to provide the best education service in Scotland through a relentless focus on inclusion, achievement, ambition and progress for all. We have a continuing focus on giving all of our children and young people the best start; working together to nurture them and helping them to achieve their potential. We have seven secondary and 34 primary schools across East Lothian, with specialist provisions attached to our mainstream schools that support children and young people with additional support needs. A multi-million pound programme of modernisation, expansion and improvement of the learning estate is underway to develop education spaces that benefit East Lothian's learners and communities. Examples of major investment include three new primary schools, Whitecraig, Craighall and Blindwells that started construction in February 2024. Wallyford learning campus became operational during 2023/24.

- **Musselburgh Flood Protection**
  The Musselburgh Flood Protection Scheme project has been established in liaison with partners following identification of Musselburgh as a Potentially Vulnerable Area (PVA) for flood risk by the Scottish Environment Protection Agency (SEPA). A number of project objectives have been identified including economic, environmental, social & cultural and regeneration aspects. Public consultation is a key feature in determining an outline design and a preferred scheme before designs are finalised. After extensive community engagement, the Council approved the publication of the proposed scheme in March 2024, followed by a Formal Consultation period which concluded in April 2024. The Council has now commenced a process of consideration of all communications received to allow implementation of the scheme.

- **Asset Review Project**
  Recognising that the way in which many services are being delivered is changing and with more employees working from home or on a hybrid basis, the opportunity to review accommodation in relation to asset rationalisation is being progressed. This review will assist in meeting budget efficiencies, updating the Council's Property Asset Strategy and

providing input to the actions identified in the Council's Climate Change Strategy and Council Plan. The Asset Review supports work to ensure that the Council can continue to deliver effective services and the next steps of the project include rationalisation of the wider Council property assets including a 'place' project that looks at how the Council delivers services within the six main ward areas and will subsequently allow for further rationalisation of property.

The lease of Randall House ended in October 2023 with accommodation amendments in other offices being implemented to more appropriately use the available capacity of existing buildings.

A Property Asset Strategy and Management Plan 2024-2028 has been developed for implementation (East Lothian Council meeting 25 June 2024, Item 3) to continue progress. The strategy is based on the following guiding objectives and principles:

- Effectively manage property assets
- Meet demographic need for services
- Reduce greenhouse gas emissions
- Meet immediate savings target and bridge future affordability gap
- Generate income and encourage economic development
- Work with communities and partners to maximise shared opportunities

Financial Strategies

Financial Strategy

The Council's Financial Strategy forms the platform for the Council's stewardship over taxpayer's funds. The strategy is refreshed each year to reflect any changes in the financial planning landscape and to ensure that the strategy remains appropriate. The most recent and current strategy was approved by Council in December 2023 covering the five year period 2024/25-2028/29 and can be found in the East Lothian Council meeting papers of 12 December 2023 (Agenda Item 3). Alongside this, and in line with the requirements set out within the Prudential Code, the Financial Strategy is supported by a Capital Strategy, also approved by the Council in December 2023 (Agenda Item 3), which supports the Council's capital and borrowing decisions.

The strategies are used to inform the development of financial plans and cover the General Services and Housing Revenue Account (HRA) financial plans, as well as the strategy for the use of the Council's reserves and the Capital Expenditure plan.

Treasury Strategy

The Council publishes an annual Treasury Management Strategy. This strategy links the Council's capital investment plans to its treasury management activities including borrowing and investment strategies. The report "Treasury Management Strategy 2024/25 to 2028/29" can be found in the East Lothian Council meeting papers of 20 February 2024 (Agenda Item 03).

Group Entities

The Council also has effective control of the finances of its subsidiaries, and an interest in the finances of its joint ventures and associates. The Council's decision making and strategies for these entities reflects the purposes and legislative framework of each entity. The Council's role in relation to the group entities is summarised below.

Subsidiary	Purpose and Council Role
Common Good	Responsible for the stewardship of Common Good assets and the use of those assets in accordance with legislation.
Trust Funds	Responsible for the stewardship of Trust Funds' assets and the use of those assets in accordance with legislation and relevant trust deeds.
East Lothian Mid-Market Homes LLP	Established by the Council and the Scottish Futures Trust to manage new build properties for mid-market rent which do not form part of the Housing Revenue Account.
East Lothian Land Ltd	Established by the Council for the East Lothian area to manage land to support economic development.

Joint Venture or Associate	Purpose and Council Role
East Lothian Integration Joint Board (IJB)	A joint venture, created as required by statute, between East Lothian Council and NHS Lothian to support the integration of health and social care services in East Lothian. The Council has legislative responsibilities and agreements in relation to funding provided to the IJB, and for delivering services commissioned by the IJB.
Edinburgh Innovation Park (EIP)	A joint venture established with Queen Margaret University to create an innovation park, with particular focus on food, drink and health sciences, as part of the Edinburgh & South East Scotland City Region Deal.
Enjoy East Lothian Ltd (Enjoy Leisure)	Established in pursuit of Council objectives for the East Lothian area to manage, under contract, sports and leisure facilities and services on behalf of East Lothian Council. The Council pays Enjoy Leisure for services provided to the people of East Lothian.
Brunton Theatre Trust (BTT)	A trust, located in Musselburgh, which in accordance with the trust deeds aims to provide a widely accessible programme of cultural activities and performances. The Council provides funding for BTT activities, and also receives income related to services it provides or undertakes on behalf of BTT.
East Lothian Investments Ltd	Established in pursuit of Council objectives to grant interest free loans to businesses in East Lothian to encourage commercial enterprise. It also has involvement in the East Lothian Gift Card scheme. The Council has previously provided loan support which is now fully repaid.
Lothian Valuation Joint Board	A joint board, created as required by statute, to undertake council tax and other property asset valuations, and to maintain an electoral registrar for a number of Lothian Councils. The Council has funding responsibilities under the legislative arrangements.

More information is provided in Notes G1 to G6 of the financial statements.

Financial Statements Overview

The Group Financial Statements

The financial position and financial performance of the group predominantly reflect the position in relation to the Council's taxpayer and tenant services. Those service responsibilities represented 96% (2022/23: 95%) of the group's net assets and 98% (2022/23: 102%) of Total Comprehensive Income and Expenditure. A brief overview of the Group's financial statements is therefore provided here, with more detail on the finances for taxpayer and tenant services further below.

The group balance sheet shows net assets of £804.678 million (2022/23: £754.411 million restated). The entities, other than the Council as the parent organisation, which primarily affect the net assets reported relate to Common Good and Trust Funds, which have net assets of some £25.926 million (see Note G3, 2022/23: £24.339 million). Additionally the Council's share of the net assets of its associates and joint ventures adds some £8.653 million (2022/23: £9.482 million). For Common Good and Trust Funds the net assets largely reflect land and building properties held, as well as financial investment portfolios which are managed by an independent adviser.

The figure for associates and joint ventures mainly relates to Enjoy East Lothian, the Lothian Valuation Joint Board, and the East Lothian Integration Joint Board.

The Group Comprehensive Income and Expenditure Statement shows that the Group Deficit on the Provision of Services was £37.958 million (2022/23: a deficit of £8.053 million).

The subsidiaries which have the largest impact on this are:

- the East Lothian Integration Joint Board (share of deficit £2.888 million, 2022/23 £5.084 million)
- the Common Good (surplus £0.548 million, 2022/23: surplus £0.035 million) relating primarily to the performance of investment returns; and
- Trust Funds (surplus £0.389 million, 2022/23: deficit £0.133 million) relating primarily to investment returns.

East Lothian Mid-Market Homes achieved a surplus of £0.021 million (2022/23: £0.078 million).

The Group's share of the deficit on provision of services of joint ventures and associates is £3.317 million (2022/23: surplus £5.576 million), which primarily reflects the deficit reported by the East Lothian Integration Joint Board for the year (share of deficit £2.889 million, 2022/23 £5.084 million).

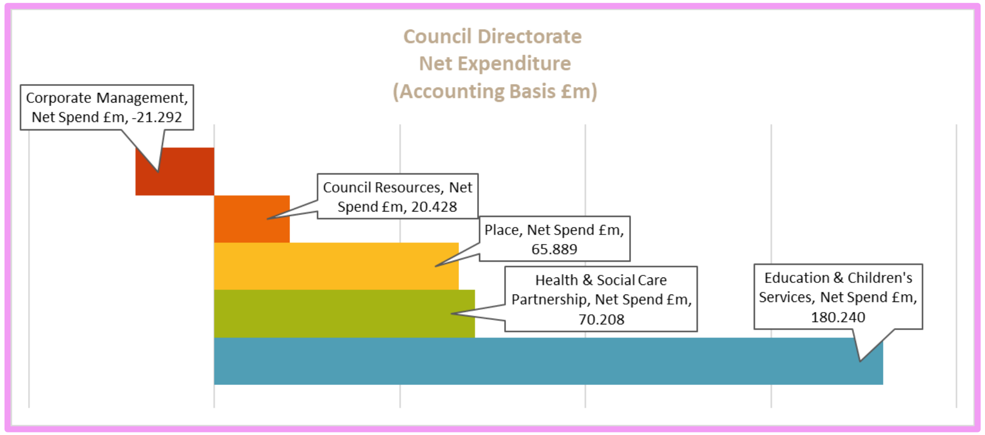
The key aspects of the group entities, excluding the Council as parent, which affect the group position therefore largely relate to Common Good and Trust Fund assets and investments, and the extent to which the East Lothian Integration Joint Board has residual funding balances for the year.

Council Provision of Services Income and Expenditure

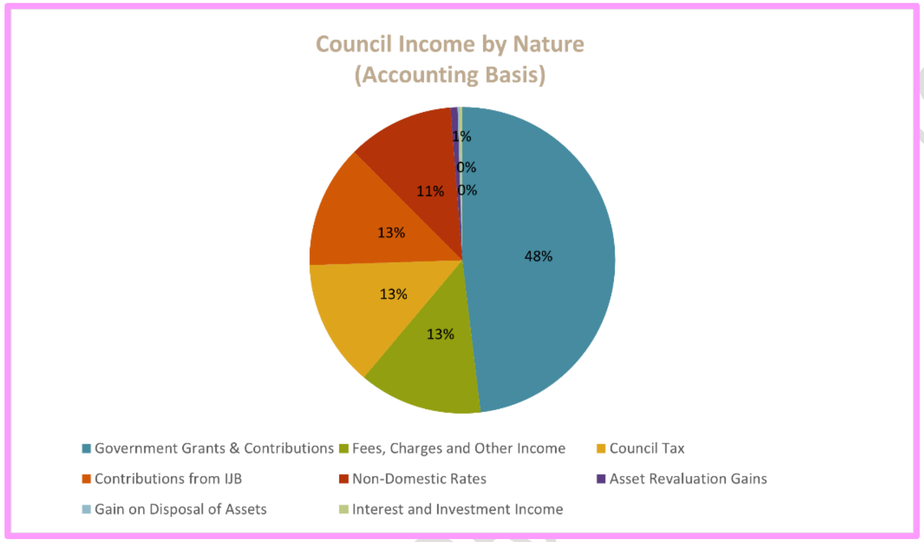
The cost of taxpayer and tenant services provided by the Council on an accounting basis in 2023/24 was net expenditure of £345.376 million (2022/23 £325.934 million), an increase of £19.442 million (+6%). This increase is related to a number of factors. This includes increases in employee pay costs, general service costs, depreciation, and asset revaluation losses (increase of £21.122 million) totalling £47.854 million. These were partially offset by decreases in costs, or increases in income, totalling £28.412 million. These related to a reduced estimate of current service cost of employer pensions (£20.419 million reduction), increased contributions from the IJB, government grants and contributions, and other service income.

The net deficit on the provision of services, after applying funding to the cost of services, was £35.136 million (2022/23: net deficit of £2.444 million). An increase in interest payable of £2.800 million, a decrease of £8.251 million in gains on the disposal of assets, and a decrease of £22.214 million in capital grants and contributions have affected the increase in the accounting deficit reported.

The chart below shows service based net expenditure, after deducting service income, on a directorate basis. The net income in Corporate Management reflects Scottish Government funding which is used to support expenditure by other directorates.



The nature of income supporting council services, is shown in relative proportion in the following chart.



Expenditure and Funding Analysis

The financial performance in the financial statements is presented in accordance with accounting requirements. The legislative framework within which the Council operates means that statutory and other adjustments are applied in the Movement in Reserves Statement which affects the final balance of the Council's usable reserves.

The Expenditure and Funding Analysis (Note 6) provides a reconciliation between management reporting based net expenditure, and the accounting basis net expenditure provided in the Comprehensive Income and Expenditure Statement.

In order to align to the accounting presentation in the comprehensive income and expenditure statements, presentation adjustments are required to derive the figures in the first column of the expenditure and funding analysis (Note 6). These are summarised below:

	Outturn Report	Reserves Movements	Presentation Changes to Reflect Annual Accounts Reporting Requirements	EFA Column 1
	£000s		£000s	£000s
Education & Children's Services	159,155			159,155
Health & Social Care Partnership	69,402		1	69,403
Place	51,577		(1,687)	49,890
Council Resources	19,758		(1,611)	18,147
Corporate Management	(290,741)	(14,591)	278,341	(26,991)
HRA	(48)		(6,771)	(6,819)
Other Income and Expenditure	-		(268,273)	(268,273)
Cost of Services	**9,103**	**(14,591)**	**-**	**(5,488)**

The adjustment for reserves movements includes £14.193 million for a non-recurring restatement of existing reserves in relation to PPP service concession funding arrangements, with the balance due to application of the affordable homes earmarked reserves.

The Council budgets and manages its finances during the year based on the impact on usable reserves, including the effect of legislative requirements, and the financial performance for the year is further explained on that basis.

Council Management Reporting Outturn

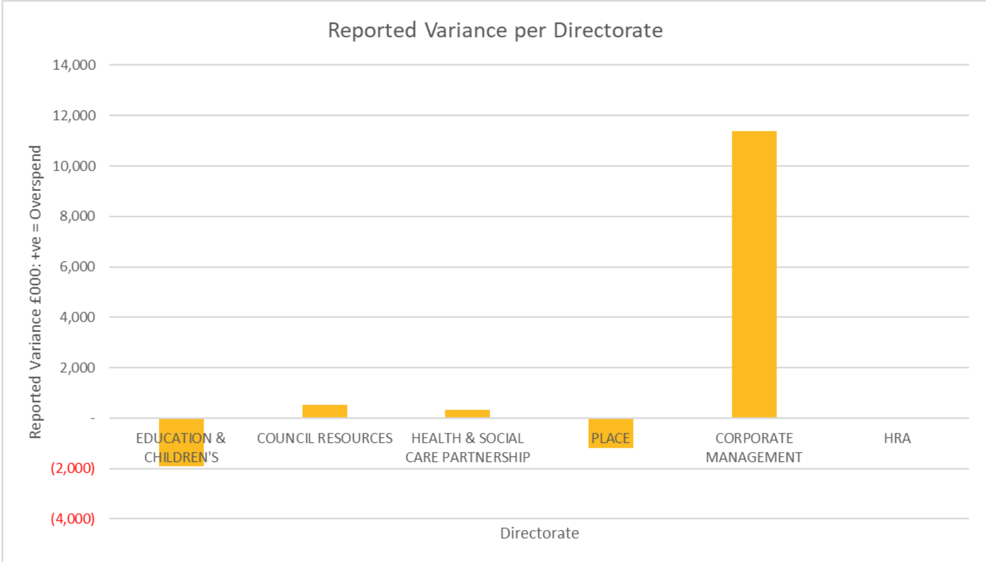
Financial Challenges

The financial pressures which the Council faces continue to be a significant, and potentially growing, challenge for the Council. Cost control measures agreed during 2022/23 at a Special Council Meeting (22 November 2022) included adherence to revenue and capital budgets, review of future spending plans and projects, reductions in heating use, and a review of Council property assets to optimise usage or determine disposal.

During 2023/24 further mitigation measures were approved by the Council (East Lothian Council meeting 29 August 2023, Item 3) including recruitment restrictions and review processes, development of recovery actions, reducing property costs, and to pause and delay non-committed capital projects to reduce future pressures arising from the consequences of capital spend.

Additionally in 2023/24 a further element for the Council in managing the risks for the people of East Lothian has been the application of statutory permissions regarding the funding of PPP/Service Concession assets funding. Scottish Government Finance Circular 10/2022 allows the charges to the General Fund for PPP assets to be aligned to the life of the assets, instead of the term of the contract. This provided a non-recurring increase in the General fund balance at 31 March 2024 of £14.193 million, relating to retrospective adjustment of funding previously applied for PPP assets. Additionally the Scottish Government also allowed flexibility in Finance Circular 6/2023 to enable £2.315 million of capital grant to be used. This was part of a negotiated funding arrangement which relaxed the normal statutory framework for capital funding to partially offset the revenue expenditure impact of complex pay award increases. This relaxation is expected to be non-recurring while the pay award impact will continue to affect future budgets. The overall impact of these statutory permissions was therefore to improve the General Fund balance by £16.508 million.

The General Fund was also affected by the net expenditure on General Services (excluding HRA) through the year. The variance against budget reported for each directorate is illustrated below.



079

An initial outturn for General Services (excluding HRA) of £12.273 million to be charged to reserves, before the release of Council reserve balances to support expenditure, was reduced through the Integration Joint Board's unbudgeted release of £3.122 million as income to the Council to support pressures in social care service delivery. The residual net charge against reserves of £9.151 million was largely in accordance with the budgeted use of reserves.

Key factors in arriving at this position however included overspends related to Children's Services (£2 million for commissioned external placements) and Trading Account pressures (£1 million). These were offset through non-recurring underspends and funding items, including Education (£3.964 million) and additional pay and General Revenue Grant funding (£1.4 million).

In summary however, without the use of the PPP service concession and capital grant flexibilities the General Fund balance (excluding HRA) would have reduced by £8.753 million. The £16.058 million non-recurring benefits from use of the flexibilities is recognised as being neither sufficient nor appropriate to adequately support the annual revenue budget into the future. The annual spending pressures, risks and funding challenges which continue to require Council policy decisions and management action include the extent of Scottish Government funding, the growth of population and housing in East Lothian, service demand increases, pay awards, utility costs, interest rates, and general inflation.

The significance of the funding gap for the Council will require challenging decisions, and open dialogue, in order to support the delivery of a balanced budget as required by legislation. The financial sustainability of the council is a critical priority for the financial governance of the Council.

Housing Revenue Account

The Housing Revenue Account (HRA) delivered a minor surplus of £0.048 million to increase its fund balance, with a key element being the use of available funds and an element of reserves to contribute to in year capital expenditure. The accounting result for the year, including charges for depreciation, impairment and the HRA's share of corporate items was a deficit on HRA services for the year of £26.124 million (2022/23: £2.548 million deficit).

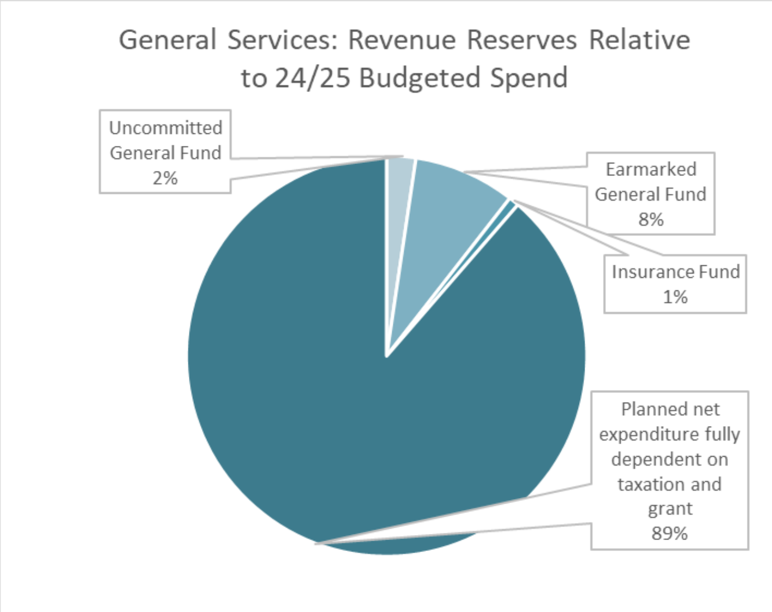
The change predominantly reflects significant council dwelling revaluation losses associated with a full formal revaluation of the council dwelling portfolio, as well as a decrease in capital grants and contributions.

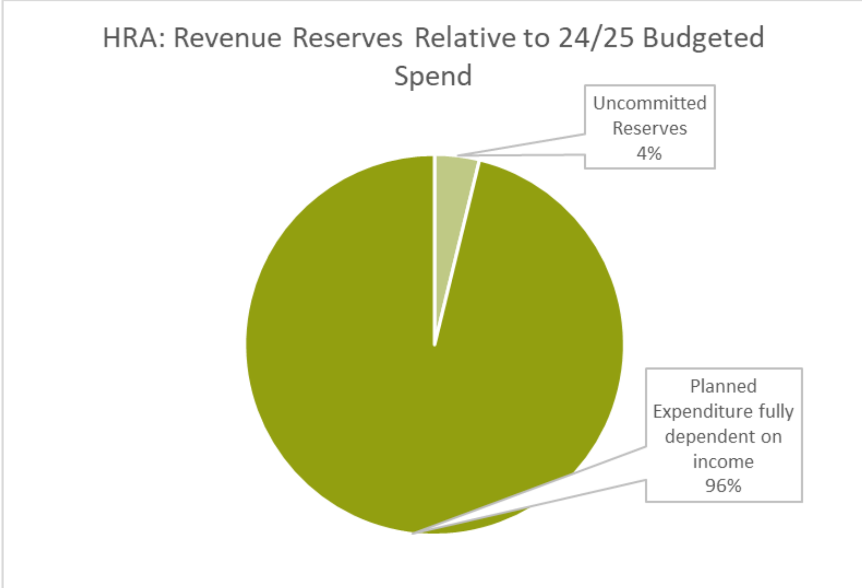
Reserves

At 31 March 2024 the Council had total usable reserves, including HRA and capital, of £55.507 million (2022/23: £45.192 million). This includes £1.535 million (2022/23: £1.487 million) for HRA revenue expenditure, and a total Capital Fund of £14.013 million (2022/23: £14.607 million). More details are provided in Note 32 and Note 34.

For general services revenue expenditure purposes the financial results for the year, in combination with the statutory framework applicable to local government reserves, has resulted in a specific General Fund balance of £34.169 million (2022/23: £26.414 million).

The following chart shows the level of reserves in comparison to planned expenditure for 2024/25. It illustrates the importance of ongoing taxation and grant income to support council services.





The Housing Revenue Account balance at 31 March stands at £1.535 million (2022/23: £1.487 million), above the strategic target minimum balance of £1 million. The following chart shows the level of reserves compared to planned expenditure in 24/25.

Balance Sheet

The net assets for the Council have increased by £49.598 million or 6.9% (2022/23: £165.844 million, 30.0%). Changes include:

- Property, plant and equipment and other non-current assets show a net increase of £85.892 million (2022/23: increase £130.249 million). Additions of £93.948 million (2022/23: £127.133 million) reflected spend on assets by the Council. Net revaluation gains recognised in the Revaluation Reserve of £75.582 million (2022/23: £58.669 million gains) augmented the increase in asset values. Revaluation changes and impairments charged to the deficit on the provision of services reduced asset values by £28.310 million (2022/23: £8.311 million). Revaluations related to a full formal revaluation of Council Dwellings by an external valuer, as well as increases applied to a portfolio of other property assets where the previous carrying value was not considered to appropriately reflect the position as at 31 March 2024. Depreciation for the year was £53.341 million (2022/23 £46.533 million). Other changes in asset values related to de-recognition and asset reclassifications.

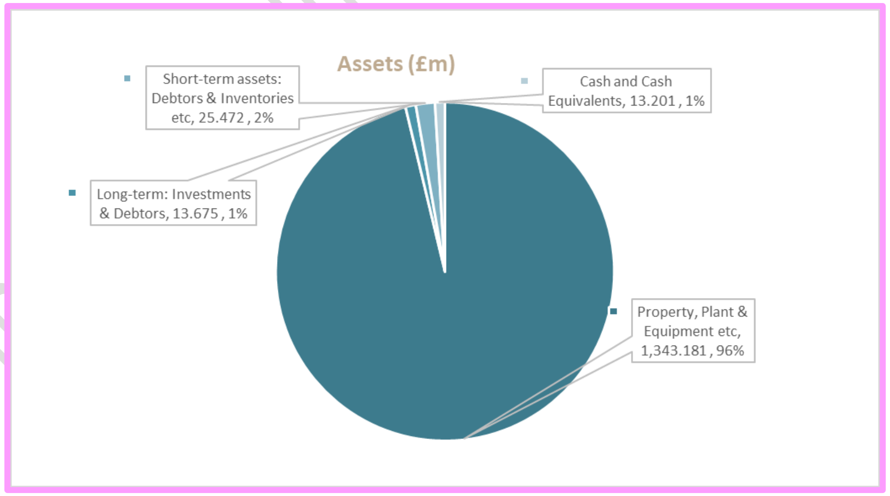
- Net pension liabilities decreased by £10.018 million (2022/23: £86.6 million decrease) to £11.805 million. Pensions assets exceeded estimated funded pension liabilities as at 31 March 2023, resulting in the continuation from last year of an asset ceiling being applied (see Note 31).
- Cash and cash equivalents increased by £0.817 million (2022/23 decrease £41.115 million).
- Liabilities, excluding pensions, increased by £40.551 million (2022/23: £12.370 million increase), with long-term liabilities (excluding pensions) increasing by £49.305 million, largely due to an increase in long-term borrowing, and short term liabilities decreasing by £8.754 million, largely attributable to a decrease in short term creditors.

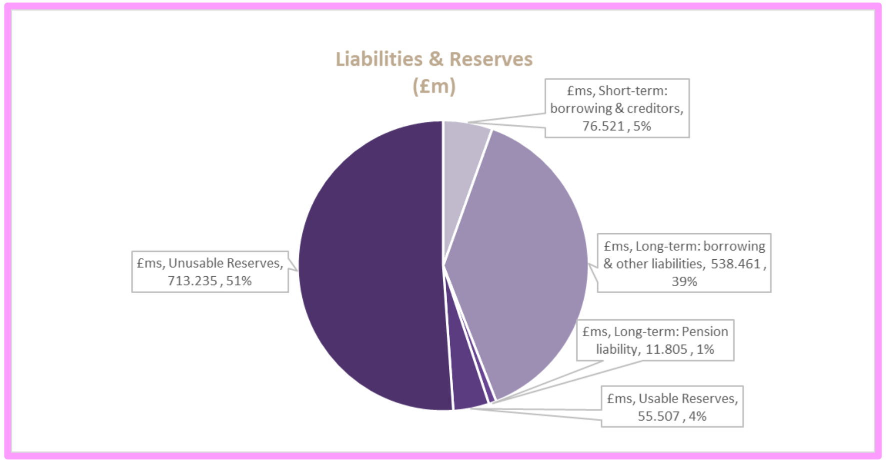
The following charts illustrate the relative proportions of the Council's assets, liabilities and reserves. Reserves represent the extent of assets over which the Council has control after liabilities are accounted for. Unusable reserves relate to legislative or accounting requirements which mean that they are not available to use to support service delivery.

For example the increase in the Revaluation Reserve in 2023/24 primarily relates to revaluations which reflect increases in the cost of acquiring or constructing assets which would be incurred if the services of those assets were bought at current prices. Those gains however are regarded as 'unrealised' and are therefore unusable for the funding of service provision.

Usable reserves however reflect the reserves available for the Council to consider and apply within both its Financial Strategy and budget setting processes.

Some usable reserves, including those relating to capital receipts, can have restrictions upon their use which affect the Council's options regarding application.





Capital

Key to delivering our outcomes for our communities and supporting the wider economy is the investment which the Council makes in capital infrastructure including our school estate and wider asset base, as well as our housing stock. In total, during 2023/24 the Council provided capital investment of £93.948 million (including intangible assets) (2022/23: £127.132 million). Some of the significant capital expenditures undertaken in 2023/24 include:

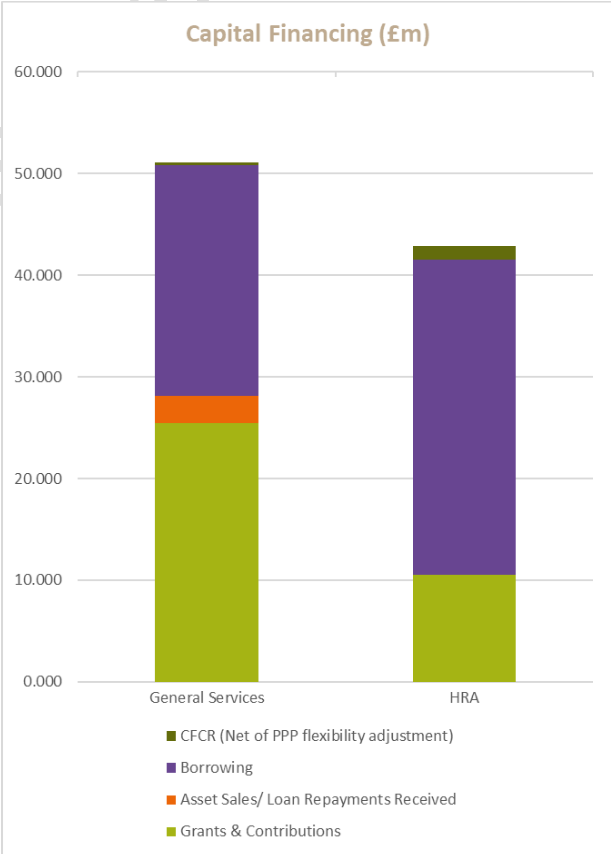
- Investment in Education related assets of £17.642 million (2022/23 £40.365 million), with significant works including Wallyford Learning Campus, Blindwells Primary, Craighall Primary, North Berwick High School and others.
- Investment in the Council's transport related infrastructure of £11.772 million (2022/23 £12.223 million).
- Community, regeneration and open space projects of £5.890 million
- Accelerating growth and other property projects, including developing the A1/ Queen Margaret University junction, of £11.006 million
- Vehicles and machinery £3.434 million
- Information Technology £2.074 million
- Additions to the Council's active housing stock and assets of £42.850 million (2022/23: £40.350 million).

For General Services a £57.003 million underspend compared to the budget primarily relates to mitigation measures approved at Council in August 2023 to address financial pressures, both now and in the future. Uncommitted capital expenditure was paused or delayed. A significant proportion of this underspend has already been re-profiled as part of the work on the 2024/25 capital plan and will be utilised in future years projects.

HRA capital expenditure exceeded budget by £8.886 million, primarily related to the delivery of new council housing stock.

The Council can borrow to finance capital spend however the total gross capital expenditure is first offset by income received during the year. The graph shows the split of financing for capital spend between borrowing, grants, asset sales, capital funded from current revenue (CFCR) and any other.

In general any asset sales need to be used to finance future capital spending or the statutory repayment of debt.



Other Performance Indicators

The Council publishes performance results via its performance website, with other information on performance available through the Council's Performance Portal.

Financial Indicators

The Financial Indicator table includes various key statistics regarding the Council's overall performance.

2022/23 £000s / % / Days	Council Financial Indicator	2023/24 £000s / % / Days	Commentary
18.96%	Council Tax funding to overall level of taxation and non-specific grant funding	20.99%	Reflects the overall percentage of East Lothian Council funding from local taxation.
97.66%	In year Council Tax collection rate	96.16%	Reflects East Lothian Council's effectiveness in collecting Council Tax.
98.59%	In year NDR collection rate	98.79%	Reflects East Lothian Council's effectiveness in collecting NDR debt.
567,653	Capital Financing Requirement	625,043	The Council's underlying need to borrow.
(541,616)	External Debt Levels (Financial Liabilities per Note 27 to the financial statements)	(582,630)	The Council's actual levels of external debt and long term liabilities.
102.03%	Overall General Fund (excl HRA) actual net expenditure compared to planned, as a percentage of the original expenditure budget	102.90%	How closely expenditure compares to the set net expenditure budget for the year.
2.30%	Uncommitted General Fund balance as a % of next year's net expenditure budget before application of taxation based funding and use of reserves	2.35%	Reflects the amount of funding available to manage unplanned events.
646	Sundry debtors collection: Average number of days of debts	693	Reflects how promptly monies owed to the Council for sundry debts are collected.

Risks

In keeping with the Council's Risk Management Strategy, the Corporate Risk Register is reviewed annually and reported to Cabinet. The Council's Risk Register (available on the Audit and Governance Committee 11 June 2024 webpage, Item 11) details all of the Council's risks, categorising them from Very High to Low Risk.

The following risk tables summarise the Very High and High risks and the ways the Council is attempting to mitigate the risks.

Medium risk is tolerable with control measures that are cost effective and low risk is broadly acceptable without any further action to reduce the risk.

Risk	Risk Level	Corporate Risk Summary Key Mitigation steps
Managing the Financial Environment	Very High	ELC has an approved financial strategy which is refreshed annually and sets out a series of critical enablers aligned to supporting transformation and future sustainability of service provision. ELC annually refreshes the Financial Strategy, Capital Strategy and Treasury Management Strategy to take cognisance of any new/emerging financial risks. ELC has a wide range of on-going cost control and financial management arrangements to manage in year budget performance and delivery of planned efficiencies. Regular management information to CMT and quarterly financial reporting to Council. ELC has an enhanced range of urgent cost control measures aimed at mitigating and limiting the scale of these rising costs.
Maintenance of Assets	Very High	Annual update of programme of works based on Condition, Suitability and Statutory Compliance assessments to inform budget requirements and prioritised aligned to available resources. A wider asset review is being progressed by the Council. Management and survey work to identify RAAC/Siporex and wider investigation/review. Effective repairs and maintenance reporting and health & safety workplace inspections and incident reporting inform asset maintenance programme and response.
Homelessness	Very High	Continued monitoring of RSL nomination process. Cabinet approved recommended actions to address pressures re-lack of affordable housing supply and address homelessness pressures via delivery of agreed action plan. Housing First protocol in place and placements ongoing. Refreshed performance monitoring framework in place to enable improved ongoing monitoring of key aspects of service.
Workforce Challenges	Very High	The 2023-27 Workforce Plan was approved by Cabinet (Jan 2023). The 2023-27 Workforce Plan actions are being implemented. Regular assessment of staffing capacity within services enables redeployment of available resources to maintain frontline service delivery, reducing service provision when essential in non-statutory services. Service Planning and PRD processes were reviewed in early 2024 and will be reviewed on an ongoing basis.
Refugee/Asylum Schemes	Very High	Regular attendance at meetings with SG, Home Office and COSLA. Resource requirements of other service areas identified and in operation. National safeguarding system is in place. Unaccompanied Asylum-Seeking Children are supported by the children's services Aftercare Team.
Cyber Security Threats	High	Policy controls in place to dictate the standards for operation and security of our IT assets. Physical controls in place to prevent unauthorised access to ELC data centres. Technical controls in place to obfuscate and prevent unauthorised access to our infrastructure and information systems. Continue to follow advice and guidance from the National Cyber Security Centre, UK and Scottish Governments, Local Governments Digital Office, Scottish Local Authority Security Group and react accordingly.

Risk	Risk Level	Corporate Risk Summary Key Mitigation steps
Climate and Nature Emergency	High	Climate Change Strategy in place which guides our response to the climate crisis and Local Biodiversity Action Plan (in development). Annual reports to Cabinet. Annual reporting to the Scottish Government to track CO_2e reductions and delivery of adaptation programmes. Intra-Council groups, which meet quarterly to track ELC's response to the climate and nature emergency. ELC works collaboratively with other local authorities and national bodies. The East Lothian Biodiversity Partnership has been re-convened.
Limitation (Childhood Abuse) (Scotland) Act 2017	High	Child Abuse Claims Group and SCAI Overview Group - East Lothian co-ordination of responses, reported strategically, managed flow and collaboration. Close monitoring of the work of the Scottish CAI and review of any published materials. ELC has appointed external solicitors to provide legal support for the public fostering inquiry. Records Management expertise allows ELC to respond effectively to SAR requests and information requests and provide evidence.
Flooding and Coastal Erosion	High	Flood risk and drainage issues are considered when processing planning applications and within long-term development planning. The Severe Weather Response Plan has been developed and ensures a multi-agency response. Emergency surface water, coastal and river flooding procedures are in place and have been proven effective. A Shoreline Management Plan is in Place. Maintenance of existing flood protection schemes. Community consultation has progressed throughout the Musselburgh Flood Protection Scheme project.
Impacts of the National Care Service on ELC	High	ELC provided a detailed and comprehensive response to the Scottish Governments consultation on its proposals, outlining the concerns and risk involved in the creation of a National Care Service. ELC officers will actively engage in National Professional networks and feedback any relevant information to the working group. CMT continue to monitor the development of the proposal and report as appropriate to the Council.
Data Protection Threats	High	ELC has a comprehensive suite of measures to ensure compliance, including the retention of a statutory Data Protection Officer, the Data Protection Policy, Data Breach Procedure and multiple procedures governing the creation, use and disposition of records and personal data. Information Asset Register: workshops are held quarterly to identify information assets and data flows within Council Service areas. Data Protection/Records Management training delivered as needed by individual services and teams.
Public Protection – Risk of Harm	High	The East and Midlothian Public Protection Committee (EMPPC) is the local strategic partnership responsible for the overview of policy and practice in relation to Adult Protection, Child Protection, Offender Management and Violence Against Women and Girls. The primary aim is to provide leadership and strategic oversight of Public Protection activity and performance across East Lothian and Midlothian. Critical Services Oversight Group (CSOG) provides governance and leadership of EMPPC on a quarterly basis. Oversight groups established.
Duty of Care to the Public	High	Briefing sessions, specialist training and supports are in place. Regular formal supervision in place for all staff. Clinical & Care Governance Committee established which is to provide strategic oversight within the Partnership. Specific oversight groups established for example Care Home, Health & Safety and Risk Management. Services comply with required professional registration for all staff, e.g., SSSC, HCPC, NMC. Effective Partnership with Police Scotland, immigration and HMRC. Oversight groups established.
National Power Outage	High	A Fuel Plan is in place for the provision of fuel to backup generators and essential vehicles. Critical services have up to date business continuity plans, exercised annually. Lothian and Borders NPO Response Framework in place.

The Management Commentary is authorised by:

Monica Patterson
Chief Executive

Norman Hampshire
Council Leader

Sarah Fortune CPFA
Executive Director for Council Resources (CFO)

Statement of Responsibilities for the Statement of Accounts

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 responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Director for Council Resources who is the designated Chief Financial Officer.
- 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 the Audit and Governance Committee at its meeting on *[date to be inserted after audit complete].*

Signed on behalf of East Lothian Council.

Norman Hampshire
Council Leader

The Chief Financial Officer's responsibilities

The Chief Financial Officer 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 Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments 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 Chief Financial Officer has also:

- Kept adequate accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer's Certification

I certify that the financial statements give a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the Council (and its group) for the year ended 31 March 2024.

Sarah Fortune CPFA
Executive Director for Council Resources (CFO)

Annual Governance Statement

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition there is a duty on the Council to conduct, at least annually, a review of the effectiveness of the system of internal controls.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. East Lothian Council carries out these duties in a number of ways as set out below.

Annual Self-Evaluation of Corporate Governance

The recent review of corporate governance carried out in 2024 and approved by CMT in May 2024 found that East Lothian Council continues to have good governance and control arrangements in place across the seven corporate good practice principles.

The Council's ELC values – Enabling, Leading and Caring – and the East Lothian Way behaviours underpins the way the Council continues to move forward through the current financial constraints.

Key Governance Documentation has been highlighted, including.

- The 2024 Council improvement plan which was approved by Council in February 2024, and included 3 items that were carried forward from the 2021/22 Council improvement plan 2 of which are scheduled to complete by the end of June 2024.
- The Council formally closed the COVID recovery and renewal plan in July 2023 with all ongoing actions being progressed through the Council Plan 2022-2027.
- In February 2024 the Council approved a reprioritisation of the Council Plan following multiple changes in risk factors and this translated into three interlinked, complementary priorities which are aligned to the Council Plan's overarching and long-term thematic objectives.
- The Council Approved a Financial and Capital strategy 2024-2029 in December 2023, which highlighted

- the unprecedented financial challenges on the Council, with external factors placing acute pressure on resources and the council's capacity to balance its budget and set sustainable spending plans.
- The East Lothian Economic Strategy 2024-2034 was approved by Council in April 2024.
- Consultation is currently underway for the draft East Lothian Poverty Plan 2024-2027.

The Council governance self-evaluation review against the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 which was carried out in May 2024 identified 2 key areas for continued focus and improvement, being:

- Continue to work to close the identified residual budget gap for the next five years and continue to develop longer term financial planning whilst continuing to maintain sustainable services; and
- Continue to monitor improvement in the participation rates in the annual Personal Review and Development (PRD) process and take action to improve participation if required.

Importantly however the Council re-affirmed that it will continue to review and benchmark its practices and policies to build on existing good practice and improvement actions already being implemented, in order to ensure the Council continues its progress from continuous improvement through to excellence.

A refreshed Improvement to Excellence framework was approved by Cabinet in May 2023 to take account of the Council's new priorities as set out in the 2022-2027 Council Plan, and the experience and practice of operating the framework over the last few years.

Declaration of Assurance

All Chief Officers are asked to sign a Declaration of Assurance which either confirms that internal financial controls are operating satisfactorily in their service or provides details of issues to highlight.

All Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily other than in the following areas:
Control weaknesses within payments processes, feeder system integration and reconciliation, these are being resolved through enhanced process and the development of a new financial system.
Growth – unfunded growth and demand upon services is having a detrimental impact on my services abilities to maintain standards, risks on the financial environment and control measures are being managed through corporate risk CR1 and the longer-term financial strategies.

The capital provision for Roads requires an uplift to maintain a steady state and Engineering in respect of asset maintenance requires a significant investment to address backlog maintenance as well as increased annual capital and revenue to maintain a steady state. An asset management project is being progressed to assist in these issues amongst other controls recognised under corporate risk CR2.

The Homeless Persons (Unsuitable Accommodation) (Scotland) Order came into effect on 1 October 2021. A total of 134 live breaches have been recorded at the end of March 2024. Homelessness services continue to face significant challenges within a context of constrained resources, including although not restricted to, increasing demand in respect of homeless presentations; humanitarian efforts to accommodate refugees; the impact of local connection changes; recent ending of evictions protections brought in by Part 1 of the Cost of Living (Tenant Protection) (Scotland) Act 2022; and the implications more generally of the increased cost of living and associated impact upon housing affordability The Scottish Government are fully aware of the challenges faced with ongoing and proactive engagement. The East Lothian Council Rapid Rehousing Transition Plan will be updated in

2024/25 and shows the steps ELC intends to take and is taking to eradicate the use of unsuitable accommodation.

Internal Audit Review

The Council's review of governance arrangements is informed by a number of sources including the work of Internal Audit. The Council maintains an Internal Audit service which operates in accordance with the Public Sector Internal Audit Standards. The Service Manager-Internal Audit reports annually to the Audit and Governance Committee on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The agenda and minutes of this meeting can be accessed on the [Audit and Governance Committee webpages].

The Audit and Governance Committee complied in all material respects with the 2018 CIPFA Audit Committees Practical Guidance for Local Authorities and Police. A self-evaluation review of the revised 2022 CIPFA Audit Committees Practical Guidance for Local Authorities and Police was reported to the September Audit & Governance Committee.

All internal audit reports into service areas include recommendations, agreed actions and an implementation date. During 2022/23 areas identified with scope for improvement included the following:

- Control processes for Waste Services income were severely impacted by a loss of staff resource. The Follow up of this review completed in December 2023 identified that all recommendations had been implemented.

- The Council has appropriate systems in place to record all devices that are logged on to the Council network, however there is no clear record maintained of devices from original purchase through to eventual destruction, in either the Council or the Education asset estate. An asset management module was purchased in November 2023, however implementation of the module remains ongoing.

- The Council has not had in all cases appropriate management of suppliers in place during the year to ensure that the prices being paid matched framework contracts, and also authorisation processes are not always effectively in place. Improvement in the Contract Management processes have been developed and rolled out across the Council to improve the control environment. Internal Audit are following up on the effectiveness of the Contract Management Processes in a review scheduled for submission to the March 2025 Audit & Governance Committee.

In addition to the above Internal Audit follows up on all recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. In 2023/24 follow-up reports were submitted to the Audit and Governance Committee on Management actions taken in respect of City Deal Governance and Monitoring, Finance Business Partners and Budget Monitoring, Performance Indicators, Prevent and Return Project, Data Protection, East Lothian Works, Sundry Accounts, Systems Data Backup & Recovery Testing, COVID 19 Recovery & Renewal Plan, HR/Payroll Recruitment and New Starts, Climate Change, Risk Management, and Housing Management Systems Replacement Project.

The Internal Audit function also gives an assurance statement on the effectiveness of the system of internal controls within the Council. This was reported to the June 2024 meeting of the Audit and Governance Committee. For 2023/24, Internal Audit has concluded that subject to two areas for improvement which are outlined below, and consideration of the corporate risks CR1 and CR2 that both remain outside of the Council's risk tolerance, reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2024. Those areas which have been identified with scope for improvement include:

- The Governance and Control processes covering the legal, financial and operational processes between the Council and the Brunton Theatre Trust had substantial gaps that required to be resolved. An SLA is currently being finalised between the Council and the Brunton Theatre Trust and leases have been reviewed.

- The Council requires to improve its control processes in relation to Agency Workers in particular to ensure that a control list of agency workers is maintained, that an authorisation process is in place for agency workers that is utilised across the council consistently, and that a process for Agency Worker review should be in place to ensure adequate challenge of ongoing Agency contracts.

Plans are in place to review these areas and consider appropriate actions for improvement during 2024/25.

Statement on the role of the Chief Financial Officer and the Role of the Head of Internal Audit.

In 2016 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised statement on the role of the Chief Financial Officer (CFO) in public service organisations. The statement sets out the principles that define the core activities and behaviours that are key to the role of the CFO in public sector organisations. For each principle the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties.

In April 2019 CIPFA issued a statement on the Role of the Head of Internal Audit (HIA). The statement articulated the core responsibilities of the HIA, with five principals defining the core activities and behaviours that belong to the role of the HIA. For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties.
The Council is able to confirm that, in all major regards, it conforms to the governance arrangements of both of these CIPFA statements.

Financial & Fraud Management Compliance.

In October 2019 CIPFA issued the Financial Management Code (FM Code). The FM Code is designed, on a non-statutory basis, to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out proposed standards of forward financial management for local authorities. Full compliance with the code was expected in 2021/22. The Council is able to confirm that, in all major regards, it conforms to the FM Code. The Head of Finance brought a full report on the implementation of the financial management code to the Audit & Governance Committee in September 2023, and Internal Audit Review provided reasonable assurance on implementation of the CIPFA FM code in June 2024 all recommendations from this review are being implemented by management.

The Council also confirms that in all major regards it complies with the 2014 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

Results

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2023/24 and that they remain fit for purpose.

Monica Patterson
Chief Executive

Norman Hampshire
Council Leader

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

Reporting on the audit of the financial statements

I certify that I have audited the financial statements in the annual accounts of East Lothian Council and its group for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Group Only Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the council-only Housing Revenue Account, Movement on the HRA Statement, the Common Good Movement in Reserves Statement, the Common Good Comprehensive Income and Expenditure Statement, Common Good Balance Sheet, the Trust Movement in Reserves Statement, Trust Comprehensive Income and Expenditure Statement, Trust Fund Balance Sheet, the Council Tax Income Account and the Non Domestic Rate (NDR) Income Account and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2024 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 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 for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director for Council Resources and East Lothian Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director for Council Resources 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 Executive Director for Council Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director for Council Resources is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

East Lothian Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Executive Director for Council Resources as to other laws or regulations that may be expected to have a

- fundamental effect on the operations of the council and its group;
- inquiring of the Executive Director for Council Resources concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Executive Director for Council Resources is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my 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 I am required to report by exception

- I am required by the Accounts Commission to report to you if, in my opinion:
- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Boyd FCPFA
Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Remuneration report and trade union activity

2

Remuneration Report

Introduction

The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. These regulations require Local Authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. The following information in this Remuneration Report has been audited by Audit Scotland:

- Senior Councillor Remuneration page 42
- Pay Bandings information page 43
- Senior Officer Remuneration page 43
- Total Councillor Remuneration page 43
- Pension Benefits information for Senior Councillors and Officers pages 48 to 49
- Exit Packages page 50

The other sections of the Remuneration Report have been reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

Remuneration of Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183 and SSI No. 2022/18). 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 2023/24 the salary for the Leader of East Lothian Council is £33,503 (excluding £1,000 allowance for role as APSE chair). The Regulations also permit the Council to remunerate one Civic Head or Provost. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay 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 (excluding the Leader and Civic Head/Provost) shall not exceed £203,517.

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. The Council's policy is to set these within the national maximum limits as set out above. 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 members.

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 such as a Police Joint Board. The Regulations require the remuneration to be paid by the Council of which the convenor or vice-convenor (as the case may be) 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.

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a convenor or vice - convenor of a Joint Board.

Senior Councillors' Remuneration

Salary, Fees and Allowances 2022/23 £	Taxable Expenses 2022/23 £	Total 2022/23 £	Annualised Salary 2022/23 £	Name	Office Held as at 31 March 2024	Salary, Fees and Allowances 2023/24 £	Taxable Expenses 2023/24 £	Total 2023/24 £	Annualised Salary 2023/24 £
32,622	-	32,622	32,622	Norman Hampshire	Leader of the Council and Cabinet Spokesperson for Community Planning	34,503	-	34,503	34,503
20,915	-	20,915	25,327	Lyn Jardine	Leader of the Opposition	25,128	-	25,128	25,128
2,302	-	2,302	25,327	Lachlan Bruce	Leader of the Opposition (to 04/05/2022)	-	-	-	-
24,467	-	24,467	24,467	Shamin Akhtar	Depute Leader and Cabinet Spokesperson for Health and Social Care	25,128	-	25,128	25,128
24,467	-	24,467	24,467	John McMillan	Provost and Cabinet Spokesperson for Environment, Economic Development and Tourism	25,128	-	25,128	25,128
24,467	-	24,467	24,467	Andy Forrest	Depute Provost and Cabinet Spokesperson for Housing and Property Maintenance	25,128	-	25,128	25,128
24,467	-	24,467	24,467	Fiona Dugdale	Cabinet Spokesperson for Education and Children's and Family Services	25,128	-	25,128	25,128
24,467	-	24,467	24,467	Colin McGinn	Cabinet Spokesperson for Community Wellbeing and Sport, Countryside and Leisure	25,128	-	25,128	25,128
2,302	-	2,302	24,467	Jim Goodfellow	Cabinet Spokesperson for Housing & Community Wellbeing (to 04/05/2022)	-	-	-	-
180,476	**-**	**180,476**	**230,078**	**Total**		**185,271**	**-**	**185,271**	**185,271**

Total Councillors' Remuneration

An allowance of £1,000 is paid to Norman Hampshire in his capacity as APSE Regional Advisory Group Chair.

The annual return of councillors' salaries and expenses for 2023/24 is available to view from the Council's 'payments to councillors' webpage.

2022/23 £	Type of Councillors' Remuneration	2023/24 £
472,674	Salaries	485,754
1,375	Allowances	1,083
6,091	Expenses	6,679
480,140	**Total**	**493,516**

Senior Officer Remuneration

The Council's employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were paid the amounts shown in the Officers' Salary Brackets table.

The Regulations require disclosure of remuneration information for 'relevant' persons. These include senior officers i.e. those senior employees who meet one or more of the following criteria:

- Has responsibility for the management of the local authority, to the extent that the person has power to direct or control the major activities of the authority, whether solely or collectively with other persons
- 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
- Annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.

2022/23	Officers' Salary Brackets	2023/24
99	£50,000 - £54,999	139
72	£55,000 - £59,999	82
64	£60,000 - £64,999	67
38	£65,000 - £69,999	46
20	£70,000 - £74,999	34
7	£75,000 - £79,999	7
1	£80,000 - £84,999	4
7	£85,000 - £89,999	2
2	£90,000 - £94,999	6
7	£95,000 - £99,999	2
2	£100,000 - £104,999	2
-	£105,000 - £109,999	5
3	£110,000 - £114,999	-
-	£115,000 - £119,999	1
-	£120,000 - £124,999	2
-	£125,000 - £129,999	-
1	£130,000 - £134,999	-
-	£135,000 - £139,999	1
323	**Total**	**400**

During 2023/24 the Council paid the following amounts to senior employees:

Salary, Fees and Allowances 2022/23 £	Taxable Expenses 2022/23 £	Total 2022/23 £	Name	Post Title	Salary, Fees and Allowances 2023/24 £	Taxable Expenses 2023/24 £	Total 2023/24 £
130,606	-	130,606	Monica Patterson	Chief Executive	138,508	-	138,508
1,245	-	1,245	Monica Patterson	Returning Officer	-	-	-
113,628	-	113,628	Lesley Brown	Executive Director - Education & Children's Services	120,502	-	120,502
113,628	-	113,628	Douglas Proudfoot	Executive Director - Place	120,502	-	120,502
113,628	-	113,628	Sarah Fortune	Executive Director - Council Resources **	120,502	-	120,502
99,469	-	99,469	Morag Ferguson	Head of Corporate Support	105,487	-	105,487
91,719	-	91,719	Ellie Dunnet	Head of Finance ***	105,487	-	105,487
30,099	-	30,099	David Henderson	Head of Finance (14/06/2022 to 02/10/2022)	-	-	-
99,469	-	99,469	Judith Tait	Head of Children's Services (01/04/2023 - 23/04/2023)	6,354	-	6,354
-	-	-	Lindsey Byrne	(Acting) Head of Children's Services (03/04/2023 - 30/04/2023)	8,204	-	8,204
-	-	-	Lindsey Byrne	Head of Children's Services (01/05/2023 onwards)	97,099	-	97,099
99,469	-	99,469	Nicola McDowell	Head of Education ***	105,487	-	105,487
99,469		99,469	Iain Gorman	Head of Operations (01/04/2023 - 03/07/2023)*	27,222	-	27,222
99,469	-	99,469	Sharon Saunders	Head of Communities	105,487	-	105,487
99,469	-	99,469	Michaela Sullivan	Head of Development (01/04/2023 - 14/04/2023)	4,421	-	4,421
-	-	-	Ray Montgomery	Interim Head of Development (from 11/03/2024)	5,954	-	5,954
92,601	-	92,601	Wendy McGuire	Head of Housing ***	105,487	-	105,487
99,469	-	99,469	Thomas Reid	Head of Infrastructure	105,487	-	105,487
1,383,437	**-**	**1,383,437**	**Total**		**1,282,190**	**-**	**1,282,190**

* - Post was 100% funded by NHS Lothian. Post is now directly employed by NHS Lothian.

** - Member of Salary Sacrifice Scheme. Annual Salary for Executive Director is £120,502.

*** - Member of Salary Sacrifice Scheme. Annual Salary for Head of Service is £105,487.

The salary, fees and allowances for senior officers include any payments made in respect of election roles. During 2023/24, all Heads of Service were paid £105,487 (full time equivalent) and all Executive Directors £120,487 (full time equivalent).

The Council has agreed to pay a share of the post of Director of East Lothian Health and Social Care Partnership. The costs are shared on a 50/50 basis with NHS Lothian. All payroll and pension arrangements for this post are administered by NHS Lothian.

During 2023/24 the Council paid £67,326 (including on-costs) as our shared cost of this post, held by Fiona Wilson.

Iain Gorman was employed by the Council as Head of Operations until 03/07/2023, and this role was fully funded by NHS Lothian. This role is currently directly employed and held by David Hood. The Head of Operations remains part of the Council management structure.

Subsidiary Bodies

The Council has two external subsidiary bodies, with details of the principal director or officer for the organisation provided in the table below. No additional remuneration is provided for their involvement in these posts.

The Common Good funds and Trust Funds under the stewardship of the Council are also consolidated as subsidiaries in the Council's financial statements. No individual is designated as principal director or officer for these purposes.

No subsidiaries provide remuneration in excess of £150,000 per year to any officer or director.

Subsidiary	Principal Director or Officer	Role
East Lothian Land	Councillor Norman Hampshire (Council Leader)	Director
East Lothian Land	Councillor John McMillan (Provost)	Director
East Lothian Mid-Market Homes	Douglas Proudfoot (Executive Director, Place)	Senior ELC Officer on the Board

Pension Benefits

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 increased by the change 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.

From 1 April 2015 the LGPS for local government employees transferred to a career average scheme. This means that pension benefits are built up each year based on the pensionable pay for that year. This is then added to the individual's pension account. At the end of each year the amount in the pension account will be adjusted in line with the cost of living - currently the rate of the Consumer Price Index - to ensure it keeps its value.

The scheme's normal retirement age for both councillors and employees is State Pension Age.

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 was intended to strengthen the relationship between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

If a person works part-time, their contribution rate is based on actual pensionable pay.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum, up to the limit set by the Finance Act 2009. Between 1 April 2009 and 31 March 2015 the accrual rate guaranteed a pension based on $1/60^{th}$ of final pensionable salary and years of pensionable service. Prior to this the accrual rate guaranteed a pension based on $1/80^{th}$ and a lump sum based on $3/80^{ths}$ of final pensionable salary and years of pensionable service. From 1 April 2015 the accrual rate is $1/49^{th}$ of pensionable pay in each year.
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 full 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 estimated 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. This information is provided by The Lothian Pension Fund. The Lothian Pension Fund administers these pensions and holds information that is not available to the Council at the date of this statement.

Pension Contributions

2022/23 Range £	Rate	Whole Time Pay	2023/24 Range £	Rate
23,676	5.50%	On earnings up to and including	25,300	5.50%
23,677 - 28,443	5.60% - 5.80%	On earnings above	25,301 - 31,000	7.25%
28,444 - 38,635	5.90% - 6.50%	On earnings above	31,001 - 42,500	8.50%
38,636 - 52,145	6.60% - 7.30%	On earnings above	42,501 - 56,600	9.50%
52,146	7.40% - 11.20%	On earnings above	56,601	12.00%

Pension Benefits - Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2024 are shown in the table below, together with the contribution made by the Council during the year.

(3) Name	Office Held as at 31 March 2024	Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2024		Difference from 31 March 2023	
		For Year to 31 March 2023 £	For Year to 31 March 2024 £	Pension £000s	Lump Sum £000s	Pension £000s	Lump Sum £000s
Norman Hampshire	Leader of the Council and Cabinet Spokesperson for Community Planning	7,683	7,798	9	2	1	-
Lyn Jardine	Leader of the Opposition*	4,727	5,679	1	-	1	-
Lachlan Bruce	Leader of the Opposition (to 04/05/2022)	520	-	3	-	-	-
Shamin Akhtar	Depute Leader and Cabinet Spokesperson for Health and Social Care	5,530	5,679	6	-	-	-
John McMillan	Provost and Cabinet Spokesperson for Environment, Economic Development and Tourism	5,530	5,679	6	-	-	-
Andy Forrest	Depute Provost and Cabinet Spokesperson for Housing and Property Maintenance	5,530	5,679	8	2	1	-
Fiona Dugdale	Cabinet Spokesperson for Education and Children's and Family Services	5,530	5,679	3	-	-	-
Colin McGinn	Cabinet Spokesperson for Community Wellbeing and Sport, Countryside and Leisure	5,530	5,679	3	-	-	-
Jim Goodfellow	Cabinet Spokesperson for Housing & Community Wellbeing	520	-	4	-	-	-
Total		**41,100**	**41,872**	**43**	**4**	**3**	**-**

* - Member has less than 2 years' service but is entitled to a pension due to previous LGPS service.

All senior councillor shown in the tables above are members of the Local Government Pension Scheme (LGPS). 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.

Pension Benefits - Senior Employees

The estimated pension entitlements for senior employees for the year to 31 March 2024 are shown in the table below, together with the contribution made by the Council during the year.

		Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2024		Difference from 31 March 2023	
Name	Post title	For Year to 31 March 2023	For Year to 31 March 2024	Pension	Lump Sum	Pension	Lump Sum
		£	£	£000s	£000s	£000s	£000s
Monica Patterson	Chief Executive	29,517	31,303	84	137	7	8
Monica Patterson	Returning Officer	281	-	-	-	-	-
Lesley Brown	Executive Director - Education & Children's Services	25,680	27,233	13	-	3	-
Douglas Proudfoot	Executive Director - Place	25,680	27,233	59	99	5	6
Sarah Fortune	Executive Director - Council Resources	25,680	27,233	35	21	3	1
Morag Ferguson	Head of Corporate Support	22,480	23,840	6	-	2	-
Ellie Dunnet	Head of Finance	20,729	22,589	4	-	4	-
David Henderson	Head of Finance (14/06/2022 - 02/10/2022)	16,858	-	19	5	-	-
Judith Tait	Head of Children's Services (01/04/2023 - 23/04/2023)	22,480	1,436	8	-	-	-
Lindsey Byrne	Head of Children's Services (01/05/2023 onwards)	-	23,798	13	-	-	-
Nicola McDowell	Head of Education	22,480	23,361	21	-	3	-
Iain Gorman	Head of Operations (01/04/2023 - 03/07/2023)	22,480	5,801	8	-	-	-
Sharon Saunders	Head of Communities	22,480	23,840	54	71	4	5
Wendy McGuire	Head of Housing	20,928	22,288	38	46	3	3
Tom Reid	Head of Infrastructure	22,480	23,840	46	56	4	3
Michaela Sullivan	Head of Development	22,480	999	4	-	4	-
Ray Montgomery*	Interim Head of Development	-	1,346	-	-	-	-
Total		**322,713**	**286,140**	**412**	**435**	**42**	**26**

* Under 2 years service in Senior role.

All senior employees shown in the tables above are members of the Local Government Pension Scheme (LGPS). 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.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority 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 and pensioners and any such amounts payable but unpaid at the year-end.

Exit Packages

Exit Packages 2022/23					Exit Packages 2023/24			
Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000s	Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000s
25	14	39	128	£0 - £20,000	2	27	29	160
-	-	-	-	£20,001 - £40,000	-	-	-	-
-	-	-	-	£40,001 - £60,000	-	-	-	-
-	-	-	-	£60,001 - £80,000	-	-	-	-
-	-	-	-	£80,001 - £100,000	-	-	-	-
-		-	-	£100,000 - £120,000	1	-	1	92
25	**14**	**39**	**128**	**Total**	**3**	**27**	**30**	**252**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table above for 2023/24, with comparative figures for 2022/23.

Trade Union Facility Time

The Council is required to publish details of Trade Union facility time incurred during the year. Further information is available on the Trade Union Facility Time webpage.

2022/23		Percentage of pay bill spent on facility time	2023/24	
Non-Education Staff	Education Staff		Non-Education Staff	Education Staff
£91,575	£84,976	Total cost of facility time	£109,885	£106,748
£123,235,712	£68,723,752	Total pay bill	£136,353,345	£73,726,985
0.07%	0.12%	Percentage of the total pay bill spent on facility time	0.08%	0.14%

2022/23		Percentage of time spent on facility time	2023/24	
Non-Education Staff	Education Staff		Non-Education Staff	Education Staff
0	0	0%	0	0
25	11	1% - 50%	15	10
0	0	51% - 99%	0	0
2	1	100%	2	1

2022/23		Relevant union officials	2023/24	
Non-Education Staff	Education Staff		Non-Education Staff	Education Staff
27	12	Number of employees who were relevant union officials during the relevant period	17	11
26.2	11.6	Full-time equivalent number	15.5	10.6

Monica Patterson
Chief Executive

Norman Hampshire
Council Leader

Financial Statements: Primary Statements

3

Council and Group Movement in Reserves Statement

The Movement in Reserves Statement (MiRS) shows the movement from the start to the end of the year 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 adjustments required to return to the amounts chargeable to Council Tax (or rents) for the year. Transfers to or from other statutory reserves, as a result of decisions by the Council, are separately identified in the statement.

The "(Increase)/Decrease in Year" line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments. This statement also presents the movement in the year in the different reserves held by the combined group i.e. the Council, its associate companies, and subsidiaries

Movement in Reserves Statement For the Year Ended 31 March 2024	General Fund Balance £000s	Capital Receipts Unapplied £000s	Capital Fund £000s	Insurance Fund £000s	Housing Revenue Account £000s	**Total Usable Reserves £000s**	**Unusable Reserves £000s**	**Total Council Reserves £000s**	**Group Usable Reserves £000s**	**Group Unusable Reserves £000s**	**Unusable: Minority Interests £000s**	**Total Group Reserves £000s**
Balance at 1 April 2023	**(26,414)**	**-**	**(14,607)**	**(2,684)**	**(1,487)**	**(45,192)**	**(673,952)**	**(719,144)**	**(72,590)**	**(681,628)**	**(193)**	**(754,411)**
Opening Balances Adjustments	-	-	-	-	-	-	-	-	9	86	13	**108**
Restated Opening Balance	**(26,414)**	**-**	**(14,607)**	**(2,684)**	**(1,487)**	**(45,192)**	**(673,952)**	**(719,144)**	**(72,581)**	**(681,542)**	**(180)**	**(754,303)**
Total Comprehensive Expenditure and Income	9,457	-	-	-	26,136	**35,593**	(85,191)	**(49,598)**	37,463	(87,836)	(2)	**(50,375)**
Depreciation charged to the Revaluation Reserve	(15,757)	-	-	-	(4,011)	**(19,768)**	19,768	-	(19,889)	19,889	-	-
Adjustments Between Group Accounts and Authority Accounts	-	-		-	-	-	-	-	-	-	-	-
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 9)	860	(3,106)	(1,721)	-	(22,173)	**(26,140)**	26,140	-	(26,165)	26,165	-	-
Transfers to/from Other Statutory Reserves	(2,315)	-	2,315	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in Year	**(7,755)**	**(3,106)**	**594**	**-**	**(48)**	**(10,315)**	**(39,283)**	**(49,598)**	**(8,591)**	**(41,782)**	**(2)**	**(50,375)**
Balance at 31 March 2024 Carried Forward	**(34,169)**	**(3,106)**	**(14,013)**	**(2,684)**	**(1,535)**	**(55,507)**	**(713,235)**	**(768,742)**	**(81,172)**	**(723,324)**	**(182)**	**(804,678)**

RESTATED Movement in Reserves Statement For the Year Ended 31 March 2023	General Fund Balance £000s	Capital Unapplied £000s	Capital Fund £000s	Insurance Fund £000s	Housing Revenue Account £000s	**Total Usable Reserves £000s**	**Unusable Reserves £000s**	**Total Council Reserves £000s**	**Group Usable Reserves £000s**	**Group Unusable Reserves £000s**	**Unusable: Minority Interests £000s**	**Total Group Reserves £000s**
Balance at 1 April 2022	**(29,685)**	**-**	**(4,603)**	**(2,684)**	**(1,748)**	**(38,720)**	**(514,580)**	**(553,300)**	**(69,451)**	**(522,063)**	**(184)**	**(591,698)**
Opening Balances Adjustments	-	-	-	-	-	**-**	-	**-**	-	-	-	**-**
Restated Opening Balance	**(29,685)**	**-**	**(4,603)**	**(2,684)**	**(1,748)**	**(38,720)**	**(514,580)**	**(553,300)**	**(69,451)**	**(522,063)**	**(184)**	**(591,698)**
Total Comprehensive Expenditure and Income	(104)	-	-	-	2,548	**2,444**	(168,288)	**(165,844)**	6,075	(168,779)	(9)	**(162,713)**
Depreciation charged to the Revaluation Reserve	(12,804)	-	-	-	(3,173)	**(15,977)**	15,977	**-**	(16,173)	16,173	-	**-**
Adjustments Between Group Accounts and Authority Accounts	-	-		-	-	**-**	-	**-**	-	-	-	**-**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 9)	18,487	-	(9,594)	-	(1,832)	**7,061**	(7,061)	**-**	6,959	(6,959)	-	**-**
Transfers to/from Other Statutory Reserves	(2,308)	-	(410)	-	2,718	**-**	-	**-**	**-**	-	-	**-**
(Increase)/Decrease in Year	**3,271**	**-**	**(10,004)**	**-**	**261**	**(6,472)**	**(159,372)**	**(165,844)**	**(3,139)**	**(159,565)**	**(9)**	**(162,713)**
Balance at 31 March 2023 Carried Forward	**(26,414)**	**-**	**(14,607)**	**(2,684)**	**(1,487)**	**(45,192)**	**(673,952)**	**(719,144)**	**(72,590)**	**(681,628)**	**(193)**	**(754,411)**

The authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the authority in accordance with the Statutory Repayment of Loans Fund Advances (Scotland). Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the MiRS for the difference between the two.

The restatement of 2022/23 figures affects the opening balances at 1 April 2022 of the Pensions Reserve. The reserve was adjusted by £9.629 million, offsetting an increase in the Pension Liability of this amount relating to the recognition of minimum funding requirements, in the form of employer secondary contribution rates, which were in place at that time.

Council and Group Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement (CIES) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation (or rents). Authorities raise taxation to cover expenditure in accordance with statute and regulations; this may be different from accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (EFA) and the MiRS.

2022/23 Council			2022/23 Group	Comprehensive Income and Expenditure Statement	2023/24 Council			2023/24 Group
Gross Spend £000s	Gross Income £000s	Net Spend £000s	Net Spend £000s		Gross Spend £000s	Gross Income £000s	Net Spend £000s	Net Spend £000s
180,217	(9,930)	170,287	170,287	Education & Children's Services	188,771	(8,531)	180,240	180,240
146,214	(75,567)	70,647	70,647	Health & Social Care Partnership	149,064	(78,856)	70,208	70,208
95,491	(21,536)	73,955	73,961	Place	86,951	(22,746)	64,205	64,372
20,682	(2,543)	18,139	18,192	Council Resources	37,007	(18,220)	18,787	18,842
14,858	(34,834)	(19,976)	(19,976)	Corporate Management	1,034	(19,001)	(17,967)	(17,969)
49,420	(36,538)	12,882	12,882	HRA	67,693	(37,790)	29,903	29,903
506,882	**(180,948)**	**325,934**	**325,993**	**Cost of Services (Note 6, see also note to Group CIES)**	**530,520**	**(185,144)**	**345,376**	**345,596**
				Other Income & Expenditure				
		(9,202)	(9,202)	-Other Operating Expenditure (Income) (Note 5)			(951)	(951)
		18,178	18,152	-Financing & Investment (Note 5)			18,798	17,626
		(332,466)	(332,466)	-Taxation and Non Specific Grant Income (Note 10)			(327,630)	(327,630)
		-	5,576	-Share of the Surplus(Deficit) on the provision of Services by Associates (Note G2)			-	3,317
		2,444	**8,053**	**Deficit on Provision of Services (Note 8)**			**35,593**	**37,958**
		(67,302)	(67,332)	(Surplus)/Deficit on Revaluation of Non-Current Assets (Note 14)			(75,582)	(76,231)
		8,581	8,581	Impairment losses on non-current assets charged to the revaluation reserve (Note 14)			-	-
		174	372	(Surplus)/Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income (Note 27)			(789)	(793)
		(109,741)	(109,741)	Actuarial (Gain) or Loss on Pension Assets/Liabilities (Note 31)			(8,820)	(8,820)
		-	(2,645)	Share of Other Comprehensive Income and Expenditure of Associates (Note G2)			-	(2,489)
		(168,288)	**(170,765)**	**Other Comprehensive (Income) and Expenditure**			**(85,191)**	**(88,333)**
		(165,844)	**(162,712)**	**Total Comprehensive (Income) and Expenditure**			**(49,598)**	**(50,375)**

Group Only Comprehensive Income and Expenditure Statement

2022/23 Group			Comprehensive Income and Expenditure Statement (Group)	2023/24 Group		
Gross Spend £000s	Gross Income £000s	Net Spend £000s		Gross Spend £000s	Gross Income £000s	Net Spend £000s
180,217	(9,930)	170,287	Education & Children's Services	188,771	(8,531)	180,240
146,214	(75,567)	70,647	Health & Social Care Partnership	149,064	(78,856)	70,208
96,263	(22,302)	73,961	Place	87,988	(23,616)	64,372
20,682	(2,490)	18,192	Council Resources	37,007	(18,165)	18,842
14,858	(34,834)	(19,976)	Corporate Management	1,032	(19,001)	(17,969)
49,420	(36,538)	12,882	HRA	67,693	(37,790)	29,903
507,654	**(181,661)**	**325,993**	**Cost of Services (Note 6)**	**531,555**	**(185,959)**	**345,596**
			Other Income & Expenditure			
		(9,202)	-Other Operating Expenditure (Income) (Note 5)			(951)
		18,152	-Financing & Investment (Note 5)			17,626
		(332,466)	-Taxation and Non Specific Grant Income (Note 10)			(327,630)
		5,576	-Share of the Surplus(Deficit) on the provision of Services by Associates (Note G2)			3,317
		8,053	**Deficit on Provision of Services (Note 8)**			**37,958**
		(67,332)	(Surplus)/Deficit on Revaluation of Non-Current Assets (Note 14)			(76,231)
		8,581	Impairment losses on non-current assets charged to the revaluation reserve (Note 14)			-
		372	(Surplus)/Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income (Note 27)			(793)
		(109,741)	Actuarial (Gain) or Loss on Pension Assets/Liabilities (Note 31)			(8,820)
		(2,645)	Share of Other Comprehensive Income and Expenditure of Associates (Note G2)			(2,489)
		(170,765)	**Other Comprehensive (Income) and Expenditure**			**(88,333)**
		(162,712)	**Total Comprehensive (Income) and Expenditure**			**(50,375)**

This statement is provided to fulfil the requirement to present gross expenditure and gross income for each directorate at a group level. For 2023/24 the Council re-assigned budget reporting responsibility for some items previously treated as ‘Corporate Management’ to service related directorates. This predominantly related to housing benefit associated items being transferred to Council Resources.

Council and Group Balance Sheet

The Balance Sheet shows the value as at 31 March 2024 of the assets and liabilities recognised by the authority. The net assets of the authority are matched by the reserves held by the authority. Reserves are reported in two categories:

Usable Reserves are 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.

Unusable Reserves are those that the authority is not able to use to provide services, including reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold. It also includes reserves that hold timing differences.

The Balance Sheet also shows the consolidated assets and liabilities of the entire East Lothian Group.

The restatement of 2022/23 figures relates to the opening balances at 1 April 2022 of the Pension Liability and the Pensions Reserve. The reserve was adjusted by £9.629 million, offsetting an increase in the Pension Liability of this amount relating to the recognition of minimum funding requirements, in the form of employer secondary contribution rates, which were in place at that time.

Restated 1 April 2022 Council £000s	Restated 1 April 2022 Group £000s	Restated 31 March 2023 Council £000s	Restated 31 March 2023 Group £000s	Balance Sheet	Note	31 March 2024 Council £000s	31 March 2024 Group £000s
1,125,018	1,135,030	1,255,252	1,266,091	Property, Plant & Equipment	14	1,341,352	1,352,640
909	909	924	924	Intangible Assets	16	716	716
1,113	1,123	1,113	1,123	Heritage Assets	17	1,113	1,123
5,046	11,956	4,872	11,237	Long Term Investments	23	5,661	12,553
-	12,439	-	9,482	Investments in Associates & JVs	23	-	8,653
8,688	8,826	8,310	8,433	Long Term Debtors	24	8,014	8,122
1,140,774	**1,170,283**	**1,270,471**	**1,297,290**	**Long Term Assets**		**1,356,856**	**1,383,807**
493	493	613	613	Assets Held for Sale	18	1,780	1,780
691	691	828	828	Inventories	25	906	906
27,190	27,647	29,965	30,327	Short Term Debtors	26	21,649	22,141
53,499	24,207	12,384	13,223	Cash and Cash Equivalents		13,201	13,828
81,873	**83,038**	**43,790**	**44,991**	**Current Assets**		**37,536**	**38,655**
(14,752)	(14,752)	(14,031)	(14,031)	Short Term Borrowing	27	(15,491)	(15,491)
(60,188)	(52,956)	(65,472)	(58,666)	Short Term Creditors	28	(56,593)	(49,112)
(350)	(350)	(993)	(993)	Short Term Provisions	29	(1,235)	(1,235)
(17,980)	(17,980)	(4,877)	(4,877)	Capital Grants Receipts in Advance	35	(3,300)	(3,300)
(93,270)	**(86,038)**	**(85,373)**	**(78,567)**	**Current Liabilities**		**(76,619)**	**(69,138)**
(625)	(625)	(168)	(168)	Provisions	29	(218)	(230)
(412,553)	(412,633)	(430,243)	(430,336)	Long Term Borrowing	27	(482,113)	(482,214)
(54,476)	(53,904)	(57,510)	(56,976)	Other Long Term Liabilities	30	(54,895)	(54,397)
(108,423)	(108,423)	(21,823)	(21,823)	Pension Liability	31	(11,805)	(11,805)
(576,077)	**(575,585)**	**(509,744)**	**(509,303)**	**Long Term Liabilities**		**(549,031)**	**(548,646)**
553,300	**591,698**	**719,144**	**719,144**	**Net Assets**		**768,742**	**804,678**
(38,720)	(69,451)	(45,192)	(72,590)	Usable Reserves	32	(55,507)	(81,172)
(514,580)	(522,247)	(673,952)	(681,821)	Unusable Reserves	34	(713,235)	(723,506)
(553,300)	**(591,698)**	**(719,144)**	**(754,411)**	**Total Reserves**		**(768,742)**	**(804,678)**

The unaudited accounts were submitted for audit on 27 June 2024, and the audited accounts were authorised for issue on
Sarah Fortune (CPFA) Executive Director for Council Resources (CFO).

Council and Group Cash Flow Statement

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 to the authority.

The cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

Group Cash Flow includes the cash flows of the Council and its subsidiary companies.

2022/23 Council £000s	2022/23 Group £000s	Cash Flow Statement	Note	2023/24 Council £000s	2023/24 Group £000s
		Operating Activities			
2,444	8,053	Net Deficit on the Provision of Services		35,593	37,958
(84,403)	(91,113)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	37	(81,260)	(83,449)
72,869	72,869	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	38	37,732	37,732
(9,090)	**(10,191)**	**Net Cash Flows from Operating Activities**		**(7,935)**	**(7,759)**
		Investing Activities			
129,265	130,235	Purchase of Property, Plant and Equipment		91,026	91,062
(54,092)	(54,092)	Other Receipts from Investing Activities		(31,380)	(31,380)
(9,792)	(9,792)	Proceeds from the Sale of Property, Plant and Equipment		(1,769)	(1,769)
65,381	**66,351**	**Net Cash Flows from Investing Activities**		**57,877**	**57,913**
		Financing Activities			
(30,000)	(30,000)	Cash Receipts of Short and Long Term Borrowing		(75,000)	(75,000)
1,566	1,566	Cash Payments for the Reduction of the Outstanding Liability Relating to Finance Lease and On-Balance Sheet PFI Contracts		1,527	1,527
13,258	13,258	Repayments of Short and Long Term Borrowing		22,714	22,714
(15,176)	**(15,176)**	**Net Cash Flows from Financing Activities**	38	**(50,759)**	**(50,759)**
41,115	**40,984**	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(817)**	**(605)**
		Reconciliation of Opening and Closing Cash and Cash Equivalents			
53,499	54,207	Cash and Cash Equivalents at the Beginning of the Reporting Period		12,384	13,223
(41,115)	(40,984)	Net Increase or (Decrease) in Cash and Cash Equivalents		817	605
12,384	**13,223**	**Cash and Cash Equivalents at the End of the Reporting Period**	38	**13,201**	**13,828**

Notes to the financial statements

4

Notes to the Financial Statements

Note 1 General Accounting Policies

i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 requires to be in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis.

Further accounting policies can be found throughout these accounts with the notes to which they relate.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council applies a threshold limit and does not normally make manual accrual or prepayment adjustments for amounts of £1,000 or less.

iii. 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 24 hours. Cash equivalents are highly liquid investments that mature in no more than 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 value.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a material change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied.
Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Employee Benefits

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the CIES.

vi. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MiRS.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows.

Financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

vii. Interests in Companies and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries and associates and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses or as investments designated at Fair Value through Other Comprehensive Income.

viii. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO or weighted average costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

ix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the authority's arrangements for accountability and financial performance.

x. Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year, to score against the Net Cost of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the MiRS, so that there is no net charge against Council Tax for the expenditure.
Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits and they do not represent usable resources for the authority – these reserves are explained in the relevant policies.

xi. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged, so that there is no impact on the level of Council Tax.

xii. VAT

The CIES excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure statement.

xiii. Events after the Reporting Period

Events after the Balance Sheet are those events, both favourable and unfavourable, the occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have been a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of the authorisation for issue are not reflected in the Annual Accounts.

Note 2 Accounting Standards Not Yet Adopted

The following Adopted International Financial Reporting Standards (IFRS) have been issued but have not been applied in these financial statements. Except for IFRS 16 Leases their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

IFRS 16 Leases

In 2024/2025, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. IFRS 16 will mean the majority of leases where the Council acts as lessee will come onto the balance sheet and lessor accounting is effectively unchanged. The main impact of the new requirements is that, for arrangements previously accounted for as operating leases (i.e. without recognising the leased vehicles, plant, equipment, property and land as an asset and future rents as a liability), a right-of-use asset and a lease liability are to be brought into the balance sheet at 1 April 2024.

Leases for items of low value and leases that expire on or before 31 March 2025 are exempt from the new arrangements. IFRS 16 will be applied retrospectively, but with the cumulative effect recognised at 1 April 2024. This means that right-of-use assets and lease liabilities will have been calculated as if IFRS 16 had always applied but recognised in 2024/2025 and not by adjusting prior year figures.

As a lessee, the Authority has previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority will recognise right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Authority has decided to apply recognition exemptions to short-term leases and has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a term of 12 months or less and leases of low value assets. The Authority will recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Additionally the liability for PPP Service Concession Arrangement assets will in future be remeasured periodically to recognise the impact of inflation indexation increases on the value of the liability due to the contractor.

An analysis of lease and lease-like arrangements has been undertaken to assess the impact of the Code's adaptation of IFRS16 on the Council's balance sheet. An estimate of the liabilities which will be required to be recognised has been made. As a result it is anticipated that, as at 1 April 2024, the following adjustments will be required.

IFRS 16 Leases Estimated Balance Sheet Changes	As at 1 April 2024 £000s
Property, Plant & Equipment (Right of Use assets) - at cost	7,791
Total Assets (at Cost)	**7,791**
Short-Term Creditors (Lease liabilities)	(2,166)
Long-Term Liabilities (Lease Liabilities)	(5,625)
Total Liabilities	**(7,791)**
Net Assets	-

Other Standards

Others standards to be implemented but not expected to have a significant impact are:

- Classification of Liabilities as Current or Non-Current (IAS 1 Amendments)
- Lease liability in Sale and Leaseback Arrangements (IFRS 16 Amendments)
- Non-Current Liabilities with Covenants (IAS 1 Amendments)
- International Tax Reform: Pillar Two (amendments to IAS 12)
- Supplier Finance arrangements: (IAS 7 and IFRS 7 Amendments)

Note 3 Critical Judgements Applied

In applying the accounting policies set out in Note 1 and throughout the other notes to the accounts, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Common Good building assets currently used by the Council to deliver services have been treated as finance lease assets and are included on the Council's balance sheet. This is on the basis that formal arrangements for continued Council use of the assets, which recognise and reflect the Common Good ownership of those assets, are anticipated to be agreed. In the event that this requires further asset transfers, for example if the Council ceases use of the buildings, the necessary adjustments will be enacted when an agreement is reached.

- The Private Finance Initiative (PFI) contract for the refurbishment and facilities management of six secondary schools is treated by recognising assets and liabilities on the authority's Balance Sheet. This is because the authority considers that it has the majority of the risks and rewards of ownership.

- The Council's actuarial advisers have estimated that the Council's attributable share of the Lothian Pension Fund (Local Government Pension Scheme) assets exceed the Council's estimated funded pension liabilities. The Council has assessed that, given the legislative obligations and framework for the LGPS and estimated future service costs and contributions, the Council's ability to obtain future economic benefits arising from the net asset for funded pension liabilities is restricted to the amount of the funded pension liabilities at 31 March 2024 . Therefore an asset ceiling limit is applied for funded pensions and only the unfunded pension liability is recognised at 31 March 2024.

Note 4 Future Assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future. 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 Council's Balance Sheet at 31 March 2024, for which there is a significant risk of material adjustment in the forthcoming year, are shown in the following table:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the rate of projected salary 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. The actual figure has proved to be variable over time and more detail regarding this has been referred to in Note 31. The Pensions Reserve balance at 31 March 2024 is £11.805 million (2022/23: £21.823 million restated) as a result of attributable assets at 31 March 2024 exceeding the estimated funded liabilities at that date, with a pensions asset ceiling being applied.	If actual results are different from assumptions, there is the potential for a significant change – either increasing or decreasing the potential liability or asset. The actuary has estimated (see Note 31) that a 0.1% decrease in the real discount rate would result in an increase to the pension liability of £12.017 million. Similarly, a 0.1% increase in the rate of salary increase and pension increase rates would increase the liability by £0.780 million and £11.440 million respectively. In terms of life expectancy, an increase of 1 year is estimated to equate to an increased liability of £26.388 million.
Property, Plant, and Equipment (PPE)	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuersThe carrying amount of PPE at 31 March 2024 is £1,341.352 million (2022/23: £1,255.252 million) with depreciation charges for 2023/24 of £53.034 million (excluding amortisation of intangible assets) (2022/23: £46.279. million). . The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. (See Notes 14 and 15.). The estimated impact of a year's decrease in asset life, across all assets being

	to assets. There is therefore a risk that asset lives may be shorter than those currently anticipated.	depreciated, is an increase in depreciation charge of approximately £5.015 million.

Note 5 Other Income and Expenditure Items

Included within the Comprehensive Income and Expenditure Statement:

2022/23 Council Net Spend £000s	2022/23 Group Net Expenditure £000s	Other Income and Expenditure Items in the CIES	2023/24 Council Net Spend £000s	2023/24 Group Net Expenditure £000s
(9,202)	(9,202)	(Gain)/Losses on the Disposal of Non-Current Assets	(951)	(951)
(9,202)	**(9,202)**	**Total Other Operating Expenditure**	**(951)**	**(951)**
16,159	16,001	Interest Payable and Similar Charges	18,959	18,849
(1,027)	(1,413)	Interest Receivable and Similar Income	(1,634)	(2,157)
-	(705)	(Gains)/Losses on sale of investments	-	(471)
-	1,223	Changes in fair value of financial instruments held at Fair Value through Profit or Loss	-	(68)
109	109	Financial Instrument Impairments	505	505
2,937	2,937	Interest Expense of Pension Defined Benefit Obligation	968	968
18,178	**18,152**	**Total Financing & Investments**	**18,798**	**17,626**

Note 6 Expenditure and Funding Analysis (EFA)

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (e.g. government grants, rents, Council Tax and Non Domestic 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 directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2022/23 Council				2023/24 Council		
Expenditure Chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis (EFA Note 1)	Net Expenditure in CIES	Expenditure and Funding Analysis	Expenditure Chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis (EFA Note 1)	Net Expenditure in CIES
£000s	£000s	£000s		£000s	£000s	£000s
GF and HRA combined				GF and HRA combined		
149,030	21,257	170,287	Education & Children's Services	159,155	21,085	180,240
67,219	3,428	70,647	Health & Social Care Partnership	69,403	805	70,208
51,395	22,560	73,955	Place	49,890	14,315	64,205
14,815	3,324	18,139	Council Resources	18,147	640	18,787
(17,661)	(2,315)	(19,976)	Corporate Management	(26,991)	9,024	(17,967)
(8,264)	21,146	12,882	HRA	(6,819)	36,722	29,903
256,534	**69,400**	**325,934**	**Net Cost of Service**	**262,785**	**82,591**	**345,376**
(253,412)	(70,078)	(323,490)	Other Income & Expenditure	(268,273)	(41,510)	(309,783)
3,122	**(678)**	**2,444**	**(Surplus)/Deficit on Provision of Services**	**(5,488)**	**41,081**	**35,593**

GF	HRA	Combined		GF	HRA	Combined
(29,685)	(1,748)	(31,433)	**Opening Fund Balance**	(26,414)	(1,487)	(27,901)
5,579	(2,457)	3,122	(Surplus)/Deficit for year chargeable to General Fund and HRA	(5,440)	(48)	(5,488)
(2,308)	2,718	410	Transfer to/from Other Statutory Reserves	(2,315)	-	(2,315)
(26,414)	**(1,487)**	**(27,901)**	**Closing Fund Balances**	**(34,169)**	**(1,535)**	**(35,704)**

For 2023/24 the Council re-assigned budget reporting responsibility for some items previously treated as 'Corporate Management' to service related directorates. This predominantly related to housing benefit associated items being transferred to Council Resources.

EFA Note 1 – Adjustments between accounting and funding basis

2022/23 Council: Adjustment for Capital Purposes (EFA Note 2) £000s	2022/23 Council: Net Change for Pension Adjustment (EFA Note 3) £000s	2022/23 Council: Other Statutory Differences £000s	2022/23 Council: Depreciation Charged to Revaluation Reserve £000s	2022/23 Council: Total Adjustments £000s	Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement	2023/24 Council: Adjustment for Capital Purposes (EFA Note 2) £000s	2023/24 Council: Net Change for Pension Adjustment (EFA Note 3) £000s	2023/24 Council: Other Statutory Differences £000s	2023/24 Council: Depreciation Charged to Revaluation Reserve £000s	2023/24 Council: Total Adjustments £000s
4,958	5,500	943	9,856	21,257	Education & Children's Services	8,437	(634)	1,062	12,220	21,085
(132)	3,315	-	245	3,428	Health & Social Care Partnership	830	(377)	-	352	805
11,426	8,432	-	2,702	22,560	Place	12,072	(947)	-	3,190	14,315
846	2,478	-	-	3,324	Council Resources	938	(298)	-	-	640
(2,315)	-	-	-	(2,315)	Corporate Management	8,885	139	-	-	9,024
17,494	479	-	3,173	21,146	HRA	32,765	(49)	-	4,006	36,722
32,277	**20,204**	**943**	**15,976**	**69,400**	**Net Cost of Service**	**63,927**	**(2,166)**	**1,062**	**19,768**	**82,591**
(72,747)	2,937	(269)	1	(70,078)	Other Income & Expenditure	(42,346)	968	(132)	-	(41,510)
(40,470)	**23,141**	**674**	**15,977**	**(678)**	**Difference between deficit charged to fund balances and Comprehensive Income and Expenditure Statement Deficit**	**21,581**	**(1,198)**	**930**	**19,768**	**41,081**

EFA Note 2 - Adjustments for capital purposes

There are various changes relating to capital assets, such as:

- Adding back depreciation, impairment and revaluation gains and losses that are charged to the cost of service.

- Adjusting the capital disposals and de-recognitions with a transfer of income on disposal of assets and the amounts written off for those assets.

- The statutory charges for capital financing, i.e. loans fund principal repayments and other revenue contributions, are deducted from other income and expenditure, as these are not chargeable under generally accepted accounting practices.

- Capital grants are adjusted for income not chargeable under generally accepted accounting practices. 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 year.

EFA Note 3 - Net change for pension adjustment

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 statute, 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.

EFA Note 4 - Other Statutory differences

Other statutory differences include:

- The accrual made for the cost of holiday/leave entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. These require to be included with the Net Cost of Services under generally accepted accounting practices but are not chargeable to the General Fund.
- Adjustments to the General Fund for the timing differences for premiums and discounts.

EFA Note 5 – Depreciation charged to the Revaluation Reserve

Under accounting standards the valuation based portion of depreciation charges can be charged, as a movement between reserves, to the Revaluation Reserve. This negates the requirement to apply a statutory adjustment for this element of depreciation charges.

Note 7 Income and Expenditure Including Internal Recharges

The service lines in the Comprehensive Income and Expenditure Statement exclude internal recharges.

The income and expenditure for each service, inclusive of internal recharges, are shown below.

2022/23 Council Gross Spend £000s	2022/23 Council Gross Income £000s	2022/23 Council Net Spend £000s	Income and Expenditure for Each Service, Inclusive of Internal Recharges	2023/24 Council Gross Spend £000s	2023/24 Council Gross Income £000s	2023/24 Council Net Spend £000s
199,905	(29,618)	170,287	Education & Children's Services	206,842	(26,602)	180,240
152,735	(82,088)	70,647	Health & Social Care Partnership	155,585	(85,377)	70,208
119,131	(45,176)	73,955	Place	111,001	(46,796)	64,205
24,874	(6,735)	18,139	Council Resources	42,329	(23,542)	18,787
18,180	(38,156)	(19,976)	Corporate Management	1,034	(19,001)	(17,967)
50,136	(37,254)	12,882	HRA	68,427	(38,524)	29,903
564,961	**(239,027)**	**325,934**	**Cost of Services**	**585,218**	**(239,842)**	**345,376**

Note 8 Expenditure and Income Analysed by Segment and Nature

The Council is required to analyse the relevant service segments in the EFA on the basis of the organisational structure adopted. Reportable operating segments are based on the Council's internal management reporting used to assess service performance when considering the allocation of financial resources. The authority's expenditure and income is analysed as follows.

Council Expenditure and Income Analysed by Segment and Nature 2023/24	Education & Children's Services £000s	Health & Social Care Partnership £000s	Place £000s	Council Resources £000s	Corporate Management £000s	HRA £000s	Costs not included in a service £000s	Total £000s
Expenditure								
Employee Benefits Expenses	112,893	22,517	57,245	16,675	139	3,138	-	212,607
Other Service Expenses	46,659	60,787	26,549	24,471	682	14,420	-	173,568
Depreciation, Amortisation & Impairment	22,897	896	14,824	937	-	14,434	-	53,988
Reallocation of Internal Costs	6,311	714	(9,602)	(4,507)	213	6,870	-	(1)
Reallocation of Costs to Capital	(30)	-	(3,900)	(569)	-	(452)	-	(4,951)
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Asset Revaluation Losses	41	341	1,835	-	-	29,283	-	31,500
Interest Payments	-	-	-	-	-	-	20,432	20,432
Contribution to IJB	-	63,809	-	-	-	-	-	63,809
Total Expenditure	**188,771**	**149,064**	**88,951**	**37,007**	**1,034**	**67,693**	**20,432**	**550,952**
Income								
Fees, Charges and Other Service Income	(1,951)	(10,406)	(14,905)	(2,462)	(36)	(37,521)	-	(67,281)
Asset revaluation gains	(2,243)	-	(1,324)	-	-	(269)	-	(3,836)
Interest and Investment Income	-	-	-	-	-	-	(1,634)	(1,634)
Gain on Disposal of Assets	-	-	-	-	-	-	(951)	(951)
Income from Council Tax and Non-Domestic Rates	-	-	-	-	-	-	(126,889)	(126,889)
Contributions from IJB	-	(66,930)	-	-	-	-	-	(66,930)
Government Grants and Contributions	(4,337)	(1,520)	(6,517)	(15,758)	(18,965)	-	(200,741)	(247,838)
Total Income	**(8,531)**	**(78,856)**	**(22,746)**	**(18,220)**	**(19,001)**	**(37,790)**	**(330,215)**	**(515,359)**
Deficit on the Provision of Services								**35,593**

The prior year's expenditure and income by segment and nature is analysed as follows. The table reflects the 2022/23 data on a comparable basis to the 2023/24 table.

Council Expenditure and Income Analysed by Segment and Nature 2022/23	Education& Children's Services £000s	Health & Social Care Partnership £000s	Place £000s	Council Resources £000s	Corporate Management £000s	HRA £000s	Costs not included in a service £000s	Total £000s
Expenditure								
Employee Benefits Expenses	109,358	24,731	62,913	17,312	-	3,450	-	217,764
Other Service Expenses	45,829	58,143	28,262	6,457	17,926	11,114	-	167,731
Depreciation, Amortisation & Impairment	19,407	769	14,685	846	-	12,647	-	48,354
Reallocation of Internal Costs	5,660	868	(8,554)	(3,456)	(3,068)	8,550	-	-
Reallocation of Costs to Capital	(37)	-	(3,628)	(477)	-	(403)	-	(4,545)
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Asset Revaluation Losses	-	59	1,813	-	-	14,062	-	15,934
Interest Payments	-	-	-	-	-	-	19,205	19,205
Contribution to IJB	-	61,644	-	-	-	-	-	61,644
Total Expenditure	**180,217**	**146,214**	**95,491**	**20,682**	**14,858**	**49,420**	**19,205**	**526,087**
Income								
Fees, Charges and Other Service Income	(1,932)	(11,700)	(14,580)	(1,930)	(259)	(34,796)	-	(65,197)
Asset revaluation gains	(4,566)	(715)	(2,369)	-	-	(1,742)	-	(9,392)
Interest and Investment Income	-	-	-	-	-	-	(1,027)	(1,027)
Gain on Disposal of Assets	-	-	-	-	-	-	(9,202)	(9,202)
Income from Council Tax and Non-Domestic Rates	-	-	-	-	-	-	(91,737)	(91,737)
Contributions from IJB	-	(61,644)	-	-	-	-	-	(61,644)
Government Grants and Contributions	(3,432)	(1,508)	(4,587)	(613)	(34,575)	-	(240,729)	(285,444)
Total Income	**(9,930)**	**(75,567)**	**(21,536)**	**(2,543)**	**(34,834)**	**(36,538)**	**(342,695)**	**(523,643)**
Deficit on the Provision of Services								**2,444**

For 2023/24 the Council re-assigned budget reporting responsibility for some items previously treated as 'Corporate Management' to service related directorates. This predominantly related to housing benefit associated items being transferred to Council Resources.

Note 9 Adjustments between Accounting and Funding Basis under Regulations

This note details adjustments that are made to the total CIES recognised by the authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being made available to the authority to meet future capital and revenue expenditure.

2022/23 Council				2023/24 Council		
General Fund Balance £000s	Housing Revenue Account £000s	Movement in Usable Reserves £000s	Adjustments between Accounting and Funding Basis under Regulations	General Fund Balance £000s	Housing Revenue Account £000s	Movement in Usable Reserves £000s
			Adjustments Primarily Involving the Capital Adjustment Account			
			Reversal of Items Debited or Credited to the CIES:			
(21,082)	(9,473)	**(30,555)**	Charges for Depreciation and Amortisation of Non-Current Assets	(23,151)	(10,423)	**(33,574)**
(1,820)	-	**(1,820)**	Impairment Losses on Property, Plant and Equipment	(647)	-	**(647)**
5,778	(12,321)	**(6,543)**	Revaluation Gains (Losses) on Property, Plant and Equipment in SDPS	1,350	(29,013)	**(27,663)**
48,093	14,983	**63,076**	Capital Grant and Contributions Applied	25,469	10,494	**35,963**
-	-	-	Capital Grants Transferred to Capital Grants Unapplied Account	3,106	-	**3,106**
-	-	-	Capital Grant Transferred to Capital Fund (FC6/2023)	2,315	-	**2,315**
8,497	706	**9,203**	Derecognition of non-current assets	884	66	**950**
(55)	-	**(55)**	Expected credit loss of assets funded from capital sources under statute	10	-	**10**
			Statutory Repayment of Debt:			
1,501	-	**1,501**	Statutory repayment of debt: PPP	825	-	**825**
-	-	**-**	Statutory repayment of debt: PPP -Permitted flexibility adjustment	(14,193)	-	**(14,193)**
65	-	**65**	Statutory repayment of debt: Finance Leases	67	-	**67**
326	4,822	**5,148**	Statutory repayment of debt: Loans Fund	4,328	5,382	**9,710**
			Funding of Capital Expenditure Incurred in the Year			
450	-	**450**	Capital Expenditure Charged Against the General Fund and HRA balances	664	1,293	**1,957**
			Deferral of Charges Against the General Fund for PPP Lifecycle Capital Expenditure	(409)	-	**(409)**
41,753	**(1,283)**	**40,470**	**Subtotal: Carried forward to next page**	**618**	**(22,201)**	**(21,583)**

2022/23 Council General Fund Balance £000s	2022/23 Council Housing Revenue Account £000s	2022/23 Council Movement in Usable Reserves £000s	Adjustments between Accounting and Funding Basis under Regulations (continued)	2023/24 Council General Fund Balance £000s	2023/24 Council Housing Revenue Account £000s	2023/24 Council Movement in Usable Reserves £000s
41,753	**(1,283)**	**40,470**	**Subtotal: Brought forward from previous page**	**618**	**(22,201)**	**(21,583)**
			Adjustments Primarily Involving the Employee Statutory Adjustment Account:			
(943)	-	**(943)**	Employee Statutory Adjustments: Accumulated Annual Leave	(1,062)	-	**(1,062)**
			Adjustments Primarily Involving the Financial Instruments Adjustment Account:			
256	-	**256**	Charge of deferred premiums from the refinancing of debt	257	-	**257**
13	-	**13**	Charge for interest rate adjustments related to stepped interest rate borrowing	(123)	-	**(123)**
			Adjustments Primarily Involving the Pensions Reserve:			
(43,816)	(1,064)	**(44,880)**	Net Retirement Benefits per IAS 19	(22,119)	(515)	**(22,634)**
21,224	515	**21,739**	Employer's Contributions Payable to the Lothian Pension Fund	23,289	543	**23,832**
18,487	**(1,832)**	**16,655**	**Total Adjustments to General Fund and HRA Balance**	**860**	**(22,173)**	**(21,313)**
			Adjustments to the Capital Fund			
		-	Capital Grants transferred to the Capital Fund (FC6/2023)			**(2,315)**
		(9,792)	Capital receipts transferred to the Capital Fund			**(1,770)**
		198	Capital receipts applied to fund capital expenditure			**2,364**
			Adjustments to the Capital Grants Unapplied Account			
		-	Capital Grants transferred to the Capital Grants Unapplied Account			**(3,106)**
		7,061	**Total Statutory Adjustments affecting Usable Reserves**			**(26,140)**

2022/23	Statutory Adjustments - Reconciliation To Group Movement In Reserves Statement	2023/24
7,061	**Total Council Statutory Adjustments per Above**	**(26,140)**
	Adjustments affecting Group Share of Usable Reserves of Associates	
(19)	Depreciation & Impairment	(46)
-	Statutory Repayments for Capital Investment	31
7	Capital Expenditure Charged Against Fund Balances	3
(192)	Reversal of Pensions Entries in the CIES	(153)
103	Employer's Pension Contributions	133
(1)	Accumulated Annual Leave Adjustment	7
6,959	**Total Statutory Adjustments for the Group**	**(26,165)**

Note 10 Taxation and Non-Specific Grant Income

Grant income can take many forms: paid on account; by instalments or in arrears; government grants or third party contributions and donations. This is recognised as due to East Lothian Council when there is an assurance that the authority has complied with the necessary conditions attached to these payments. East Lothian Council credited the following to taxation and non-specific grant income in the CIES.

2022/23 £000s	Taxation and Non-Specific Grant Income	2023/24 £000s
(63,051)	Council Tax	(68,781)
(28,686)	Non Domestic Rates	(58,108)
(177,130)	Non Ring-fenced Government Grants	(159,356)
(63,599)	Capital Grants and Contributions	(41,385)
(332,466)	**Total**	**(327,630)**

Note 11 Agency Income and Expenditure

Where the Council fulfils an agency role on behalf of another organisation the associated income and expenditure is not included within the authority's CIES. Agency services provided include:

- the collection of cash for Scottish Water
- the management of funding, through the Edinburgh & South East Scotland City Region Deal, for the development of the Edinburgh Innovation Park
- salary sacrifice schemes representing expenditure on bicycles, childcare, pension and car schemes on behalf of employees, with employees reimbursing the Council for these costs.

Schemes for the distribution of COVID-19 Grants and Cost of Living Support for Council Tax Payers on behalf of the Scottish Government have now ceased. The Council also shares services with other authorities (e.g. special education and social work facilities). The expenditure on these services is incurred so that the authority can perform its duties, rather than the duties of another organisation and thus is not treated as agency expenditure.

2022/23 £000s	Agency Income and Expenditure	2023/24 £000s
21,396	Scottish Water Income Collected	23,254
-	City Region Deal- Edinburgh Innovation Park	2,004
1,093	Salary sacrifice schemes	1,058
1,382	COVID-19: Other Grants	-
4,788	Scottish Government: Cost of Living Support for Council Tax Payers	-
28,659	**Total**	**26,316**

Note 12 Audit Costs

Audit Scotland was appointed as the authority's external auditor in 2022/23. For 2023/24 the agreed audit fee is £308,410 (2022/23: £291,020). Actual expenditure in the year was £295,617 (2022/23: £277,751). No fees were payable in respect of other services provided by the appointed auditor.

Note 13 Related Parties

The Council is required to disclose material transactions with Related Parties i.e. bodies or individuals that have the potential to control or influence the authority, or to be controlled or influenced by the authority. Disclosure of these transactions helps assessment of the extent to which the authority 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.

Government – Including UK and Scottish Government

Government has significant influence over the general operations of the authority. It is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in note 36.

Members

Members of the authority have direct control over the authority's financial and operating policies. The total of members' allowances paid in 2023/24 is shown in the Remuneration Report.

East Lothian Council approved total Grants of £3.746 million (2022/23: £3.814 million) which in 2023/24 is made up as follows:

2022/23 £000s	Council Grants Approved	2023/24 £000s
1,600	One Council Community Partnership	1,542
1,250	Area Partnership Funding	1,250
393	Children's Services	338
439	Health & Social Care partnership Grants to Voluntary Organisations	484
132	Community Council Administration Grants, Insurance & Local Priority Scheme	132
3,814	**Total**	**3,746**

Of these amounts, payments for 'Partnership Funding' totalling some £0.885 million (2022/23 £1.304 million) as shown in the table were awarded to organisations in which Members have representation. This represents 24% (2022/23: 34%) of the total £3.746m (2022/23: £3.814 million) grants awarded.

In all instances, the grants were made with proper consideration of declarations of interest. A register of Members' interests is available on the authority's website. Details of all grants and awards to organisations in which Members have representation are listed in the Related Parties table.

Council Related Parties	Partnership Funding £000s	Other £000s	Total £000s
Coastal Communities Museum Trust	8	-	8
Cockenzie House and Gardens	-	7	7
East Lothian Advice Consortium	334	-	334
Fa'side Community Kitchen	-	2	2
First Step	208	87	295
Gullane Area Community Council	-	7	7
Hallhill Ltd	78	-	78
Lamp of Lothian Management Committee	20	-	20
Lothian Mineworkers' Welfare Convalescent Home Trust	30	-	30
Pennypit Community Development Trust	99	124	223
Preston Lodge High School Excellence in Learning Foundation	-	2	2
Recharge Youth Facility	58	1	59
Safe Families organisation	-	50	50
Tranent and Elphinstone Community Council	-	14	14
Tranent Wombles	-	13	13
Volunteer Centre East Lothian	-	50	50
Volunteer Development East Lothian	50	1	51
Total	**885**	**358**	**1,243**

Other Public Bodies

Other public bodies that the Scottish Government have control or significant influence over are considered related parties by IAS 24. The material transactions for these bodies are reported as follows:-

2022/23					2023/24			
Expenditure £000s	Income £000s	Net Expenditure £000s	Debtor / (Creditor) £000s	Related Parties	Expenditure £000s	Income £000s	Net Expenditure £000s	Debtor / (Creditor) £000s
2,883	1,651	1,232	(2,178)	Other Local Authorities	3,214	2,335	879	4,195
-	5	(5)	2	Food Standards Scotland	-	5	(5)	2
17	-	17	1	Scottish Courts and Tribunals Service	19	-	19	(1)
-	44	(44)	-	Care Inspectorate	-	48	(48)	-
-	3	(3)	2	Children's Hearings Scotland	-	4	(4)	1
-	1	(1)	-	Historic Environment Scotland	-	1	(1)	-
41	26	15	32	Scottish Environment Protection Agency	42	-	42	31
503	-	503	-	Scottish Qualifications Authority	510	-	510	-
-	198	(198)	34	Skills Development Scotland	1	315	(314)	33
71	-	71	-	VisitScotland	63	-	63	-
9	13	(4)	16	Scottish Water	12	19	(7)	3
34	-	34	2	Disclosure Scotland	30	-	30	(2)
33	-	33	3	Education Scotland	15	10	5	2
3	-	3	-	Forestry and Land Scotland	1	-	1	-
-	4	(4)	-	Social Security Scotland	5	9	(4)	-
-	-	-	214	Transport Scotland	-	-	-	-
1,641	15,847	(14,206)	468	NHS Lothian	13,046	14,564	(1,518)	501
120	-	120	-	Scottish Police Authority	111	11	100	-
5,355	**17,792**	**(12,437)**	**(1,404)**	**Total**	**17,069**	**17,321**	**(252)**	**4,765**

Joint Ventures and Entities Controlled or Significantly Influenced by the Authority

Income & Expenditure 2022/23 £000s	Position at Year End Debtor Balances 2022/23 £000s	Creditor Balances 2022/23 £000s	Entity	Nature of Related Party Relationship	Income & Expenditure 2023/24 £000s	Position at Year End Debtor Balances 2023/24 £000s	Creditor Balances 2023/24 £000s	Nature of Transactions
1,726	-	-	Enjoy East Lothian Limited	Charitable organisation registered with Office of Scottish Charity Regulators.	1,820	-	(21)	Payment for provision of leisure services
29	-	(29)	East Lothian Land Limited	Company set up for the purpose of managing land to support economic development in East Lothian.	22	-	(7)	Rent is paid to ELL. The creditor balance is a loan from the company.
(224)	-	(1,101)	Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators.	(169)	-	(560)	Payment for provision of arts/cultural services
314	-	(5,317)	Common Goods	Council manages assets of historic burghs in line with statute.	401	-	(5,707)	Operational services provided and received. Balances relate to cash held and finance lease charges for ELC use of assets.
41	-	(2,063)	Trust Funds	A number of trust funds which are managed by the council in line with the respective trust deeds.	71	-	(2,225)	Operational services provided and received,. Balances for cash held for the Trust Funds.
684	-	-	Lothian Valuation Joint Board	Statutory bodies set up by Scottish ministers.	680	-	-	Payments to run valuation services
72,920	-	(1,791)	East Lothian Integrated Joint Board	Statutory Body for the integration of health & social care services under The Public Bodies (Joint Working) (Scotland) Act 2014.	76,372	-	(140)	Payments to run health & social care services, including NHS resource transfer and social care fund
1,378	-	-	Edinburgh Innovation Park Joint Venture	Joint Venture with Queen Margaret University utilising City Region Deal funding.	1,154	-	-	Agency payments towards development and construction of a food, drink and health innovation park .
(42)	-	(96)	East Lothian Mid Market Homes LLP	Established to manage affordable housing properties, to be available for mid market rent.	(145)	-	(184)	Minor payments relating to normal operations
76,826	**-**	**(10,397)**			**80,206**	**-**	**(8,844)**	

The above table illustrates the year-end inter group positions between the Council and the entities with which it has significant influence or control. The full figures for these entities are disclosed in the group accounts elements of the Primary Statements, as well as further details provided in the Group Accounts Notes.

Note 14 Property Plant and Equipment Movements

Council Property, Plant & Equipment Movements 2023/24	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in PPE £000s
2023/24									
Gross Book Value at 1 April 2023	421,128	598,657	65,924	See note	10,522	4,382	136,777	See note	126,717
Additions	19,154	6,313	9,280	8,731	449	9	49,912	**93,849**	551
Revaluation increase/(decrease) to Revaluation Reserve	(15,726)	38,210	-	-	-	188	-	**22,672**	11,739
Revaluation increase/(decrease) to SDPS	(29,013)	1,330	-	-	-	20	-	**(27,664)**	-
Transfer to/from assets held for sale	-	(500)	-	-	-	(860)	-	**(1,360)**	-
Disposals	-	(114)	(2,172)	-	-	(350)	-	**(2,636)**	-
Other movements	34,718	88,963	-	15,825	-	2,236	(141,743)	**(0)**	-
Gross Book Value at 31 March 2024	**430,261**	**732,859**	**73,032**	See note	**10,972**	**5,625**	**44,946**	See note	**139,007**
Accumulated depreciation at 1 April 2023	(2,036)	(17,432)	(41,327)	See note	(1,225)	(88)	(774)	See note	-
Depreciation charge for the year	(14,413)	(27,617)	(6,114)	(4,792)	(51)	(46)	-	**(53,034)**	(7,673)
Revaluation written out to revaluation reserve	16,184	36,531	-	-	-	194	-	**52,910**	7,673
Impairment written out to SDPS	-	-	-	-	-	-	(647)	**(647)**	-
Depreciation eliminated on disposal	-	6	1,970	-	-	34	-	**2,010**	-
Other movements	-	164	-	-	-	(164)	-	**-**	-
Accumulated depreciation at 31 March 2024	**(265)**	**(8,347)**	**(45,471)**	See note	**(1,276)**	**(71)**	**(1,421)**	See note	**-**
Net Book Value at 31 March 2024	**429,996**	**724,512**	**27,561**	**100,507**	**9,696**	**5,554**	**43,525**	**1,341,352**	**139,007**
Net Book Value at 31 March 2023	419,093	581,225	24,597	80,744	9,297	4,294	136,002	1,255,252	126,717

Note: In relation to Infrastructure Assets the Council has elected to apply both statutory overrides allowed in Scottish Government Finance Circular 9/2022 (Statutory Override - Accounting for Infrastructure Assets). These constitute:

- Omission of the reporting of Gross Cost and Accumulated Depreciation balances for infrastructure assets. On this basis the cross sub-total for Property, Plant and Equipment is also excluded.
- The existing carrying amount of a replaced infrastructure asset is treated as zero when it is replaced.

Council Property, Plant & Equipment Movements 2022/23	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in PPE £000s
2022/23									
Gross Book Value at 1 April 2022	386,464	582,561	58,841	See note	9,455	4,469	77,195	See note	130,904
Additions	18,433	7,375	8,802	8,394	1,013	-	82,847	**126,864**	768
Revaluation increase/(decrease) to Revaluation Reserve	12,513	(3,928)	-	-	(39)	-	-	**8,546**	836
Revaluation increase/(decrease) to SDPS	(12,321)	5,779	-	-	-	-	-	**(6,542)**	997
Transfer to/from assets held for sale	-	-	-	-	-	(120)	-	**(120)**	-
Disposals	(375)	(121)	(1,719)	-	-	-	-	**(2,215)**	-
Other movements	16,414	6,991	-	(265)	93	33	(23,266)	-	(6,788)
Gross Book Value at 31 March 2023	**421,128**	**598,657**	**65,924**	See note	**10,522**	**4,382**	**136,776**	See note	**126,717**
Accumulated depreciation at 1 April 2022	(2,419)	(30,395)	(37,806)	See note	(1,248)	-	(1)	See note	(6,744)
Depreciation charge for the year	(12,627)	(23,742)	(5,134)	(4,702)	(16)	(58)	-	**(46,279)**	(7,235)
Revaluation written out to revaluation reserve	12,999	37,085	-	-	39	-	-	**50,123**	13,028
Impairment and revaluation losses written out to SDPS	-	(423)	-	(586)	-	-	(760)	**(1,769)**	-
Depreciation eliminated on disposal	12	-	1,613	-	-	-	-	**1,625**	-
Other movements	-	43	-	-	-	(30)	(13)	**-**	951
Accumulated depreciation at 31 March 2023	**(2,035)**	**(17,432)**	**(41,327)**	See note	**(1,225)**	**(88)**	**(774)**	See note	**-**
Net Book Value at 31 March 2023	**419,093**	**581,225**	**24,597**	**80,744**	**9,297**	**4,294**	**136,002**	**1,255,252**	**126,717**
Net Book Value at 31 March 2022	384,045	552,166	21,035	77,903	8,207	4,469	77,194	1,125,018	124,160

Note 15 Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year, are classified as property, plant and equipment (PPE).

Recognition

Expenditure of over £6,000 on the acquisition, creation or enhancement of any PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grants Income line of the Comprehensive Income and Expenditure Statement. Gains that are credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets and community assets – depreciated historical cost
- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Other land and buildings – current value, determined as the amount that would be paid for the asset in existing use (Existing Use Value – EUV)
- Vehicles, Plant, Furniture and Equipment – depreciated historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued regularly, as described in the Revaluations section further below.

Where decreases in value are identified and 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. However, where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the CIES.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
Where impairment losses are identified and 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 gain. However where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the CIES.

Where an impairment loss is reversed it is credited to the relevant service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all PPE assets by systematic allocation of depreciable amount over their useful lives. Additional spend on assets is recognised at the end of the financial year and therefore there is no significant depreciation in the year for additional spend on assets. An entire year's charge is made in the year of disposal. An exception is made for assets without a determinable finite useful life (land and certain community assets) and assets that are not yet available for use (assets under construction).

Depreciation is calculated on the following basis:

- Council dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment and community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation.

The estimated useful lives of assets depreciating on a straight-line basis are disclosed in the Depreciation table. Where an item of PPE asset with a cost of over £5.500 million has major components and the cost of the components is significant in relation to the total cost of the item, the components are depreciated separately.

Depreciation	
Council Dwellings	22-60 years
Council Garages	9-10 years
Other Land and Buildings	2-60 years
Vehicles, Plant Furniture & Equipment	3-38 years
Infrastructure	5-51 years
Community Assets	23-38 years
Assets Under Construction are not Depreciated	

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation on assets and the depreciation based on their historical cost, being charged each year to the Revaluation Reserve.

Revaluations

The authority carries out a rolling programme that ensures that all PPE required to be measured at current value, are revalued at least every five years.

Valuations are carried out by professional firms of chartered surveyors and by Council Estates staff. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. The dates for full valuation are shown in the table.

Revaluations	Date of Last Valuation	Date of Next Valuation
Council Dwellings - Council Houses & Garages	31/03/2024	31/03/2029
Other Land & Buildings - Non Operational Industrial Lets etc.	31/03/2020	31/03/2025
Other Land & Buildings - Operational Portfolio of Schools, Community Centres etc.	31/03/2021	31/03/2026

A full valuation of council dwellings and garages was undertaken as at 31 March 2024 by external valuers, with desktop reviews in the following 4 years. The Council also engaged with external valuers to undertake a desktop review of valuations of selected Operational and Non-Operational assets at 31 March 2024.

Capital Commitments

As at 31 March 2024 the Council entered into a number of contracts for the construction or enhancement of PPE in 2024/25 and future years budgeted to a value of £91.270 million (2022/23 £29.685 million: General Services £19.897 million, HRA £9.788 million). The gross commitments for the Council's major projects are shown in the Capital Commitments table.

Capital Commitments	General Fund 2023/24 £000s	HRA 2023/24 £000s
Aubigny Sports Centre extension	1,005	
Fleet - Vehicles	46	
Coastal / Flood Protection schemes - Musselburgh	391	
Blindwells Primary - new school	22,750	
Craighall Primary - New School	22,068	
Gullane Primary - extension including Early Learning and 1140	79	
Whitecraig Primary - new school including Early Learning and 1140	19,008	
Gateside West Units	58	
Ross High School - Extension	15	
North Berwick Nursery	268	
North Berwick High School Extension	7	
Pinkie St. Peters PS - Extension	1,119	
Ormiston PS - Extension	80	
Cemeteries	620	
Synthetic pitch replacement programme	324	
Other Projects	91	
Accelerating Growth	910	
Central Heating Installation Programme - HRA		5,450
Central Heating Maintenance Programme - HRA		1,249
Housing Management IT system		768
House Extension Framework Programme		190
Disabled Adaptations		213
UPVC Window-Door Programme - HRA		14,000
50nr Bathrooms		347
Ravensheugh Brae Musselburgh development		214
Total	**68,839**	**22,431**

Note 16 Intangible Assets

Intangible assets do not have physical substance but are controlled by the authority. Intangible assets held by the Council primarily relate to computer system software. Intangible assets are carried at amortised cost since valuation by reference to an active market is not normally possible.

Software rights can be obtained as part of wider system implementation initiatives. Software acquired during 2023/24 predominantly related to schools and corporate systems.

2022/23 £000s	Intangible Assets	2023/24 £000s
909	**Net Carrying amount at the start of the year**	924
269	Additions during the year	99
(254)	Amortisation for the year	(307)
924	**Net carrying amount at the end of year**	**716**

Note 17 Heritage Assets

The aim of the authority's museums service is to preserve and present the authority's Cultural and Heritage assets and to enable communities and individuals to engage with these assets as a resource for enjoyment, education and information. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the authority's accounting policies on PPE. However, some of the measurement rules are relaxed in relation to heritage assets.

Oil paintings are reported in the Balance Sheet at insurance valuation which is based on market values. Valuations were provided at 31 March 2022 by Lyon & Turnbull. Valuations are obtained every five years with the next valuation due 31 March 2027. The paintings are deemed to have indeterminate lives and a high residual value, hence the authority does not consider it appropriate to charge depreciation.

2022/23 £000s	Heritage Assets (Cost or Valuation)	2023/24 £000s
1,113	**Net Carrying amount at the start of the year**	1,113
-	Additions	-
-	Revaluation increases recognised in the Revaluation Reserve	-
-	Impairment Losses\(Reversals) recognised in the Surplus or Deficit on the Provision of Services	-
-	Depreciation for the period	-
-	Other Movements	-
1,113	**Net carrying amount at the end of year**	**1,113**

The remainder of the authority's collection relates to generic social history, which is not believed to be of any material value. All of the collections are relatively static and acquisitions are rare; where they do occur, they are initially recognised at cost.

Note 18 Assets Held for Sale

When it becomes probable that the carrying value of an asset will be recovered principally through a sale transaction rather than its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal.

Receipts from disposals are credited to the same line in the CIES as part of the gain or loss on disposal i.e. netted off against the carrying value of the asset at the time of disposal. Any revaluation gains for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

2022/23 £000s	Assets Held for Sale	2023/24 £000s
493	**Balance Outstanding at Start of Year**	**613**
120	Assets Newly Classified as Held for Sale	1,360
-	Assets Sold	(193)
613	**Balance outstanding at end of the year**	**1,780**

All capital receipts are either credited to the Capital Receipts Reserve or designated to the Capital Grants and Receipts Unapplied Account. They can then be used for new capital investment or to meet the cost of debt repayments.

The written off value of disposals and de-recognitions is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

Note 19 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of PPE from the lessor to the lessee. All other leases are classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy, where fulfilment of the arrangement is dependent on the use of specific assets.

Council as Lessee

Finance Leases

PPE held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value, measured at the lease's inception or the present value of the minimum lease payments, if lower. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

PPE recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements.

Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the MiRS for the difference between the two.

The Council has acquired a number of buildings, street lights and vehicles under finance leases. The assets acquired under these leases are included within PPE at the following net amounts:

31 March 2023 £000s	Assets Held Under Finance Leases	31 March 2024 £000s
23,388	Other Land and Buildings	26,609
26	Community Assets	25
111	Vehicles, Plant, Furniture and Equipment	102
41	Assets Under Construction	41
23,566	**Total**	**26,777**

The Council is committed to making minimum lease payments under these leases, comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years, while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2023 £000s	Finance Lease Liabilities (NPV of Minimum Lease Payments)	31 March 2024 £000s
(67)	Current	(69)
(640)	Non-Current	(570)
(4,400)	Finance Costs Payable in Future Years	(4,181)
(5,107)	**Minimum Lease Payments**	**(4,820)**

The minimum lease payments are payable as follows:

Minimum Lease Payments 31 March 2023 £000s	Lease Liabilities Repayments 31 March 2023 £000s	Future Minimum Lease Payments	Minimum Lease Payments 31 March 2024 £000s	Lease Liabilities Repayments 31 March 2024 £000s
287	67	Not Later Than One Year	287	69
1,107	252	Later Than One Year and Not Later Than Five Years	1,028	207
3,713	388	Later Than Five Years	3,505	363
5,107	**707**	**Total**	**4,820**	**639**

Operating Leases

Rentals paid under operating leases are charged to CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease). The amount paid under these arrangements in 2023/24 was £0.554 million (2022/23: £0.806 million).

The future minimum lease payments due under non-cancellable leases in future years are shown in the Operating Leases table.

Minimum Lease Payments 2022/23 £000s	Operating Leases	Minimum Lease Payments 2023/24 £000s
458	Not Later Than One Year	336
364	Later Than One Year and Not Later Than Five Years	539
1,077	Later Than Five Years	1,054
1,899	**Total**	**1,929**

Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is recognised in the CIES on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

The Council leases out property under operating leases for the following purposes:

- For the provision of community services, such as community centres and sports facilities
- For economic development purposes to provide suitable affordable accommodation for business.

The future minimum lease payments receivable under non-cancellable leases in future years are shown in the Council as Lessor table:

Future Minimum Lease Payments Receivable 31 March 2023 £000s	Council as Lessor	Future Minimum Lease Payments Receivable 31 March 2024 £000s
(1,175)	Not Later Than One Year	(1,219)
(2,990)	Later Than One Year and Not Later Than Five Years	(3,279)
(30,866)	Later Than Five Years	(31,738)
(35,031)	**Total**	**(36,236)**

Note 20 Private Finance Initiatives and Similar Contracts

Private Finance Initiative (PFI) and similar contracts are agreements to receive services, where the responsibility for making available the non-current assets needed to provide the services passes to the PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes and as ownership of the non-current assets will pass to the authority at the end of the contract for no additional charge, the authority carries the non-current assets used under the contracts on the Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value based on the cost to purchase the property, plant and equipment was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the CIES.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES.
- Payment towards liability – applied to write down the Balance Sheet liability to the PFI operator.
- Lifecycle replacement costs – a proportion of the amount payable to the PFI operator is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

During 2002/03 the Council entered into a 32 year partnership with Innovate East Lothian Ltd for the provision and facility management of schools and other facilities. During 2023/24 the rectification of structural issues (RAAC) at one school was undertaken by the contractor as part of an agreement with the Council.

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the PPE balance in Note 14.

The Council makes an agreed payment each year which is increased annually in line with inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but is otherwise fixed. The PFI contract runs until 2035, at which time the facilities and all operational services revert to full council management. At this time responsibility for facilities management, maintenance, insurance etc. will all transfer back to the Council. Under the terms of the contract, all facilities will be handed back to the Council in the same condition as at the Service Availability Date i.e. the date the facilities were completed. To achieve this, there will be an increased lifecycle spend over the last five years of the contract, ensuring the facilities are handed back in the appropriate condition. Innovate East Lothian Limited has no right of renewal of the contract.

Change to the Accounting Basis for Service Concession Arrangements

Following the issue of local government Finance Circular 10/2022 on 6 September 2022, the temporary flexibility permitted for service concessions was considered and approved by East Lothian Council on 28 February 2023, with an effective application date of 1 April 2023.
The temporary flexibility permits a change in the statutory charges against the General Fund for service concession arrangements entered in to prior to 1 April 2022 and changes the profile of PPP statutory debt repayment charges to the asset life rather than the contract life. All of East Lothian Council's service concessions were entered into prior to 1 April 2022 and the permitted retrospective application has been used in recalculating the statutory debt repayment profile for the six secondary schools, a swimming pool and a community centre that form the assets that are part of service concession arrangements.

Flow of Benefits from the Assets

The debt repayment on the annuity basis has been applied as it is considered to best represent the consumption of the assets over their useful lives and is consistent with our approach to calculating loans fund charges.

Changes from the Application of the Permitted Flexibility

General Fund Changes	General Fund Changes and Balance as at 1 April 2023 £000s
Cumulative value of the PPP statutory debt charged to the General Fund prior to application of the permitted flexibility	27,207
Balance of funds released to the General Fund as a result of application of the flexibility	(14,193)
Revised cumulative value of the PPP statutory debt charged to the General Fund as at 1 April 2023	**13,014**

Accounting Treatment – Financial Year 2024/25 Onwards

Local government finance circular 7/2023 issued on 15 December 2023 outlines the accounting treatment for service concessions from 1 April 2024. This guidance will apply to any future service concession arrangements that East Lothian Council enters into.

The temporary flexibility noted above continues to apply in all subsequent financial years, where this has been applied to arrangements in place prior to 1 April 2022.

Payments remaining to be made under the PFI contract at 31 March 2024 are as follows:

Private Finance Initiatives and Similar Contracts as at 31 March 2024	Payment for Services £000s	Reimbursement of Capital Expenditure £000s	Interest £000s	Total £000s
Payable in 2024/25	3,936	1,514	1,981	**7,431**
Payable Within 2-5 Years	15,175	7,765	6,783	**29,723**
Payable Within 6-10 Years	15,386	16,981	4,787	**37,154**
Payable Within 11-15 Years	2,761	3,788	250	**6,799**
Total	**37,258**	**30,048**	**13,801**	**81,107**

Outstanding Liability to the Contractor

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The outstanding liability to the contractor for capital expenditure is as follows:

31 March 2023 £000s	Outstanding Liability to the Contractor	31 March 2024 £000s
(33,008)	Balance at Start of Year	(31,507)
1,501	Payments	1,460
(31,507)	**Balance Outstanding at Year End**	**(30,047)**

Note 21 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the Capital Expenditure and Capital Financing table, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue at the time assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Council that is financed by borrowing and consequently has not yet been charged against the Council's usable reserves.

In 2022/23 guidance was released that allowed this principle to be applied to the capital element of the Private Finance Initiative in either 2022/23 or 2023/24 so that the charges made relate to the life of the asset, not the contract. This gave the adjustment shown to the statutory repayment of debt. See Note 20 for further information on the flexibility

31 March 2023 £000s	Capital Expenditure and Capital Financing	31 March 2024 £000s
511,227	**Opening Capital Financing Requirement**	**567,654**
	Capital Investment	
126,864	Property, Plant and Equipment	93,849
269	Intangible Assets	99
	Sources of finance	
(198)	Capital receipts	(2,364)
(266)	Loan Repayment Received (ELHA)	(275)
(44,152)	Government grants	(27,290)
(18,925)	Other Contributions	(8,673)
(450)	Direct Revenue Contributions	(1,957)
-	Direct Revenue Contributions PPP Adjust	409
(6,715)	Statutory Repayment of Debt	(10,602)
-	PPP - Flexibility	14,193
567,654	**Closing Capital Financing Requirement**	**625,043**

Note 22 Impairment and Revaluation Losses Charged to SDPS

An impairment loss is a reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

During 2023/24, impairment losses were recognised in the Surplus or Deficit on the Provision of Services (SDPS) as stated in Note 14 totalling £0.647 million (2022/23: £1.820 million). This related to assets impaired due to damage or shortened asset lives.[*Figures subject to amendment]*

Revaluation losses charged to SDPS, as stated in Note 8, were £0 million in 2023/24 (2022/23: £8.581 million). In 2022/23 the predominant element arose from valuations for Council Dwellings. There is no equivalent impairment for 2023/24 due to the full valuation undertaken. *[Figures subject to amendment.]*

The impairment charges and revaluation losses for 2022/23 included charges for those properties where usage has been curtailed due to confirmation of structural issues arising from Reinforced Autoclaved Aerated Concrete (RAAC). *In 2023/24 the Brunton Hall (Musselburgh) carrying value at 31 March 2024 has been further significantly reduced. This reflects recognition of the significant reduction in expected useful life, as a result of RAAC structural issues, of the parts of the Brunton Hall which are currently in use."[Subject to amendment]*

Note 23 Long Term Investments

The following long-term investments are held as designated through Other Comprehensive Income and Expenditure, which the Council considers to equal the net assets of the related companies.

31 March 2023 £000s	Long Term Investments	31 March 2024 £000s	Details
4,104	Lothian Buses plc	4,812	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital.
210	East Lothian Investments Limited	211	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
558	East Lothian Land	638	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
-	Racecourse Media Group (RMG)	-	Membership arises as part of the management of media rights in relation to Musselburgh racecourse. If the media management arrangements cease the Council has to surrender the shareholding. Consequently, no market value is anticipated for the holding.
4,872	**Total**	**5,661**	

In the Council's group accounts East Lothian Land is treated as a subsidiary and East Lothian Investments is treated as an associate. They are carried at fair value reflecting the potential for adverse changes which would affect the historic cost of the initial investments. Other group entities have insignificant historic cost investment values and are treated as carried at historic cost, since no significant impairment of the historic cost of the impairment is possible. The Council's share of the net assets of joint ventures and associates is presented in the group accounts. Lothian Buses is not part of the Council's group and is therefore carried at fair value to fully reflect the Council's interest in the organisation at the balance sheet date.

Note 24 Long Term Debtors

In addition to short term debt, the Council is owed money by a small number of people and organisations that will be repaid over a period greater than one year, which is summarised below:

31 March 2023 £000s	Long Term Debtors	31 March 2024 £000s	Purpose
419	Private property owners - Common Repairs	399	Repairs to private property funded by secured ELC loans
1	Employees - Car/Other Loans	1	Loans to employees repaid over 3-5 years
7,914	East Lothian Housing Association	7,629	Loans secured on land and houses
(66)	Expected Credit Loss ELHA	(55)	Lifetime expected credit loss on East Lothian Housing Association loan above
33	Long Term VAT Debtor	33	VAT not immediately reclaimable
9	Other	9	Loans secured on houses
8,310	**Total**	**8,016**	

Note 25 Inventories

Inventories include materials or supplies held which will be used in the provision of services, as well as assets in the process of production for sale or distribution. Inventories are measured at the lower of cost and net realisable value.

31 March 2023 £000s	Inventories	31 March 2024 £000s
828	Stocks to be consumed in service provision	906
828	**Total**	**906**

Note 26 Short Term Debtors

A debtor is an amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of the accounting period. The amount owed to the Council as at 31 March 2024 is presented in the table. Based on past experience and our assessment of collection risks, we have made provision against non-payment of these debts, which reduces the reported value of the debtors.

31 March 2023 £000s	Short Term Debtors	31 March 2024 £000s
8,376	Central Government bodies	8,436
950	Other local authorities	1,090
2,981	NHS bodies	2,395
2	Public corporations and trading funds	-
12,393	Trade and other receivables	7,806
2,683	HRA rents	2,548
13,118	Taxpayers - Council Tax	14,877
4,564	Prepayments	1,682
45,067	**Total**	**38,834**

31 March 2023 £000s	Short Term Debtors Provision Against Non-Payment	31 March 2024 £000s
(3,610)	Other Receivables	(3,524)
(1,635)	Tenants - Council House Rents	(1,693)
(9,857)	Taxpayers - Council Tax	(11,968)
(15,102)	**Total**	**(17,185)**
29,965	**Short Term Debtors Total**	**21,649**

Note 27 Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

31 March 2023					Financial Instruments	31 March 2024				
£000s	£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s
Cash & Cash Equivalents	Debtors	Investments	Debtors	Total	**Financial Assets and Other Debtors**	Cash & Cash Equivalents	Debtors	Investments	Debtors	Total
Short Term		Long Term				Short Term		Long Term		
12,384	23,652	-	8,277	**44,313**	Held at Amortised Cost	13,201	17,015	-	7,982	**38,198**
-	-	4,872	-	**4,872**	Designated Equity Instruments held at Fair Value Through Other Comprehensive Income (FVOCI)	-	-	5,661	-	**5,661**
-	6,313	-	33	**6,346**	Other Debtors (Not Financial Assets)	-	4,634	-	32	**4,666**
12,384	**29,965**	**4,872**	**8,310**	**55,531**	**Total Financial Assets and Other Debtors**	**13,201**	**21,649**	**5,661**	**8,014**	**48,525**
Borrowings	Creditors	Borrowings	Creditors	Total	**Financial Liabilities**	Borrowings	Creditors	Borrowings	Creditors	Total
Short Term		Long Term				Short Term		Long Term		
(14,031)	(39,323)	(430,243)	(25,803)	**(509,400)**	Held at Amortised Cost	(15,491)	(29,585)	(482,113)	(24,754)	**(551,943)**
-	(32,019)	-	(31,875)	**(63,894)**	Non-Financial Instruments	-	(31,543)	-	(42,164)	**(73,707)**
(14,031)	**(71,342)**	**(430,243)**	**(57,678)**	**(573,294)**	**Total Financial Liabilities**	**(15,491)**	**(61,128)**	**(482,113)**	**(66,918)**	**(625,650)**

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to either the relevant service for receivables specific to that service, or the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income (FVOCI)

With the introduction of IFRS 9, an equity instrument can be elected into a 'Fair Value Through Other Comprehensive Income' treatment rather than 'fair value through profit or loss', if it is not held for trading. The impact of an election in relation to an equity instrument to post gains/losses to other comprehensive income, is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance, and the gain/loss is recognised in the 'Surplus or Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income'.

The Council has designated some of its Long Term Investments (see Note 23) as Fair Value through Other Comprehensive Income, as they are not held for trading or income generation, rather, longer term policy initiatives. The Council has no current intention to dispose of these shareholdings.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – market price,
- Other instruments with fixed and determinable payments – discounted cash flow analysis,
- Equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

The inputs to the measurement techniques are categorised in accordance with the fair value hierarchy detailed in Note 40.

Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

Financial Instruments Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

2022/23			2023/24	
Surplus or Deficit on the Provision of Services £000s	Other Comprehensive Income and Expenditure £000s	Financial Instruments Income, Expenses, Gains & Losses	Surplus or Deficit on the Provision of Services £000s	Other Comprehensive Income and Expenditure £000s
		Net Gains/Losses on:		
-	174	Investments in Equity Instruments designated at FVOCI	-	(789)
109	-	Financial Assets carried at Amortised Cost: Impairment Allowance	505	-
109	**174**	**Total Net Gains/Losses**	**505**	**(789)**
		Interest Revenue:		
(1,027)	-	Financial Assets measured at Amortised Cost	(1,534)	-
-	-	Other Financial Assets measured at FVOCI	-	(100)
(1,027)	**-**	**Total Interest Revenue**	**(1,534)**	**(100)**
16,160	**-**	**Interest Expense**	**18,959**	**-**
11	**-**	**Fee Expense**	**26**	**-**

Financial Liabilities and Financial Assets – Fair Value

As at 31 March 2024, the Council held £43.859 million (2022/23: £49.185 million) financial assets and £582.632 million (2022/23: £541.616 million) financial liabilities. The financial liabilities are held with PWLB, PFI and Market lenders. All of these borrowings were not quoted on an active market and a market valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values are shown in the Financial Liabilities and Financial Asset tables.

31 March 2023 Carrying Amount £000s	31 March 2023 Fair Value £000s	Financial Liabilities	31 March 2024 Carrying Amount £000s	31 March 2024 Fair Value at Level 2 £000s
(403,880)	(317,260)	PWLB Debt	(467,247)	(400,594)
(40,394)	(36,762)	Non-PWLB Debt	(30,357)	(24,582)
(39,323)	(39,323)	Short Term Creditors	(29,584)	(29,584)
(1,527)	(1,527)	Short Term Finance Lease Liability	(1,583)	(1,583)
(25,804)	(25,804)	Long Term Creditors	(24,754)	(24,754)
(30,688)	(30,688)	Long Term Finance Lease Liability	(29,105)	(29,105)
(541,616)	**(451,364)**	**Total Liabilities**	**(582,630)**	**(510,202)**

31 March 2023 Carrying Amount £000s	31 March 2023 Fair Value £000s	Financial Assets	31 March 2024 Carrying Amount £000s	31 March 2024 Fair Value at Level 2 £000s
12,384	12,384	Cash & Cash Equivalents (Short term Investments)	13,201	13,201
4,872	4,872	Long Term Investments	5,661	5,661
23,652	23,652	Short Term Debtors	17,015	17,015
8,277	8,277	Long Term Debtors	7,982	7,982
49,185	**49,185**	**Total Assets**	**43,859**	**43,859**

The fair value of the liabilities is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans, where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2024) arising from a commitment to pay interest to lenders below current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £400.594 million measures the economic effect of the terms agreed with the PWLB, compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value, measures the lower value of interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Key risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council,
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements,
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments,
- Re-financing risk - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas such as interest rate risk, credit risk and the investment of surplus cash).

Expected Credit Losses / Credit Risk

The changes in the loss allowance for investments and trade receivables during the year are shown in the Expected Credit Loss table.

31 March 2023				31 March 2024		
12 Month ELHA £000s	Lifetime ELHA £000s	Lifetime Sundry Accounts £000s	Expected Credit Loss (ECL)	12 Month ELHA £000s	Lifetime ELHA £000s	Lifetime Sundry Accounts £000s
-	11	2,433	Opening Balance	-	66	2,235
-	55	(198)	Changes in Models/Risk Parameters	-	(10)	(116)
-	**66**	**2,235**	**Closing Balance**	**-**	**56**	**2,119**

During the year the authority wrote off financial assets with a contractual amount outstanding of £0.129 million (£0.256 million in 2022/23).

The Expected Credit Loss (ECL) required under IFRS 9 was calculated for East Lothian Housing Association (ELHA) on a lifetime expected credit loss basis. This was based for ELHA on an 85% expectation of full collection, an 11% expectation of 99.98% collection (this rate was provided by a professional rating agency) and a 4% expectation of a 82% collection due to current economic conditions of the carrying amount of £7.914 million.

Also to comply with IFRS 9, the ECL calculation of the Sundry Accounts provides for lifetime expected losses. This is calculated using a simplified approach methodology based on the type and age of the debt. The age of the debt is shown in the Credit Risk table.

31 March 2023 £000s	Credit Risk	31 March 2024 £000s
4,981	Less than one month (not past due date)	2,158
4,640	Between 1 and 3 months	653
518	Between 3 and 12 months	557
554	Between 1 and 2 years	457
787	Between 2 and 5 years	782
909	More than 5 years	1,007
12,389	**Total**	**5,614**

Market Risks

Price Risk

The Council does not generally invest in equity shares or marketable bonds.

However, it does have interests with a carrying value of £5.661 million (2022/23: £4.872 million) in a number bodies. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in their carrying value. Where the historic cost of the interest could result in a substantive impairment loss to the Council, or where the entity is not part of the Council's group, the interests are classified as Equity Instruments Designated as Fair Value through Other Comprehensive Income. Consequently movements in the carrying values will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead, it only acquires shareholdings in return for "open book" arrangements with the company concerned, so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

On behalf of the Trusts and Common Good Funds, the Council does invest in equities and bonds via a professional investment management company. The investment managers seek to secure and grow the capital value of the funds whilst generating a return on those assets that the Trusts and Common Goods can use. The choice of investments is at the discretion of the investment managers, guided by the underlying objective of securing the current and longer-term value of the funds.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the CIES will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the CIES will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other CIES.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods, to secure better long term returns; similarly the drawing of longer term fixed rate borrowing would be postponed.

According to this assessment strategy, at 31 March 2024, if all interest rates had been 1% higher (with all other variables held constant) the financial effect is shown in the Interest Rate Risk table.

31 March 2023 £000s	Interest Rate Risk	31 March 2024 £000s
347	Increase in Interest Payable on Variable Rate Borrowings	359
(149)	Increase in Interest Receivable on Variable Rate Borrowings	(99)
198	**Impact on Surplus or Deficit on the Provision of Services**	**260**
86	Share of overall impact debited to the HRA	116
(42,199)	*Decrease (Increase) in Fair Value of Fixed Rate Borrowings Liabilities	79,069

**No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure*

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair Value of Assets and Liabilities carried at Amortised Cost.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice; this seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Therefore, there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

All short term debtors are due to be paid to the Council in less than one year.

Refinancing and Maturity Risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period.

Actual 31 March 2023 £000s	Refinancing and Maturity Risk	Approved Minimum Limits	Approved Maximum Limits	Approved Maximum Limits 2023/24 £000s	Actual 31 March 2024 £000s
21,986	Less than 1 year	0%	20%	100,760	22,828
9,159	Between 1 and 2 years	0%	30%	151,141	5,723
28,775	Between 2 and 5 years	0%	40%	201,521	55,697
63,604	Between 5 and 10 years	0%	40%	201,521	100,755
38,390	Between 10 and 20 years	0%	75%	377,851	39,501
15,902	Between 20 and 30 years	0%	75%	377,851	37,902
105,396	Between 30 and 40 years	0%	75%	377,851	93,396
168,000	Over 40 years	0%	75%	377,851	148,000
451,212	**Total**				**503,802**

Note 28 Short Term Creditors

A creditor is an amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period. The amounts owed by the Council as at 31 March 2024 were:

31 March 2023 £000s	Short Term Creditors	31 March 2024 £000s
(13,535)	Central government bodies	(11,426)
(3,129)	Other local authorities	(3,106)
(2,513)	NHS bodies	(516)
(2)	Public corporations	(1)
(24,135)	Trade and Other Payables	(20,277)
(3,244)	Income in Advance	(2,452)
(5,889)	Other Employee Costs	(7,080)
(11,499)	Other Related Parties	(10,152)
(1,526)	PPP & Finance Leases	(1,583)
(65,472)	**Total**	**(56,593)**

Note 29 Provisions, Contingent Liabilities and Contingent Assets

Provisions are made where an event has taken place that gives the authority 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 amount of the obligation.

For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Opening Balance at 1 April 2022 £000s	Provisions Made in 2022/23 £000s	Provisions Transfers between short & long term in 2022/23 £000s	Closing Balance at 31 March 2023 £000s	Provision	Opening Balance at 1 April 2023 £000s	Provisions Made in 2023/24 £000s	Provisions Reversed in 2023/24 £000s	Provisions Used in 2023/24 £000s	Provisions Transfers between short & long term in 2023/24 £000s	Closing Balance at 31 March 2024 £000s
-	-	-	-	Municipal Mutual	-	-	-	-	-	-
(350)	(127)	(516)	(993)	Other	(993)	(242)	-	-	-	(1,235)
(350)	**(127)**	**(516)**	**(993)**	**Current Provisions**	**(993)**	**(242)**	**-**	**-**	**-**	**(1,235)**
(109)	(59)	-	(168)	Municipal Mutual	(168)	(50)	-	-	-	(218)
(516)	-	516	-	Other	-	-	-	-	-	-
(625)	**(59)**	**516**	**(168)**	**Non-Current Provisions**	**(168)**	**(50)**	**-**	**-**	**-**	**(218)**
(975)	**(186)**	**-**	**(1,161)**	**Total Provisions**	**(1,161)**	**(292)**	**-**	**-**	**-**	**(1,453)**

Provisions are not recognised for individual, non-aggregating, amounts of less than £30,000. The Council maintains an Insurance Fund reserve (see Note 32) with balances to support future settlements arising from both known and unknown liabilities which are not regarded as meeting the criteria for creation of a provision.

Provisions are charged to the appropriate service revenue account in the CIES in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is recognised as income in the relevant service revenue account only if it is virtually certain that reimbursement will be received.

Municipal Mutual

During the early 1990s, Municipal Mutual Insurance Limited (MMI), which was the main insurer of local authorities across the country, ran into financial difficulties. The MMI business was subsequently acquired by another insurance company with the plan to wind-up its activities. Previously, the expectation was that there would be a solvent run–down of the business and that there would be sufficient funds to meet all the current and future insurance claims. During 2012/13 however, East Lothian Council as one of the company's creditors, was informed that a solvent run-down is now unlikely and a pre-arranged Scheme of Arrangement would be triggered. Under the scheme, the creditors are required to pay a levy designed to meet the deficit between assets and liabilities. The determination of any settlement amount is dependent on finalisation of the claims being settled.

Other Provisions

At 31 March 2024 'other provisions' includes estimated allowances for:

- An employment related dispute which is anticipated to require a settlement to be made with the final amount to be determined.

- An estimated obligation relating to lease dilapidation commitments arising from the cessation of the lease and occupation of Randall House in October 2023. The actual costs have now been settled for less than the initial prudent estimate allowed for.

- Potential settlements, in excess of any insurance cover, related to two historic child abuse claims. Other claims are treated as a contingent liability (see below).

- An estimated settlement relating to employment tribunal cases lodged by the GMB union relating to 10 claimants. This excludes further potential settlements which may be required relating to the Harpur versus Brazel determination on holiday pay, which is treated as a contingent liability (see below).

Due to the ongoing nature of the issues above it is not appropriate to include further details on these matters. The determination of any settlement amounts is anticipated to occur during 2024/25.

Contingent Liability -Historic Child Abuse Claims

A change in legislation has removed a time-limit for compensation claims related to child abuse cases. The Council recognises that this could result in a potential liability to the authority, however the likelihood of such a liability which might arise from historic or current cases cannot be quantified, nor can the extent to which insurance policy cover may reimburse the Council for such claims. Consequently the Council has only recognised a provision for two settlements, but considers other claims, or potential claims, to be a contingent liability.

Contingent Liability - Common Good Assets Judicial Review

Following a judicial review decision, and the issue by East Lothian Council of a public consultation on the identification of Common Good assets, a number of assets were transferred from East Lothian Council's balance sheet to the Common Good Funds in the 2020/21 annual accounts. Common Good building assets currently used by the Council to deliver services have been treated as finance lease assets and remain on the Council's balance sheet. This is on the basis that formal arrangements for continued Council use of the assets, which recognise and reflect the Common Good ownership of those assets, are anticipated to be agreed. Consequently the Council considers any potential remaining transfers to be a contingent liability.

Contingent Liability - Reinforced Autoclaved Aerated Concrete (RAAC)

Survey works confirmed the presence of RAAC in Brunton Hall, which is leased from the Musselburgh Common Good fund, with substantial areas of the building's roof being affected. An impairment charge reflecting the loss of space capacity was made in 2022/23 as well as recognition of a contingent liability for rectification work. On 29 October 2024 the Council considered a report which recommended decommissioning of the building, after relocating the services still using the facility, and a public consultation on potential demolition. To reflect the expected reduction in the future use of the building a further impairment charge has been made in 2023/24. Consequently the Council has not recognised a provision for rectification work.

Contingent Liability – Historic Holiday Pay Claims (Harpur Trust vs Brazel Judgement)

A final appeal judgement has been delivered in the Harpur Trust vs Brazel case. The case referred to the correct calculation of holiday pay entitlement which is based on normal weekly pay including additional elements such as overtime and shift allowances. The ruling concluded that the calculation for part-year workers, for example those working only during school terms, should not be pro-rata to a full time equivalent but requires that the minimum 5.6 weeks entitlement should be based on full working weeks. Consequently the Council now anticipates that some historic employment tribunal cases relating to holiday pay may now require a final settlement, and some further claims may be lodged within the required time limit. A quantification of the potential liability is not currently available and the Council is actively assessing the potential financial impact.

Note 30 Long Term Liabilities

Long term liabilities are creditors whom the Council is not due to pay within the next 12 months.

31 March 2023 £000s	Other Long Term Liabilities	31 March 2024 £000s	Description of Liability
(25,804)	Deferred Liabilities - Developers Contributions	(24,754)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed.
(343)	Deferred Liabilities - Rental Income in Advance	(339)	Income to be released over the lease period.
(676)	Other	(699)	Other long term commitments including lifetime replacement of 3G pitches and tennis courts, and reimbursement of coastal protection works undertaken by a third party.
(30,687)	PPP and Finance Lease Liabilities	(29,103)	This amount represents the outstanding obligations that the council has in relation to finance and PFI leases. More details are provided in Notes 16 and 17.
(57,510)	**Total Long Term Liabilities**	**(54,895)**	

Note 31 Defined Benefit Pension Schemes

Participation in 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 the payments for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council – this is a funded defined benefit career average revalued earning (CARE) scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, no investment assets are built up to meet these pension liabilities and cash has to be generated to meet actual payments as they fall due.

The Lothian Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme (LGPS) and the governance of the scheme is the responsibility of the pensions committee of City of Edinburgh Council. Policy is determined in accordance with the pension fund regulations.

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 a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described later in this note.

Discretionary Post-Retirement Benefits

Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no assets built up to meet these pension liabilities.

Transactions relating to retirement benefits

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.
    - Past service cost – the increase in liabilities is a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Corporate and Central Services.
    - Net Interest on the net defined benefit liability i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at

the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - The return on plan assets – excluding amounts included in the net interest on the net defined liability; charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Effects of Recent Court Cases

- Goodwin - An employment tribunal case (Goodwin v Department for Education) has also established a requirement that UK LGPS funds should pay equal survivor benefits between same and opposite sex widowers. The remedy is still uncertain however actuarial advice is that the impact may be to increase pension liabilities by approximately 0.1% to 0.2%. On this basis actuarial advice is that a specific adjustment is neither necessary or appropriate due to the low impact they perceive this would have.

- Other Court Cases – other court cases that may impact future LGPS benefits are Walker and O'Brien. The actuarial assessment is that these are unlikely to be significant judgements. No allowance has been made until further information is available.

31 March 2023 £000s	Defined Benefit Pension Schemes	31 March 2024 £000s
	Comprehensive Income and Expenditure Statement	
	Cost of Service Comprising:	
41,943	Current Service Cost	21,524
-	Past Service Costs (Including Curtailments)	142
	Financing and Investment Income and Expenditure	
2,937	Net Interest Expense	968
44,880	Total Post Employment Benefit Charged to the Surplus or Deficit	**22,634**
	Other Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the Net Defined Benefit Liability Comprising:	
3,969	Return on Plan Assets (Excluding the Amount Included in the Net Interest Expense)	(10,737)
(334,943)	Actuarial Gains and Losses Arising on Changes in Financial Assumptions	(22,777)
(6,404)	Actuarial Gains and Losses Arising on Changes in Demographic Assumptions	(11,110)
(9,629)	Elimination of Prior Year Asset Ceiling and Interest Effect	(204,537)
195,262	Application of Asset Ceiling in Current Year	172,411
42,004	Other Remeasurement Experiences	67,930
(109,741)	Post-Employment Benefits Charged (Credited) to Other Comprehensive Income and Expenditure	**(8,820)**
(64,861)	**Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement**	**13,814**
	Movement in Reserves Statement	
(23,141)	Reversal of Net Charges Made to the Surplus or Deficit on the Provision of Services for Post-Employment Benefits in Accordance with the Code.	1,198
	Actual Amount Charged Against the General Fund Balance for Pensions in the Year	
21,739	Employers Contributions Payable	23,832

The difference between previous estimates based on the formal valuation at 31 March 2020 and estimates using the latest formal valuation of 31 March 2023 are reflected in the 'Other Remeasurement Experience' element of Other Comprehensive Income and Expenditure actuarial changes. Changes arising from the Pensions Increase Order (April 2024) are similarly included.

Statutory Charge to the General Fund/HRA

Statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

We recognise the cost of retirement benefits in the reported cost of services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the MiRS. The Defined Benefit Pension Schemes table shows transactions have been made in the CIES and the General Fund Balance via the MiRS during the year.

Lothian Pension Fund –Asset Ceiling

The Council's actuarial advisers have estimated that the Council's attributable share of the Lothian Pension Fund (Local Government Pension Scheme) assets exceed the Council's estimated pension funded liabilities. The Council has assessed that, given the legislative obligations and framework for the Council's ongoing participation in the LGPS, the Council has no unconditional right to a refund of the surplus assets of the scheme. Therefore an 'asset ceiling' has been applied and reflected in Other Comprehensive Income and Expenditure. Consequently, only the unfunded pension liability is recognised on the balance sheet.

Lothian Pension Fund – Restatement of Net Liability 1 April 2022

The net pension liability as at 1 April 2022 has been restated to increase it by £9.629 million. The adjustment relates to the recognition of minimum funding requirements, in the form of employer secondary contribution rates, which were in place at that time. The impact on Comprehensive Income and Expenditure in 2022/23 was not material and therefore changes in 2022/23 are not affected. The net pension liability at 31 March 2023 is also therefore increased by £9.629 million. The Pension Reserve has also been restated to reflect the amendment, which therefore has no effect on the General Fund balance.

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 its defined benefit plan is as follows:

Restated 31 March 2023 £000s	Pension Assets and Liabilities Recognised in the Balance Sheet	31 March 2024 £000s
	Pension Assets and Liabilities Recognised in the Balance Sheet	
(607,963)	Present Value of the Defined Benefit Obligation	(659,705)
781,402	Fair Value of Plan Assets	820,311
(195,262)	Asset Ceiling Cap	(172,411)
(21,823)	**Net (Liability) Asset Arising from Defined Benefit Obligation**	**(11,805)**

The Reconciliation of the Movements in the Fair Value of the scheme assets is as follows:

31 March 2023 £000s	Reconciliation of the Movements in the Fair Value of the Scheme Assets	31 March 2024 £000s
755,013	**Opening Fair Value of Scheme Assets**	595,769
20,503	Interest Income	37,286
-	Remeasurement Gain/(Loss):	-
(3,969)	Return on Plan Assets, Excluding the Amount Included in the Net Interest Expense	10,737
-	Interest on the effect of the prior year asset ceiling	(9,275)
21,739	Contributions from Employer	23,832
5,511	Contributions from Employees into the Scheme	5,936
(17,395)	Benefits Paid	(25,902)
-	Other Experience	(12,980)
9,629	Elimination of Prior Year Asset Ceiling Cap and Interest Effect	204,537
(195,262)	Asset Ceiling Cap Applied at 31 March	(172,411)
595,769	**Closing Fair Value of Scheme Assets**	**657,529**

The reconciliation of the present value of the scheme liabilities is as follows:

2022/23 £000s	Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	2023/24 £000s
(853,807)	Opening Balance at 1 April	(607,963)
(41,943)	Current Service Cost	(21,524)
(23,440)	Interest Cost	(28,979)
(5,511)	Contributions from Scheme participants	(5,936)
	Remeasurement (Gains) and Losses:	
334,943	Actuarial (Gains)/Losses Arising from Changes in Financial Assumptions	22,777
6,404	Actuarial (Gains)/Losses Arising from Changes in Demographic Assumptions	11,110
(42,004)	Other	(54,950)
-	Past Service Cost	(142)
17,395	Benefits Paid	25,902
(607,963)	**Closing Balance at 31 March**	**(659,705)**

The maturity profile of the scheme liabilities is as follows:

Maturity Profile of Defined Benefit Obligation	Liability Split £000s	Liability Split %
Active Members	(305,531)	47.2%
Deferred Members	(68,369)	10.6%
Pensioner Members	(274,000)	42.3%
Total for Funded Obligations	**(647,900)**	**100.0%**
Unfunded Pensioner Liabilities	(11,805)	
Total Pension Liability	**(659,705)**	

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson, an independent firm of actuaries. The liabilities for the Lothian Pension Fund at 31 March 2024 have been assessed by rolling forward the value of the liability calculated at the latest formal valuation date (31 March 2023), allowing for the different financial assumptions required under the Accounting Standard at the reporting date.

The liability includes an approximate allowance for the McCloud judgement and Guaranteed Minimum Pension (GMP) indexation.

The main financial assumptions in the actuaries' calculations are shown in the tables.

Male 2022/23	Female 2022/23	Mortality Assumptions Longevity at Age 65	Male 2023/24	Female 2023/24
19.9	22.9	Current Pensioners	20.3	23.2
21.2	24.7	Future Pensioners	21.2	24.9

2022/23	Rate of Inflation	2023/24
3.5%	Rate of Increase in Salaries	3.5%
3.0%	Rate of Increase in Pensions	2.8%
4.8%	Rate for Discounting Scheme Liabilities	4.8%

The following sensitivity analysis demonstrates the potential effect on the defined obligation in the scheme as a result of changes in the underlying assumptions:

Impact on the Defined Benefit Obligation in the Scheme Actuarial Assumptions Sensitivity Analysis	Approximate % Increase to Defined Benefit Obligation %	Approximate Monetary Amount £000s
0.1% decrease in Real Discount Rate	2%	12,017
1 year increase in member life expectancy	4%	26,388
0.1% increase in the Salary Increase Rate	0%	780
0.1% increase in the Pension Increase Rate	2%	11,440

The fair value of the Lothian Local Government Pension Scheme Assets was determined as indicated in the table. An analysis of the Lothian LGPS scheme assets is available in the most recent Lothian Pension Fund annual report and accounts.

31 March 2023 £000s	Scheme Assets Fair Value	31 March 2024 £000s
614,064	Quoted Prices in Active Markets	623,278
167,338	Quoted Prices not in Active Markets	197,033
781,402	**Total**	**820,311**

Impact on Council's Cash Flows

Due to the external financial environment, there has been a significant movement in the valuation of the pension balance. As at 31 March 2024 the actuarial assessment is that the Council's pension assets exceed the estimated funded pension liabilities. As noted above the Council has applied an 'asset ceiling' accounting treatment and therefore an unfunded pension liability is recognised. Statutory arrangements for funding the Lothian Pension Fund LGPS however mean that the Council expects to continue to make employer contributions in future years, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2025 is £17.538 million.

Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Scottish Teachers' Pension Scheme (STPS), administered by the Scottish Public Pensions Agency (SPPA). The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a defined benefit scheme. Although the scheme is unfunded, the STPS uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means it is not possible to identify the extent to which a surplus or deficit in the scheme may affect the amount of future contributions. For the purposes of the Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2023/24, the Council paid £12.442 million (2022/23: £11.5 million) to the Scottish Teachers Superannuation Scheme in respect of teachers' retirement benefits, representing 23% of pensionable pay (2022/23: 23%). The estimated contribution for 2024/25 is £14.486 million based on estimated pay increases and a revised employer's contribution rate of 26%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement, outside of the terms of the STPS. In 2023/24, the Council paid £0.470 million (2022/23: £0.454 million) to teachers' pensions in respect of these retirement benefits.

Ex-Gratia Scheme

Under Regulation 45 of The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, the Council awarded an Ex-Gratia discretionary allowance to retiring employees in respect of service for which they were ineligible to join the pension fund prior to 1986.

In 2023/24, the Council paid £0.051 million (2022/23: £0.048 million) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.196 million.

Note 32 Usable Reserves

Usable Reserve	General Fund £000s	Capital Grants Unapplied £000s	Capital Fund £000s	Insurance Fund £000s	Housing Revenue Account £000s	Total £000s
Balance at 31 March 2023	(26,414)	-	(14,607)	(2,684)	(1,487)	(45,192)
(Surplus) / Deficit on Provision of Service	9,457	-	-	-	26,136	35,593
Depreciation charged to Revaluation Reserve	(15,758)	-	-	-	(4,011)	(19,768)
Adjustments Between Accounting and Funding Basis	860	(3,106)	(1,721)	-	(22,173)	(26,140)
Transfers Between Reserves	(2,315)	-	2,315	-	-	-
Balance at 31 March 2024	**(34,169)**	**(3,106)**	**(14,013)**	**(2,684)**	**(1,535)**	**(55,507)**

General Fund Balance

The General Fund is the statutory fund into which all of the receipts of an Authority are required to be received and which all of the liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year.

Capital Grants Unapplied Account

Capital contributions, where the Council has met the conditions of the contribution but has not yet applied the funding, were recognised in the year. The contributions of £3.106 million (2022/23: £Nil) predominantly relate to contributions for work on the A1 Junction.

Capital Fund

The Council has statutory powers to hold a Capital Fund to meet future capital investment costs, either reducing loans fund advances or to fund the principal repayments of the loans fund. During the year, under the terms of Finance Circular 6/2023 which provides flexibility related to pay award costs, the Council transferred some £2.315 million of capital grant into the fund. This was then transferred to the General Fund to support the statutory repayment of debt for capital expenditure. Some £1.869 million of the balance at 31 March 2024 (31 March 2023: £1.803 million) relates to the Housing Revenue Account (HRA) to be used for the benefit of HRA tenants.

Insurance Fund

The Insurance Fund is used where the authority could insure against a risk but has chosen not to do so, defraying any loss or damage suffered or expenses incurred by the authority as a consequence of that risk. It can also be used to pay premiums on a policy to insure against a risk. The Council determined that no transfers to or from the Insurance Fund were required in 2023/24 (2022/23: Nil).

Housing Revenue Account

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function.

Note 33 Earmarked Elements of the General Fund

The amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2023/24 are:

Balance at 1 April 2022 £000s	Transfers Out £000s	Transfers In £000s	Balance at 31 March 2023 £000s	Council Earmarked Balance	Balance at 1 April 2023 £000s	Transfers Out £000s	Transfers In £000s	Balance at 31 March 2024 £000s
-		(5,826)	(5,826)	Transformation Fund	(5,826)	1,042	(13,741)	(18,525)
(2,433)	996	(816)	(2,253)	Other Ring-fenced Funds	(2,253)	428		(1,825)
(1,032)		(431)	(1,463)	Statutory Earmarking of Council Tax Income for Affordable Housing	(1,463)	-	(161)	(1,624)
-				SFT Earmarked Reserve (Rosehill Campus, Wallyford)	-		(1,292)	(1,292)
(1,148)			(1,148)	Devolved School Management Balances	(1,148)	-	-	(1,148)
(8,707)	183		(8,524)	Committed for Future Budgets	(8,524)	9,727	(2,315)	(1,112)
-			-	Service Concession (PPP) Reserve (support for deferred charge)	-		(1,043)	(1,043)
(5,479)	5,479		-	COVID-19 Funding	-			-
(3,445)	3,445		-	Cost Reduction Fund	-			-
(2,282)	2,282		-	General Services Capital	-			-
(2,000)	2,000		-	Civil Emergency Fund	-			-
(440)	440		-	Other Balances	-			-
(36)	36		-	Mid and East Lothian Drugs & Alcohol Project	-			-
(27,002)	**14,861**	**(7,073)**	**(19,214)**	**Total Earmarked Balances**	**(19,214)**	**11,197**	**(18,552)**	**(26,569)**
			(7,200)	**Uncommitted General Fund (General Services) Balance**				**(7,600)**
			(26,414)	**Total General Fund (General Services) Balance**				**(34,169)**

Note 34 Unusable Reserves

Unusable reserves cannot be used to support services. Unusable reserves include gains and losses which will only become available to support services if the assets are sold. These gains and losses are referred to as unrealised. The authority has several different unusable reserves, the balances of which are shown in this table, with expanded explanations below.

31 March 2023 £000s	Unusable Reserve	31 March 2024 £000s
(359,259)	Revaluation Reserve	(414,568)
21,823	Pensions Reserve	11,805
5,422	Employee Statutory Adjustment Account	6,484
(340,119)	Capital Adjustment Account	(314,216)
(3,873)	Financial Instruments Revaluation Reserve	(4,662)
2,054	Financial Instruments Adjustment Account	1,922
(673,952)	**Total**	**(713,235)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of, or de-recognised, and the gains are realised.

The reserve contains revaluation gains only since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2023 £000s	Revaluation Reserve	31 March 2024 £000s
(316,645)	**Balance at 1 April**	**(359,259)**
(68,262)	Upward Revaluation of Assets	(90,030)
9,541	Downward Revaluation of Assets and Impairment Losses Not Charged to the Surplus/Deficit on the Provision of Services	14,448
(58,721)	Surplus of Deficit on Revaluation of Non-Current Assets not Posted to the Surplus or Deficit on the Provision of Services	(75,582)
15,977	Depreciation charged to the Revaluation Reserve	19,768
130	Accumulated Gains on Assets Sold or Scrapped	505
(359,259)	**Balance at 31 March**	**(414,568)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. A debit balance on the Pensions Reserve therefore indicates a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. In that event the statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

As at 31 March 2024 the actuarial assessment is that the Council's pension assets exceed the estimated funded pension liabilities. The Council has assessed that, given the legislative obligations and framework for the LGPS an asset ceiling limit should be applied for funded pensions. The net liability remaining reflects the Council's unfunded pension liability.

The net pension liability as at 1 April 2022 has been restated to increase it by £9.629 million. The adjustment relates to the recognition of minimum funding requirements, in the form of employer secondary contribution rates, which were in place at that time. This adjustment is therefore reflected in the Pension Reserve balance at 1 April 2022 and 31 March 2023.

Restated 31 March 2023 £000s	Pension Reserve	31 March 2024 £000s
108,423	**Balance at 1 April**	**21,823**
(295,374)	Actuarial Gains or Losses on Pensions Assets and Liabilities	(181,231)
185,633	Application of Asset Ceiling Cap	172,411
44,880	Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the CIES	22,634
(21,739)	Employer's Pension Contributions and Direct Payments to Pensioners Payable in the Year	(23,832)
21,823	**Balance at 31 March**	**11,805**

Employee Statutory Adjustment Account

The Employee Statutory Adjustment 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 entitlements carried forward at 31 March). Statutory arrangements require that the impact on the General Fund balance is neutralised by transfer from the account. The balance on the reserve relates solely to employee annual leave.

31 March 2023 £000s	Employee Statutory Adjustment Account	31 March 2024 £000s
4,479	**Balance at 1 April**	**5,422**
(4,479)	Settlement or Cancellation of Accrual Made at End of the Preceding Year	(5,422)
5,422	Amount Accrued at the End of the Current Year	6,484
943	Amount by Which Employee Remuneration Charged to the CIES on an Accruals Basis is Different from Remuneration Chargeable in the Year in Accordance with Statutory Requirements	1,062
5,422	**Balance at 31 March**	**6,484**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancements. The Account also contains revaluation gains accumulated on PPE before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all of the transactions posted to the account.

31 March 2023 £000s	Capital Adjustment Account	31 March 2024 £000s
(309,113)	**Balance at 1 April**	**(340,119)**
30,302	Depreciation charged to the Capital Adjustment Account	33,266
254	Intangible asset amortisation charged to the Capital Adjustment Account	307
6,542	Revaluation Gains / Losses on Property, Plant and Equipment	27,664
55	Charges for expected credit loss of Non-Current financial assets funded as capital expenditure	(10)
1,820	Impairment Losses on Property, Plant and Equipment	647
461	Assets Written Off on Disposal or Sale	313
39,434	Net Amounts Written Out of the Cost of Non-Current Assets Consumed in the Year	62,187
	Capital Financing applied in the year	
(198)	Capital Receipts Applied	(2,364)
(63,077)	Capital Grants and Contributions Credited to the CIES that Have Been Applied to Capital Financing	(35,963)
(6,715)	Statutory Provision for the Financing of Capital Investment Charged Against the General Fund and HRA Balances	(10,602)
-	PPP-Permitted Flexibilty Adjustment	14,193
(450)	Capital Expenditure Charged Against the General Fund and HRA Balances	(1,957)
-	PPP - Lifecycle Expenditure Charged Against the General Fund Balance Adjustment	409
(70,440)		(36,284)
(340,119)	**Balance at 31 March**	**(314,216)**

Financial Instruments Revaluation Reserve

The Financial Instrument Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are designated as measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised.

31 March 2023 £000s	Financial Instruments Revaluation Reserve	31 March 2024 £000s
(4,047)	**Balance at 1 April**	**(3,873)**
(2)	Upward Revaluation of Investments	(789)
176	Downward Revaluation of Investments	-
174		(789)
(3,873)	**Balance at 31 March**	**(4,662)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account adjusts the timing of charges to fund balances for some financial instrument transactions.

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the MiRS. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed.

31 March 2023 £000s	Financial Instruments Adjustment Account	31 March 2024 £000s
2,323	**Balance at 1 April**	**2,054**
(13)	Annual charge for effective interest rate adjustments related to historic stepped interest rate borrowing	123
(256)	Annual recharge of deferred premiums from the refinancing of debt	(255)
(269)	Amount by Which Finance Costs Charged to the CIES are Different from Finance Costs Chargeable in the Year in Accordance with Statutory Provisions	(132)
2,054	**Balance at 31 March**	**1,922**

As at 31 March 2024 the balance of the account represented £0.767 million (2022/23: £1.023 million) relating to historic deferred premiums, with three years remaining, arising from the early repayment of debt. The remaining £1.155 million (2022/23: £1.031 million) relates to the adjustment to interest charges for historic stepped interest rate borrowing.

Note 35 Capital Grant Receipts in Advance

The Council has received a number of grants and contributions that have not been recognised as income immediately as the conditions attached to them have not been met. There may be circumstances in which the Council has to return the funds to the provider.

31 March 2023 £000s	Capital Grants & Contributions Receipts in Advance	31 March 2024 £000s
(3,178)	Early Learning and Child Care	(1,815)
(295)	Accelerating Growth Projects	(232)
(1,021)	Town Centre Regeneration Fund	(746)
(61)	Prestongrange RCGF	-
-	Community Intervention funding	(50)
(123)	Roads contributions	(162)
-	Lottery funding	(10)
(100)	Hallam Cemetery contribution	-
(31)	National Trust for Scotland	-
(47)	UK Shared Prosperity Fund	(103)
(21)	Visit Scotland	(182)
(4,877)	**Total**	**(3,300)**

Note 36 Grant Income

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is a reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- grants or contributions will be received.

Amounts recognised as due to the authority are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. It is stipulated that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

2022/23 £000s	Grant Income Credited to Taxation & Non-Specific Grant Income	2023/24 £000s
(249,532)	Government grants	(242,053)
(19,883)	Non Government grants	(16,796)
(269,415)	**Total**	**(258,849)**

2022/23 £000s	Grant Income Credited to Services	2023/24 £000s
(17,020)	Government Grant: Housing Benefit Subsidy	(17,034)
(14,233)	Government Grant & Contributions: NHS	(12,702)
(20,250)	Government Grant & Contributions: Other	(20,306)
(1,863)	Non-Government Grants & Contributions	(1,849)
(53,366)	**Total**	**(51,891)**

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out in the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Note 37 Cash Flow Statement – Non-Cash Movements

The surplus or deficit on the provision of services (in the Operating Activities section of the Cash Flow Statement) has been adjusted for the following non-cash movements:

Council 2022/23 £000s	Group 2022/23 £000s	Adjustment to Net Deficit on the Provision of Services for Non-Cash Movements	Council 2023/24 £000s	Group 2023/24 £000s
(46,532)	(46,762)	Depreciation and Amortisation	(53,342)	(53,578)
(1,820)	(1,820)	Impairments and Downward Valuations	(647)	(647)
(6,543)	(6,542)	Revaluation of Assets	(27,663)	(27,022)
-	(1,223)	Increase (Decrease) in fair value of investments	-	68
(590)	(590)	Carrying Amount of Non-Current Assets Held for Sale, Sold or Derecognised	(819)	(819)
(44,880)	(44,880)	Net Charges Made for Retirement Benefits in Accordance with IAS 19	(22,634)	(22,634)
21,739	21,739	Employer's Contributions Payable to the Lothian Pension Fund	23,832	23,832
14	12	Non Cash Interest Adjustment	(123)	(121)
-	(5,576)	Change in Associates SDPS - Non-Cash Movement	-	(3,318)
-	-	Investment income adjustment	-	-
(239)	(239)	Decrease (Increase) in interest charges accrued	(922)	(922)
(186)	(186)	Decrease (Increase) in Provisions	(292)	(290)
136	136	Increase (Decrease) in Inventories	78	78
(7,360)	(7,426)	Decrease (Increase) in Revenue Creditors	11,717	11,707
1,858	2,244	Increase (Decrease) in Revenue Debtors	(10,445)	(9,783)
(84,403)	**(91,113)**	**Total**	**(81,260)**	**(83,449)**

Note 38 Cash Flow Statement- Other Disclosures

Investing and Financing Activities

The surplus or deficit on the provision of services (in the Operating Activities section of the Cash Flow Statement) has been adjusted for the following investing and financing activities.

Council 2022/23 £000s	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	Council 2023/24 £000s
63,077	Proceeds from Capital Grants	35,963
9,792	Proceeds from Sale of PPE, Assets Held for Sale and Other Non-Current Assets	1,769
72,869	**Total**	**37,732**

Analysis of Cash and Cash Equivalents

31 March 2023 £000s	Analysis of Cash and Cash Equivalents	31 March 2024 £000s
45	Cash Held by Officers	44
12,486	Held in Bank Accounts (Net)	10,777
(147)	Transactions in Transit to/From Bank Accounts (Net)	2,379
12,384	**Total Cash and Cash Equivalents Held by Council**	**13,200**
839	Cash at Bank and In Hand Held by Subsidiaries	627
13,223	**Total Cash and Cash Equivalents for Group**	**13,827**

Reconciliation of Liabilities Arising From Financing Activities

1 April 2022 £'000	Financing Cash Flows £'000	Non-Cash Flow: Interest Accrual Adjustments & ST/LT Reclassification £'000	31 March 2023 £'000	Reconciliation of Liabilities Related to Financing Activities	1 April 2023 £'000	Financing Cash Flows £'000	Non-Cash Flow: Interest Accrual Adjustments & ST/LT Reclassification £'000	31 March 2024 £'000
(412,553)	(16,742)	(948)	(430,243)	Long-term borrowing	(430,243)	(52,287)	417	(482,113)
(14,752)	-	721	(14,031)	Short-term Borrowing	(14,031)	-	(1,460)	(15,491)
(772)	65	-	(707)	Lease liablities	(707)	68	-	(639)
(33,008)	1,501	-	(31,507)	On Balance Sheet PFI liabilities	(31,507)	1,460	-	(30,047)
(461,085)	**(15,176)**	**(227)**	**(476,488)**	**Total liabilities from financing activities**	**(476,488)**	**(50,759)**	**(1,043)**	**(528,290)**

Note 39 Material Items of Income and Expense

Where items are not disclosed on the face of the CIES, the Council is required to disclose the nature and amount of material items. Material items of expenditure charged to services in the year are shown in the table.

Material items of income credited to service revenue accounts within the CIES largely relate to grants and contributions and these are disclosed in Note 36. Subsidy income in relation to the payments of Housing Benefit (included in the table) is also disclosed in note 36.

2022/23 £000s	Council Material Items of Income and Expense	2023/24 £000s
46,532	Depreciation and Amortisation Charged on Assets	53,342
1,820	Impairments and Downward Valuations	647
16,816	Housing Benefit Paid	17,072
10,328	Unitary Charge/PPP Payments to Contractor	11,071

Note 40 Fair Value Hierarchy

Fair Value Measurement

The authority measures some of its equity instruments and non-financial assets, such as surplus assets, at fair value at each reporting date. Fair value is the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability, or;
b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities, for which fair value is measured or disclosed in the Council's financial statements, are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) 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.

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2024, are shown in the Fair Value Hierarchy table:

31 March 2023 Total Fair Value £000s	Council Fair Value Hierarchy	31 March 2023 Total Fair Value £000s
	Recurring fair value measurements at Level 2 for:	
4,872	Equity Instruments	5,661
4,906	Non-Financial Assets	7,334
9,778	**Total**	**12,995**

Valuation Techniques used to Determine Level 2 Fair Values for Non-Financial Assets

Significant Observable Inputs – Level 2
The fair value for the properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Note 41 Events after the Reporting Period

The Council has lodged a VAT reclaim relating to the historic VAT treatment of leisure and sporting activities by HMRC. In submitting the 2023/24 accounts for audit the Council considered that there was a valid claim but that the criteria for establishing a right to repayment, as well as uncertainties regarding the methodology and extrapolation applied to the claim, meant that recognition of an asset was not appropriate. Consequently a contingent asset was disclosed in the accounts submitted for audit.

Subsequent to submission for audit, HMRC confirmed that the claim was valid and paid a refund, including interest, of £1.447m. The Council has determined to treat this as a non-adjusting balance sheet event. If treatment as an adjusting balance sheet event had been adopted the key impact would have been to increase Council and Group income, in the Corporate Management directorate, by £1.447 million. For the balance sheet at 31 March 2024 this would have resulted in a benefit to the General Fund balance of £1.447 million, and an increase in the debtor for VAT with HMRC of £1.447 million.

Specific Group Notes

The Council undertakes a broad range of activities, often in conjunction with external organisations. In some cases, the Council has an interest in these organisations demonstrated through ownership or control/significant influence.

The CIPFA Code of Practice requires that, where the Council has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

In order to give these group statements their due prominence they have been displayed alongside the Council's own statements. The following notes provide further information regarding these entities and the transactions included in the group accounts.

Note G1 Combining Entities

The extent of the Council's interest in these entities has been reviewed in determining those that should be consolidated and incorporated within the Group Accounts. Under accounting standards, the Council is required to fully consolidate the results of all subsidiary companies into the Group Accounts using the acquisition method of accounting. Associates and joint ventures have been accounted for using the equity method of accounting, where the original investment in the Council's accounts are adjusted for post-acquisition changes and the Council's share of surplus or deficits is recognised through the CIES. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note G2 Associates and Joint Ventures

Associates and Joint Ventures	Percentage Share 2022/23	Percentage Share 2023/24	Carrying Value at 31 March 2024 £000s	Share of (Surplus) or Deficit 2023/24 £000s	Other CIES Items 2023/24 £000s
East Lothian Investments	40.00%	40.00%	211	(1)	-
Enjoy East Lothian Ltd	40.00%	33.33%	3,127	236	(402)
Brunton Theatre Trust	28.57%	28.57%	222	85	-
East Lothian IJB	50.00%	50.00%	2,172	2,889	-
Edinburgh Innovation Park Joint Venture Ltd	50.00%	50.00%	(28)	17	-
Lothian Valuation Joint Board	12.50%	12.50%	2,949	91	(2,087)
Total			**8,653**	**3,317**	**(2,489)**

Associate entities are those over which the Council has been deemed to exercise significant influence. The entities, along with the relative share shown in the table, have been treated as associate companies within the terms of the Code of Practice on Local Authority Accounting.

These associates and joint ventures have been incorporated in line with the draft financial statements made available to East Lothian Council.

East Lothian Investments Ltd

East Lothian Investments (ELI) principal activity is granting interest free loans to businesses in East Lothian, with the aim of encouraging commercial activity and enterprise in the area. Two of the five directors of ELI are councillors of East Lothian Council.

Enjoy East Lothian Ltd

Enjoy East Lothian Limited (Enjoy) was established to manage, under contract, sports and leisure facilities and services on behalf of East Lothian Council. The current contract between Enjoy and the Council runs until 30 September 2031. All of the facilities are owned by the Council, with the exception of Dunbar Leisure Pool, which is wholly owned by Enjoy. Four of the twelve directors are councillors of East Lothian Council.

Although disclosed as an associate company, Enjoy East Lothian is limited in its ability to transfer financial benefits to East Lothian Council. Enjoy East Lothian Limited is a registered charity and the Memorandum of Association states that no portion of the income or assets shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit to the members of the company. Likewise, the Articles of Association relating to East Lothian Investments, restrict the payment or transference of income, either directly or indirectly, by way of dividend, bonus or otherwise, to members of the company.

Brunton Theatre Trust

Brunton Theatre Trust aims to provide a widely accessible programme for the enrichment and enjoyment of audiences and participants. Projects are undertaken that encourage harder to reach groups to engage with the work presented and the associated creative learning and arts development programmes, to enable participants to learn new skills whilst exploring a range of themes and issues. The aim of the Theatre programme is to provide the highest quality drama; dance; music; theatre for children and young people; film and comedy nights for the enjoyment and enrichment of the communities that the theatre serves. At the Balance Sheet date two of the seven trustees of the Theatre were Council appointments.

East Lothian Integration Joint Board

The East Lothian Integration Joint Board (IJB) was formed under the terms of The Public Bodies (Joint Working) (Scotland) Act 2014. This is a Joint Venture between East Lothian Council and NHS Lothian. The Council has 50% control of the partnership entity.

The Council, along with NHS Lothian provides funding to the IJB. The IJB develops a strategy and commissioning plan for health and care services for East Lothian citizens, and pays the Council and NHS Lothian to deliver services in accordance with the commissioning strategy.

The IJB is governed by The Local Government (Scotland) Act 1973 along with the 2014 regulations and is required to prepare financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.

During 2023/24 East Lothian Council contributed £63.809 million (2022/23: £61.644 m), excluding NHS resource transfers, to the annual running costs. Expenditure was incurred, and income earned, by both partners during the financial year in providing services in accordance with the commissioning directions from the IJB. As at the Balance Sheet date the Council currently has a creditor balance with the IJB totalling £0.140 million (2022/23: creditor balance of £1.791 million).

Edinburgh Innovation Park Joint Board

The Edinburgh Innovation Park Joint Venture is a joint venture partnership established with Queen Margaret University to create an innovation park, with particular focus on food, drink and health sciences, as part of the Edinburgh & South East Scotland City Region Deal. The Council has 50% control of the partnership entity. The joint venture has related subsidiary bodies for the development and eventual operation of the Innovation Park. The primary source of funding for the project is from the City Region Deal, with the Council responsible for the administration and proper use of the grant. Additional funding also comes directly from the Council as part of the City Deal agreement.

Lothian Valuation Joint Board

The Lothian Valuation Joint Board (LVJB) was established under the Valuation Joint Boards (Scotland) Order 1995 and provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services. The Board comprises 16 members appointed from the constituency authorities, of which two are from East Lothian Council.

The Council has less than 20% of the voting or potential voting power in the Lothian Valuation Joint Board but has assessed that it has significant influence of this organisation, requiring inclusion in the Council's Group Accounts. This is on the basis of representation on the Joint Board by East Lothian councillors and material transactions between East Lothian Council and the Joint Board.

The summarised financial information of the various associates and joint ventures for the financial year 2023/24 is presented below:

Associates/Joint Ventures 2023/24	Assets at the End of the Year £000s	Liabilities at the End of the Year £000s	Net Assets at the End of the Year £000s	Revenues During the Year £000s	(Surplus) or Deficit for the Year £000s
East Lothian Investments	559	(32)	527	(24)	7
Enjoy East Lothian Ltd	9,997	(615)	9,382	(6,838)	(23)
Brunton Theatre Trust	991	(213)	778	(1,057)	323
East Lothian IJB	20,571	(16,228)	4,343	(221,621)	5,779
Edinburgh Innovation Park Joint Venture Ltd	3,253	(3,309)	(56)	-	37
Lothian Valuation Joint Board	26,634	(3,044)	23,590	(6,286)	727
Total	**62,005**	**(23,441)**	**38,564**	**(235,826)**	**6,850**

Associates/Joint Ventures 2022/23	Assets at the End of the Year £000s	Liabilities at the End of the Year £000s	Net Assets at the End of the Year £000s	Revenues During the Year £000s	(Surplus) or Deficit for the Year £000s
East Lothian Investments	604	(80)	525	(19)	(2)
Enjoy East Lothian Ltd	8,310	(904)	7,406	(6,749)	898
Brunton Theatre Trust	1,373	(297)	1,076	(1,779)	(72)
East Lothian IJB	20,571	(10,449)	10,122	(204,552)	10,167
Edinburgh Innovation Park Joint Venture Ltd	1,395	(1,417)	(22)	-	22
Lothian Valuation Joint Board	11,143	(3,524)	7,619	(6,278)	974
Total	**43,396**	**(16,671)**	**26,726**	**(219,377)**	**11,987**

Note G3 Subsidiaries

Subsidiary entities are those in which the Council has a controlling share.

The following entities are regarded as group subsidiary companies, in line with the Code of Practice on Local Authority Accounting. For the purposes of the Group Accounts this means that the income, expenditure and annual surpluses or deficits of subsidiaries are combined within income, expenditure and annual surpluses or deficits relating to main council services. These subsidiary companies have been incorporated in line with the draft financial statements made available to East Lothian Council.

No subsidiaries have been excluded.

East Lothian Land Ltd

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian.

The accounts for the last period of trading to 31 March 2024 show net assets of £637,597 (31 March 2023: £557,799), and a loss before taxation of £5,769 (31 March 2023: loss of £11,290). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

Trust Funds and Common Goods

The Council acts as a majority or sole Trustee for 46 trusts, bequests and other funds as well as separate Common Good Funds. The net value of the Trusts included within the Group Accounts is £6.913 million (2022/23: £6.516 million). Although included as a subsidiary, the Council does not expect a dividend as a result of its involvement. The total value of the Common Good funds within the Group Accounts is £19.013 million (2022/23: £17.823 million). The annual accounts for the Common Good Funds and Trust Funds are included in the 'Other Accounts' section of these annual accounts.

East Lothian Mid-Market Homes LLP

The Limited Liability Partnership was established to manage new build properties in Dunbar, to be available for mid-market rent. East Lothian Council has 83% control of the partnership, with the Scottish Futures Trust also maintaining a 'minority interest' which is presented separately in the group accounts. The partnership leases housing from a third party and also purchases housing directly. It subsequently leases the dwellings to individuals at a mid-market rent, not as social housing provision. The partnership accounts to 31 March 2024 show net assets of £1.568 million (2022/23 £1.656 million), and comprehensive net income of £0.021 million (2022/23: £0.078 million).

Note G4 Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to increase Net Assets and Reserves by £35.936 million (2022/23: £35.267 million). This is largely due to the value of Common Good and Trust Funds property and investment values, and the Council's share of the East Lothian Integration Joint Board's net assets.

Note G5 Non Material Interest

East Lothian Council has two members on the committee of Scotland Excel. **Scotland Excel** is a joint committee established to replace the Authorities Buying Consortium and other similar bodies across Scotland. It is the largest non-profit purchasing agency in Scotland and serves the buying needs of 32 local authorities and similar public sector bodies in Scotland.

East Lothian Council is also a participating authority in **SEEMIS Group LLP**. The principal activity of the group is the provision of information technology solutions to Education services and is funded by the 32 participating authorities.

The Council's extent of control and influence in relation to these entities is deemed to be insufficient to meet the criteria for inclusion in the authority's group accounts.

Note G6 Reconciliation of the Council Deficit to the Group Deficit

This statement shows how the surplus or deficit on the Council's single entity Comprehensive Income and Expenditure Statement reconciles to the surplus or deficit for the year for the Group.

2022/23 £000s	Reconciliation of the Council Surplus / Deficit to the Group Surplus / Deficit	2023/24 £000s
2,444	Deficit for the Year on Authority Comprehensive Income & Expenditure Account	35,593
5,576	Associates	3,317
33	Subsidiaries	(952)
8,053	**(Surplus) / Deficit for the Year on the Group Income & Expenditure Account**	**37,958**

Financial Statements: Other accounts

5

Housing Revenue Account

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. The following statement shows how much the Council spent in fulfilling its statutory responsibility to provide, improve and manage its Housing Stock.

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 the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2022/23 £000s	Housing Revenue Account	2023/24 £000s
	Income	
(33,320)	Dwelling Rents	(36,024)
(652)	Non-Dwelling Rents	(684)
(1,742)	Non-Current Assets Revaluation Gains	(269)
(673)	Service Charges	(673)
(151)	Other Income	(140)
(36,538)	**Total Income**	**(37,790)**
	Expenditure	
8,903	Repairs and Maintenance	11,606
11,154	Supervision and Management	8,938
26,709	Depreciation, Impairment and Revaluation Losses of Non-Current Assets	43,717
224	Impairment of Debtors	117
1,988	Other Expenditure	2,873
48,978	**Total Expenditure**	**67,251**
12,440	**Net Expenditure of HRA Services as Included in the Whole Authority Comprehensive Income and Expenditure Statement**	**29,461**
442	HRA Services Share of Corporate and Democratic Core	442
12,882	**Net Expenditure of HRA Services**	**29,903**
	HRA Share of the Operating Income and Expenditure Included in the Comprehensive Income and Expenditure Statement	
(705)	(Gains) on Sale of HRA Non-Current Assets	(66)
6,013	Interest Payable and Similar Charges	6,979
(207)	HRA Interest and Investment Income	(208)
70	Pensions Interest Cost and Expected Return on Pension Assets	22
(15,505)	Capital Grants and Contributions Receivable	(10,494)
2,548	**Deficit for the year on HRA Services**	**26,136**

Movement on the HRA Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the HRA reserve balance.

2022/23 £000s	Movement on the HRA Statement	2023/24 £000s
(1,748)	Balance on the HRA at the End of the Previous Period	(1,487)
2,548	Deficit for the year on the HRA Income and Expenditure Statement	26,136
(3,173)	Depreciation charged to the Revaluation Reserve	(4,011)
(1,832)	Adjustments between Accounting Basis and Funding Basis under Legislative Framework	(22,173)
(2,457)	Net Decrease in the Balance before Transfer to or from Reserves	**(48)**
-	Adjustment for the Elimination of Internal Recharges	-
2,718	HRA Balance Transferred to General Services	-
261	Decrease in year on the HRA	**(48)**
(1,487)	**Balance on the HRA at the End of the Current Period**	**(1,535)**

Note to the Movement on the HRA Statement

This note details the adjustments that are made to the HRA deficit, recognised in the year, in accordance with proper accounting practice.

2022/23 £000s	Note to the Movement on the HRA Statement	2023/24 £000s
(21,794)	Depreciation, Revaluation and Impairment of Fixed Assets	(39,436)
14,983	Capital Grant and Contributions Applied	10,494
705	Gain on sale of HRA Non-Current Assets	66
(548)	HRA share of contributions to or from the pensions reserve	28
4,822	Loans Fund Principal Repayments	5,382
-	Capital Expenditure Funded by the HRA	1,293
(1,832)	**Adjustments between Accounting Basis and Funding Basis under Legislative Framework**	**(22,173)**

Number of HRA Houses

The Council is currently going through an expansion programme which is reflected in the increase in housing provision in the year.

Number Of HRA Houses	1 Apt	2 Apt	3 Apt	4 Apt	5 Apt	6 Apt	7 Apt	8 Apt	Total
As at 31 March 2023	43	1,871	4,647	2,339	243	8	1	1	9,153
As at 31 March 2024	43	1,941	4,745	2,394	256	8	1	1	9,389
Increase/(Decrease) in Year	**-**	**70**	**98**	**55**	**13**	**-**	**-**	**-**	**236**

Housing Rent Debtors

As at 31 March 2024 housing rent debtors amounted to £2.548 million (2022/23: £2.683 million). In the interests of prudent financial management the council has made an allowance for non-collection of £1.693 million (2022/23: £1.635 million).

Common Good Account

There are separate Common Good Funds which are related to the former Burghs of Dunbar, Haddington, Musselburgh, North Berwick and Cockenzie, Port Seton & Tranent. The funds are used to further the common good of the residents of these areas. Although the Common Good Funds are part of the Council and follow council accounting policies, the finances of the Common Good must be kept separate from council funds.

Common Good Movement in Reserves Statement

Usable Reserves 2022/23 £000s	Unusable Reserves 2022/23 £000s	Total Fund Reserves 2022/23 £000s	Movement in the Common Good Reserves	Usable Reserves 2023/24 £000s	Unusable Reserves 2023/24 £000s	Total Fund Reserves 2023/24 £000s
(13,006)	(4,752)	**(17,758)**	**Opening Balance**	(13,133)	(4,690)	**(17,823)**
			Movement in reserves during the period			
(35)	-	(35)	(Surplus) or deficit on provision of services	(548)	-	**(548)**
-	(30)	(30)	Other Comprehensive Expenditure and Income	-	(642)	**(642)**
(35)	**(30)**	**(65)**	Total Comprehensive Expenditure and Income	**(548)**	**(642)**	**(1,190)**
			Adjustments between usable and unusable reserves			
(92)	92	-	Depreciation charged to the Revaluation Reserve	(93)	93	-
(92)	**92**	**-**	**Total adjustments between usable and unusable reserves**	**(93)**	**93**	**-**
(127)	**62**	**(65)**	**Increase/Decrease in Year**	**(641)**	**(549)**	**(1,190)**
(13,133)	**(4,690)**	**(17,823)**	**Balance at 31 March 2024 carried forward**	**(13,774)**	**(5,239)**	**(19,013)**

This statement shows the movement in the year on the different reserves held by the Common Good funds, analysed between usable reserves i.e. those that can be applied to fund expenditure, and other reserves.

Common Good Comprehensive Income and Expenditure Statement

The Common Good returned a surplus for the year of £1.190 million (2022/23: Surplus £0.065 million). The change is largely attributable to gains on property asset revaluations (£0.642 million) and investment and interest returns (£0.528 million).

A key factor in the change in investment returns relates to improvement in the fair value of investments. For the first half of the year the portfolio held continued to be adversely affected by the economic effects of volatile market conditions which affected 2022/23. The latter half of 2023/24 however saw improvement with the fair value of the investments improvements.

Cash income was largely maintained through realised gains arising from the sale of investments during the year. Additionally the interest earned on Common Good cash balances lodged with East Lothian Council increased.

2022/23 £000s	Common Good Comprehensive Income and Expenditure Statement	2023/24 £000s
	Income	
(526)	Rents and Other Income	(522)
-	Property Asset Transfers from General Services Recognised in Usable Reserves	-
-	Revaluation Gains for Property Assets Recognised in Usable Reserves	-
(526)	**Total Income**	**(522)**
	Expenditure	
71	Premises-related Expenditure	105
67	Supplies and Services	67
83	Third Party Grants and Payments	142
-	Revaluation losses for non-current assets recognised in usable reserves	-
185	Depreciation	188
406	**Total Expenditure**	**502**
(120)	**Cost Of Services**	**(20)**
(347)	(Gains)/Loss on the sale of investments	(209)
(192)	Interest receivable and similar income	(254)
624	Changes in the fair value of investments	(65)
(35)	**(Surplus) or Deficit on Provision of Services**	**(548)**
(30)	Gains on Revaluation of Property, Plant & Equipment	(642)
-	Property Asset Transfers from General Services Recognised in Revaluation Reserve	-
(30)	**Other Comprehensive (Income) and Expenditure**	**(642)**
(65)	**Total Comprehensive (Income) and Expenditure**	**(1,190)**

Common Good Balance Sheet

The Common Good Balance Sheet shows the consolidated position of the combined Common Good Funds. Included within this is a debtor of £5.171 million (2022/23: £4.745 million) that is East Lothian Council. This is due to the Common Good Funds not having banking facilities of their own, instead the Council releases monies held on behalf of the Common Good as required.

Long-term financial investment values recovered slightly from valuation losses which had occurred in 2022/23. Liquidity has also improved with an increased balance due from East Lothian Council, generally reflecting cash from sale of investments and increased interest earned on the cash balances held by East Lothian Council.

The unaudited accounts were submitted for audit on 27 June 2024.

Sarah Fortune CPFA
Executive Director for Council Resources (CFO)

2022/23 £000s	Common Good Balance Sheet	2023/24 £000s
8,676	Property Plant & Equipment	9,129
3,570	Long Term Investments	3,833
598	Long Term Debtors	553
12,844	**Long Term Assets**	**13,515**
260	Sundry Debtors	350
4,745	Operating Balance Debtor (East Lothian Council)	5,171
5,005	**Current Assets**	**5,521**
(26)	Short Term Creditors	(23)
(26)	**Current Liabilities**	**(23)**
17,823	**Net Assets**	**19,013**
(4,690)	Property Revaluation Reserve	(5,239)
(13,133)	Usable Reserves	(13,774)
(17,823)	**Total Reserves**	**(19,013)**

Notes to the Common Good Account

Non-Current Assets

The value of the Common Good property, plant and equipment changed in the following way.

2022/23 £000s	Common Good Property, Plant & Equipment	2023/24 £000s
8,775	Opening Net Book Value	8,676
56	Additions	-
-	Disposals and Derecognitions	-
30	Revaluations	642
-	Assets Transferred from General Services (Revaluation Balances)	-
(185)	Depreciation	(188)
-	Impairments	-
8,676	**Closing Net Book Value**	**9,130**

Finance Lease

Details of Common Good Finance Leases

Common Good buildings used by the Council for the provision of taxpayer services are not included on the Common Good balance sheet. They are treated as equivalent to finance leases. There is currently no rental charge for some building assets currently used by the Council which are on Common Good land.

Brunton Theatre Structural Defects

The Brunton Theatre is a Musselburgh Common Good property which is treated as being leased to East Lothian Council. It therefore is not included on the Common Good balance sheet. In February 2023 structural defects related to the historic use of Reinforced Autoclaved Aerated Concrete (RAAC) were identified. Consequently parts of the building have been removed from use. On 29 October 2024 the Council considered a report which recommended decommissioning of the building, after relocating the services still using the facility, and a public consultation on potential demolition. The Council has recognised a further impairment charge in 2023/24 to reflect the expected reduction in the future use of the building.

Rental Income

Where a rent schedule is in place a debtor is shown on the Common Good balance sheet. Future Minimum Lease Payments, and the debtor repayment schedule, are shown in the following table. Formal arrangements for continued Council use of Common Good assets, which recognise and reflect Common Good ownership, are anticipated to be agreed. Any adjustments will be accounted for when an agreement is reached.

2022/23 Minimum Lease Payments £000s	2022/23 Inclusive of Debtor Repayments £000s	Common Good Finance Leases	2023/24 Minimum Lease Payments £000s	2023/24 Inclusive of Debtor Repayments £000s
247	37	Income Receivable in the next year	247	37
987	147	Income Receivable in years 2 to 5	947	135
3,713	387	Income Receivable after 5 years	3,505	363
4,947	**571**	**Total Receivable**	**4,699**	**535**

Fund Analysis

The separate funds are valued at 31 March 2024 as:

Common Good Fund Analysis	Dunbar £000s	Haddington £000s	Musselburgh £000s	North Berwick £000s	Cockenzie, Port Seton & Tranent £000s	Total £000s
Balance Brought forward at 1 April 2023	(970)	(820)	(9,217)	(1,703)	(423)	**(13,133)**
(Surplus) Deficit in the Year	46	(28)	(532)	(34)	-	**(548)**
Depreciation charged to the Revaluation Reserve	(5)	-	(74)	(14)	-	**(93)**
Fund Balance at 31 March 2024	**(929)**	**(848)**	**(9,823)**	**(1,751)**	**(423)**	**(13,774)**
Property Revaluation Reserve	**(443)**	**(58)**	**(2,704)**	**(1,936)**	**(98)**	**(5,239)**
Total Reserves	**(1,372)**	**(906)**	**(12,527)**	**(3,687)**	**(521)**	**(19,013)**

Fund balances at 31 March 2024 include accumulated fair value gains on financial instrument investments of £0.728 million (2022/23: £0.664 million). The change reflects market value losses recorded in the year. The accumulated gains are unrealised and should be regarded as deferred gains. It would not be considered prudent for these gains to be used until they are realised. The fund balances also reflect the value of Common Good property assets. Some properties are inalienable and therefore their values cannot be realised through sale of the assets. The fund balances for Cockenzie, Port Seton & Tranent arise solely from the recognition of land assets transferred from the Council's balance sheet.

Trust Funds Account

The Council acts as a majority or sole Trustee for 46 trusts, bequests and other funds, which are administered in accordance with their individual terms. The Council has initiated a review of trusts administered by East Lothian Council with an objective to improve the effectiveness of all the Trust Funds and support achievement of their objectives. The remit relates to potential changes in the stewardship, governance, and administration arrangements of the Trust Funds. The review is ongoing, with progress affected by resource requirements and competing priorities, which will affect the conclusion of the process. The Trusts Funds have been accounted for on a 'going concern' basis due to the expectation that the underlying purposes of the funds will continue to be met, with funds being used to support the trusts' objectives.

Trust Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Trust funds, analysed between usable reserves i.e. those that can be applied to fund expenditure, and other reserves. Fund balances at 31 March 2024 include accumulated fair value gains on financial instruments. These gains are unrealised and should be regarded as deferred gains. It would not be considered prudent for these gains to be used until they are realised.

Usable Reserves 2022/23 £000s	Unusable Reserves 2022/23 £000s	Total Fund Reserves 2022/23 £000s	Movement in the Trust Reserves	Usable Reserves 2023/24 £000s	Unusable Reserves 2023/24 £000s	Total Fund Reserves 2023/24 £000s
(5,751)	(898)	**(6,649)**	**Opening Balance at 1 April brought forward**	(5,645)	(871)	**(6,516)**
			Movement in reserves during the period			
133	-	**133**	(Surplus) on provision of services	(389)	-	**(389)**
-	-	**-**	Other Comprehensive Expenditure and Income	-	(8)	**(8)**
133	**-**	**133**	Total Comprehensive Expenditure and Income	**(389)**	**(8)**	**(397)**
			Adjustments between usable and unusable reserves			
(27)	27	**-**	Depreciation charged to the Revaluation Reserve	(27)	27	**-**
(27)	**27**	**-**	**Total adjustments between usable and unusable reserves**	**(27)**	**27**	**-**
106	**27**	**133**	**Increase/Decrease in Year**	**(416)**	**19**	**(397)**
(5,645)	**(871)**	**(6,516)**	**Balance at 31 March carried forward**	**(6,061)**	**(852)**	**(6,913)**

Trust Comprehensive Income and Expenditure Statement

During the year 2023/24, the Trust Funds returned a surplus for the year of £0.397 million (2022/23: Deficit £0.133 million).

The main factor in the change relates to improvement in the fair value of investments. For the first half of the year the portfolio held continued to be adversely affected by the economic effects of volatile market conditions which affected 2022/23. The latter half of 2023/24 however saw improvement with the fair value of the investments improvements.

Cash income was largely maintained through realised gains arising from the sale of investments during the year. Additionally the interest earned on cash balances lodged with East Lothian Council increased.

2022/23 £000s	Trusts Comprehensive Income and Expenditure Statement	2023/24 £000s
	Income	
(52)	Rents and Other Income	(46)
(52)	**Total Income**	**(46)**
	Expenditure	
2	Premises-related expenditure	3
39	Supplies and Services	40
8	Third Party Grants and Payments	12
31	Depreciation	31
80	**Total Expenditure**	**86**
28	**Cost Of Services**	**40**
(358)	(Gains) on the sale of investments	(262)
(136)	Interest receivable and similar income	(164)
599	Changes in the fair value of investments	(3)
133	**(Surplus) or Deficit on Provision of Services**	**(389)**
-	(Surplus) on Revaluation of Property, Plant & Equipment	(8)
-	**Other Comprehensive Income and Expenditure**	**(8)**
133	**Total Comprehensive Income and Expenditure**	**(397)**

Trust Fund Balance Sheet

Trust Fund net assets increased in the year to £6.913 million (2022/23: £6.516 million) largely due to increases in the market value of financial investments. Cash and short term liquid assets have also increased.

The unaudited accounts were submitted for audit on 27 June 2024.

Sarah Fortune CPFA
Executive Director for Council Resources (CFO)

2022/23 £000s	Trusts Balance Sheet	2023/24 £000s
936	Property Plant & Equipment	913
3,563	Long Term Investments	3,807
60	Long Term Debtors	54
4,559	**Long Term Assets**	**4,774**
17	Short Term Debtors	24
2,063	Operating balance debtor (East Lothian Council)	2,225
2,080	**Current Assets**	**2,249**
-	Short Term Creditors	(2)
-	**Current Liabilities**	**(2)**
(123)	Other Long Term Liabilities	(108)
(123)	**Long Term Liabilities**	**(108)**
6,516	**Net Assets**	**6,913**
(871)	Property Revaluation Reserve	(852)
(5,645)	Usable Reserves	(6,061)
(6,516)	**Total Reserves**	**(6,913)**

Property Asset Valuation

For most Trust property assets, an independent valuer assesses the value of land and buildings every five years based on the open market value for existing use.

Market Investment Valuation

Investments are valued each year by the Trusts' investment managers, based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2024 are shown in the Trust Investments table.

2022/23 £000s	Trust Investments	2023/24 £000s
	Investments >£100,000 at End of Each Year:	
-	JPMorgan ETFS (Ire US Rei Equity Esg Etf Dist	339
407	Vanguard Inv Serv/Vanguard Funds PLC S&P500 Ucits	270
-	Brown Advisory Fds BWN Adv Us Sust Gth Si GBP	249
-	BA Beutel Goodman BA Beutel Goodman US Val C	166
130	Blackrock EURPN Dy BR EURPN Dynamic Fd Dis	151
-	JPMorgan Fund Icvc JPM Us Eq Inc C2 GBP Net Di	149
105	JH Inv Fds Srs I JH EURP Seld Opps G GBP Dis	122
101	Astrazeneca Ord USD0.25	96
116	Ishares Trust Core S&P 500 Etf	-
	Investments <£100,000 at End of Each Year:	
2,619	Other stocks and shares	2,246
85	Held as Cash / Liquid Assets	19
3,563	**Total Investments**	**3,807**

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from the Council Taxes levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the CIES of the authority.

The tax level depends on the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers (e.g. single occupants).
A Council Tax Reduction Scheme is available to assist taxpayers on a low income.

2022/23 £000s	Council Tax Income Account	2023/24 £000s
(77,245)	Gross Council Tax Levied and Contributions in Lieu	(84,655)
	Adjusted For:	
5,652	Council Tax Reduction Scheme	6,148
6,058	Other Discounts and Reductions	6,673
2,039	Provision for Non Collection	2,601
(63,496)	Council Tax Income in Year	**(69,233)**
445	Adjustments to Previous Years' Council Tax	452
(63,051)	**Transfer to General Fund**	**(68,781)**

Council Tax Base

The Council Tax base is calculated as follows:

Council Tax Base	A	B	C	D	E	F	G	H	Total
Charge for Each Band (£)	957.08	1,116.59	1,276.11	1,435.62	1,886.25	2,332.88	2,811.42	3,517.27	
Effective Properties	921	7,753	13,421	6,087	6,417	5,690	4,900	666	**45,855**
Ratio to Band D	240/360	280/360	320/360	360/360	473/360	585/360	705/360	882/360	
Band D Equivalents	613	6,030	11,930	6,087	8,431	9,246	9,596	1,632	**53,565**
Provision for non-payment (2.85%)									**(1,527)**
Council Tax Base									**52,038**

Dwellings are valued by the Assessor and placed in a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base i.e. band D equivalents. The value is then decreased or increased dependent upon the band of the dwelling. A full Council Tax charge assumes there are two or more adults, aged 18 or over, living in a property as their main home. If only one adult lives in a house and it is their sole or main residence, the charge may be reduced by 25%. Charges for water and sewerage are the responsibility of Scottish Water. East Lothian Council collects total monies and makes a payment to Scottish Water. These payments are calculated on a pre-determined formula.

Non-Domestic Rate (NDR) Income Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2022/23 £000s	Non-Domestic Rate Income Account	2023/24 £000s
(61,978)	Gross Rates Levied and Contributions in Lieu	(72,741)
12,412	Relief and Other Deductions	13,449
26		26
(49,540)	**Net Non-Domestic Rate Income**	**(59,266)**
(3,097)	Adjustments to Previous Years' National Non-Domestic Rates	301
(52,637)	**Total Non-Domestic Rate Income (Before Authority Retentions)**	**(58,965)**
-	Non-Domestic Rate Income retained by the Council (BRIS)	-
(52,637)	**Contribution to the National Non-Domestic Rate Pool**	**(58,965)**
(28,686)	**Non Domestic Rate income credited to the General Fund**	**(58,108)**

Business Rate Incentivisation Scheme (BRIS)

The Business Rates Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. There was no BRIS income retained in 2023/24 (2022/23: Nil retained).

Rateable Values

An analysis of the rateable values at 01 April 2023 is detailed in the Rateable Values table.

Rateable Values	Number	Rateable Value £000s
Shops, Offices and other Commercial Subjects	1,703	29,929
Industrial and Freight Transport	956	12,896
Miscellaneous (Schools etc.)	1,060	96,745
Total	**3,719**	**139,570**

Rate Level

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was:

- 49.8p (2022/23: 49.8p) per pound for properties with a rateable value of up to £51,000 (2022/23: £51,000),
- 51.1p (2022/23: 51.1p) per pound for properties with a rateable value of over £51,000 and up to £100,000 (2022/23: £51,000 up to £95,000),
- 52.40p (2022/23: 52.4p) per pound for properties with a rateable value of £100,000 or over (2022/23: £95,000 or over)
- 49.8p (2022/23: No equivalent) per pound for newly re-occupied properties with rateable value of £100,000 or less, subject to conditions relating to being unoccupied on or after 1 April 2023; being continuously unoccupied for at least 6 months before re-occupation; and re-occupation having occurred in the last 12 months.

From 1 April 2023 levels of rates relief were set at:

Entry on Roll	Rateable Value (RV)	Relief Offered
Single Property	Up to £12,000	100%
Single Property	Over £12,000 to £15,000	Tapering percentages ranging from 100% (RV £12,001, 0.00p) to 25% (RV £15,000, 37.4p)
Single Property	Over £15,000 up to £20,000	Tapering reliefs ranging from 25% (RV over £15,000, 37.4p) to 0% (RV £20,000, 49.8p)
Multiple Properties	Total RVs up to £12,000	100%
Multiple Properties	Total RVs over £12,000 up to £35,000	For each individual property with RV £15,000 or less 25% rate relief (37.4p); For individual properties with RV over £15,000 and less than £20,000 a tapering rate relief from 25% (£15,000, 37.4p) to 0% (£20,000, 49.8p)

The reliefs in 2022/23 were:

- 100% for eligible properties with a Rateable Value (RV) of less than £20,000
- 100% for eligible properties with a combined Rateable Value (RV) of up to £15,000,
- 25% for eligible properties with a combined RV between of over £15,000 and up to £18,000,
- For businesses with multiple properties, whose cumulative RV was £35,000 or less, the relief was 25% for each property with a rateable value of £18,000 or less.

Glossary of Terms

6

Glossary of Terms

While much of the terminology used in this document is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance to the reader.

1. Accounting Period - The period of time covered by the Accounts - this is a period of 12 months commencing on the 1st of April.
2. Accruals – The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.
3. Actuarial Gains and Losses (Pensions) - Changes in actuarial deficits or surpluses that arise because events have not coincided with previous actuarial assumptions or actuarial assumptions have changed.
4. Asset - An asset is categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year. A non-current asset will provide benefit to the Council and to the services it provides for a period of more than one year.
5. Associate - An entity, which is not a subsidiary or joint-venture, in which the Council has a participating interest, or over whose operating and financial policies the Council is able to exercise significant influence.
6. Capital Adjustment Account - This reserve account relates to amounts set aside from capital resources to meet past expenditure.
7. Capital Expenditure - Expenditure on the acquisition of a non-current asset which will be used in providing services beyond the current accounting period, or expenditure which adds to the value of an existing non-current asset.
8. Capital Financing - The various methods used to finance capital expenditure. This includes borrowing, leasing, capital receipts, capital grants and use of revenue funding.
9. Capital Grants Unapplied - This account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.
10. Capital Receipt - Proceeds from the sale of land, buildings or other non-current assets.
11. Capital Receipts Reserve - This reserve represents the proceeds from non-current asset disposals not yet used and which are available to meet future capital investment.

12. The Code of Practice on Local Authority Accounting – The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

13. Creditor - Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

14. Current Service Costs (Pensions) - The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

15. Debtor - Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

16. Defined Benefit Pension Scheme - Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

17. Depreciation – A charge measuring the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non-current assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

18. Discretionary Benefits (Pensions) - Retirement awards, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers.

19. Employee Statutory Adjustment Account - This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

20. Fair Value - The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.

21. Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

22. Government Grants - Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be for a specific scheme or may support the revenue or capital spend of the Council in general.

23. Heritage Asset - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained

principally for its contribution to knowledge and culture.

24. Impairment - A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

25. Insurance Fund - This covers the main classes of insurance and is earmarked for insurance purposes.

26. Interest Cost (Pensions) - For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

27. Inventories - Items of raw materials and stock the Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

28. Liability - A liability is where the Council owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A long-term liability is an amount which, by arrangement, is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

29. National Non-Domestic Rates Pool - All rates paid by businesses based on the rateable value of the premises they occupy collected by local authorities are remitted to the national pool and thereafter distributed to councils by the Scottish Government.

30. Net Book Value (NBV) - The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

31. Non-Current Assets - These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.

32. Operating Lease - A lease where the ownership of a non-current asset remains with the lessor.

33. Past Service Cost (Pensions) - For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

34. Pension Reserve - The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Lothian Pension Fund and the change in the Council's share of the Pension Fund net liability chargeable to the CIES.

35. Pension Scheme Liabilities - The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. The scheme liabilities, measured using the "projected unit method", reflect the benefits that the employer is committed to provide for service up to the valuation date.

36. Post-Employment Benefits - All forms of consideration given by an employer in exchange for services rendered by employees that are payable after

the completion of employment (e.g. pensions in retirement).

37. Provision - An amount put aside in the accounts for future liabilities or losses which are certain, or very likely to occur, but the amounts or dates of when they will arise are uncertain.

38. Public Works Loan Board (PWLB) - A Central Government Agency, which provides loans for one year and above to councils at interest rates only based on those at which the Government can borrow itself.

39. Rateable Value - The annual assumed rental of a non-housing property, which is used for national Non-Domestic Rates purposes.

40. Related Parties - Entities or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

41. Remuneration - All sums paid to or receivable by an employee and sums due by way of expenses, allowances (as far as these sums are chargeable to UK income tax) and the monetary value of any other benefits received other than cash.

42. Reserves - The accumulation of surpluses, deficits and appropriation over the past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves, such as the Revaluation Reserve, cannot be used to meet current expenditure.

43. Revaluation Reserve - The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sale.

44. Revenue Expenditure - The day-to-day running costs associated with the provision of services within one financial year.

45. Subsidiary - An entity over which the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

Versions of this leaflet can be supplied in Braille, large print, audiotape or in your own language. Please phone Customer Services if you require assistance on 01620 827199

East Lothian Council
Business Finance
John Muir House
Haddington EH41 3HA

www.eastlothian.gov.uk

102 West Port
Edinburgh
EH3 9DN

8 Nelson Mandela Place
Glasgow
G2 1BT

The Green House
Beechwood Business Park North
Inverness
IV2 3BL

T: 0131 625 1500
E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

AUDIT SCOTLAND

Audit and Governance Committee

17 December 2024

5a i

East Lothian Council
Audit of 2023/24 annual accounts

Independent auditor's report

1. Our audit work on the 2023/24 annual accounts is now substantially complete. Subject to the receipt of a revised set of annual accounts for final review and the outstanding matters detailed below, we anticipate being able to issue unmodified audit opinions in the independent auditor's report on 17 December 2024 (to be confirmed)(the proposed report is attached at ~~Appendix A~~).

Annual Audit Report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the annual accounts to those charged with governance of East Lothian Council in sufficient time to enable appropriate action. For East Lothian Council, those charged with governance is the Audit and Governance Committee. We present for the committee's consideration our draft Annual Audit Report on the 2023/24 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts to date. Audit work is ongoing and there may be further findings to be reported in this section of the Annual Audit Report as summarised in paragraph 10 below.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the audit of the annual accounts has been completed.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements in the annual accounts which we have identified during the course of our audit, other than those of a trivial nature, and request that these misstatements be corrected.

6. Appendix two of our Annual Audit Report details the unadjusted misstatements. This may change when the annual audit is concluded.

Fraud, subsequent events, and compliance with laws and regulations

7. In presenting this report to the Audit and Governance Committee we seek confirmation from those charged with governance of any instances of any actual, suspected, or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Executive Director for Council Resources, as the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

9. A draft letter of representation is attached at Appendix B. This should be returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being signed.

Outstanding matters

10. Our audit work is substantially complete subject to the following outstanding procedures/information as detailed below:

- our work on the valuation of non-current assets is ongoing. A review of a sample of assets identified inconsistencies in floor space information and other assumptions underpinning the valuation of land and buildings as at 31/03/2024. The council is liaising with the valuer to allow the matter to be resolved.

- final audit completion steps including conclusion of subsequent procedures up to the date of signing and written representations from the council.

Appendix A: Proposed Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of East Lothian Council and its group for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Group Only Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the council-only Housing Revenue Account, Movement on the HRA Statement, the Common Good Movement in Reserves Statement, the Common Good Comprehensive Income and Expenditure Statement, Common Good Balance Sheet, the Trust Movement in Reserves Statement, Trust Comprehensive Income and Expenditure Statement, Trust Fund Balance Sheet, the Council Tax Income Account and the Non Domestic Rate (NDR) Income Account and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2024 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 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 for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director for Council Resources and East Lothian Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director for Council Resources 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 Executive Director for Council Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director for Council Resources is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

East Lothian Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;

- inquiring of the Executive Director for Council Resources as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;

- inquiring of the Executive Director for Council Resources concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Executive Director for Council Resources is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my 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 I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Boyd FCPFA
Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Appendix B: Letter of Representation (ISA 580)

John Boyd, Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear John

East Lothian Council
Annual Accounts 2023/24

1. This representation letter is provided about your audit of the annual accounts of East Lothian Council and its group (hereafter referred to as the Council) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the Remuneration Report, Management Commentary, and Annual Governance Statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of the Council's annual accounts for the year ended 31 March 2024.

General

3. The Council and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual accounts. All the accounting records, documentation, and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the Council have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, and The Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 Regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Council at 31 March 2024 and the transactions for 2023/24.

Accounting Policies and Estimates

7. All material accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. Where the accounting code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to the Council's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed the Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2024 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

11. I carried out an assessment at 31 March 2024 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2024.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

15. The pension assumptions made by the actuary in the IAS 19 report for the Council have been reviewed and I confirm that they are consistent with management's own view. The pension asset has been capped to reflect the asset ceiling as determined through IFRIC 14. I am satisfied that the assumptions applied in the calculation are consistent with management's own view.

Liabilities

16. All liabilities at 31 March 2024 of which I am aware have been reported in the financial statements.

17. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2024 of which I am aware where the conditions specified in the 2023/24 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2024. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

18. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2024 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

19. The accrual recognised in the financial statements for annual leave untaken by 31 March 2024 has been estimated on a reasonable basis.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent Liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 29 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed in accordance with the 2023/24 accounting code and IAS 37.

Litigation and Claims

22. All known actual or possible legal claims have been disclosed to you and have been accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code.

Fraud

23. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

24. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

25. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

26. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

27. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014, and all required information of which I am aware has been provided to you.

Management Commentary

28. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

29. I confirm that the Council has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

30. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Group Accounts

31. I have identified all the other entities in which the Council has a material interest and have classified and accounted for them in accordance with the 2023/24 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Common Good Fund

32. I confirm, to the best of my ability, that all material common good assets have been identified and correctly accounted for within the common good fund financial statements and where appropriate, common good assets in use by the Council have been assessed and accounted for in line with IAS 17.

Events Subsequent to the Date of the Balance Sheet

33. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Sarah Fortune
Executive Director for Council Resources
Section 95 Officer

102 West Port
Edinburgh
EH3 9DN

8 Nelson Mandela Place
Glasgow
G2 1BT

The Green House
Beechwood Business Park North
Inverness
IV2 3BL

T: 0131 625 1500
E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

Audit and Governance Committee

17 December 2024

5a ii

Dr Bruce Fund (SC019149)

Audit of 2023/24 financial statements

Independent auditor's report

1. Our audit work on the 2023/24 financial statements is now substantially complete. Subject to receipt of a revised set of financial statements for final review, we anticipate being able to issue unmodified audit opinions in the independent auditor's report on 19 December 2024 (the proposed report is attached at ~~**Appendix A**~~).

Annual audit report

2. In accordance with the Charities Accounts (Scotland) Regulations 2006 an audit is required for all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of Part VII of the Local Government (Scotland) Act 1973 and section 44 (1)(c) of the Charities and Trustees Investment (Scotland) Act 2005. The external auditor of East Lothian Council, Audit Scotland, is the appointed auditor of the Dr Bruce Fund for the year ended 31 March 2024.

3. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The trustees of the charity are the elected officials of East Lothian Council (Musselburgh) in an ex-officio capacity. The trustees have identified East Lothian Council's Audit and Governance Committee as those charged with governance for approving the Dr Bruce Fund financial statements.

4. Matters relating to the Dr Bruce Fund are reported in the East Lothian Council draft annual report on the 2023/24 audit, which is presented separately for the Audit and Governance Committee's consideration. There were no significant findings identified in respect of the Dr Bruce Fund financial statements.

5. The annual report on the 2023/24 audit will be issued in final form after the financial statements have been certified.

Unadjusted misstatements

6. We also report to those charged with governance all unadjusted misstatements in the financial statements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

7. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

8. In presenting this report to the Audit and Governance Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

9. As part of the completion of our audit, we are seeking written representations from the Executive Director for Council Resources, as Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

10. A draft letter of representation is attached at **Appendix B**. This should be returned to us by the Section 95 Officer with the financial statements prior to the independent auditor's report being certified.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of the Dr Bruce Fund (SC019149) and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of the Dr Bruce Fund for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2024 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are 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 trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees intend to discontinue the charity's operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector and charity sector to identify that the Local Government (Scotland) Act 1973, the Charities and Trustee Investment (Scotland) Act 2005, and The Charities Accounts (Scotland) Regulations 2006 are significant in the context of the charity;

- inquiring of the Trustees and Executive Director for Council Resources as to other laws or regulations that may be expected to have a fundamental effect on the operations of the charity;

- inquiring of the Trustees and Executive Director for Council Resources concerning the charity's policies and procedures regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the charity's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The trustees are responsible for the other information in the statement of accounts. The other information comprises the Trustees' Annual Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Trustees' Annual Report to the extent explicitly stated in the following opinion prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Trustees' Annual Report

In my opinion, based on the work undertaken in the course of the audit, the information given in the Trustees' Annual Report 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 Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Use of my report

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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Mark Ferris FCCA

Senior Audit Manager
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Mark Ferris is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix B: Letter of Representation (ISA 580)

Mark Ferris, Senior Audit Manager
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Mark

Dr Bruce Fund (SC019149)
Financial Statements 2023/24

1. This representation letter is provided about your audit of the financial statements of the Dr Bruce Fund for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the trustees, the following representations given to you in connection with your audit of the Dr Bruce Fund's financial statements for the year ended 31 March 2024.

General

3. The charity's trustees and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 financial statements. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the financial statements have been made available to you for the purposes of your audit. All transactions undertaken by the Dr Bruce Fund have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The financial statements financial statements have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the regulations 8(1), (2) and (3) of the Charities Accounts (Scotland) Regulations 2006.

6. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the registered charitable trust for the year ended 31 March 2024. I have ensured that the financial statements give a true and fair view of the financial position of the Dr Bruce Fund at 31 March 2024 and the transactions for 2023/24.

Accounting Policies and Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. All accounting policies applied are appropriate to the Dr Bruce Fund's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed the Dr Bruce Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the Dr Bruce Fund's ability to continue as a going concern.

Assets

10. The investments shown in the balance sheet at 31 March 2024 were owned by the registered charity. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value of classification of the assets within the financial statements.

11. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2024.

Liabilities

12. All liabilities at 31 March 2024 of which I am aware have been recognised in the annual accounts.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Fraud

14. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

15. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

16. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements. I have made available to you the identity of all the Dr Bruce Fund's related parties and all the related party relationships and transactions of which I am aware.

Trustees' Annual Report

17. I confirm that the Trustees' Annual Report has been prepared in accordance with the Charities SORP (FRS 102) and the information is consistent with the financial statements.

Corporate Governance

18. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

19. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Sarah Fortune

Executive Director for Council Resources

East Lothian Council

2023/24 Annual Audit Report – DRAFT

5b

AUDIT SCOTLAND

Prepared for the Members of East Lothian Council and the Controller of Audit

December 2024

Contents

Key messages

2023/24 annual accounts

1 Our audit opinions on the annual accounts of East Lothian Council (the council), its group, and the section 106 charities administered by the council are unmodified, i.e. the financial statements and related reports are free from material misstatement.

2 The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

3 The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts. Information on paid trade union activities has not been captured in year and therefore not disclosed in line with the required regulations.

Financial management and sustainability

4 The council reported deficit on the provision of services of £12.273 million which is being met from reserves. The council continues to face financial challenges through inflationary pressures on pay and non-pay costs, demand on services and supporting a growing population.

5 The council has appropriate budget setting and monitoring arrangements in place but continues to face significant challenges to identify and agree the required future savings to balance its budget. For 2024/25 the council has identified recurring cost pressures in excess of £8 million in the delivery of services.

6 Our review of the council financial systems highlighted ongoing internal control inconsistencies and inefficiencies which increases the risk of control weaknesses. As the council migrates from the current financial system to the implementation of the new financial system it is important that management is able to assure itself that it is putting measures in place to address inefficient and inconsistent controls, to reduce the risk of control weaknesses and ensure corporate understanding of end to end processes.

7 Medium-term financial plans reflect the council’s strategic priorities. The council faces significant challenges in addressing a budget gap of £65 million over the next five years.

8 The council's level of useable general reserves as a percentage of overall budget was below the Scottish average.

9 Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures.

10 The council needs to continue to invest in digital technology to support and transform its services.

11 In August 2024 the council approved the Transformation Strategy 2024-29.

Best Value

12 The workforce plan captures the workforce challenges that the council faces however actions included within the action plan need to be specific, measurable, achievable, reliable, and time-bound (SMART) to allow progress to be monitored and reported.

13 The council has completed a limited number of corporate digitalisation projects. The council has not yet measured the impact of the digital technology it has introduced on workforce productivity and service outcomes. The council's Transformation Strategy 2024-29 includes plans to do this.

14 Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council has revised its flexible and homeworking policies to enhance flexible working options for employees. The council must continue to explore opportunities to develop long-term sustainable solutions to meet the challenges it faces.

15 The council should continue to explore and develop formal arrangements for sharing services with other councils or partners to create workforce benefits.

16 The council has made progress in taking forward the 2022/23 Best Value improvement recommendations.

Vision, leadership and governance

17 The council has recognised that with resource restraints and demand led pressures there is a need to focus on key council priorities. The council has agreed to re-prioritise the Council Plan 2022-27 originally introduced in 2022. However, further work is required to align resources around these priorities and to ensure that there is clear engagement with the community to inform difficult decisions around the future of council services.

18 In June 2024 as both were not quorate, the Audit & Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled.

19 Governance arrangements are well established. Elected members need to work together to take the strategic decisions require to ensure the financial sustainability of the council.

Use of resources to improve outcomes

20 The council has maintained its overall performance which reflects an improvement from the Scottish average.

21 Maintaining oversight of performance is challenging across the range of council services. The council needs to set clear performance outcome targets for each of its refreshed priority areas.

22 The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs).

Introduction

1. This report summarises the findings from the 2023/24 annual audit of East Lothian Council. The scope of the audit was set out in an Annual Audit Plan presented to the 11 June 2024 meeting of the Audit and Governance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of East Lothian Council's annual accounts
- conclusions on East Lothian Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to East Lothian Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. John Boyd has been appointed by the Accounts Commission as auditor of East Lothian Council for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of the five-year appointment.

4. We would like to thank councillors, audit and governance committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. East Lothian Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. East Lothian Council is also responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve the management of East Lothian Council from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £308,410 (including £1,000 in respect of Charitable Trusts) as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to East Lothian Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Our audit opinions on the annual accounts of East Lothian Council, its group, and the section 106 charities administered by the council are unmodified, i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts. Information on paid trade union activities has not been captured in year and therefore not disclosed in line with the required regulations.

Audit opinions on the annual accounts are unmodified

11. The council approved the annual accounts for East Lothian Council (the council) and its group for the year ended 31 March 2024 on 17 December 2024 (TBC). The group accounts consolidate the financial results of the council and its subsidiaries and its investments in associates and interests in joint ventures. These include: East Lothian Land Ltd, East Lothian Mid-Market Homes LLP, Common Good Funds, Trust Funds, East Lothian Investments, Enjoy East Lothian Ltd, Brunton Theatre Trust, East Lothian Integration Joint Board, Edinburgh Innovation Park Joint Venture Ltd and Lothian Valuation Joint Board.

12. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014

- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall group materiality was assessed on receipt of the unaudited annual accounts as £9.4 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1

Materiality values

Materiality level	Council	Group
Overall materiality	£9.3 million	£9.4 million
Performance materiality	£6.0 million	£6.2 million
Reporting threshold	£467,000	£500,000

Source: Audit Scotland

15. The overall materiality threshold for the audit of the annual accounts the council and its group was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. We have used our professional judgement and set performance materiality at 65 per cent of overall materiality.

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under ISA (UK) 260, we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the council's accounting practices.

19. The Code of Audit Practice also requires us to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance. The significant findings including key audit matters, are summarised in Exhibit 2.

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1.**Revaluation of non-current assets** TO BE COMPLETED	**Recommendation 1** (Refer Appendix 1, action plan)
2. Pensions Liability – Secondary Contributions including prior period restatement Secondary contributions are used in a local government pension scheme to address an existing deficit or surplus in the fund. IFRIC 14 requires that where past service contributions are not available in the form of a refund or reduction in future contributions, an additional liability should be recognised when the obligation arises. This liability should reduce the net defined benefit asset or increase the net liability. The council made positive secondary contributions to the fund during 2021/22 and 2022/23.	The council obtained additional information from Hymans Robertson to inform a further review of the accounting requirements of IFRIC 14 as at 31 March 2023. The council accounts include a retrospective restatement of the prior year accounts to recognise a liability of £9.6 million. The council has used this as an estimate of the prior year opening liability as at 1 April 2022. The audit team have reviewed the actuarial reports and the basis of calculation as well as management's estimate of the opening liability and are satisfied that the liability recognised is a reasonable estimate of obligations under IFRIC 14. The prior period adjustment has been appropriately disclosed in the annual accounts.

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	• Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries and focus on significant risk areas. • Considered the need to test journal entries and other adjustments throughout the year. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	**Results:** We found no instances of material misstatement due to fraud or error caused by management override of controls. Assurance has been gained that in year and year end journals were properly processed.
2. Estimation in the valuation of land and buildings. East Lothian Council held land and buildings with a NBV in excess of £1,000 million as at 31 March 2023, with land and buildings revalued on a five-year rolling basis. An external valuer carries out valuations of land and buildings.	• Reviewed the information provided to the external valuer to assess for completeness. • Evaluated the competence, capabilities, and objectivity of the professional valuer. • Obtained an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.	**Results:** Assurance has been gained that there are no material misstatements in the carrying value of land & buildings. To update on completion of NCA.

Audit risk	Assurance procedure	Results and conclusions
There can be a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations. Valuations should reflect conditions at 31 March 2024 including those subject to valuation and those not revalued. There is a risk the carrying valuation of land and buildings does not reflect the current value at 31 March 2024.	• Critically assessed the approach East Lothian Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Challenged management's assessment of why it considers that the land and buildings not revalued in 2023/24 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Critically assessed the adequacy of East Lothian Council's disclosures regarding the assumptions in relation to the valuation of land and buildings.	

Source: Audit Scotland

21. In addition, as part of our assessment of audit risks, we identified other areas where we considered there were also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we did not consider these to represent significant risks. These areas of specific audit focus were:

22. Pension Valuation: the pension valuation due to the material value and significant assumptions used in the calculation of the carrying value. We utilised the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the council's actuary, Hymans Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2024.

23. In accordance with IFRIC 14, the pension asset recognised within the financial statements was capped at the estimated future benefit to the Council. We have reviewed the assumptions applied by the actuary in arriving at the asset ceiling cap and are satisfied that this is in accordance with IFRIC 14.

24. Service Concession arrangement flexibilities: We reviewed the accounting adjustments and disclosures within the financial statements with regards to implementation of the statutory accounting treatment for Service Concession arrangement flexibilities as set out in Finance Circular 10/22 in relation to the Council's PPP contracts. This has resulted in a one-off cumulative retrospective saving which has and resulted in a non-recurring adjustment to increase the General Fund reserves by £14.193 million.

25. As part of our risk assessment, we have also identified the following areas where further work would be performed. These are not risk of material misstatement to the primary financial statements but areas to be kept under review:

26. **IFRS 16**: from 1 April 2024, a new International Financial Reporting Standard, IFRS 16, will come into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the balance sheet, and also recognises the corresponding lease liability. This applies to all leases - property, land, vehicles, plant and equipment.

27. This will change the way in which East Lothian Council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases.

28. In terms of recognition exemptions, IFRS 16 provides two major recognition and measurement exemptions to reduce the reporting burden on entities; short-term leases and low value leases. CIPFA has mandated the application of the recognition exemption for short term leases meaning that a lease that, at the commencement date, has a lease term of 12 months or less is exempt from the accounting treatment under IFRS 16.

29. For low value leases the recognition exemption is optional. The Council as lessee may elect not to apply the accounting treatment under IFRS 16 to low value leases. It is a matter for individual authorities to set a local policy to define what low value is in practice. The council has elected to apply the low value recognition.

30. Under IFRS 16 the initial measurement of the lease liability is recognised at the commencement date and measured as the present value of the lease payments that are not paid at that date using the:

- interest rate implicit in the lease, or
- lessee's incremental borrowing rate (but only if the implicit rate cannot be readily determined)

31. The council is using the IFRS 16 Leases module within CIPFA Asset Manager (asset register for accounting purposes). The Capital Team have been testing the module, using known lease examples to assess the consistency of calculation and the manner in which it handles IFRS 16 Right of Use Assets.

32. In addition, the work undertaken for the 2023/24 accounts to approximate the impact of IFRS 16 implementation has provided a basis for identification of relevant assets. This has allowed the council to undertake an analysis to assess the impact of the implementation of IFRS 16 on the financial statements as detailed in note 2 of the annual accounts.

33. The **statutory override** relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. On 24 June 2024, the Scottish Government published; Introduction - Local government finance circular 8/2024 - accounting for infrastructure assets: temporary statutory override - gov.scot (www.gov.scot).

34. Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, most local authorities have been unable to comply with the requirement to assess the net book value of a replaced component of an infrastructure asset and have taken a network approach to the measurement of such assets, treating the amount of the replaced component as having no value.

35. A temporary statutory override was introduced in August 2022, applying to the 2022/23 and 2023/24 financial years, in order to allow time for the CIPFA LASAAC Local Authority Accounting Code Board to conclude the development of a permanent solution.

36. However, a permanent solution has not yet been agreed and CIPFA believe that this will continue be an area of enhanced scrutiny for local government auditors. The statutory guidance will therefore be extended by a further 12 months, until 31 March 2025.

Recommendation 2

The council should proactively work with CIPFA and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets.

37. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

We identified misstatements which were adjusted in the financial statements

38. We identified a number of misstatements in the current year which included those detailed in Exhibit 2 relating to the valuation of non-current assets and pension costs.

39. There were also a small number of non-material misstatements which management corrected. These are detailed below:

- an adjustment to Comprehensive Income and Expenditure Statement (CIES): credit balance on expenditure due to a misalignment of internal recharges (£3.3 million movement, overall nil impact between services)
- an adjustment to show the net creditor position relating to Non-Domestic Rates. This resulted in both short-term debtors and short-term creditors reducing by £1.2 million (overall nil impact on the balance sheet)

40. Adjustments were processed to the financial statements and we concluded that further audit procedures were not required. The misstatements arose from issues that were isolated and identified in their entirety and therefore do not indicate further systemic error.

41. We identified a number of misstatements in the disclosures in the annual accounts which were corrected by management. The most significant are detailed below.

42. Within the unaudited accounts the council included a Council and Group Comprehensive Income and Expenditure Statement which only presented the net figures for the group. Subsequently the council added a Group Comprehensive Income and Expenditure Statement to present gross expenditure and gross income for each directorate at a group level.

43. There were several adjustments required to the Remuneration and Staff Report including:

- Salary figures disclosed updated to reflect full salary in line with Local Authority Regulations
- Exit package banding disclosure updated to reflect correct bandings
- Disclosures enhanced on Trade Union Facility Time, as detailed below.

44. The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts in relation to;

- their usage and spend of trade union facility time, including Number of Relevant trade union officials
- percentage time spent on facility time
- percentage of pay bill spent on facility time and paid trade union activities.

45. The unaudited accounts presented included the percentage of pay bill spent on facility time only. The accounts were updated to include the percentage time spent on facility time and the number of relevant trade union officials. Information on paid trade union activities has not been captured in year and therefore not disclosed in line with the required regulations.

Recommendation 3

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts. The council needs to ensure that it captures all required information to fully comply with the Trade Union Regulations 2017.

46. There were several adjustments required to the Cash Flow Statement including:

- adjustment of £10 million between disclosure lines cash receipts & repayments of Short and Long Term Borrowings

- disclosure on evaluating changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes
- disclosure on components of cash and cash equivalents.

47. The unaudited accounts were updated by management during the course of the audit. This has resulted in a decrease in the deficit in the Comprehensive Income and Expenditure Statement of £xx and a corresponding increase the Usable Reserves balance on the Balance Sheet of £xx. We are content the council has correctly actioned the required adjustments. (to be updated on completion of NCA).

The unaudited annual accounts were received in line with the agreed audit timetable

48. The unaudited annual accounts were received in line with the agreed audit timetable on 25 June 2024. As a result of external audit resource challenges the start of the statutory audit was delayed which resulted in the statutory deadline of 30 September 2024 being missed.

Our audit opinions on Section 106 charities were unmodified

49. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of the Council are sole trustees, irrespective of the size of the charity. Our audit opinions on the Section 106 charity are unmodified.

The council continues to progress prior year recommendations

50. The council continues to progress prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

The council reported deficit on the provision of services of £12.273 million which is being met from reserves. The council continues to face financial challenges through inflationary pressures on pay and non-pay costs, demand on services and supporting a growing population.

The council has appropriate budget setting and monitoring arrangements in place but continues to face significant challenges to identify and agree the required future savings to balance its budget. For 2024/25 the council has identified cost pressures in excess of £8 million in the delivery of services.

Our review of the council financial systems highlighted ongoing internal control inconsistencies and inefficiencies which increases the risk of control weaknesses. As the council migrates from the current financial system to the implementation of the new financial system it is important that management is able to assure itself that it is putting measures in place to address inefficient and inconsistent controls, to reduce the risk of control weaknesses and ensure corporate understanding of end to end processes.

The council reported a deficit for 2023/24

51. The council approved its 2023/24 General Services revenue and capital budgets in February 2023. The revenue budget was set at £286.247 million with a funding gap of £18.971 million. The 2023/24 end of year financial review presented to the council in June 2024 reported a deficit on the provision of services of £12.273 million. The reduction in the funding gap was achieved through a combination of savings agreed at budget setting time and various mitigation measures implemented during the year.

52. The council has reported that the overspend continues to be as a result of a wide range of external financial pressures including: high inflation and contractual costs; funding for public sector pay awards; high interest rates; and increasing demand for council services aligned to cost of living pressures and a growing population.

53. The Council's Financial Strategy as agreed by the council in December 2022 includes a commitment to minimising the use of one-off resources to balance the budget and ensuring that the use of reserves is limited to investment that will deliver cost reductions. However, for 2024/25 the council has identified cost pressures in excess of £8 million in the delivery of services.

54. Officers provided regular updates to the budget position through revenue budget monitoring reports presented to the council throughout the year. These reports contained a good level of detail on the forecast outturn position. The more significant one-off savings non-recurring underspends are summarised in Exhibit 4. Key elements in the Education underspend include; underspends from posts held vacant, underspends on early years (contract payment to one of the providers was suspended), prepayment of SQA invoice for May exam session (not accrued in 22/23) and PPP contract savings and rebates for performance failures.

Exhibit 4

Summary of significant one-off savings and non-recurring underspends

Area	£m
Savings / mitigation measures	
Education	3.964
Additional funding for pay & RSG	1.400
Communities	0.873
Infrastructure	0.264

Source: East Lothian Council Financial Review 2023/24

The council reported a surplus of £1.342 million for the Housing Revenue Account (HRA)

55. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision. The council approved the HRA revenue and capital budgets in February 2023. The council reported a £1.342 million surplus against a planned HRA budget surplus of £1.250 million for 2023/24.

56. The council's financial strategy requires the HRA reserves balance does not fall below £1 million for contingency for any unexpected increase in costs. During the year £1.293 million of capital expenditure funded from current revenue was utilised resulting in a net increase of £49,000 in the HRA general reserve balance for 2023/24 from £1.486 million to £1.535 million.

The council has appropriate budget setting and monitoring arrangements in place but continues to face significant challenges to identify and agree the required future savings to balance its budget

57. The council's budget and savings plans are aligned to the council's objectives, priorities, and strategic goals, as set out in the 2022-2027 Council Plan.

58. The full council receives regular revenue and capital monitoring reports and, from a governance perspective, conducts detailed scrutiny of financial performance. From our review of these reports, and attendance at council meetings throughout the year, we concluded that these reports provide an overall picture of the budget position at a service level. The reports contain good explanations for significant variances against budget to allow both members and officers to carry out scrutiny of the council's finances. The council continues to face significant challenges to identify and agree the required future savings to balance its budget.

59. During 2023/24, the council approved £4.402 million of planned efficiencies, of which, £875,000 were not delivered in full including:

- increased rental charges for Day Centres - £175,000. This saving was not delivered, resulting in a budget pressure in 2023/24
- review of council assets - £400,000. It is anticipated that this will be delivered in 2024/25 when the full saving from ending the rental agreement for Randall House is recognised. The target for asset review savings has increased by £1 million within the agreed budget for 2024/25 and work to develop plans for achieving this is ongoing.
- reducing public holidays by 2 days - £300,000. The budget agreed for 2024/25 assumes that this saving will be delivered in the current financial year. If this is not achievable, then it will be necessary to identify alternative measures to offset this.

60. Cost control measures were introduced by the council during 2022/23. Further mitigation measures were approved by the council on 29 August 2024 including:

- recruitment – posts will only be filled if there would be an obvious detrimental impact on the three agreed short term Council Plan priorities from not doing so and sign-off has been given by CMT and EMT. The council recognises this may result in ongoing disruptions to service delivery and the closure of council facilities.
- all council managers must operate within approved budget levels, preserving underspends where possible.
- where a service is overspent or at risk of overspending, urgent financial recovery actions will be required in order to bring spending in line with approved budget levels.

- use of agency staff should be kept to a minimum and should be kept under close review.
- council officers will continue to work with partner bodies including the IJB to minimise the risk of overspends
- in-year financial review papers will continue to be reported to council rather than Cabinet.

61. The council has appropriate budget setting and monitoring arrangements in place, with the above control measures under review through the quarterly budget monitoring process.

Recommendation 4

Given the financial pressures and ongoing reliance on using reserves to deliver services it is vital the council identify the measures required to deliver against their savings plans.

There has been a significant increase in the level of General Fund reserves as a result of applying the Service Concession Arrangement (SCA) flexibility

62. One of the key measures of the financial health of a body is the level of reserves held. The General Fund is the largest usable reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of such expenditure.

63. The level of usable reserves held by the council increased from £45.192 million in 2022/23 to £55.507 million in 2023/24, a net increase of £10.315 million, see exhibit 5. The General Fund balance is £34.169 million, however £26.569 million has been earmarked for a specific priority which leaves a residual £7.6 million of uncommitted general reserves. Against an expenditure budget of £345 million for 2023/2024, this unearmarked element represents a 2.2 per cent reserve.

64. The Council Financial Strategy sets the minimum unallocated balance at £7.2 million. However the updated financial strategy presented to the council in December 2023 advised that given the current risk environment, along with the projected in year overspend it is appropriate as part of the financial strategy to work towards increasing the minimum unallocated balance on the general fund over the medium term.

65. Given the ongoing financial challenges, the council needs to ensure the unearmarked general provides sufficient capacity to address to any future unexpected events.

Exhibit 5

East Lothian Council usable reserves

Reserve	31 March 2021 £'million	31 March 2022 £'million	31 March 2023 £'million	31 March 2024 £'million
General fund	28.328	29.685	26.414	34.169
Housing revenue account	2.009	1.748	1.487	1.535
Capital fund	2.446	4.603	14.607	14.013
Capital grants unapplied	-	-	-	3.106
Insurance fund	2.306	2.684	2.684	2.684
Total usable reserves	**35.089**	**38.720**	**45.192**	**55.507**

Source: East Lothian Council annual accounts 2020/21 to 2023/24

66. The Scottish Government's 2022 Resource Spending Review contained details of a Service Concession Arrangement (SCA) flexibility that related to the council's PPP schools. The flexibility permits councils to undertake internal accounting changes that extend the period over which the principal repayment of the unitary charge can be made, resulting in a one-off credit to the General Fund (shown in the Movement in Reserves Statement) and ongoing annual savings for a period of time. This accounting measure means that the phasing of the unitary charges can be extended over the 50 years of the schools' lives.

67. The council applied the permitted change in the calculation of the statutory charge in 2023/24 and the adopted approach has been applied across the school's PPP financial arrangements. This has resulted in a one-off cumulative retrospective saving of £14.193 million in 2023/24 (relating to the period to the end of 2022/23). This represents a non-cash adjustment to reserves, which means that it will be necessary to borrow to spend these.

68. We are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level. However, there are ongoing sustainability challenges of using reserves to fund recurring expenditure. Difficult decisions will need to be taken in the future, with a clear plan and effective management of the council's reserves key to maintaining financial sustainability. This is considered further at paragraphs 98-99 below.

As a result of slippage, the volatility of borrowing costs and increase in construction costs it is important the council regularly reviews the affordability of the capital programme

69. The council approved the general services 2023/24 capital programme on 28 February 2023. The general services programme for 2023/24 originally totalled £98.9 million, and the housing capital programme amounting to £33.9 million.

70. At each council meeting, capital programme monitoring reports are presented to members. Throughout the year these reports detailed the various movements in the general services programme budget. Revisions were made to the general services programme resulting in a revised budget of £108.101 million.

71. At the June 2024 council meeting, the general services outturn capital programme spend was reported as £51.098 million for 2023/24, representing a slippage of 53 per cent against the revised budget. The underspend reflects mitigation measures agreed by the council in August 2023 to pause or delay any uncommitted expenditure as well as a variation from the expected timing of spend across a number of projects within multi-year programmes, which have been reprofiled into 2024/25.

72. The main area of underspend relates to capital spend within the Education estate with actual capital spend of £17.642 million compared to a revised capital budget spend of £59.613 million, resulting in a variation of £41.971 million. Key projects with significant underspend include Blindwells Primary (£11.397 million), Craighall Primary (£10.562 million), Whitecraig Primary (£7.373 million), Wallyford Learning Campus (£3.966 million) and Aberlady Primary (£2.857 million).

73. The housing capital programme outturn was reported as £42.850 million for 2023/24, against the budget of £33.964 million, resulting in an overspend of £8.9 million. This reflects the increase in the number of new build council house sites which has been met by additional grant funding and an increase in borrowing.

74. Capital programmes can be delayed through their complexity, pressing demands and involvement of third parties. As part of the mitigation measures agreed by the council uncommitted expenditure was paused or reprofiled. The council has progressed with its capital programme in 2024/25. The council recognise the importance of ensuring capital funding is affordable. Officers recognise the need to review future capital plans to ensure these are aligned to strategic priorities and are affordable. Capital investment proposals are individually assessed to ensure they remain affordable and aligned to strategic priorities. Reflecting the revised priorities, the council will seek to review its overall capital plan to ensure these remain appropriate.

Recommendation 5

The council should establish clear indicators to support its assessment of the ongoing affordability of the capital programme.

The council completed the review to identify any buildings containing Reinforced Autoclaved Aerated Concrete resulting in the closure of Brunton Hall

75. Reinforced Autoclaved Aerated Concrete (RAAC) was widely used in the construction of floors and roofs from the 1950s to early 1990s. Recent investigations have identified that leaks or water exposure could lead to the deterioration of RAAC planks.

76. The Scottish Government are working in partnership with the UK Government on research into the extent of the use of RAAC in public buildings and public bodies, including the Council, have been advised to check as a matter of urgency whether any buildings in their estates have roofs, floors, cladding or walls made of RAAC.

77. The Council completed its review of assets to identify the presence of RAAC. It was found in various locations. Remedial works have been undertaken in Preston Lodge High School and permanent works, to replace interim solutions were undertaken at Ross High school during summer 2024. Other properties known to be affected are either long term unoccupied or partially unoccupied due to area usage restrictions being implemented.

78. At the October 2024 council meeting, an update was provided on the position at Brunton Hall which had been compromised due to the presence of RAAC. Surveys identified significant structural issues, and the paper presented the challenges of maintaining statutory compliance and poor working conditions at Brunton Hall. The council approved the closure and mothballing of the Brunton Hall as soon as possible once suitable arrangements for service delivery are in place.

Edinburgh Innovation Hub

79. Edinburgh Innovation Hub (EIH) is consolidated is a joint venture between the council and Queen Margaret University. The joint venture is currently under development and aims to support innovation led businesses through providing a range of services including commercial and laboratory space.

80. EIH is consolidated into the council’s group accounts as a joint venture. While the transactions and balances as at 31 March 2024 were immaterial to the group it is expected that these will increase over the coming years. From a review, we identified that the companies in the group have taken the exemption from a local audit of their financial statements. Given the level of public funding invested in the joint venture we would expect the council to make arrangements to ensure that they have sufficient assurance over the expenditure incurred. This would be normally through an independent audit.

Our review of the council financial systems highlighted ongoing internal control inconsistencies and inefficiencies which increases the risk of control weaknesses

81. Our responsibilities under the Code of Audit Practice requires us to assess the system of internal control put in place by management. We seek to gain assurance that the council:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud, or corruption
- complies with established policies, procedures, laws, and regulations.

82. Our work included initial system reviews of the main financial systems to determine the extent to which we can rely on key internal controls to gain assurance over the processes and systems used in preparing the annual accounts. We consider the results of this work when determining our approach to the audit of the 2024/25 annual accounts.

83. As part of our system work, we identified 13 material systems including the general ledger, accounts payable, accounts receivable, revenues and benefits, social care system, housing management system, cash and bank, payroll system and other accounts payable feeder systems (PECOS and TOTAL).

84. As part of our 2022/23 audit we identified several internal control weaknesses as summarised in our 2022-23_ELC_Management Report. The key finding and actions to address these was followed up during our 2023/24 audit. We carried out 35 separate meetings with 40 officers to gain an understanding of the key controls in place. We identified instances where there was a lack of corporate understanding of end to end transaction processes, controls and dependencies. As a result there is a risk that this may result in inefficient, inconsistent processes and ultimately control weaknesses.

85. As a result of our findings, we did not place reliance on these internal controls for our audit of the 2023/24 annual accounts. Instead, we increased our substantive audit testing of income and non-pay expenditure to obtain the required assurance to support our audit opinion.

The council is implementing a new finance management system

86. The council's current core finance management system, Microsoft Dynamics Great Plains, has been in place since 2005 with the current support contract for this system is due to end in Summer 2025. At the June 2024 meeting of the Digital Transformation Board, approval was given to purchase the OneCouncil system from Technology One.

87. The new finance management system is expected to go live in 2025 with the implementation of different modules/functions being rolled out on a phased basis. As with any major change in financial systems, there is an increased risk of misstatement or error when transferring over figures and balances. Progress with the project will be kept under review as part of our ongoing audit appointment.

Recommendation 6

As the council implements the new financial system it is important that management can assure itself that it has addressed legacy issues around corporate understanding of end to end processes and control weaknesses.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

88. The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

89. The council has a range of established procedures for preventing and detecting fraud and irregularity including a Strategy for the Prevention and Detection of Fraud and Corruption, Whistleblowing policy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

90. We have concluded that the council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

National Fraud Initiative

91. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final report was published in August 2024 The National Fraud Initiative in Scotland 2024 (audit.scot).

92. The value of outcomes from the NFI, recorded since the last report, total £21.5 million (up from the £14.9 million in 2022). The cumulative value of outcomes from the NFI in Scotland since participation started in 2006/07 now stands at around £180 million.

93. Internal Audit reported progress on cases to the Audit and Governance Committee in June 2024. It identified that of the core 83 reports received, 77 had been fully investigated with 2,151 matches; 7 matches remained to be investigated fully. Estimated savings from the NFI exercise in relation to duplicate creditors payments, blue badge parking permits, waiting list to DWP and council tax investigations amount to £547,000.

94. The council's arrangements for investigating and reporting data matches identified by the NFI are satisfactory.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Medium-term financial plans reflect the council's strategic priorities. The council faces significant challenges in addressing a budget gap of £65 million over the next five years.

The council's level of useable general reserves as a percentage of overall budget was below the Scottish average.

Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures.

The council needs to invest in digital technology to support and transform its services.

In August 2024 the council approved the Transformation Strategy 2024-29.

Audit work has addressed the wider scope risks identified in the Annual Audit Plan

95. Exhibit 6 sets out the wider scope risks relating to Financial Sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 6

Risks identified from my wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
Financial Sustainability East Lothian Council continues to operate in an increasingly complex and challenging environment, aiming to provide the best possible	Reviewed and assessed the council's financial planning and reporting and progress on achievement of planned savings.	**Results and conclusion:** The council recognise the financial challenges facing the organisation. A Transformational Change programme is underway to

Audit risk	Assurance procedure	Results and conclusions
service within the resources available. The council's Financial Strategy 2023-2028 scenario planning identifies a funding gap of £41-63 million over the 5- year period, inclusive of delivering existing approved savings. The current funding gap for 2024/25 before applying budget efficiencies, increases to the council tax charge or use of reserves is £17.289 million. This rises to £55.859 million by 2027/28. It is likely that the council will face difficult decisions around service offering and performance if it is to remain within its resource constraints and achieve its planned priority outcomes. Management have implemented a programme of reviews to contribute towards addressing the financial pressures. However, there is a risk that the council plans do not deliver the required savings to address the projected shortfall.	Considered the decision making that will be needed if the council is to remain within its resource constraints and achieve its planned priority outcomes.	achieve financial sustainability over the medium to longer term.

Source: Audit Scotland

Medium-term financial plans reflect the council's strategic priorities, but it continues to face significant challenges in identifying future actions to balance its budget

96. In December 2024, the Financial Review 2024/25 reported that as at the end of quarter two, before applying the planned use of reserves there is a forecast overspend for the year of £8.5 million. The council's planned use of general fund reserves for 2024/25 is £1.830 million and planned use of earmarked reserves totalling £1.540 million. In addition the council received a VAT rebate of £1.4 million.

97. Taking the above into account, the unplanned overspend is currently forecast to be £3.7 million for 2024/25. The main pressures include:

- IJB Projected overspend: £2.8 million – mainly due to pressures in commissioned care services, specifically external care homes and support services, as well as delays to delivering some of the planned savings within the timescales reflected in the budget

- Children's Services projected overspend: £2.6- million – mainly relating to external residential pressures
- Savings assessed as unachievable in 2024/25: £2.0 million.

98. The pressures have been partially offset by a VAT rebate of £1.4 million referred to above, staffing underspends of £3 million due to ongoing vacancies and council tax income being higher than forecast due to increase in housing. Given the ongoing financial pressures officers are considering the application of additional mitigating controls (see paragraph 60 above) which may include further delays to recruitment and minimising the use of agency workers. An update and any further recommendations is due to be reported to Council in December 2024.

99. The council recognises that an overspend of this level cannot be met within the unallocated general fund reserve alone. Without further measures being taken by the council, this overspend would result in a reduction in earmarked reserves which are aligned to supporting critical transformational activities with a view to deliver recurring savings.

100. At the council meeting in August 2024 management advised that before any corporate solutions, there is an estimated cumulative financial gap in excess of approximately £65 million over the five years from 2025/26 to 2029/30 inclusive, which is equivalent to around 20 per cent of the council's annual running costs.

101. The current forecast overspend is a significant risk to the financial sustainability of the council and the delivery of the outcomes within the Council Plan. These estimations are being refreshed as part of the ongoing exercise and will be updated and reported on later in the financial year. The current budget gap across the coming years is summarised below: 2025/26 to 2029/30 of £64.866 million, exhibit 7.

Exhibit 7

Identified budget gap 2025/26 to 2029/30

	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Budget gap £'million	£21.742	£10.528	£12.963	£10.098	£9.535	**£64.866**

Source: East Lothian Council: Budget Development 2025-26 onwards

102. To address the budget gap, the council will need to review what services it can afford to continue to deliver and how these services will be provided. The council will need to significantly change what they deliver over the next 3 years with the focus being on statutory services. There will be difficult decisions to take on whether the council can continue to deliver services and if so, what those services will actually look like.

103. To achieve a balanced budget, the council need to have clear medium and long term financial plans to support transformational change. To support this the council has adopted a set of budget development principles as part of the current Financial Strategy:

- establishment of a cross-party budget working group to oversee the development of detailed budget proposals and the different work streams supporting this
- commitment to developing an approach aligned to the financial strategy which combines a range of options to close the gap between available funding and anticipated expenditure including an enhanced programme of transformation, asset review, income generation, cost reduction and efficiency
- a holistic approach to budget development, which recognises the relationship between capital and revenue planning and the role of investment in cost reduction strategies
- commitment to minimising the use of one-off resources to balance the budget and ensuring that use of reserves is limited to investment that will deliver ongoing cost reductions
- ensuring alignment of financial planning and resources with wider strategic priorities, the Council Plan and consultation results
- consideration of a 5-year budget plan aligned to the financial and capital strategies.

The council's level of useable general reserves as a percentage of overall budget was below the Scottish average

104. The council recognises the financial challenges it faces in the coming years. As detailed in exhibit 5, as at 31 March 2024, the council had a total General Fund balance of £34.169 million. Of this £26.569 million has been earmarked for a specific priority with a residual balance of £7.600 million of uncommitted general reserves.

105. Councils can hold reserves for a number of reasons. Some reserves are earmarked for identified expenditure which will, or may occur over the short, medium or longer term. In addition to these reserves, there are uncommitted reserves which help manage unforeseen circumstances.

106. The Local Authority Accounting Panel (LAAP) provides guidance on the establishment and maintenance of local authority reserves and balances. The LAAP Bulletin does not prescribe a minimum level of reserves which should be held by a council. It is for the council to consider an appropriate level of reserves taking account of their strategic, operational and financial risks. However, it does state that reserves should not be held without a clear purpose.

107. The council's level of uncommitted general reserves as a percentage of overall budget was below the Scottish average as at 31 March 2023 of 3.2 per cent (LGBF financial sustainability indicators). We recognise that the level of unearmarked reserves is dependent on councils' approach to earmarking funds. However, as at 31 March 2023, the council's overall total useable reserves as a percentage of budget was 16.1 per cent compared to the Scottish average of 24.44 per cent.

Recommendation 7

The council should ensure that there is a clear risk assessment and scrutiny of the level of reserves held and how this supports financial resilience and sustainability over the medium term. The council should consider the adequacy of minimum unallocated reserves in the context of revenue overspends and benchmark data.

Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures

108. The Chartered Institute of Finance and Public Accountancy (CIPFA) introduced a Financial Management Code for implementation by 31 March 2021. This provides "guidance for good and sustainable financial management in local authorities. By complying with the principles and standards within the code, authorities will be able to demonstrate their financial sustainability". A key goal of the FM Code is to improve and evidence the financial resilience of organisations by embedding enhanced standards of financial management.

109. In our 2022/23 Annual Audit Report we recommended that given the scale of the financial challenges facing the council it should ensure that in developing its financial strategy and annual budget there is a clear consideration around its financial resilience, including the level of reserves to allow the council to meet unforeseen costs and pressures. We also recommended that the council should also enhance the level of monitoring around financial resilience indicators and risks.

110. The council faces significant challenges in 2024/25 onwards with inflationary pressures anticipated to continue. Changes in interest rates are also expected to affect the future borrowing costs of the council for new and replacement debt.

111. Alongside these external challenges, the council is facing a significant funding gap to meet the growing infrastructure and service requirements aligned to rapid population growth. Future service revenue expenditure and capital expenditure plans will need to address these challenges, but given the scale and size of the challenge, this will require some very difficult decisions in order to support the delivery of a balanced budget.

112. Improving the council's financial sustainability, especially moving towards balancing recurring expenditure and recurring income, must be a priority objective for the financial governance of the council.

113. Looking forward, over the medium to longer term, the level of financial challenge facing the council is unprecedented. The council has effective financial planning and monitoring arrangements in place, with regular reporting throughout the year. However, given the scale of the challenges there is an opportunity to enhance its focus on financial resilience, including greater emphasis on its reserves position; clear financial resilience indicators and measures; and a clear alignment of risks to the Financial Strategy.

Recommendation 8

Given the scale of the financial challenges the council must continue to develop financial resilience indicators and resilience measures, with a greater emphasis on its reserves position.

The council needs to invest in digital technology to support and transform its services

114. The council has identified the need to invest in digital technology to drive transformation and this was reflected in the Financial Strategy considered by the Council in December 2022.

115. We reported in our Annual Audit Report 2022/23 that the council has many legacy IT systems that have been identified as due for replacement and that the use of new technology could increase efficiency of workflow, provide automation of administrative processes and reporting and free up staff resource.

116. By way of example, the council financial ledger currently requires extensive manual intervention to ensure data flows correctly from the various feeder systems (e.g. payroll, accounts payable and accounts receivable) into the council's financial records which is time consuming and increases the risk of error or fraud.

117. In January 2023 the council's Digital Strategy 2022-27 was approved by Cabinet with the aim of transforming the way it works, engages with residents and delivers council services. Principle 4 states that "When designing a new service or transforming existing ones we will design them to be digital by default".

118. The Digital Transformation Board provides the overall strategic direction and oversight of digital transformation and the prioritisation of digital projects and allocation of resources. The Board is chaired by the Executive Director for Council Resources, and the Head of Finance is a member, to ensure funding is an integral part of decision making. The Board reports to the Transformation Executive Team.

119. The Digital Strategy 2022-27 set out the intention for the council to prepare an annual digital transformation work plan to be taken to the Digital Transformation Board for approval in October of each year. The first work plan was due in October 2023. The council took the first digital transformation work plan to the Board in November 2024.

120. As part of our 2021/22 audit, the Council agreed to take part in an ICT pilot. This involved obtaining an overview of service delivery management and provision, and an understanding of the general IT control environment. Findings, recommendations, and actions were shared with the Council who agreed to review these during 2022/23. As part of our follow up officers confirmed that some progress has been made since our 2021/22 report was issued, but further work is required to progress recommendations relating to policies and cyber security.

121. Our 2023/24 audit work on the general IT environment considered the council's arrangements for: strategy and staffing, network structure and security, cyber security, Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP) and system development and acquisition.

122. The capacity of the council's IT team remains challenging with vacancies in key areas leading to skills gaps and workforce pressures. This has resulted in a number of key plans not being progressed or tested. There are key gaps in the IT Infrastructure and Security team resulting in limited progress addressing actions and recommendations included in previous external audit reports. We also noted that the council does not receive formal assurances regarding the IT control environment for systems which are externally hosted.

Recommendation 9

The council needs to prioritise digital transformation to improve service delivery and generate savings over the medium and longer term. The council needs to strengthen their digital strategy, cyber security, business continuity management and associated policies to address prior year audit recommendations.

The council has approved the Transformation Strategy 2024-29

123. The council originally established a transformation programme in 2016, to allow the council to be more efficient, effective, transparent, and accountable, and leading to better services for its citizens and a more sustainable future. The East Lothian Council Transformation Strategy 2024-2029 was approved by Council in August 2024 and aims to build on those ambitions, while making it applicable to the 2024 operating environment. The council has agreed three new short-term priorities to reflect the current financial challenges:

- ensure the financial sustainability of the council through the delivery of approved savings and transforming the way services are delivered
- target resources on statutory services and focus on the highest risks and those most in need
- deliver key infrastructure, economic development and environmentally sustainable projects within available council resources and maximising external funding.

124. The Transformation Fund (also known as The Cost Reduction Fund) is to be used to support delivery of change to realise a financial saving and/or service efficiency going forward. This is an earmarked reserve within the General Fund. As at 31 March 2024 the balance on the Transformational Fund was £18.525 million with £13.741 allocated into the reserve during 2023/24.

125. The council has developed an action plan to monitor progress. Reporting against actions will be as set out in the strategy. In terms of key milestones (in addition to action plan target dates), these will link to milestones for the project within the approved pipeline.

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

The workforce plan captures the workforce challenges that the council faces however actions included within the action plan need to be specific, measurable, achievable, reliable, and time-bound (SMART) to allow progress to be monitored and reported.

The council has completed a limited number of corporate digitalisation projects. The council has not yet measured the impact of the digital technology it has introduced on workforce productivity and service outcomes. The council's Transformation Strategy 2024-29 includes plans to do this.

Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council has revised its flexible and homeworking policies to enhance flexible working options for employees. The council must continue to explore opportunities to develop long-term sustainable solutions to meet the challenges it faces.

The council should continue to explore and develop formal arrangements for sharing services with other councils or partners to create workforce benefits.

The council has made progress in taking forward the 2022/23 Best Value improvement recommendations.

Best Value work in 2023/24

126. For 2023/24, the scope of Best Value work included conclusions on:

- Workforce Innovation (2023/24 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years

127. As set out in the Code of Audit Practice 2021, Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts 3 to 6 of this Annual Audit Report.

Workforce Innovation priorities

128. Annual thematic Best Value work is set by the Accounts Commission. For the 2023/24 financial year, auditors were asked to focus on workforce innovation within the council. The results of this work were reported to elected members at the Audit and Governance committee on 17 December 2024. This report will be published on the Audit Scotland website in due course. The key findings in this report are:

- The council has a Workforce Plan covering the period 2023-2027. The Workforce Plan contains workforce data although there is an opportunity to continue to develop the range of data and intelligence used.
- The workforce plan captures the workforce challenges that the council faces however actions included within the action plan need to be SMART to allow progress to be monitored and reported. The council should develop further guidance to ensure alignment with service plans and workforce planning which supports the objectives included within the 2023-2027 Workforce Plan.
- The council has completed a limited number of corporate digitalisation projects. The council has not yet measured the impact of the digital technology it has introduced on workforce productivity and service outcomes. The council's Transformation Strategy 2024-29 includes plans to do this. Further progress and pace is now required to support and enhance digital opportunities.
- The Digital Strategy 2022-27 sets out an intention to address digital exclusion. The council monitors the digital skills of its staff through its annual employee engagement survey, the results of which have informed the development of digital support such as the creation of digital champions and digital leaders.
- The council has revised its flexible and homeworking policies to enhance flexible working options for employees. The council developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely. There is an opportunity to coordinate data to enhance future reporting to inform improvements to maximise job satisfaction and productivity.
- The 2023 employee engagement survey focussed on staff health and wellbeing. Staff have reported work-related stress with as key factor being workload. The council has a range of initiatives in place to promote staff wellbeing.
- Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council established a short life recruitment task group to support current recruitment challenges including maximising apprentices, professional training and a grow your own

culture. The council must continue to explore opportunities to develop long-term sustainable solutions to meet the challenges it faces. The council is progressing its future leadership programme for both senior and middle managers and this will be used to support succession planning challenges.

- As a result of a dispute between the trade unions and the council, Joint Consultative Committee meetings were suspended from June 2023 until June 2024. The council and all five trade unions signed a Recognition Agreement in March 2024 to promote and maintain a positive and constructive employment relationship.
- The council should continue to explore and develop formal arrangements for sharing services with other councils or partners to create workforce benefits. The council shares services with other councils including a Chief Internal Auditor with Midlothian Council and Insurance Service with City of Edinburgh Council.
- Update reports on the 2023-27 Workforce Plan are provided to the Corporate Management Team and the Joint Consultative Committee.
- The council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning.

129. The audit recommendations from the thematic report, together with the management responses, are included in Appendix 1 of this report.

The council has made progress in taking forward the 2022/23 Best Value improvement recommendations

130. For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The 2022/23 Best Value Thematic report contained three improvement recommendations in respect of performance monitoring targets, financial planning to address increasing challenges and the level of investment needed to deliver sustainable services.

131. Our follow up work has concluded that the council has continuing to progress these recommendations. Appendix 1 provides updated management responses to these recommendations.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

The council has recognised that with resource restraints and demand led pressures there is a need to focus on key council priorities. The council has agreed to re-prioritise the Council Plan 2022-27 originally introduced in 2022. However, further work is required to align resources around these priorities and to ensure that there is clear engagement with the community to inform difficult decisions around the future of council services.

In June 2024 as both were not quorate, the Audit & Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled.

Governance arrangements are well established. Elected members need to work together to take the strategic decisions require to ensure the financial sustainability of the council.

Audit work has addressed the wider scope risks identified in the Annual Audit Plan

132. Exhibit 8 sets out the wider scope risks relating to Vision, Leadership and Governance identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 8

Risks identified from my responsibility under the Code of Audit Practice

Audit risk	Audit Response	Results and conclusion
Vision, Leadership and Governance	We followed up on the recommendations and management responses	At the September 2024 Policy and Performance Review Committee meeting, a

Audit risk	Audit Response	Results and conclusion
The council's leadership have been effective in setting out a clear vision and priorities in the Council Plan 2022-27. However, the council also recognises that decisions need to be made urgently to ensure a sustainable approach to delivering those priorities. The council has set out its Top 50 performance indicators to monitor delivery of its priorities. Not all performance indicators have specific targets set. It is important the council is clear on the level of performance outcomes it aims to achieve. It is important that the indicators monitored continue to reflect strategic priority areas and risks. There is evidence of collaborative working between members and with members and officers. However, this is an area for improvement. It is essential for members to work together to make strategic decisions when the council faces increasingly hard choices to ensure financially sustainable service delivery.	made within our 2022/23 Annual Audit report as part of our 2023/24 audit. We reviewed the minutes and paper of the policy, performance and review committee, audit and governance committee and the council meeting.	progress update report was presented on the 'Top 50' indicators. Indicators now have targets in place. Three new indicators were included on the report and no specific targets have been set for these. The council has now identified 10 priority indicators within the Top 50 and these are referred to as the top 10. This is detailed further in section 6. **Conclusion** The council needs to demonstrate how the focus on 10 priority indicators aligns with reprioritisation of service delivery and future funding allocation. The council also needs to clarify how the top 10 impacts on the prioritisation of the remaining top 50 indicators. The performance reporting on the council website has not been updated to reflect the change in priorities.

The council agreed to focus on delivering a reduced number of priorities than originally approved in the Council Plan 2022-27

133. The Council Plan 2022-2027 was approved by the council on 23 August 2022. The Council's vision over the 5 years is '***an even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy that enables our people and communities to flourish***."

134. The Council Plan is the strategic document that sets out the council's objectives, values, principles and behaviours and what difference this will make to the residents and communities of East Lothian. There are three overarching objectives:

- **Recovery and renewal** – recovering from the COVID pandemic by investing in regeneration and a sustainable future

- **Reduce poverty and inequality -** supporting our communities to deal with the growing levels of poverty and inequality

- **Respond to the climate emergency -** meeting our net zero climate change targets

135. In response to the systemic long-term challenges it faces, the council set out four thematic objectives continued from the previous Council plan:

- **Grow our Economy** – increase sustainable and inclusive growth as the basis for a more prosperous East Lothian

- **Grow our People**– give our children the best start in life and protect vulnerable and older people

- **Grow our Communities** – give people a real say in the decisions that matter most and provide communities with the services, infrastructure and environment to allow them to flourish

- **Grow our Capacity** - deliver excellent services as effectively and efficiently as possible within our limited resources.

136. In February 2024, the council approved proposals to re-prioritise the Council Plan recognising the context and factors that influenced the objectives had since changed including considering the longer term economic impact of the pandemic, population growth, rises in inflation and the cost of living.

137. The council agreed to focus on delivering a smaller number of priorities than originally approved in the Council Plan 2022-27. This has resulted in three priorities which are aligned to the Council Plan's overarching and thematic objectives:

- Ensure the financial sustainability of the council through the delivery of approved savings and transforming the way we deliver services

- Target resources on statutory services and focus on the highest risks and those most in need

- Deliver key infrastructure, economic development and environmentally sustainable projects within available council resources and maximising external funding

138. We have concluded appropriate governance arrangements are established and the vision and objectives of the council are clearly articulated. Management regularly report to members on new and emerging challenges that the council faces and the need to prioritise services and projects that can be delivered within the resources available to the council.

Recommendation 10

The council agreed to focus on delivering a smaller number of priorities than originally approved in the Council Plan 2022-27. The council needs to set clear performance outcome targets for each of its refreshed priority areas to ensure resources are allocated appropriately. As resources are aligned to the priority areas, the council also needs to be clear on what is an acceptable level of performance in non-priority areas.

Governance arrangements are well established. Elected members need to work together to take the strategic decisions require to ensure the financial sustainability of the council

139. The council adopted the ‘delivering good governance’ framework published by CIPFA / SOLACE in 2016. A self-evaluation exercise was undertaken by the Council Management Team in Spring 2023, testing the council’s governance arrangements against the Good Governance Framework.

140. The 2023 Corporate Governance self-evaluation found that the council continues to comply well with the principles of the framework with most sub-principles scored as five (Very Good – major strengths) and the remainder as four (Good – important strengths with areas for improvement). However, the Council Management Team identified four improvement actions which have been included in one combined action within the 2024 Council Improvement Plan as detailed below:

- given the scale of the financial challenges it faces the council needs to be open and clear with communities and staff about the recurring savings that will be required to fill budget gaps, and how council resources will need to be targeted to achieve long-term policy and performance priorities, and the impact this will have on services and the priorities set out in the Council Plan
- in light of the growing financial challenges faced by the council further work is required to make the link between how resources are targeted to achieve the Council’s policy and performance priorities more explicit
- improve the levels of Annual Performance Review Documents (PRDs) that are completed.
- ensure that service plans are updated in line with the revised service planning guidance.

141. In February 2024 the council approved the 2024 Council Improvement Plan. The plan contains fifteen actions, including three actions which have been carried forward from the 2021/22 Council Improvement Plan. In addition, the 2024 Plan captures actions from the Best Value Thematic report 2023, the 2023 Corporate Governance Self-Evaluation and 2021/22 and 2022/23 Annual Audit Reports.

142. The council’s governance arrangements have been set out in the Annual Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate. This is informed by our regular attendance at the Audit and Governance Committee and review of council papers as appropriate.

143. Papers and minutes for council and committee meetings, including financial and performance information, details the decisions made and are publicly available on the council's website, excluding those considered of a confidential or commercially sensitive nature.

144. The council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making. Officers are responsive to elected members' requests for information. Briefings are regularly provided to give more detailed explanations than is possible in a formal council meeting. Officers and members are mindful of the need to balance private briefings with public scrutiny and decision making.

145. We observed the meeting of the Audit & Governance Committee in June 2024 had to be rescheduled as it was inquorate and therefore no business could be discussed. In June 2024 the Policy and Performance Review Committee was cancelled as the meeting was not quorate.

Recommendation 11

Elected members should ensure attendance at Committee meetings to enable the Committee to fulfil its delegated functions.

146. We have observed that council meetings have lengthy agendas with comprehensive supporting papers and reports. It is important that every effort is taken to ensure an appropriate balance between allowing effective scrutiny of agenda items and ensuring that councillors' have sufficient capacity to review the supporting documentation.

147. In our 2022/23 Annual Audit Report we noted that there is evidence of some effective collaborative working between members and with members and officers with cross-party working groups including the Budget Working Group and the Climate Change and Sustainability Forum.

148. Officers engage with members on a one-to-one basis and directorates meet with relevant cabinet spokespersons on a regular basis. However, not all members are engaged in these discussions and it is currently unclear how effectively the arrangements are working.

149. As detailed within section three of this report, to remain financially sustainable and resilient elected members will need to take difficult decisions around the services the council provides in the future.

Recommendation 12

It is essential elected members work together as a collective body to make the strategic decisions and difficult choices to ensure the council's future financial sustainability.

The Chief Executive is due to retire in February 2025

150. The council has an experienced management team in place that has been relatively stable in recent years. In November 2024 the Chief Executive announced her intention to retire in February 2025. The recruitment process for a new East Lothian Council Chief Executive is expected to begin in due course.

Common good and trust fund review is ongoing

151. The council has one section 106 charity known as the Dr Bruce Fund which was set up to provide relief for the poor of Musselburgh. The Fund conducts minimal charitable activity; since 2016/17 the Dr Bruce Fund has provided a small award to the same two individuals. In 2023/24 a total of £1,465 was awarded with a payment of £1,185 awarded for flood damage restoration and grants of £40 made to seven individuals (2022/23 £80, 2021/22 and 2020/21 £70; 2019/20, 2018/19 and 2017/18: £60, 2016/17: £50).

152. Under the current arrangements there is a continuing risk that the Dr Bruce Fund is not fully meeting its charitable objectives and that the trustees are not discharging their duties correctly. We have reported for a number of years that the council should progress and conclude on their review of common good and trust funds including an exercise to consider whether there is scope to consolidate any/all of the 46 trusts.

153. The council is conducting a review of its charitable trust funds including the Dr Bruce Fund. In June 2023 the council considered a report setting out potential options arising from that review and officers continue to progress this work within the context of the council's wider priorities.

154. The council could consider the external appointment of a trustee to the Dr Bruce Fund. This would remove the Section 106 requirement for an audit and reduce the scrutiny requirement to an independent examination of the accounts and accounting records.

155. We will continue to monitor progress by the council as part of our 2024/25 audit.

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The council has maintained its overall performance which reflects an improvement from the Scottish average.

Maintaining oversight of performance is challenging across the range of council services. The council needs to set clear performance outcome targets for each of its refreshed priority areas.

The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs).

Maintaining oversight of performance is challenging across the range of council services. The council needs to set clear performance outcome targets for each of its refreshed priority areas

156. The Best Value: Revised Statutory Guidance 2020 sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities.

157. Annual reporting of performance information: The council reports on a series of annual performance measures in its Annual Performance and "State of the Council" Report. The 2023 report for was considered at the council meeting in February 2024 and incudes sections on:

- The "State of the Council": which provides an overview of the council vision, objectives and priorities; details how the council is endeavouring to deliver Best Value and Good Governance and summarises how the council managed it finances in the 2022/23 financial year.
- 2023 Annual Performance Report: summarises how the council is performing based on the 'Top 50' key, strategic performance indicators to deliver the Council Plan.

- Council Plan Action Plan: summarises progress the council has made against the actions set out on the Council Plan Action Plan.

158. **Quarterly Performance Indicators:** The council has established a suite of key performance indicators to help monitor progress against the outcomes detailed in the Council Plan and East Lothian Plan. These indicators are updated quarterly and reported through the Policy and Performance Review Committee. The reports are readily accessible on the council's website and show actual performance against target performance, performance trend (whether improving or deteriorating) and a brief commentary on performance.

159. The ‘Top 50’ indicators are based around six of the Council Plan objectives. As detailed in section 5, in February 2024, the council approved proposals to re-prioritise the Council Plan and agreed to focus on delivering three priorities aligned to the Council Plan’s overarching and thematic objectives.

160. At the September 2024 Policy and Performance Review Committee meeting, a progress update report was presented on the ‘Top 50’ indicators. A sub-set of indicators has now been identified as a priority and are referred to as the Top 10. In addition, three new indicators were included within the ‘Top 50’ and no specific targets have been set for these. The report continues to summarise progress on the six priorities originally set out in the council plan

161. The report included information on Annual Performance indicators that are not included within the Top 50 Council Plan indicators. Of the 23 indicators included within the report, 12 do not have targets set or supporting narrative to provide context to what is being monitored.

162. The council is a complex organisation which delivers a wide range of services. Delivery of the Council Plan and its objectives is carried out through key strategies and plans. The council has a range of 18 plans and strategies underpinning the Council Plan’s vision and objectives. These include the 5 year Financial Strategy 2024-2029, 5 year Capital Strategy 2024/25-2028/29, Local Economic Strategy, Local Housing Strategy, Local Transport Strategy, Climate Change Strategy, Economic Development Strategy, Recovery and Renewal Plan, the Poverty Plan, the Equality Plan, and the Integration Joint Board Strategic Plan.

163. The number of actions contained within the various plans above, as well as the Council Plan Action Plan, the Annual Performance Report and the Council Improvement Plan make it challenging for elected members and members of the public to obtain oversight of the overall performance of the council.

See recommendation 10 above

The council's overall performance has remained similar to its prior year results and has increased compared with the Scottish average

164. The council participates in the Local Government Benchmarking Framework (LGBF). The framework brings together a wide range of information about how all Scottish councils perform in delivering services, including the cost of services and how satisfied citizens are with them. The council notes that the use of the LGBF allows it to self-assess its performance across years, and to compare performance with peers against an agreed suite of performance indicators, which will assist in achieving best practice and efficiencies.

165. The most recent National Benchmarking Overview Report 2022-23 (improvementservice.org.uk) by the Improvement Service are usually considered by the Policy and Review Committee, however the report has not yet been presented. The overview report was submitted to the Member's Library Service in June 2024.

166. Only 94 LGBF indicators have been reported with values for 2021/22 and 2022/23 or a most recent value for those indicators reported every two years are available. Of these, 65 indicators relate to the performance of services in delivering outputs and outcomes; 22 indicators relate to the cost of delivering services; and seven indicators measure satisfaction. All cost indicators have been adjusted for inflation to provide a real cost comparison on trend data.

167. In 2022/23, 24 (26 per cent) of indicators improved, 37 (39 per cent) remained static, and 33 (35 per cent) declined.

	Improved status	No change	Declined
Cost	8	5	9
Performance	16	26	23
Satisfaction	-	6	1
Grand total	**24**	**37**	**33**

168. Comparison of the council's indicators against the Scottish average shows that 49 (61%) of the indicators are performing better than the Scottish average. The council's quartile performance when ranking each performance indicator from 1 (highest performance/ lowest cost) to 32 (lowest performance/ highest cost) declined slightly during 2022/23. Just under a third (31.5%) of the council's indicators are in quartile 1 and fewer than 1 in four (only 18%) are in quartile 4. Previous values for 2021/22 have been updated to take into account corrections from all councils and include data for measures that were not available at the time of reporting in 2023. The table below includes 101 indicators for 2021/22 but only 89 for 2022/23 so the figures and percentages shown for the two years are not directly comparable.

Quartile	2021/22	%	2022/23	%
Quartile 1	32	31.7	28	31.5
Quartile 2	26	25.7	22	24.7
Quartile 3	19	18.8	23	25.8
Quartile 4	24	23.8	16	18.0

The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

169. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities)
- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

170. Our work in 2023/24 has reviewed the council's performance reporting arrangements. The council's website covers all the requirements set out in the SPI direction issued by the Accounts Commission. To continue to enhance the performance reporting on the website the council could include information on the reasons for year on year changes in performance and where performance is below target, details of measures to address this.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Revaluation of non-current assets		**Management response:** **Responsible officer:** **Agreed date:**
2. Statutory override The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. **Risk:** A permanent solution has not yet been agreed and CIPFA believe that this will continue be an area of enhanced scrutiny for local government auditors.	The council should proactively work with CIPFA and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets. Paragraph 36	**Management response:** Officers consider that the time and expense required to value infrastructure assets would not represent best value in the use of public resources and we will continue to make this case to CIPFA alongside colleagues from other local authorities. **Responsible officer:** Executive Director for Council Resources **Agreed date:** April 2025
3. Trade Union disclosure The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts.	The council needs to ensure that it captures all required information to fully comply with the Trade Union Regulations 2017. Paragraph 45	**Management response:** We will aim to include this disclosure as part of our future reporting. **Responsible officer:** Service Manager – People and Council Support **Agreed date:** July 2025

Issue/risk	Recommendation	Agreed management action/timing
4. Budget setting The 2023/24 end of year financial review presented to the council in June 2024 reported a deficit on the provision of services of £12.273 million.	Given the financial pressures and ongoing reliance on using reserves to deliver services it is vital the council identify the measures required to deliver against their savings plans. Paragraph 61	**Management response:** Officers will continue to develop and progress workstreams needed to realise savings plans over the coming year, and progress will be reported through regular finance updates to Council. **Responsible officer:** Council Management Team **Agreed date:** Ongoing
5. Capital programme Capital programmes can be delayed through their complexity, pressing demands and involvement of third parties. As part of the mitigation measures agreed by the council uncommitted expenditure was paused or reprofiled.	The council should establish clear indicators to support its assessment of the ongoing affordability of the capital programme. Paragraph 74	**Management response:** Indicators are disclosed as part of our treasury management strategy and reporting and we will work to improve the visibility of these in informing the judgements taken around the affordability of capital plans and borrowing. **Responsible officer:** Executive Director for Council Resources / Head of Finance **Agreed date:** April 2025
6. Internal control We identified instances where there was a lack of corporate understanding of end to end transaction processes, controls and dependencies. As a result there is a risk that this may result in inefficient, inconsistent processes and ultimately control weaknesses.	As the council implements the new financial system it is important that management can assure itself that it has addressed legacy issues around corporate understanding of end to end processes and control weaknesses. Paragraph 87	**Management response:** The new system will define high-level (in-system) business processes, that will be supplemented with process mapping to capture new end-to-end processes. **Responsible officer:** Executive Management Team **Agreed date:** December 2025

Issue/risk	Recommendation	Agreed management action/timing
7. Reserves As at 31 March 2024, the council had a total General Fund balance of £34.169 million. Of this £26.569 million has been earmarked for a specific priority with a residual balance of £7.600 million of uncommitted general reserves.	The council should ensure that there is a clear risk assessment and scrutiny of the level of reserves held and how this supports financial resilience and sustainability over the medium term. The council should consider the adequacy of minimum unallocated reserves in the context of revenue overspends and benchmark data. Paragraph 107	**Management response:** This is set out within the financial strategy and risks are reported through the corporate risk register. We will continue to do this. **Responsible officer:** Head of Finance **Agreed date:** Ongoing
8. Financial resilience The council is facing a significant funding gap to meet the growing infrastructure and service requirements aligned to rapid population growth.	Given the scale of the financial challenges the council must continue to develop financial resilience indicators and resilience measures, with a greater emphasis on its reserves position. Paragraph 113	**Management response:** The financial strategy sets the minimum level of unallocated balance for our general reserves and this level is reviewed on an annual basis. Movement in this balance due to budget variances is the key indicator that we use to assess financial resilience and this is reported to Council throughout the year. **Responsible officer:** Head of Finance **Agreed date:** Ongoing
9. Digital technology The capacity of the council's IT team remains challenging with vacancies in key areas leading to skills gaps and workforce pressures. This has resulted in a number of key plans not being progressed or tested.	The council needs to prioritise digital transformation to improve service delivery and generate savings over the medium and longer term. The council needs to strengthen their digital strategy, cyber security, business continuity management and associated policies to address prior year audit recommendations.	**Management response:** The current transformation portfolio includes priority digital by default projects, including Finance System Replacement, Housing Management System Replacement, Website replacement, Roll-out of Microsoft 365, Development of an Enterprise IT Systems strategy and roadmap. We

Issue/risk	Recommendation	Agreed management action/timing
	Paragraph 122	are also undertaking a project to identify manual effort that could be reduced/eliminated by using automation/systems. **Responsible officer:** Executive Director for Council Resources / Service Manager for IT **Agreed date:** Ongoing
10. Council priorities In February 2024, the council approved proposals to re-prioritise the Council Plan recognising the context and factors that influenced the objectives had since changed.	The council agreed to focus on delivering a smaller number of priorities than originally approved in the Council Plan 2022-27. The council needs to set clear performance outcome targets for each of its refreshed priority areas to ensure resources are allocated appropriately. As resources are aligned to the priority areas, the council also needs to be clear on what is an acceptable level of performance in non-priority areas. Paragraph 138	**Management response:** As part of the review of performance reporting we will review the top 10 indicators and clarify alignment with the reprioritised council plan, aligning to requirements of the revised Statutory Performance Information Direction expected in 2025. **Responsible officer:** Transformation & Digital Portfolio Manager **Agreed date:** December 2025
11. Committee attendance In June 2024 as both were not quorate, the Audit & Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled.	Elected members should ensure attendance at Committee meetings to enable the Committee to fulfil its delegated functions Paragraph 145	**Management response:** Officers to proactively contact members to confirm attendance in advance of each meeting. The hybrid meeting facility to be offered for all formal Council meetings to support member attendance. In consultation with political groups, consideration will be given to assess if membership requires to be reviewed and amended as part of the annual review of Standing Orders.

Issue/risk	Recommendation	Agreed management action/timing
		Responsible officer: Head of Corporate Support **Agreed date:** February 2025
12. Decision making	It is essential elected members work together as a collective body to make the strategic decisions and difficult choices to ensure the council's future financial sustainability. Paragraph 149	**Management response:** The council agreed to establish a cross party budget working group and this has been running since 2022. The approach to this is subject to regular review and remains a key budget development principle within the approved financial strategy. Officers will continue to facilitate cross party working aligned to the Council decision over the next year. **Responsible officer:** Executive Management Team **Agreed date:** Ongoing

2023/24 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
1. Action plan The council's workforce action plan has 40 actions capturing a range of workforce challenges however they are not SMART. **Risk** – There is a risk actions cannot be evaluated to allow progress to be measured, monitored and reported.	The council should build on its workforce planning to date by expanding the range of data and intelligence it draws upon, with SMART action plans setting out how council level and service level actions are being progressed.	**Management response** Management to review the current workforce plan and actions and develop further SMART actions. **Responsible officer** Executive Director for Council Resources **Date** June 2025

Issue/risk	Recommendation	Agreed management action/timing
2. Service workforce planning The council does not have standard guidance, templates or toolkits to support services in developing a consistent approach to workforce planning. **Risk** – There is a risk that service workforce planning is not consistent and does not support the 2023-2027 Workforce Plan	The council should prepare guidance and templates to assist services in identifying supply and demand issues and consider the emerging objectives and actions within their areas whilst ensuring there is a consistent approach to workforce planning across the council.	**Management response** Management to further develop service plan guidance to provide clearer alignment with corporate workforce plan. **Responsible officer** Executive Director for Council Resources **Date** April 2025
3. Digital transformation The council has completed a limited number of corporate digitalisation projects. **Risk –** There is a risk the council is not using digital technology to shape its future workforce.	The council should increase the pace of roll-out of its digital transformation projects and develop measures to capture and monitor the impact of digital technology on workforce productivity and service outcomes. It should also set out how it expects digital technology to shape its future workforce.	**Management response** The Council has prioritised investment and focus to date on key corporate systems and platforms. The Council's Digital Transformation Board is overseeing the prioritisation of projects, but much of this is dependent on financial resources being made available to support the development and implementation of digital opportunities in a managed and sustainable way. **Responsible officer** Executive Director for Council Resources **Date** On-going
4. Digital exclusion The council has set out its intention to address digital exclusion. **Risk** – There is a risk that the workforce are not appropriately supported.	The Council should further develop the workforce plan to allow it to monitor progress in addressing digital exclusion in its workforce.	**Management response** Management will review the workforce action plan and consider further areas for addressing digital exclusion and how this can be monitored. **Responsible officer**

Issue/risk	Recommendation	Agreed management action/timing
		Executive Director for Council Resources **Date** June 2025
5. Remote and hybrid working The council has developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely but has not applied this. **Risk** – There is a risk the council cannot quantify the benefits for staff including wellbeing, and any savings achieved or improvements to services.	The council should build on the work it conducted in 2020 to review the effectiveness of its WorkSmart policy. This should capture the benefits for staff including wellbeing, and any savings achieved or improvements to services.	**Management response** Management already capture significant management information to monitor the effectiveness. Management will consider how this can be consolidated, captured and monitored though the review of workforce plan SMART actions. **Responsible officer** Executive Director for Council Resources **Date** June 2025
6. Succession planning Almost 25 per cent of the council's employees are over 55 years old. **Risk** – There is a risk that the council plans do not address future succession planning challenges	The council needs to put clear plans in place to address future succession planning challenges.	**Management response** Management will continue to build upon the range of existing initiatives to explore further options to support succession planning. Much of the challenge requires a national approach, and management will continue to support national workforce discussions. **Responsible officer** Executive Management Team **Date** April 2025
7. Trade unions The council and trade unions did not meet between June 2023 and June 2024 after the trade unions went into	To support the successful implementation of future workforce planning it is important that the council and trade unions have a	**Management response** Management will continue to support and promote constructive discussions with the Joint Trade Unions

Issue/risk	Recommendation	Agreed management action/timing
dispute with the council. A Recognition Agreements was signed by all parties in March 2024. **Risk** – There is a risk that the council and trade unions do not have a constructive working relationship and future workforce planning is impacted.	constructive working relationship in line with the Joint Trade Union Recognition Agreement signed in March 2024.	aligned to the Recognition Agreement. **Responsible officer** Executive Director for Council Resources **Date** On-going
8. Performance management framework The council does not have a comprehensive overview of performance measures and targets which measures the overall effectiveness of the council's workforce planning. **Risk** – There is a risk that the council does not have the data to inform decisions about staffing levels, skills requirements and resource allocation.	The Council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning.	**Management response** Management will review the workforce action plan to ensure it captures clear performance management information to inform future planning. **Responsible officer** Executive Director for Council Resources **Date** June 2025

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
1. Capital programme At the June 2023 Council meeting, the general services outturn capital programme spend was reported as £84.341 million for 2022/23, against a revised in year budget of £111.310 million representing a slippage of 25 per cent. **Risk** – Delayed investment can lead to inefficiencies in the existing estate with adverse impact on service delivery.	The Council should review the underlying reasons for reprofiling of the capital programmes to identify opportunities to improve the project management and budget setting procedures in place. Where the capital programme has been paused as a result of mitigation measures the Council should assess the affordability of delivering the current capital programme. **Management Response:**	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
	This recommendation has now been completed, and the affordability of the capital programme will be subject to ongoing review. **Responsible officer:** Head of Finance / Executive Director for Council Resources. **Agreed date:** Complete.	
2. Transformational change The Council should continue to identify where it can progress transformational change in how its services are delivered. This should identify where recurring savings, rather than temporary solutions, can be made together with proposals to reduce costs.	The Council should continue to identify where it can progress transformational change in how services are delivered to address the longer-term financial pressures it faces. **Management Response:** The Council is currently undertaking a review of its Transformational priorities, and this is set in the context of the Financial Strategy and Council Plan. The Transformation Strategy was approved by Council in August. **Responsible officer:** Executive Management Team **Agreed date:** May 2024	**Implemented**
3. Information and Communication Technology (ICT) Public sector bodies are increasingly dependent on ICT systems for the provision of services and management information. The Council has identified the need to invest in digital technology to drive transformation.	The Council needs to prioritise where it can invest in digital services to deliver savings in the longer term. The Council needs to strengthen their digital strategy, cyber security, business continuity management and associated policies to address prior year audit recommendations. **Management Response:**	**See 2023/24 recommendation 9 above**

Issue/risk	Recommendation and Agreed Action	Progress
Risk: There is a risk of key policies and processing not keeping pace with internal demands and external risks and digital services do no deliver required savings.	A digital pipeline prioritisation project remains on-going and will be determined through Digital Transformation Board. **Responsible officer:** Executive Director for Council Resources / IT Service Manager **Agreed date:** Ongoing	
4. Financial resilience Given the scale of the challenges there is an opportunity to enhance its focus on financial resilience, including greater emphasis on its reserves position; clear financial resilience indicators and measures; and alignment to risks ensuring there is a clear financial strategy to support a resilient council.	Given the scale of the financial challenges facing the Council it should ensure that in developing its financial strategy and annual budget there is a clear consideration around its financial resilience, including the level of reserves to allow the Council to meet unforeseen costs and pressures. The Council should also enhance the level of monitoring around financial resilience indicators and risks. **Management Response:** Agreed. **Responsible officer:** Head of Finance / Executive Director for Council Resources (Chief Financial Officer). **Agreed date:** Ongoing	**See 2023/24 recommendation 4 above**
Follow up: 2022/23 recommendations from BV thematic report		
1. Performance monitoring targets The Council has not set targets for all of its Top 50 performance indicators (or for all of the performance measures in its delivery plans). This makes it difficult	The Council should be clear on the level of performance outcomes it aims to achieve against its priorities. It should also be clear on acceptable reductions in performance in non-priority areas as resources are aligned to priorities.	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
to assess whether the Council is on track to deliver its strategic priorities.	**Management Response:** Agreed. A number of the indicators were new this year and take time for the council to embed and set realistic, measurable targets. The council aim to have these in place for the Top 50 performance indicators by December 2023. The Service Management Policy, Performance and Organisational Development will work with Services to have the remainder in place by June 2024. **Responsible Officer:** Service Manager Policy, Performance and Organisational Development **Target date:** June 2024.	
2. Financial planning to address increasing challenges The council faces uncertainty over future funding and increasing financial pressures. Radical solutions are needed to deliver sustainable services and robust long term financial planning is needed to support strategic decision making.	The Council should develop its longer-term financial planning including scenario planning using a range of assumptions to identify service delivery options as future funding remains uncertain. **Management Response:** Agreed. The council already sets out medium term scenario planning to support financial planning. This is set out annually in the Financial Strategy and updated regularly to Council. Officers will keep this ‘live’ during the year and give further consideration to extending this beyond the 5 year period. **Responsible Officer:** Executive Director for Council Resources (CFO) + Head of Finance	**See 2023/24 recommendation 4 above**

Issue/risk	Recommendation and Agreed Action	Progress
	Target date: Complete	
3. Investment needed to deliver sustainable services The council has identified the need to invest in digital technology to drive transformation. There are many council systems which are older and identified as due for replacement but the resources to fund this are not available. Difficult decisions are needed to prioritise where investment will have the greatest benefit.	The council should review and prioritise the investment needed to support sustainable service delivery into the future. Investment in new technologies needs to be well managed and requires well planned investment as pressures to cut costs could lead to failure and increased costs in the longer term. **Management Response:** Agreed. A review of current Transformational Priorities is on-going and includes Digital pipeline and prioritisation work. The council has agreed an updated Reserves strategy which includes Digital support as a key enabler to support transformational change. The Digital Strategy Board is chaired by the Executive Director for Council Resources and will consider and prioritise critical digital investment and future plans. **Responsible Officer:** Executive Director for Council Resources (CFO) + Head of Finance **Target date:** Ongoing	**See 2023/24 recommendation 4 above**

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £467,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements. (to confirm on completion of NCA).

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
Accounting Misstatements		**Dr £000**	**Cr £000**	**Dr £000**	**Cr £000**
1. Unprovided depreciation on Infrastructure Assets	PPE				936
	Expenditure	936			
2. Council Tax Debtor/Creditor	Debtors				1,079
	Creditors			1,079	

East Lothian Council

2023/24 Annual Audit Report DRAFT

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0

Workforce Innovation - how councils are responding to workforce challenges

Best Value thematic work in East Lothian Council 2023-24

Prepared by Audit Scotland
December 2024

Contents

Key facts

Workforce 2023/2024

5,314	Number of people working for the council – headcount
4,124	Number of people working for the council – full time equivalent
1,397	Number of casual staff positions
10.5%	Turnover of staff in last year
11.87	Average number of sickness absence days per local government employee including teachers

Age profile

5.8%	16 to 25
43.1%	26 to 45
26.7%	46 to 55
24.4%	56+

Sources: Information provided to Audit Scotland by East Lothian Council (Headcount, FTE, casual staff, turnover, age profile, sickness absence)

Key messages

1 The council has a Workforce Plan covering the period 2023-2027. The Workforce Plan contains workforce data although there is an opportunity to continue to develop the range of data and intelligence used.

2 The workforce plan captures the workforce challenges that the council faces however actions included within the action plan need to be SMART to allow progress to be monitored and reported. The council should develop further guidance to ensure alignment with service plans and workforce planning which supports the objectives included within the 2023-2027 Workforce Plan.

3 The council has completed a limited number of corporate digitalisation projects. The council has not yet measured the impact of the digital technology it has introduced on workforce productivity and service outcomes. The council's Transformation Strategy 2024-29 includes plans to do this. Further progress and pace is now required to support and enhance digital opportunities.

4 The Digital Strategy 2022-27 sets out an intention to address digital exclusion. The council monitors the digital skills of its staff through its annual employee engagement survey, the results of which have informed the development of digital support such as the creation of digital champions and digital leaders.

5 The council has revised its flexible and homeworking policies to enhance flexible working options for employees. The council developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely. There is an opportunity to coordinate data to enhance future reporting to inform improvements to maximise job satisfaction and productivity.

6 The 2023 employee engagement survey focussed on staff health and wellbeing. Staff have reported work-related stress with as key factor being workload. The council has a range of initiatives in place to promote staff wellbeing.

7 Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council established a short life recruitment task group to support current recruitment challenges including maximising apprentices, professional training and a grow your own culture. The council must continue to explore opportunities to develop long-term sustainable

solutions to meet the challenges it faces. The council is progressing its future leadership programme for both senior and middle managers and this will be used to support succession planning challenges.

8 As a result of a dispute between the trade unions and the council, Joint Consultative Committee meetings were suspended from June 2023 until June 2024. The council and all five trade unions signed a Recognition Agreement in March 2024 to promote and maintain a positive and constructive employment relationship.

9 The council should continue to explore and develop formal arrangements for sharing services with other councils or partners to create workforce benefits. The council shares services with other councils including a Chief Internal Auditor with Midlothian Council and Insurance Service with City of Edinburgh Council.

10 Update reports on the 2023-27 Workforce Plan are provided to the Corporate Management Team and the Joint Consultative Committee.

11 The council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning.

Scope of the audit

1. The 2023 Local Government Overview (LGO) notes that councils have never faced such a challenging situation. Service demands have increased after the Covid-19 pandemic and funding is forecast to reduce in real terms. Workforce pressures including recruitment in a competitive labour market, employee retention and high sickness absence levels are putting councils under continued pressure.

2. This report sets out how the council is responding to current workforce challenges through building capacity, increasing productivity and innovation.

3. The Accounts Commission's Strategy (2021-26) sets out its priorities to focus on inequalities, funding, communities and recovery. The Code of Audit practice sets out the Best Value work required to report on these priorities.

Code of Audit Practice 2020 Best Value reporting requirements

Best Value reporting – extract from the Code

The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports:

- As part of their integrated wider-scope annual audit work appointed auditors use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations.
- The Accounts Commission also requires the Controller of Audit to report to the Accounts Commission on each council at least once over the five-year audit appointment on the body's performance on its Best Value duty. This enables the Accounts Commission to make findings for improvement where appropriate.
- The Accounts Commission reports nationally on thematic aspects of local government bodies' approaches to, and performance in, meeting their Best Value and community planning duties. Local government appointed auditors report locally on any such Best Value thematic work prescribed by the Accounts Commission.

4. This report covers the thematic aspect of the Best Value audit requirements. The Commission has directed auditors to report on workforce innovation and how councils are responding to workforce challenges. In carrying out the work auditors have considered the following questions:

- How effectively are the council's workforce plans integrated with its strategic plans and priorities?

- How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?
- How effectively is the council using hybrid and remote working and other innovative working practice such as a four-day week to achieve service and staff benefits?
- What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities?
- What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?
- How effectively is the council measuring the impact of its workforce planning approach?

5. An improvement action plan is included at Appendix 1 of this report. This sets out audit recommendations in key areas, and the council's planned response including responsible officers and dates for implementation.

6. The coverage of the work is in line with the expectations for council's arrangements for the seven Best Value themes in the Local Government in Scotland Act 2003, Best Value Statutory Guidance 2020.

1 Workforce strategy and priorities

7. A council focused on achieving Best Value will have a workforce strategy that sets out expectations on how the local authority's staff will deliver its vision, priorities and values.

8. To be effective, workforce planning must be integrated across the organisation. Workforce strategies need to support the council in achieving its strategic priorities. They must support other key plans including financial, asset, digital and transformation planning. They need to be under-pinned with detailed workforce plans within services.

The council has a Workforce Plan covering the period 2023-2027

9. East Lothian Council employs 5,314 people including 1,397 casual staff positions. Total staff costs, including pension contributions for 2023/24 is £204.6 million which equates to around 65 per cent of council expenditure, which is high compared to other councils. Almost 25 per cent of the council's employees are over 55 years old. Maximising the efficiency and effectiveness of its people is key to the council achieving its strategic priorities and delivering continuous improvement in the delivery of services.

10. The population of East Lothian is growing rapidly, with a 12.6 per cent increase between 2011 and 2022 (99,717 to 112,300 people) and it has a slightly higher proportion of people over 75 years old (9.8 per cent compared to the Scottish average of nine per cent). At the same time, the council faces significant financial challenges with an estimated budget gap of more than £71 million between 2024/25 and 2028/29.

11. The 2023-2027 Workforce Plan was approved by the council's Cabinet in January 2023. It includes an overall vision that East Lothian Council will be an employer of choice. To achieve this the workforce plan contains nine objectives, that staff will:

- have the skills, knowledge, experience and motivation to deliver the highest quality services
- be flexible and adaptable around our changing organisational needs
- take personal responsibility and ownership to be effective in their jobs and take every opportunity to be as productive as possible to deliver their agreed work priorities
- be resilient to change and instigate, as well as adapt to, changes in service delivery

- be satisfied and engaged and feel safe at work
- work in partnership across all services and with the Council's partners and communities to effectively deliver essential services and outcomes
- be customer focused and deliver person centred, trauma informed and inclusive services
- feel valued and recognised for the contribution they make to achieving the Council's vision and objectives
- be supported, empowered and trusted.

12. The Workforce Plan includes some workforce data and summarises the changing context, pressures and challenges impacting on the workforce. It includes an overall vision comprising nine bullets, key drivers of change and challenges impacting on workforce requirements including the impact of Covid, financial constraints, population growth and transformation, workforce profile data, workforce issues identified by managers and staff and an action plan. It also includes an action plan based around three themes:

- Sustain a skilled, flexible, high performing and motivated workforce
- Support and initiate transformational change
- Build and sustain leadership and management capacity.

13. An update on progress on the Workforce Plan and associated actions was presented to the Joint Consultative Committee (JCC) in June 2024 (see paragraph 72 for further detail).

The Workforce Plan contains workforce data but there is an opportunity to continue to develop the range of data and intelligence used

14. Workforce planning involves identifying and addressing future capacity and skills gaps, at operational and leadership levels. It requires strategic thinking, comprehensive workforce data and ongoing consultation and engagement with staff and trade unions. The characteristics of mature workforce planning are described in the workforce planning maturity matrix in Audit Scotland's Local Government In Scotland Overview 2023.

15. The Council's 2023-27 Workforce Plan provides council-wide workforce data on the overall headcount and grading and a breakdown by protected characteristics with three-year trend data reported where this is available. While the council provides some commentary on the datasets, it is not clear how data is informing its overall strategic approach to workforce planning. The council recognises the risk of an ageing workforce and refers to initiatives to attract a younger workforce.

16. The Council Management Team regularly reviews a wide range of recruitment and workforce data including agency staff, absence management and recruitment information. The council could continue to develop the range of data and intelligence it draws on in its 2023-27 Workforce Plan to monitor effectiveness, for example, information on the use of casual staff, use of apprenticeships, sickness absence statistics, well-being data, recruitment and retention data, exit survey data, labour market analysis and scenario modelling.

17. While the council did not carry out a formal consultation with staff on the development of the workforce plan, it did draw on findings in the most recent employee staff survey 2021 and workforce issues raised by service managers in a survey in Spring 2022. In 2023, eight additional actions arising from issues raised by staff in the 2023 Employee Engagement Survey were added to the Action Plan, as requested by Joint Consultative Committee (JCC) at its June 2023 meeting. Further questions were also included within the 2024 employee engagement survey.

The workforce plan captures the workforce challenges however actions need to be SMART to allow progress to be monitored and reported

18. In June 2024, the council's workforce action plan had 40 actions, including the eight additional actions added in June 2023. While the actions capture a range of workforce challenges, not all are SMART and specific and therefore it is difficult to fully evaluate what progress has been made and what success looks like. The council could further develop specific actions including, setting targets, how these will be achieved and timescales for completion within the five-year period and the financial implications. There is an opportunity for the Council to develop clearer actions to allow progress to be measured, monitored and reported.

Recommendation 1

The council should build on its workforce planning to date by expanding the range of data and intelligence it draws upon, with SMART action plans setting out how council level and service level actions are being progressed.

Service plans should include detailed workforce planning which supports the objectives included within the 2023-2027 Workforce Plan

19. It is important that the service plans include service level workforce planning which contains a detailed analysis of the workforce data and the potential implications for the service and the Council. Service level workforce planning should also support the themes, objectives and action plan included within the 2023-2027 Workforce Plan.

20. Service planning guidance states that services should consider the key aspects of workforce planning and whether the service has the capacity and skills required to deliver services now and in the future. There is an opportunity for the Council to develop further guidance, templates or toolkits to support services in developing a consistent approach to workforce planning.

Recommendation 2

The council should prepare detailed guidance and templates to assist services in identifying supply and demand issues and consider the emerging objectives and actions within their areas whilst ensuring there is a consistent approach to workforce planning across the council that supports the vision and priorities within the Council Plan.

2 Digital technology and the workforce

21. The LGO notes that digital technology will make councils' future workforces look and work quite differently. In order to achieve the change required, councils need to make good use of digital technology and use the workforce in flexible ways.

22. Digital technology has a strong bearing on a council's workforce needs. It can be used to re-shape jobs to increase productivity and reduce back-office functions while improving service quality. Technology solutions include online services, customer relationship management systems, mobile digital devices and more recently, artificial intelligence (AI) applications.

23. The Accounts Commission's 2021 Digital Progress in Local Government report highlighted that Covid-19 accelerated the use of digital technology in councils. Councils need to be innovative in their use of technology and build on new working practices that emerged during the pandemic. In doing so, they must also consider service quality and the needs of people experiencing digital exclusion.

The council has completed a limited number of corporate digitalisation projects. Further progress and pace is now required to support and enhance digital opportunities.

24. We reported in our Annual Audit Report 2022/23 that the council has many old IT systems that have been identified as due for replacement and that the use of new technology would increase efficiency of workflow, provide automation of administrative processes and reporting and free up staff resource.

25. The council has completed a limited number of corporate digitalisation projects to date including, an online customer platform, a new content management system, HR and Payroll systems and online school payments. It has identified the benefits of these in general terms but has not fully quantified the impact of these including costs avoided, increased customer satisfaction, improved engagement with citizens, reduced transaction time and resources release. Other digitalisation projects underway include the roll-out of Microsoft 365 and the development of a new housing management system.

26. The council's updated Transformation Strategy includes a commitment to develop a more formal and consistent approach to tracking cost benefits. The Transformation Portfolio Framework approved in April 2024 will be used to enhance the Council's ability to capture, monitor and report on benefits.

27. The council is highlighting its intentions to provide more emphasis on digital in its plans and strategies. In its Council Plan 2022-27, the council commits to becoming a digital authority - *maximising its use of technology to deliver services to the public as efficiently and effectively as possible*. Additional short-term priorities, agreed in February 2024, include a reference to the council adopting a digital by default approach to transforming how it delivers its services.

28. In January 2023 the council's Digital Strategy 2022-27 was approved by Cabinet with the aim of transforming the way it works, engages with residents and delivers council services. The Digital Transformation Board provides the overall strategic direction and oversight of digital transformation and the prioritisation of digital projects and allocation of resources.

29. The Digital Strategy 2022-27 set out the intention for the council to prepare an annual digital transformation work plan to be taken to the Digital Transformation Board for approval in October of each year. The council is intending to take the first digital transformation work plan to the Board in October 2024, over 18 months after the Digital Strategy was approved.

The council has not yet measured the impact of the digital technology it has introduced to date on workforce productivity and service outcomes. The council's Transformation Strategy 2024-29 includes plans to do this.

30. The council's Transformation Strategy 2024-29 was approved by East Lothian Council in August 2024. One of its objectives is digital by default customer design - *to continue to make better use of technology to deliver smarter, efficient service processes and to deliver a better experience for customers*. The Transformation Strategy includes a high-level action plan, including 'Prioritise and progress key digital transformation projects'. These include:

- the development of a mobile housing management system that will allow employees to update the system wherever they are
- the rollout of Microsoft 365 which will allow for stronger cross-organisation collaboration.

31. A section of the Transformation Strategy is dedicated to savings, benefits and added value with a more formal approach to tracking cost savings being introduced in 2024. The council intends to use its new Transformation Portfolio Framework to help capture, monitor and report on benefits from 2024 onwards.

Recommendation 3

The council should increase the pace of roll-out of its digital transformation projects and develop measures to capture and monitor the impact of digital technology on workforce productivity and service outcomes. It should also set out how it expects digital technology to shape its future workforce.

The Digital Strategy 2022-27 sets out an intention to address digital exclusion. The council monitors the digital skills of its staff through its annual employee engagement survey, the results of which have informed the development of digital support such as the creation of digital champions and digital leaders

32. The council's 2024 employee engagement survey of non-school staff included questions related to digital skills and equipment. Seventy-five per cent of respondents said they were confident in using council devices, software and systems and 83 per cent thought if they had all the correct tools and support to work digitally, although this ranged from 77.1 to 95.6 per cent across services. The council intends to use the results of the digital skills questions to inform the roll out of support and digital tools to develop the digital functionality of services.

33. To date the council has undertaken several different activities related to digital skills including:

- offering digital skills assessment surveys to several teams that are working on new digital systems or starting to use paperless systems
- organising a new IT skills training room with six desktops for staff to access payslips, Learn Pro and beginner level training. There will also be desktops available at other areas.
- identifying staff who do not have devices and logins. This will be used to target managers of staff with awareness of communal devices, and guides to use Learn Pro and resources/tools to access beginner level digital training
- poster for depots to raise awareness on how to access payslips including QR code for mobiles

34. The council has created over 100 digital champions with an active Teams channel where apps and tools are discussed. The digital champions are located across all services including harder to reach services such as infrastructure. The council also has Digital Leaders who are based across services. They are tasked with promoting the use of digital systems to their colleagues and helping them understand the benefits.

35. Under the 'Growing our people' objective within the digital strategy, that links to the council's objectives, the council has committed to:

- conduct digital skills audits where required and work with the teams and services to build capability and to provide training
- further develop and grow the digital champions network to ensure employees have the required knowledge and skills to use M365 and other relevant applications

- provide a digital skills learning centre that is easily accessible to all employees through an engaging and intuitive Learning Management System.
- ensure all employees have easy access to digital training.

Recommendation 4

The Council should further develop the workforce plan to allow it to monitor progress in addressing digital exclusion in its workforce.

3 Flexible working and other innovative staff deployment

36. During the pandemic councils needed to make the best use of their existing workforce while continuing to monitor employee wellbeing. Councils continue to look to new ways of working to improve job satisfaction and reduce sickness absence and staff turnover.

37. Home-working and hybrid working (a combination of office and home-based working) have now become commonplace. However, whatever the working practice, employers need to ensure that service quality and productivity are maintained.

The Council has revised its flexible and homeworking policies to enhance flexible working options for employees

38. The council has flexible working and homeworking policies in place that encompass staff wellbeing In March 2022 both policies were revised to enhance flexible working options for employees whose roles could be undertaken from home.

39. The council's Worksmart policy is the flexible working policy for the council. It allows staff to work flexibly if the role is suitable. This may mean early starts, later finishes or working from a different location if business needs are met, and working hours are completed. The council also offers employees the opportunity to apply for home working if the role is suitable. In December 2022 there were 305 contractual homeworkers.

40. The Worksmart policy was amended to include hybrid working arrangements, setting out scope for more flexibility with the non-contractual terms agreed locally between the employee and their manager. One of the benefits of this was to support the attraction and retention of employees.

41. The council pays its home workers an allowance as permitted by HMRC. The council pay the maximum tax-free amount of £312 per annum to help employees with the cost-of-living crisis and to encourage more employees to apply for home working. In October 2022, 236 employees were receiving the allowance at an annual cost of £73,632.

42. The council supports employees' wellbeing when working at home, encouraging staff to take breaks and step away from their desks as well as staying in touch. The policy recognises homeworking can be isolating and encourages employees to make use of the health and wellbeing support available.

The council developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely There is an opportunity to coordinate data to enhance future reporting.

43. The council undertook benefits realisation work in September 2020 on flexible home working that identified five areas of potential benefit:

- carbon footprint reduction
- financial efficiencies
- employee wellbeing
- improved sustainability
- improved productivity.

44. Potential benefits included less time for staff travelling to meetings, and Co2 saved, saved costs in printing and saved Co2 in commuting. It also included possible dis-benefits. Despite the policies being enhanced in March 2022, there is an opportunity to coordinate data to enhance future reporting to inform improvements to maximise job satisfaction and productivity.

Recommendation 5

The council should build on the work it conducted in 2020 to review the effectiveness of its WorkSmart policy. This should capture the benefits for staff including wellbeing, and any savings achieved or improvements to services.

The 2023 employee engagement survey focussed on staff health and wellbeing. Staff have reported work-related stress with as key factor being workload.

45. The council has carried out a council-wide employee engagement survey every year since 2010. The 2023 survey focused on staff health and wellbeing. The staff surveys were conducted in two tranches. In March/April 2023 the council employee survey was undertaken followed by the teacher/school based education employee in September/October 2023. A total of 1,170 council employees completed the 2023 survey, an overall response rate of just under 46 per cent. A total of 995 teachers and school based staff completed the 2023 survey, 746 teachers and 249 school based education service staff, an overall response rate of 48 per cent.

46. In the survey 50.9 per cent of council staff, 81.5 per cent of teachers and 44.7 per cent non-teaching school staff who responded to the survey reported work-related stress and concerns about workload. In response to this and other issues raised in the survey, the council developed a corporate action plan, actions from which have been integrated into the workforce plan action plan. The council intends to ask staff about stress again in a future staff survey.

47. The response rate was lowest in those services that have a high proportion of front-line, non-office-based staff such as health and social care and housing. The council acknowledges that further consideration needs to be given to how to encourage and facilitate front-line staff to complete the survey and intends to pilot a different approach with frontline services.

The council has a range of initiatives in place to promote staff wellbeing

48. The council has initiatives in place to support employee wellbeing including:

- an Employee Assistance Programme which provides confidential advice, information and counselling on a range of work, family and personal issues
- Listening Ears are Mental Health First Aid trained and are people who work for the council and understand the policies and culture can listen to others' issues and suggest a way forward.
- the Healthy Working Lives scheme which helps to support a mentally healthy workplace by providing employers with resources and training.
- Managers encouraging their team members to complete wellness action plans. These are practical tools to identify what keeps employees well at work, what causes employees to feel unwell and what support managers can provide to boost wellbeing.
- Wellbeing Wednesday alerts. These go to all staff as part of the Health and Wellbeing support programme and provide information and support links.
- Number of staff trained to Level 1 & 2 Wellbeing and Trauma Skills
- Number of staff trained on Scottish Mental Health Training
- Engagement with Able Futures to provide longer term wellbeing support to employees

49. In 2023 the council undertook a variety of health and wellbeing exercises for its employees including the provision of mental health first aid training, a step count challenge and the promotion and support of the menopause group and the carers' wellbeing group.

50. The council has an employee wellbeing page on its website that is available to all. This provides links to several web pages for employees to find out information about health and wellbeing.

4 Developing future skills and capacity

51. Councils need to find innovative ways to ensure the workforce capacity and skills they need to deliver services in the future. Training and development opportunities can help to attract and retain employees and ensure skills are in place. Many councils work with their partners to offer apprenticeship schemes or vocational qualifications. Succession planning is also important to develop future leaders and ensure that essential skills are in place.

52. Jobs can be re-designed to optimise the workforce and improve services. For example generic roles across health and social care disciplines. Leaders need to engage with staff and trade unions over fundamental workforce reform. This is particularly challenging in an environment of potential job losses.

Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council needs to adopt long-term sustainable solutions to meet the challenges it faces

53. Similar to other local authorities the council faces a number of workforce challenges which include recruiting and retaining staff; managing high levels of sickness absence; an ageing workforce and the impact of financial mitigation measures that have been put in place. The council has introduced some initiatives to meet these challenges including expanding trainee / professional roles, but more needs to be done to adopt innovative and long-term solutions. The council is at an early stage of developing more sustainable changes through its transformation and digital strategies.

54. The council established a short life recruitment task group which convened between August 2022 and March 2023 and produced an action plan. Some of the initiatives progressed include:

- Adding new roles to the professional development scheme.
- Highlighting employee benefits of working for the council on the website.
- Pay and grading – removal of first point of scale / salary assessment.
- Making progress to become an accredited Living Wage employer.

55. The council was successful in attracting children's social workers by placing the minimum point further up the scale to be more competitive with neighbouring authorities.

56. The council uses apprenticeships to help support people in the local population to further their skills and find employment. However, the council are finding it challenging to continue to support young people through modern apprenticeships due to national funding cuts. East Lothian Works, the council's employability service, promotes foundation apprenticeships and this continues to be supported throughout the organisation.

57. The workforce plan acknowledges that as staffing costs account for around 65 per cent of the council's revenue budget, any significant reduction in the council's budget cannot be met without changes in the level of expenditure on staffing. The council anticipates that projects in transformation, service redesign and digitalisation will help deliver some of the changes required.

58. The latest corporate risk register in June 2024 indicates continuing staffing pressures with four services operating in business continuity mode due to staffing pressures.

The Council is progressing its future leadership programme but needs to do more to address succession planning challenges

59. The council has carried out actions to develop its leaders including:

- Defining leadership behaviours based on the East Lothian Way
- Corporate and senior management team members participating in 360 feedback, coaching and behaviour change workshops
- Some corporate management team members are mentoring a small group of managers
- Senior management team development sessions on working together and managing change.

60. Under the council's Shaping Our Futures programme, proposals are being developed to align future leadership development activities with transformation recognising the critical role of managers in driving change. An Aspiring Leaders Programme has now been established which is aimed at developing individuals in a way that is tailored to the needs of the service and post, and supporting the organisation's commitment to succession planning. The council is also proposing a pilot for Amenity Services for future depot managers.

61. The Transformation Strategy 2024-29 includes the following objective: *We must ensure we are developing transformation professionals. As well as attracting, developing and retaining new and existing talent.*

62. Almost 25 per cent of the council's employees are over 55 years old. Whilst the council is progressing its approach to leadership development it needs to do more to address future succession planning challenges.

Recommendation 6

The council needs to put clear plans in place to address future succession planning challenges.

The council and all five trade unions signed a Recognition Agreement in March 2024 to promote and maintain a positive and constructive employment relationship

63. The council states in its 2023-27 Workforce Plan that its implementation will rely on the continuing positive partnership between the council, its staff and the trade unions.

64. As a result of a dispute between the trade unions and the council, Joint Consultative Committee meetings were suspended from June 2023 until June 2024. It is important that constructive working relationships are in place to support future workforce planning. The council and all five trade unions have now signed a Recognition Agreement in March 2024 to promote and maintain a positive and constructive employment relationship.

Recommendation 7

To support the successful implementation of future workforce planning it is important that the council and trade unions have a constructive working relationship in line with the Joint Trade Union Recognition Agreement signed in March 2024.

5 Joint workforce arrangements across services and partners

65. Councils should look to work collaboratively with their partners to make the best use of their existing workforces and plan for the particular workforce needs in their areas. They should also work across traditional service department roles within councils to deliver improved services and outcomes.

66. Examples of this include generic working across health and social care, professional posts or functions shared between councils, and services delivered through empowered communities.

The council has limited formal arrangements in place for sharing services with other councils or partners to create workforce benefits. The council shares a Chief Internal Auditor with Midlothian Council

67. The council has trialled a number of shared posts over the years that have not been sustained. These have included shared roles for the head of education and health and safety. The council has been sharing the role of Chief Internal Auditor with Midlothian Council since January 2023. In June 2024, the Audit and Governance Committee agreed to continue the arrangement and decided to widen it to include the potential sharing of internal audit and counter fraud staffing.

68. From sharing the role, the savings made were used by East Lothian Council to employ a Counter Fraud Officer who has subsequently gone on to identify and recover a greater value of fraud - over £650,000. Other benefits were outlined before the arrangement was put in place, including a more resilient internal audit team and the sharing of best practice in planning, procedures and audit approaches.

69. The council continues to look for opportunities to share services. To date some of barriers include differences in terms of staffing or contractual arrangements, IT systems, local priorities or political differences.

70. The council has outsourced work to other councils in areas where it is more difficult to recruit. For example, it has put an arrangement in place with the City of Edinburgh Council to carry out insurance services following the retirement of the person undertaking this work for East Lothian Council.

6 Measuring the impact of workforce planning

71. Councils should monitor the impact of their workforce planning and delivery approaches. This should include cost, service quality and productivity benefits as well as employee wellbeing. This in turn should inform their workforce planning approach. Councils and their partners should also understand the wider impact of their employment practice on the local economy.

Update reports on the 2023-27 Workforce Plan are provided to the Corporate Management Team and the Joint Consultative Committee

72. Update reports on the 2023-27 Workforce Plan are provided to corporate management team (CMT) and the Joint Consultative Committee (JCC), which comprises trade union representatives, senior officers and some elected members. The June 2024 update report included narrative on progress against each of the actions along with a RAG status for each action. There is no formal arrangement in place in terms of the regularity of update reports.

73. Since the JCC did not meet after June 2023 until June 2024 the update report was submitted to the members library in December 2023. This means it can be accessed for information by all elected members.

The council needs to develop a performance management framework linked to its Workforce Plan

74. The council reports some council-wide workforce data each year to the Policy and Performance Review Committee through its Council Plan Top 50 Performance Indicator and Report Update and its Council's Poverty and Equality Indicators including indicators from the annual employee engagement survey.

75. As with other councils, some information on workforce data is provided in statutory reports including the Local Government Benchmarking Framework (LGBF) such as sickness absence.

76. There is no comprehensive overview of performance measures and targets which measures the overall effectiveness of the council's workforce planning. There is no evidence the council measures the effectiveness of its workforce planning approach in relation to cost, service quality or productivity benefits.

77. The council needs to develop a performance management framework linked to its Workforce Plan. The use of robust data will help inform future workforce planning and assist the council in making informed decisions about staffing levels, skills requirements and resource allocation.

78. The council has not carried out any formal self-evaluation of its workforce planning such as the Local Government Association workforce planning maturity index. These can help identify strengths and weaknesses in workforce planning approaches and inform future approaches.

Recommendation 8

The Council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning.

Appendix 1

Improvement Action plan –

Issue/risk	Recommendation	Agreed management action/timing
1. Action plan The council's workforce action plan has 40 actions capturing a range of workforce challenges however they are not SMART. **Risk** – There is a risk actions cannot be evaluated to allow progress to be measured, monitored and reported.	The council should build on its workforce planning to date by expanding the range of data and intelligence it draws upon, with SMART action plans setting out how council level and service level actions are being progressed. Paragraph 18	**Management response** Management to review the current workforce plan and actions and develop further SMART actions. **Responsible officer** Executive Director for Council Resources **Date** June 2025
2. Service workforce planning The council does not have standard guidance, templates or toolkits to support services in developing a consistent approach to workforce planning. **Risk** – There is a risk that service workforce planning is not consistent and does not support the 2023-2027 Workforce Plan	The council should prepare guidance and templates to assist services in identifying supply and demand issues and consider the emerging objectives and actions within their areas whilst ensuring there is a consistent approach to workforce planning across the council. Paragraph 20	**Management response** Management to further develop service plan guidance to provide clearer alignment with corporate workforce plan. **Responsible officer** Executive Director for Council Resources **Date** April 2025
3. Digital transformation The council has completed a limited number of corporate digitalisation projects. **Risk –** There is a risk the council is not using digital technology to shape its future workforce.	The council should increase the pace of roll-out of its digital transformation projects and develop measures to capture and monitor the impact of digital technology on workforce productivity and service outcomes. It should also set out how it expects digital technology to shape its future workforce. Paragraph 31	**Management response** The Council has prioritised investment and focus to date on key corporate systems and platforms. The Council's Digital Transformation Board is overseeing the prioritisation of projects, but much of this is dependent on financial resources being made available to support the development and implementation of digital

		opportunities in a managed and sustainable way. **Responsible officer** Executive Director for Council Resources **Date** On-going
4. Digital exclusion The council has set out its intention to address digital exclusion. **Risk** – There is a risk that the workforce are not appropriately supported.	The Council should further develop the workforce plan to allow it to monitor progress in addressing digital exclusion in its workforce. Paragraph 35	**Management response** Management will review the workforce action plan and consider further areas for addressing digital exclusion and how this can be monitored. **Responsible officer** Executive Director for Council Resources **Date** June 2025
5. Remote and hybrid working The council has developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely but has not applied this. **Risk** – There is a risk the council cannot quantify the benefits for staff including wellbeing, and any savings achieved or improvements to services.	The council should build on the work it conducted in 2020 to review the effectiveness of its WorkSmart policy. This should capture the benefits for staff including wellbeing, and any savings achieved or improvements to services. Paragraph 44	**Management response** Management already capture significant management information to monitor the effectiveness. Management will consider how this can be consolidated, captured and monitored though the review of workforce plan SMART actions. **Responsible officer** Executive Director for Council Resources **Date** June 2025
6. Succession planning Almost 25 per cent of the council's employees are over 55 years old. **Risk** – There is a risk that the council plans do not address future succession planning challenges	The council needs to put clear plans in place to address future succession planning challenges. Paragraph 61	**Management response** Management will continue to build upon the range of existing initiatives to explore further options to support succession planning. Much of the challenge requires a national approach,

		and management will continue to support national workforce discussions. **Responsible officer** Executive Management Team **Date** April 2025
7. Trade unions The council and trade unions did not meet between June 2023 and June 2024 after the trade unions went into dispute with the council. A Recognition Agreements was signed by all parties in March 2024. **Risk** – There is a risk that the council and trade unions do not have a constructive working relationship and future workforce planning is impacted.	To support the successful implementation of future workforce planning it is important that the council and trade unions have a constructive working relationship in line with the Joint Trade Union Recognition Agreement signed in March 2024. Paragraph 63	**Management response** Management will continue to support and promote constructive discussions with the Joint Trade Unions aligned to the Recognition Agreement. **Responsible officer** Executive Director for Council Resources **Date** On-going
8. Performance management framework The council does not have a comprehensive overview of performance measures and targets which measures the overall effectiveness of the council's workforce planning. **Risk** – There is a risk that the council does not have the data to inform decisions about staffing levels, skills requirements and resource allocation xx	The Council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning. Paragraph 77	**Management response** Management will review the workforce action plan to ensure it captures clear performance management information to inform future planning. **Responsible officer** Executive Director for Council Resources **Date** June 2025

Workforce innovation - how councils are responding to workforce challenges

East Lothian Council

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0

East Lothian Council

REPORT TO:	**AUDIT AND GOVERNANCE COMMITTEE**	
MEETING DATE:	17 December 2024	**6**
BY:	Executive Director for Council Resources	
SUBJECT:	Treasury Management – Mid Year Review 2024-25	

1 PURPOSE

1.1 An update to the Committee on Treasury Management activity during the first six months of 2024-25.

2 RECOMMENDATIONS

2.1 The Committee is asked to note the content of the report.

3 BACKGROUND

3.1 A main function of treasury management operations is to ensure that the cash flow is adequately planned, with cash being available when it is required. Surplus monies are invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

3.2 In addition, the treasury management service manages the accounting and funding of the Council's capital plans. The approved capital plans provide a guide to the borrowing need of the Council, including setting out the longer-term cash flow planning to ensure the Council can meet its capital spending obligations in future years. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, any debt previously incurred may be restructured to meet wider risk or cost objectives.

3.3 Treasury management is therefore defined as being the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. This mid-year report is reviewed against the current Treasury Management Strategy that was approved by Council on 20 February 2024.

3.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

A. An economic update for the first part of the 2024-25 financial year;

B. A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

C. The Council's capital position (prudential indicators);

D. A review of the Council's investment portfolio for 2024-25.

E. A review of the Council's borrowing strategy for 2024-25.

F. A review of any debt rescheduling undertaken during 2024-25.

Part A – Economic Update

3.5 The Monetary Policy Committee (MPC) decreased interest rates by 0.25%, taking Bank rate from 5.25% in March to 5.00% in August as inflation fell closer to the Bank of England's target.

3.6 Interest rates are thought to continue to decrease but a slower rate than predicted previously, with the rate expected to hold at 4.75% until the end of 2024, in line with the Bank of England strategy to for managing inflation, which they predict will rise to at least 2.5% by the end of 2024 and will continue to fluctuate until at least 2026.

3.7 The MPC's thoughts and the economic conditions have informed our Treasury advisors forecast for the period December 2024 to December 2027 as shown in Table 3.1. It shows Bank Rate at 4.75% with an expectation that it will continue to decrease by 0.25% quarterly with a pause at the end of 2025, remaining almost constant at 3.75% for 2026, a drop of 0.25% then holding steady at 3.50% for 2027.

Table 3.1

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Part B – Review of Treasury Management Strategy Statement and Annual Investment Strategy

3.8 The Treasury Management Strategy Statement (TMSS) sets out the wider Treasury and Investment Strategy and was approved by Council on 20 February 2024. The Strategy includes several key treasury management indicators. This report provides an update on the Treasury Management activity undertaken by the Council relative to the approved strategy taking account of the updated economic position and budgetary changes already approved.

3.9 Table 3.2 below provides a summary of the current position relative to approved indicators, with more details around the position on each indicator set out in the remainder of this report.

Table 3.2

Prudential Indicators 2024-25	Approved £m	Current Estimated Prudential Indicator £m
Capital Financing Requirement	685	688
Operational Boundary	685	688
Authorised Limit	756	756

Includes long term liabilities for PPP arrangements and finance leases

Part C - The Council's Capital Position (Prudential Indicators)

3.10 The current projections set against the approved indicators are set out below.

Capital Expenditure and Financing of the Capital Programme

3.11 Table 3.3 below sets out the current projected outturns for the Council's capital investment programmes for 2024-25 relative to the approved budget set on 20 February 2024.

The table sets out how the programme is financed, highlighting the supported and unsupported elements and the expected financing arrangements.

The borrowing requirement increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). This in part will be offset by any revenue charges for the repayment of debt.

Table 3.3

Capital Expenditure	2024-25 Approved Budget £m	2024-25 Projected Outturn * £m
General Services	117	113
HRA	32	29
Total capital expenditure	**149**	**142**
Financed by:		
Capital receipts	15	13
Capital Grants	52	51
CFCR	2	2
Total financing	**69**	**66**
Borrowing requirement	**80**	**76**

** Projected outturn is based on the position to be reported in the December Council update and remains subject to change*

Impact on Prudential Indicators

3.12 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Table 3.4 below, sets out the CFR and the expected debt position over the period, which is termed the Operational Boundary.

3.13 Overall, the Council is currently projecting to be marginally over the approved limits for both CFR and Operational Boundary. This is due to the reprofiling of the PPP arrangements to match asset lives as per guidance issued by the Scottish Government and implemented at the end of the 2023-24 financial year.

This increased the CFR by £14 million and has therefore cancelled out any reduction which would have been seen from any reduction or reprofiling of budgeted spend and the increase in capital receipts in 2023-24 in General Services of close to £10 million on the opening position to budget.

Table 3.4

Prudential Indicators	2024-25 Approved Limits £m	2024-25 Projected Outturn £m
Capital Financing Requirement		
CFR – General Services	394	402
CFR – HRA	291	286
Total CFR	**685**	**688**
Operational Boundary for external debt		
Borrowing	656	659
Other long term liabilities*	29	29
Total debt (year-end position)	**685**	**618**

** PPP arrangements and finance leases*

The impact of capital investment decisions on the ratio of financing costs to net revenue streams and the debt per Band D equivalent and per HRA dwelling are shown in the table below.

Table 3.5

Prudential Indicators	2024-25 Approved Budget	2024-25 Projected Outturn
Ratio of financing costs to net revenue stream		
General Services	5.57%	5.24%
HRA	36.24%	35.20%
Impact of Capital Investment Decisions		
General Services – Debt per Band D equivalent	£5,940	£5,807
HRA – Debt per dwelling	£31,112	£30,312

Limits to Borrowing Activity

3.14 One of the main key controls over the treasury activity is to ensure that over the medium term, net borrowing (borrowing less investments) will only be for a capital purpose. Gross external borrowing should not, (except in the short term), exceed the total of CFR in the previous year plus the estimates of any additional CFR for 2024-25 and next two financial years. This allows some flexibility for limited early borrowing for future years should the need arise.

3.15 Table 3.5 below sets out that the Council is currently managing to operate within this limit and continue to maintain an under-borrowed position. The table below shows that at the end of this financial year the Council is currently forecasting to have external borrowings of £596 million and to utilise £92 million of cash flow funds (under-borrowing) in lieu of borrowing. This is the most prudent and cost effective approach in the current economic climate and remains consistent with the approved Treasury Management Strategy.

Table 3.5

	2023-24 Estimate £m	2023-24 Actual £m	2024-25 Original Estimate £m	2024-25 Revised Estimate £m
External borrowing	573	494	559	567
Other long term liabilities*	31	31	29	29
Total external debt	604	525	588	596
CFR* (year end position)	**669**	**625**	**685**	**688**
Under-borrowing	**65**	**100**	**97**	**92**

** Includes PPP arrangements and finance leases etc.*

3.16 The Authorised Limit is a statutory requirement that represents the limit beyond which borrowing is prohibited and sets an overall control on the level of borrowing. This limit reflects the level of borrowing which while not desired, could be afforded in the short term, but is not sustainable in the longer term. The approved Authorised Limit for 2024-25 is £756 million and as highlighted in Table 3.2 above, the Council continues to operate well within approved limits, and therefore there is no change to the overall strategy required.

Part D - Investment Portfolio 2024-25

3.17 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return consistent with the Council's risk appetite. Wider loan interest rates remain in line with the latest Bank Rate. Bank interest rates are forecast remain at 4.75% for the remainder of the financial year and given this, investment returns will be lower than in 2023-24.

3.18 The Council's investment decisions are made in accordance with the approved strategy. Fifty-two short term investments were placed during the first 6 months of the financial year as shown in Table 3.6. Seven of the investments placed are due to mature in the next financial quarter of the year.

Ethical, Sustainable, Governance (ESG) investments are sought where interest rates are comparable with other bodies and the criteria for risk exposure are also met and 2 investments of this type were placed in the period. Any other surplus cash balances are held in the Council's bank account.

These short term investments are aligned to the overall strategic direction to take opportunities to maximise income while maintaining overall liquidity and remaining in alignment with TMP1 (Treasury Management Practices) as per the Annual Investment Strategy within the approved 2024/25 Treasury Strategy.

Table 3.6

Counterparty	Date	Principle £m	Maturity	Interest rate
DMO (UK Govt. Debt Management Office)	08/05/2024	5	10/05/2024	5.19%
DMO	08/05/2024	10	13/05/2024	5.19%
Lloyds Bank	08/05/2024	5	10/06/2024	5.28%
Standard Chartered Sustainable	08/05/2024	5	08/08/2024	5.15%
Central Bedfordshire	24/05/2024	5	22/08/2024	5.15%

DMO	11/06/2024	10	12/06/2024	5.19%
Lloyds Bank	11/06/2024	5	11/07/2024	5.28%
DMO	12/06/2024	10	21/06/2024	5.19%
Monmouthshire County Council	19/06/2024	5	19/09/2024	5.24%
Central Bedfordshire Council	24/06/2024	5	08/07/2024	5.25%
DMO	26/06/2024	10	27/06/2024	5.19%
DMO	01/07/2024	5	15/07/2024	5.20%
DMO	03/07/2024	5	05/07/2024	5.19%
DMO	09/07/2024	10	10/07/2024	5.19%
DMO	10/07/2024	10	12/07/2024	5.19%
Lloyds Bank	11/07/2024	5	12/08/2024	5.25%
DMO	12/07/2024	10	19/07/2024	5.19%
DMO	15/07/2024	4	19/07/2024	5.19%
DMO	15/07/2024	5	29/07/2024	5.19%
DMO	17/07/2024	5	18/07/2024	5.19%
DMO	18/07/2024	5	22/07/2024	5.19%
DMO	22/07/2024	5	29/07/2024	5.19%
DMO	24/07/2024	5	30/07/2024	5.19%
DMO	30/07/2024	20	31/07/2024	5.19%
DMO	31/07/2024	20	01/08/2024	5.19%
DMO	01/08/2024	10	12/08/2024	5.03%
DMO	02/08/2024	6.5	08/08/2024	4.94%
DMO	08/08/2024	8	12/08/2024	4.94%
Standard Chartered Sustainable	08/08/2024	5	08/11/2024	4.89%
DMO	12/08/2024	10	16/08/2024	4.94%
Lloyds Bank	12/08/2024	5	12/09/2024	4.94%
DMO	13/08/2024	7	20/08/2024	4.94%
DMO	16/08/2024	8	19/08/2024	4.94%
DMO	21/08/2024	10	30/08/2024	4.94%
DMO	21/08/2024	5	27/08/2024	4.94%
DMO	27/08/2024	5	29/08/2024	4.94%
DMO	28/08/2024	6	29/08/2024	4.94%
DMO	30/08/2024	10	06/09/2024	4.94%
DMO	04/09/2024	4	06/09/2024	4.94%
DMO	05/09/2024	3	13/09/2024	4.94%
DMO	06/09/2024	7	12/09/2024	4.94%
DMO	11/09/2024	3	12/09/2024	4.94%
DMO	12/09/2024	1.5	12/09/2024	4.94%
DMO	12/09/2024	8	20/09/2024	4.94%

DMO	20/09/2024	9	23/09/2024	4.94%
Lloyds Bank	20/09/2024	5	21/10/2024	4.95%
DMO	26/09/2024	9	27/09/2024	4.94%
DMO	26/09/2024	10	04/10/2024	4.94%
Wrexham Council	27/09/2024	2	11/10/2024	5.00%
LB Haringey Council	30/09/2024	5	30/10/2024	5.00%
NE Lincolnshire Council	30/09/2024	5	28/11/2024	4.90%
LB Barking & Dagenham Council	30/09/2024	5	28/11/2024	5.05%

3.19 An external investment management company, Rathbones (previously with Investec which has been incorporated into Rathbones) manages East Lothian Council Common Good funds and Charitable Trust funds in two separate portfolios. The returns on these investments continue to be closely monitored during the year. As of 30 September 2024:

- The Common Good portfolio was valued at £3.946 million, an increase of £0.096 million over the 6 month period. Although the performance of this portfolio over the first 6 months was slightly lower than the benchmark by 0.28% it was higher than benchmark by 0.11% in the first 3 months of the financial year.
- The East Lothian Charitable Trust portfolio was valued at £3.894 million, an increase of £0.087 million over the 6 month period. The performance of this portfolio over the first 6 months was below the benchmark by 0.40% although it was higher than benchmark by 0.17% in the first 3 months of the financial year.

Part E – Borrowing Strategy 2024-25

3.20 In recent years, the Council has predominately used PWLB as its main source of funding partly due to the level of risk and interest rates available. Consideration is given to both the maturity profile and interest rates to manage cost and refinancing risk. With regard to the interest rate forecast discussed in Part A, while increases in interest rates were included within the current approved capital investment and borrowing plans, that forecast was much lower than the actual increases in rates. The subsequent estimated reduction in interest rates were in an earlier timeframe than now forecast and has had an impact on interest on new borrowing undertaken and due to be taken in the current financial year.

Looking forward, the Council will need to consider further both the affordability of capital investment plans and potentially seek alternative sources and/or methods of borrowing in order to achieve the best rates and terms. Whilst it remains unclear as to the extent of any further increase in borrowing rates or the duration of any peak, the Council's treasury advisor, Link Asset Services provides regular forecasting of

PWLB rates so that an informed decision can be made on the timing of the borrowing for the capital programme.

3.21 Five long term external loans were taken in the first 6 months of the financial year. Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR, currently £688 million) it is currently estimated that further new external borrowing of £30 million will be required during the second half of this financial year.

4 Table 3.7

Loan	Date	Principal £m	Maturity (Years)	Interest rate
PWLB – EIP (equal instalments of principal)	02/04/2024	10	11	4.19%
PWLB - Maturity	02/04/2024	5	6	4.19%
PWLB - EIP	25/09/2024	15	11	4.37%
PWLB - EIP	25/09/2024	10	11	3.97%
PWLB - Maturity	25/09/2024	15	2.5	4.83%

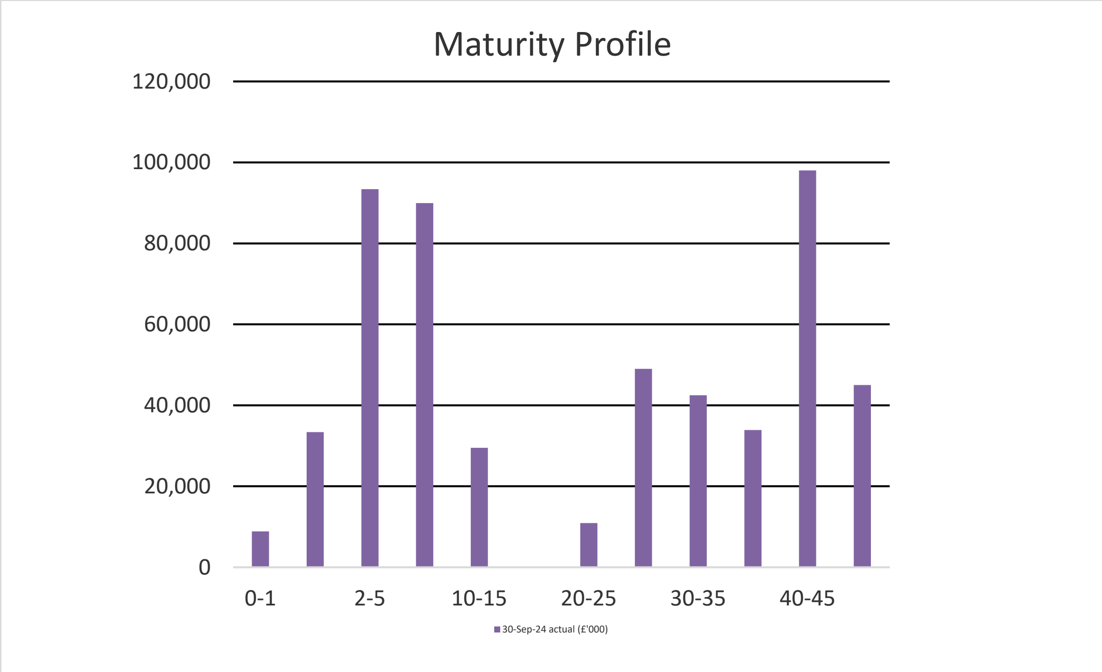
4.1 Three PWLB loans matured during the first six months and was repaid as set out in Table 3.8 below

Table 3.8

Loan	Date repaid	Principal £m	Maturity (Years)	Interest rate
PWLB	21/09/2024	3.5	12	3.09%
PWLB	24/09/2024	3.5	12	3.04%
PWLB	28/09/2024	0.639	29	8.25%

Current Loan Maturity Profile

4.2 The graph below sets out the current external borrowing maturity profile for the Council.



Part F – Debt Rescheduling

4.3 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling have been undertaken to date in the current financial year.

Part G - Introduction of Reporting Standard IFRS16

4.4 International Financial Reporting Standard 16 – Leases came into operation from 1 April 2024. The standard brings the value of assets where the Council has the right of use including lease agreements onto the Council's balance sheet. The standard also requires that these values are reflected in both capital and debt calculations. This standard has implications on treasury prudential indicators, particularly the Capital Financing Requirement as well as the Operational Boundary and Authorised Limit.

4.5 Work is progressing on the implementation of the new standard and an update of the implications will be incorporated into future reporting and in future Treasury Strategies.

5 POLICY IMPLICATIONS

5.1 There are no direct policy implications associated with this report, however the Council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy. No changes to the current strategy are recommended on the basis of this mid-year review.

6 INTEGRATED IMPACT ASSESSMENT

6.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

7 RESOURCE IMPLICATIONS

7.1 Financial - There are no direct financial implications associated with this report however the Council's Treasury Management and Capital activity clearly has a significant impact on the management of the Council's financial resources.

7.2 Personnel - none

7.3 Other – none

8 BACKGROUND PAPERS

8.1 Treasury Management Strategy 2024-25 to 2027-28 – East Lothian Council 20 February 2024

Author's Name	**Ann-Marie Glancy** **Doreen Pringle** **Karen Duff**
DESIGNATION	**Service Manager – Corporate Accounting** **Principal Accountant – Capital, Treasury and Banking** **Treasury and Banking Officer**
CONTACT INFO	**aglancy@eastlothian.gov.uk**
DATE	**9 December 2024**

East Lothian Council

REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE	
MEETING DATE:	17 December 2024	
BY:	Executive Director for Place	**7**
SUBJECT:	East Lothian Land Ltd 2023/24	

---

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Land Ltd in 2023/24.

2 RECOMMENDATIONS

2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

3.1 East Lothian Council established East Lothian Land Ltd (ELL) in 2000, a company limited by guarantee (SC208723), through the transfer of undeveloped employment land in council ownership at Macmerry (Opposite the industrial estate) in return for 100% equity in the company.

The transferred employment land at that time was viewed by the private sector as undevelopable providing insufficient return on investment.

No additional financial support was provided to the company by East Lothian Council (ELC). ELL went to the financial market to fund the development costs of the Macmerry Business Park as well as self-funding through selling plots as they were serviced.

In 2016/17 the company developed the empty council building located at Brewery Park, Haddington into 10 individual offices spaces – since opening in October 2016 it has run at between 85% and 100% occupancy.

The company has a board of 2 directors comprising of two elected members. (Note – Following the retirement of Alex McCrorie, Depute Chief Executive, the senior council officer directorship became vacant from 19 March 2021). The board recognise that a key priority is to further strengthen the East Lothian Land board, following the departure of past members, broadening the Board’s expertise across a number of disciplines (Legal, Finance). This is considered essential to support East Lothian Land’s ambition to more actively drive economic development through

2024 and beyond building a portfolio of commercially viable properties to support the growth of businesses across East Lothian.

Lisa Deegan, has been the Company Secretary and Manager of the company for the duration of the financial year. The manager is supported by the Economic Development Business Development assistant.

The board act on a "*Pro Bono"* basis and do not receive payment. The Company Manager and Business Development assistant undertake the work under ELC job remits.

Board meetings are held on a regular basis linked to ongoing business requirements and commercial developments. Decisions made are taken by a majority with the Chair having the casting vote on any tied outcome.

Minutes of any board meetings are taken and approved at subsequent board meeting by the chair.

3.2 Financial / Legal

ELL has appointed Greaves West & Ayre as auditor for the year to 2023/24. End of Year accounts are approved by the board and signed off accordingly and provided to ELC for group accounting purposes. (See appendix 1 End of year accounts).

ELL auditor opinion is that the financial statements for the company give a true and fair view of the state of the company affairs as at 31 March 2024 and of its loss before taxation of £15,769 for the year then ended.

ELL use the online cloud accounting platform – Xero. The company banks with Handelsbanken. Legal Advice is provided by Addleshaw Goddard.

3.3 2023/24 Projects considered

A vacant field within the Prestongrange site has been considered as a possible opportunity for construction of light industrial units. With significant external investment required to progress this opportunity, the Board has agreed to observe demand and lease arrangements at the Haddington Retail Park's light industrial site in view of ELLs risk appetite prior to determining whether to pursue this.

3.4 2023 / 24 Projects commenced

Focus has been on establishing whether there is opportunity for ELL to support wider Economic Development while leveraging from the potential disposals from ELCs Asset Review.

(1) JMH Block C feasibility study underway with objective of assessing three development options as follows:

- Mirroring of existing Block B model micro-office/hub working units

- Development into high specification flagship office space for a sizeable professional firm looking to relocate their Head Office in Haddington
- Development of flexible sized office space to medium specification easily adapted to suit the needs of a range of businesses

(2) Ongoing liaison with relevant ELC officers with regards to the Council's asset review and place based approach to identify any future opportunities for realising economic development benefits that ELL Ltd could support.

3.5 Future projects

The company actively scans the market for possible developments and has an ongoing engagement with a number of possible joint ventures.

4 POLICY IMPLICATIONS

4.1 The three strategic goals of the East Lothian Council Local Economy Strategy 2024-2034 are:-

- To increase the number of businesses in East Lothian with growth and employment potential

To reduce income inequality across East Lothian, and to improve access to employment in rural areas.

- To increase the number of socially and environmentally responsible businesses, expand plural ownership of the economy, and grow community wealth.

The work East Lothian Land ltd undertakes mirrors and supports the strategic goals set out in the Local Economy Strategy with the company objectives as follows:- "*To promote, support and/or effect the development of land and property within the area served by East Lothian Council, with a view to stimulate economic development and regeneration and so to assist in the creation of employment opportunities.*"

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - Companies Manager, ED Business Development assistant and senior ELC officer.

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Appendix 1 – End of Year Accounts

AUTHOR'S NAME	Lisa Deegan
DESIGNATION	Companies Manager
CONTACT INFO	Tel 07854 191597 ldeegan@eastlothian.gov.uk
DATE	03/12/2024

Appendix 1

Company registration number SC208723 (Scotland)

EAST LOTHIAN LAND LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2024

EAST LOTHIAN LAND LIMITED

COMPANY INFORMATION

Directors	Mr N Hampshire Mr J McMillan
Secretary	Mr R Baty
Company number	SC208723
Registered office	John Muir House Room 2.19 Brewery Park Haddington East Lothian EH413HA
Auditor	Greaves West & Ayre (Haddington) 8 St. Ann's Place Haddington East Lothian EH41 4BS
Business address	John Muir House Room 2.19 Brewery Park Haddington East Lothian EH413HA
Bankers	Handelsbanken 18 Charlotte Square Edinburgh EH2 4DF
Solicitors	Addleshaw Goddard LLP Exchange Tower 19 Canning Street Edinburgh United Kingdom EH3 8EH

EAST LOTHIAN LAND LIMITED

CONTENTS

EAST LOTHIAN LAND LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2024

The directors present their annual report and financial statements for the year ended 31 March 2024.

Principal activities

The principal activity of the company continued to be that of trading in land for development.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr N Hampshire
Mr J McMillan

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

John FA. McMillan

Mr J McMillan
Director

5 July 2024

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF EAST LOTHIAN LAND LIMITED

Opinion

We have audited the financial statements of East Lothian Land Limited (the 'company') for the year ended 31 March 2024 which comprise the profit and loss account, the balance sheet and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and the provisions available for small entities, in the circumstances set out in note 11 to the financial statements, 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain 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) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non- compliance with applicable laws and regulations;

- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge and experience of the land development and trading sector;

- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company, including legislation such as the Companies Act 2006, taxation legislation and employment legislation.

- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management, contacting the entity’s solicitor for any details of non-compliance and inspecting current year legal expenditure; and

- identified laws and regulations of particular relevance were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company’s financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud;
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations;

To address the risk of fraud through management bias and override of controls, including any fraud associated with revenue recognition, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- assessed whether judgements and assumptions made in determining the accounting estimates set out in investment property valuations were indicative of potential bias;
- evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- tested interest receivable from loan to East Lothian Council.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims against the company;
- reviewing correspondence with HMRC and the company’s legal advisors;

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to the member in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBER OF EAST LOTHIAN LAND LIMITED

Stuart Millar CA
Senior Statutory Auditor
For and on behalf of Greaves West & Ayre (Haddington)

Date: 12/8/22.

Chartered Accountants
Statutory Auditor

8 St. Ann's Place
Haddington
East Lothian
EH41 4BS

EAST LOTHIAN LAND LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2024

	2024 £	2023 £
Turnover	-	-
Administrative expenses	(24,490)	(11,656)
Operating loss	(24,490)	(11,656)
Interest receivable and similar income	6,527	366
Loss before taxation	(17,963)	(11,290)
Tax on loss	2,194	2,822
Loss for the financial year	(15,769)	(8,468)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

EAST LOTHIAN LAND LIMITED

BALANCE SHEET

AS AT 31 MARCH 2024

		2024		2023	
	Notes	**£**	**£**	**£**	**£**
Fixed assets					
Investment property	**4**		100,000		100,000
Current assets					
Debtors	**5**	8,242		30,151	
Cash at bank and in hand		547,520		533,658	
		555,762		563,809	
Creditors: amounts falling due within one year	**6**	(15,926)		(6,010)	
Net current assets			539,836		557,799
Total assets less current liabilities			639,836		657,799
Provisions for liabilities			(12,239)		(14,433)
Net assets			627,597		643,366
Capital and reserves					
Called up share capital	**7**		800,000		800,000
Non-distributable profits reserve	**8**		87,761		82,745
Distributable profit and loss reserves			(260,164)		(239,379)
Total equity			627,597		643,366

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 5 July 2024 and are signed on its behalf by:

John F A McMillan

Mr J McMillan
Director

Company registration number SC208723 (Scotland)

1 Accounting policies

Company information

East Lothian Land Limited is a private company limited by shares incorporated in Scotland. The registered office is John Muir House Room 2.19, Brewery Park, Haddington, East Lothian, EH413HA.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Going concern

At the date of signing these financial statements the company has cash reserves which are more than sufficient to meet its day to day expenditure, net current assets and net assets.

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost, which includes the purchase cost and any directly attributable expenditure. Subsequently it is measured at fair value at the reporting end date. Changes in fair value are recognised in profit or loss.

1.4 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial instruments

The company has elected to apply the provisions of Section 11 ‘Basic Financial Instruments’ and Section 12 ‘Other Financial Instruments Issues’ of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

1 Accounting policies **(Continued)**

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.7 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Investment Property valuation

Investment property is measured at fair value at each reporting date with changes in fair value recognised in profit or loss account. The Board of Directors determine the fair value of investment property using the assistance of an independent expert, DM Hall LLP. DM Hall LLP is an independent firm of Chartered Surveyors and property experts. Their valuation is prepared in accordance with RICS Valuation - Professional. The valuation methodology considers the area, selling price and comparable sales of similar properties in order to derive the Fair Value of the subject property.

3 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2024 Number	2023 Number
Total	-	-

4 Investment property

	2024 £
Fair value	
At 1 April 2023 and 31 March 2024	100,000

Investment property comprises of land held west of Satellite Business Park, Macmerry. The fair value of the investment property has been arrived at on the basis of a valuation carried out 22nd May 2023 by DM Hall Chartered Surveyors, who are not connected with the company. The valuation was made on an open market value basis by reference to market evidence of transaction prices for similar properties.

5 Debtors

Amounts falling due within one year:	2024 £	2023 £
Amounts owed by group undertakings	7,432	22,991
Other debtors	810	744
	8,242	23,735

Amounts falling due after more than one year:	2024 £	2023 £
Amounts owed by group undertakings	-	6,416

	2024 £	2023 £
Total debtors	8,242	30,151

6 Creditors: amounts falling due within one year

	2024 £	2023 £
Trade creditors	10,939	-
Taxation and social security	49	-
Other creditors	4,938	6,010
	15,926	6,010

7 Called up share capital

Ordinary share capital	2024 Number	2023 Number	2024 £	2023 £
Issued and fully paid				
Ordinary shares of £1 each	800,000	800,000	800,000	800,000

8 Non-distributable profits reserve

	2024 £	2023 £
At the beginning of the year	82,745	82,745
Non distributable profits in the year	5,016	-
At the end of the year	87,761	82,745

Non-distributable reserves relate to fair value gains in the remeasurement of investment property in excess of the asset's historical cost.

9 Related party transactions

Transactions with related parties

During the year, the company benefitted from the provision of IT & employee services from its parent entity, East Lothian Council. The provision of IT infrastructure and remuneration in respect of the entity's "Companies Manager" and her assistant have been jointly provided to the company and to East Lothian Investments Limited for a charge of £10,000 jointly (2023: £nil). This is to be paid in full by East Lothian Land Limited, for which there will be no further recharge, so there are no balances due to or by East Lothian Investments at the yearend (2023: £nil). Therefore there is £10,000 due to East Lothian Council at the yearend (2023: £nil).

10 Parent company

The company is controlled by East Lothian Council whose principal place of business is John Muir House, Brewery Park, Haddington, EH41 3HA. East Lothian Council is the smallest group of undertakings for which group accounts are prepared and of which the company is a member.

11 Non-audit services provided by auditor

In common with many businesses of our size and nature we use our auditor to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

EAST LOTHIAN LAND LIMITED

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2024

		2024		2023
	£	£	£	£
Administrative Expenses				
Management charge - group	10,000		-	
Professional fees	9,873		2,792	
Accountancy	423		3,725	
Audit fees	4,076		5,000	
Bank charges	118		139	
		(24,490)		(11,656)
Operating Loss		**(24,490)**		**(11,656)**
Other Income				
Bank interest received	6,348		-	
Other interest received	179		366	
		6,527		366
Net Loss for the Year		**(17,963)**		**(11,290)**