East Lothian Council

2023/24 Annual Audit Report

Prepared for the Members of East Lothian Council and the Controller of Audit

March 2025

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 unaudited annual accounts were received in line with the agreed audit timetable. The conclusion of the audit was delayed as a result of audit resource and issues in the valuation of property, plant and equipment.

4 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

5 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.

6 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.

7 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.

8 Medium-term financial plans reflect the council's strategic priorities. The council faces significant challenges in addressing a budget gap of £79.718 million over the next five years.

9 The council's level of useable general reserves as a percentage of overall budget was below the Scottish average.

10 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.

11 The council needs to continue to invest in digital technology to support and transform its services.

12 In August 2024 the council approved the Transformation Strategy 2024-29.

Best Value

13 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.

14 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.

15 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.

16 The council should continue to explore and develop formal arrangements for sharing services with other councils or partners to create workforce benefits.

17 The council has made progress in taking forward the 2022/23 Best Value improvement recommendations.

Vision, leadership and governance

18 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.

19 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.

20 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

21 The council has maintained its overall performance which reflects an improvement from the Scottish average.

22 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.

23 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 unaudited annual accounts were received in line with the agreed audit timetable. The conclusion of the audit was delayed as a result of audit resource and issues in the valuation of property, plant and equipment.

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 27 March 2025. 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 land and buildings In accordance with the Code of Practice in Local Authority Accounting, the council is required to ensure the carrying value of property, plant and equipment "*does not differ materially from that which would be determined using the current value at the end of the reporting period*". Following the publication of the unaudited accounts, the council commissioned a revaluation of land and buildings. This resulted in a £53 million reduction in the carrying value of assets from those disclosed in the unaudited accounts. Our audit testing of the valuation found errors in the work performed. This included: inconsistencies between the underlying data used (floor space / land areas) by the valuer and the councils' records; inconsistent information on the use of assets; and errors in valuation calculations. There had been limited management challenge and review to confirm completeness and accuracy of the valuation prior to audit inspection. Management, working with the valuer, undertook a subsequent follow up review of all valuations to confirm that these were complete and accurate. Audit testing found some further errors in the valuations (See Exhibit 3 point 2). Management are satisfied these are not material to the accounts and therefore these remain uncorrected.	Audit have obtained assurance that the carrying value of property, plant and equipment in the updated accounts is free from material misstatement. While recognising the council engage with an independent valuer to undertake a valuation of land and buildings, the valuation is underpinned by data provided by the council. It is important that the council ensure complete and accurate information is provided to the valuer in a timely manner to support the valuation and that there is appropriate challenge and review to ensure the valuations are reasonable. This should be done in sufficient timeframes to support the preparation of the unaudited accounts. **Recommendation 1** (Refer Appendix 1, action plan)

Issue	Resolution
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	• 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.	**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.

Audit risk	Assurance procedure	Results and conclusions
that otherwise appear to be operating effectively.	• 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.	
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. 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.	• 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. • 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	**Results:** Our audit testing found a number of issues with the valuation of land and buildings including: inconsistencies between the underlying data used (floor space / land areas) by the valuer and the councils' records; inconsistent information on the use of assets; and errors in valuation calculations. A follow up review of the valuation exercise was undertaken by Officers and the council's external valuer. This valuation has been recognised in the final accounts. Further audit testing over the updated valuation obtained sufficient assurance that there are no material misstatements in the carrying value of land and buildings. Our detailed testing identified some discrepancies in the

Audit risk	Assurance procedure	Results and conclusions
There is a risk the carrying valuation of land and buildings does not reflect the current value at 31 March 2024.	Council's disclosures regarding the assumptions in relation to the valuation of land and buildings.	carrying value including errors in carrying value of £0.922 million. An assessment of the residual population of depreciated replacement cost assets found minor errors where the extrapolated error would be estimated at £0.473 million and therefore immaterial. Officers are not correcting these adjustments and we are satisfied they are not material. In addition to the matters identified in relation to land and building valuations we found inconsistencies in the underlying data used by the valuer for council house valuations and those held by the council. While the discrepancies were not material, there is a risk that incorrect classification of assets could result in a material error in the future.

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. These updates have resulted in an increase in the deficit on Provision of Services in the Comprehensive Income and Expenditure Statement of £46.1 million and a decrease in Unusable reserves of £53.6 million. We are content the council has correctly actioned the required adjustments.

48. There were a number of adjustments to the primary financial statements that have not been corrected by management on the basis they are not material to the accounts. These are included in Appendix 2.

The unaudited annual accounts were received in line with the agreed audit timetable. The conclusion of the audit was delayed as a result of audit resource and issues in the valuation of property, plant and equipment

49. 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. Further delays in the completion of the audit were as a result of further procedures required over the valuation of property, plant and equipment.

Our audit opinions on Section 106 charities were unmodified

50. 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

51. 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

52. 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.

53. 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.

54. 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.

55. 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)

56. 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.

57. 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

58. 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.

59. 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.

60. 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.

61. 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.

62. 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

63. 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.

64. 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.

65. 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.

66. 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

67. 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.

68. 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.

69. 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

70. 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.

71. 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.

72. 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.

73. 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).

74. 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.

75. 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

76. 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.

77. 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.

78. 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.

79. 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

80. 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.

81. 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

82. 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.

83. 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.

84. 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).

85. 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.

86. 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

87. 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.

88. 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

89. 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.

90. 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.

91. We have concluded that the council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

National Fraud Initiative

92. 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).

93. 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.

94. 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.

95. 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 £79.718 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

96. 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

97. 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.

98. 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.

99. 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.

100. 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.

101. 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.

102. 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.

103. At the Council meeting in February 2025, the budget gap across the coming years 2025/26 to 2029/30 before taking any measures to balance was £79.718 million, as detailed in exhibit 7.

104. Factoring in the agreed savings and planned council tax increases, as detailed in paragraph 107, would result in a balanced budget for 2025/26 and reduce the deficit to £45.911 million. However, there is uncertainty and risk around the delivery of these savings.

Exhibit 7

Identified budget gap 2025/26 to 2029/30

	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Budget gap £'million	£17.651	£13.563	£16.340	£16.702	£15.462	**£79.718**

Source: East Lothian Council: Cross-party general services budget

105. 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.

106. 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.

107. In February 2025 the council agreed a balanced budget for 2025/26. This included a 10 per cent increase in council tax rates, additional investment in priority services which are managing significant financial risk, as well as additional reductions to service budgets to address the budget gap.

The council's level of useable general reserves as a percentage of overall budget was below the Scottish average

108. 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.

109. 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.

110. 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.

111. 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

112. 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.

113. 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.

114. 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.

115. 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.

116. 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.

117. 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

118. 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.

119. 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.

120. 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.

121. 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".

122. 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.

123. 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.

124. 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.

125. 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.

126. 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

127. 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.

128. 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.

129. 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

130. 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

131. 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

132. 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.

133. 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

134. 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.

135. 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

136. 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

137. 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***."

138. 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

139. 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.

140. 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.

141. 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

142. 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

143. 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.

144. 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.

145. 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.

146. 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.

147. 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.

148. 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.

149. 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.

150. 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.

151. 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.

152. 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.

153. 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.

A new Chief Executive will join the council in April 2025

154. The council has an experienced management team in place that has been relatively stable in recent years. In February 2025 the Chief Executive retired from East Lothian Council. Laurence Rockey has been announced as the new Chief Executive and is expected to join the council in April 2025. Lesley Brown, Executive Director, has taken on the role on an interim basis until Laurence joins.

Common good and trust fund review is ongoing

155. 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).

156. 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.

157. 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.

158. 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.

159. 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

160. 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.

161. 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.

162. **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.

163. 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.

164. 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

165. 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.

166. 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.

167. 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

168. 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.

169. 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.

170. 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.

171. 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**

172. 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)

173. 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).

174. 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 land and buildings In accordance with the Code of Practice in Local Authority Accounting, the council is required to ensure the carrying value of property, plant and equipment "*does not differ materially from that which would be determined using the current value at the end of the reporting period*". Following the publication of the unaudited accounts, the council undertook a revaluation exercise which resulted in a £52 million reduction in the carrying value of assets. Our audit testing of the revaluation found errors in the work performed. This included: inconsistencies between the underlying data used (floor space / land areas) by the valuer and the councils' records; inconsistent information on the use of assets; and errors in valuation calculations. There had been limited management challenge and review to confirm completeness and accuracy of the valuation prior to audit inspection.	While recognising the council engage with an independent valuer to undertake a valuation of land and buildings, the valuation is underpinned by data provided by the council. It is important that the council ensure complete and accurate information is provided to the valuer in a timely manner to support the valuation and that there is appropriate challenge and review to ensure the valuations are reasonable. This should be done in sufficient timeframes to support the preparation of the unaudited accounts. Exhibit 2	**Management response:** Officers will ensure that all floor plans are reviewed and revised as appropriate and that accurate records are held. A full valuation of all operational and non-operational assets will be carried out for the 2024/25 Accounts by an independent valuer. This information will be reviewed with an internal RICS member and samples will be taken and reviewed to gain management assurance of the figures received. **Responsible officer:** Executive Director of Council resources **Agreed date:** June 2025

Issue/risk	Recommendation	Agreed management action/timing
Risk: A risk that the council does not have a complete and accurate record of assets held and that this could result in material errors in the valuation of land and buildings.		
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
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 62	**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.

Issue/risk	Recommendation	Agreed management action/timing
		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 75	**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 88	**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
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	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	**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

Issue/risk	Recommendation	Agreed management action/timing
million of uncommitted general reserves.	unallocated reserves in the context of revenue overspends and benchmark data. Paragraph 111	**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 117	**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. Paragraph 126	**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 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

Issue/risk	Recommendation	Agreed management action/timing
		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 142	**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 149	**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. **Responsible officer:** Head of Corporate Support **Agreed date:** February 2025

Issue/risk	Recommendation	Agreed management action/timing
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 153	**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
2. Service workforce planning The council does not have standard guidance, templates or toolkits to support services in developing a consistent	The council should prepare guidance and templates to assist services in identifying supply and demand issues and consider the emerging objectives and actions within	**Management response** Management to further develop service plan guidance to provide clearer

Issue/risk	Recommendation	Agreed management action/timing
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	their areas whilst ensuring there is a consistent approach to workforce planning across the council.	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** Executive Director for Council Resources **Date** June 2025

Issue/risk	Recommendation	Agreed management action/timing
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 dispute with the council. A Recognition Agreements was signed by all parties in March 2024.	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.	**Management response** Management will continue to support and promote constructive discussions with the Joint Trade Unions aligned to the Recognition Agreement. **Responsible officer**

Issue/risk	Recommendation	Agreed management action/timing
Risk – There is a risk that the council and trade unions do not have a constructive working relationship and future workforce planning is impacted.		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:** This recommendation has now been completed, and the affordability of the capital	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
	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. **Risk:** There is a risk of key policies and processing not keeping pace with internal demands and external risks	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:** A digital pipeline prioritisation project remains on-going and	**See 2023/24 recommendation 9 above**

Issue/risk	Recommendation and Agreed Action	Progress
and digital services do no deliver required savings.	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 to assess whether the	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. **Management Response:**	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
Council is on track to deliver its strategic priorities.	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 **Target date:** Complete	**See 2023/24 recommendation 4 above**

Issue/risk	Recommendation and Agreed Action	Progress
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.

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	
3. Other Land & Buildings Valuation	PPE				922
	Revaluation Reserve			922	
4. Council Dwellings Valuation	PPE			657	
	Revaluation Reserve				657

East Lothian Council

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