



## **MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 25 MARCH 2025  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON  
& HYBRID MEETING SYSTEM**

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### **Committee Members Present:**

Councillor Bruce  
Councillor Jardine  
Councillor McGuire  
Councillor McLeod  
Councillor McFarlane  
Councillor Ritchie  
Councillor Trotter

### **Other Councillors Present:**

Councillor Hampshire  
Councillor McMillan

### **Council Officials Present:**

Ms S Fortune, Executive Director for Council Resources  
Ms L Brown, Interim Chief Executive  
Ms H Barnett, Head of Corporate Support  
Ms E Dunnet, Head of Finance  
Ms W McGuire, Head of Housing  
Ms N McDowell, Head of Education  
Mr T Reid, Head of Infrastructure  
Ms L Byrne – Head of Children's Services  
Mr D Hood, Head of Operations – East Lothian Social Care Partnership  
Ms C Rodgers, Head of Communities & Partnerships  
Mr S Kennedy, Team Manager – Emergency Planning & Resilience  
Mr C Grilli, Service Manager – Governance  
Mr D Stainbank, Service Manager – Internal Audit  
Mr P Grant, Service Manager – Property Maintenance  
Ms L Deegan, Companies Manager – Development  
Mr S Cooper, Service Manager – Communications  
Mr R Fennessy, Head of Finance & Systems – Enjoy Leisure  
Mr B Axon, Chief Executive – Enjoy Leisure

### **External Audit:**

Mr J Boyd, Audit Director – Audit Scotland  
Mr M Ferris, Senior Audit Manager – Audit Scotland

### **Clerk:**

Ms B Crichton (Minutes: Ms M Scott)

**Apologies:**

Councillor Menzies

**Declarations of Interest:**

Item 9: Councillor Ritchie made a declaration of interest due to having been very involved in decision making on the Enjoy Leisure Board.

**1. MINUTES OF AUDIT & GOVERNANCE COMMITTEE  
17 December 2024**

Subject to the correction of an error regarding the deadline for the analogue to digital switchover, the minutes from the Audit and Governance Committee from 17 December 2024 were approved as an accurate record.

**2. HEALTH & SOCIAL CARE PARTNERSHIP, EDUCATION, CHILDREN'S SERVICES, AND INFRASTRUCTURE RISK REGISTERS**

A report was submitted by the Chief Executive to present the Audit and Governance Committee the Health & Social Care Partnership, Education, Children's Services, and Infrastructure risk registers for discussion, comment, and noting. The Risk Registers had been developed in keeping with the Council's Risk Management Strategy and were live documents which were reviewed and refreshed on a regular basis, led by the Local Risk Working Groups within each service.

Scott Kennedy, Team Manager – Emergency Planning and Resilience, presented the report. He highlighted updates made to the Education risk registers since publication of the report. He advised that: R177, condition of the school estate, was now at 20 (4x5); R179, unpredictable rise in the number of children with additional support needs (ASN), was now at 20 (4x5); R 130, school premises security deficiencies, was now at 16 (4x4), and R174, effect of budget challenges, was now at 16 (4x4).

Mr Kennedy went on to explain that: very high risks were unacceptable, and measures should be taken to reduce, transfer or treat the risk to a more tolerable position; high risks may be tolerable providing the Council was assured that adequate and effective control measures were in place; medium risks were tolerable with cost-effective control measures; and low risks were broadly acceptable without any further action to prevent or mitigate risk.

**a) Education Risk Register**

Mr Kennedy reported the Education Risk Register included two very high risks, three high risks, and eight medium risks. In accordance with the Risk Management Strategy, only very high and high risks identified would be subject to closer scrutiny by the Council's Management Team, the Cabinet, and the Audit and Governance Committee.

Responding to a question from Councillor McLeod, Mr Kennedy explained the Risk Register showed Education were confident with the planned measures in place to bring the score down to an 8 over time with the current control measures in place.

Councillor Jardine asked for further explanation on how the corrective actions for R177 were coming together. Nicola McDowell, Head of Education stated Education and Mr Reid's service work closely on that risk and there was uncertainty where growth was going to have an impact, so the team were looking closely at the methodology for predicting roll projections. She explained the current formula for predicting roll projections and the governance structure around learning estates noting that this allowed for education and infrastructure to look at what absolutely needs done, by when and what the urgency of the project is as it informs if a bid needs to be made for capital funding. Ms McDowell added at the moment the main focus was on prioritisation and the last Learning Estate Project Board looked at every project currently within the Learning Estate Improvement Plan and where prioritisation needed to sit. She confirmed the prioritisation of projects would be concluded by June as decisions then need to be made as to how the capital funding and developer contributions in the plan at the moment will be spent.

Responding to a follow up question from Councillor Jardine, Ms McDowell said there was a recent internal audit on the methodology that the department used in terms of roll projections particularly relating to another local authority and reasonable assurance was given that the methodology was right.

Councillor Bruce asked why the Learning Estate Strategy and Improvement Plan had been created prior to the review on methodology for calculating school capacity was completed. Ms McDowell confirmed the methodology was in place before the Learning Estate Improvement Plan was produced but it was constantly being reviewed to ensure it was fit for purpose.

Responding to further questions from Councillor Bruce, Ms McDowell stated capital bids were made in September therefore we would be ready for any bids that needed to be made for a future year by having completed that process in June and that capital funding was already secured for school security and ASN as those projects would take place across this academic session. Mr Tom Reid, Head of Infrastructure added that this year the engineering team had £3 million in capital allocation to deal with standard maintenance and improvements so an evaluation is done on the condition of schools and prioritise works to bring them to a state that is fit for purpose, He explained that work continued in the background and was not something that was explained to the capital programme.

Councillor Ritchie asked if there was any evidence on the rise of children with ASN slowing down at all or if the reduction in risk is because we have adapted better. Ms McDowell explained the risk was reducing because of the mitigations that have been introduced and not because the number of children with ASN had decreased. She added the rise in children with ASN was a national rise due to better diagnosis, better healthcare and schools were better at recognising when children required additional support. Ms McDowell stated it was very difficult to predict whether or not the rise would continue but given the growth in East Lothian it was likely the rise would continue.

#### **b) Children's Services Risk Register**

Mr Kennedy reported the Children's Services Risk Register included one very high risk, three high risks, one medium risk, and one low risk.

Councillor Jardine asked if noncompliance with data protection appeared on any other services risk register and if not, why was it such a risk in this area. Mr Kennedy

confirmed data protection was captured in all risk registers, including the corporate risk register. Ms Lindsey Byrne, Head of Children's Services added the decision to keep this in the risk register was made due to the volume and sensitivity of the data Children's Services handle. She added many steps were taken to ensure there were no data breaches but because of the sheer volume of data it felt proportionate to raise it as a risk at this level.

Responding to a follow up question from Councillor Jardine, Ms Byrne explained there were corrective actions for the risk, but the format of the report does not show actions already taken but instead only shows future actions. She added measures were already in place including regular raising at briefings, training and awareness raising.

Councillor Bruce asked how likely it was to meet the target of reducing external placements by a minimum of one per year. Ms Byrne confirmed this was a brand new target and is part of the proposal to provide some efficiencies in children's services over the next four years to try to reduce external placements by one per year. She added it was very likely this would be met but it was preventing more going out of the local authority that would be a significant challenge but the department was confident they were doing the right things to reduce the likelihood of children becoming accommodated externally and they continued to be pleased with the direction of travel in terms of meeting the promise to reduce the number of looked after children.

#### **c) Infrastructure Risk Register**

Mr Kennedy reported the Infrastructure Risk Register included three very high risks, 21 high risks, 30 medium risks, and 14 low risks.

In response to a question from Councillor McLeod, Mr Reid explained the license conditions were now more onerous, so vehicles need to be renewed more frequently, and the maintenance requirements are obviously of a high standard which places additional pressure on taxi providers as well as supply chain issues over the cost and parts availability.

Councillor Bruce asked how often as a Council we were using taxies when it was not legally required. Mr Reid explained social work and education have specific client requirements and taxies are the most appropriate way to provide this. Mr Reid agreed to provide a quantum of how much the Council was spending on taxies to Members offline.

Responding to further questions from Councillor Bruce, Mr Reid explained there is a sophisticated fleet management system that records all of the maintenance requirements, services and any issues that appear over the lifespan of the vehicle therefore when a vehicle is brought in on capital purchase or lease the average industrial lifespan is known. He added there was flexibility to make determinations as the vehicles come to end of life with extending and equally disposing of vehicles earlier than their average lifespan, but very specific criteria would have to be met to allow for this. Mr Reid stated at the moment market conditions were extremely challenging as well as supply and manufacturing issues, but he reassured Members there were professionals officers in the team who were engaged in that on a daily basis.

Councillor Bruce also asked what work had been done to ascertain the state of Harbours within East Lothian. Mr Reid made Members aware that Port Seton

Harbour was not under the Councils control but for the harbours that were under our control the Council worked in partnership with Fisherrow Partnership, North Berwick Harbour Trust, Dunbar is under Dunbar empowerment order and Cockenzie is looked after primarily by the Council. He added that were rangers and engineering teams who do inspections and try to forecast issues, as do the partnership groups that work with the Council. Mr Reid provided Members with an update on the current condition of both North Berwick and Musselburgh Harbours and the future plans for them and noted that the Council had received funding from the Scottish Government for enhanced coastal management so a contractor would soon be appointed to do the modelling right along the coast and to look at scenarios over the next 100 years of where increased sea levels and storm activity would impact the coast. He explained from that information a risk register would be created to look at where would be impacted the most and to look at option appraisals, but this work could take a couple of years.

Councillor McFarlane asked what place were in place to enlarge or change catering halls within schools in order to accommodate the increase we are going to have in free school meals. Mr Reid stated a lot of the dining halls within schools were not designed for the level of pupil numbers and where schools could be extended this had been done with section 75 money, but other schools gym halls have been used for allow extra space. He added his team and education work closely on a weekly and monthly basis to manage pupil numbers and the number of pupils likely to take up school meals and in terms of numbers, things are fine for the coming year. However, Mr Reid explained that when the full school meal roll out happens or if there is a higher uptake in school meals before then, there would be significant challenge and potential failure. He stated a paper was put forward to the Scottish Government two years ago making them aware of the need to bring dining halls and catering provisions up to standard and without core grants the Council would be unable to meet the potential targets of provision for all pupils. He confirmed further engagement and work with the Scottish Government would continue on that.

Responding to a question from Councillor Jardine, Mr Reid confirmed there were no primary schools within the PPP contract but instead six high schools under that framework, all of which conclude in 2034 and a special project had been set up to work towards the hand back strategy so our own officers in the PPP team in education, engineering and strategic assets aligned with SFT would get the best possible asset results when they come back to the Council in 2034. He stated the flexibility within the PPP was mixed in terms of immediate delivery but it was absolutely fit for purpose and noted where there was a need for expansion it was difficult to deliver due to the contract mechanism in terms of access to land, how you build, who builds and the longevity as well as challenges across the PPP estate due to schools being considerably aged when PPP upgrades came in so adding extensions may not be the most appropriate solution. Mr Reid said beyond 2034 the Council would have to look at one or two school replacements, but this would come forward in the next few years to ensure a robust approach and understanding of the fiscal challenges.

**d) Health & Social Care Partnership Risk Register**

Mr Kennedy reported the Infrastructure Risk Register included one very high risk, 12 high risks, and 9 medium risks.

Responding to a question from Councillor Bruce, Mr David Hood, Head of Operations – East Lothian Social Care Partnership reported from an East Lothian perspective, good progress had been made in terms of MAT standards but in terms of drug

related deaths what was found in the most recent publication was a significant number of those deaths were not known to substance use services so the opportunity from the MAT standards to intervene was fairly limited. He explained on the back of that information a group has been set up involving other agencies such as police justice and social work because the reality is people may not be known specifically to substance use services but are known within other services in East Lothian. Mr Hood stated a vulnerable persons database would be set up to understand who those people are and the best way to target and engage with them directly rather than waiting on them being referred into substance use services.

In a follow up question Councillor Bruce asked if Mr Hood had an evaluation of whether the MAT standards were actually working. Mr Hood explained it had been making sure we were implanting and enacting each of the components and ultimately the evidence would be that we see a reduction in the number of probability deaths but at the moment the numbers remain broadly static. He agreed to take this question away and link in with the Scottish Government in terms of what wider evaluation of the MAT standards had taken place.

Responding to multiple questions from Councillor Jardine, Mr Hood explained the funding was part of the unscheduled care work with the Scottish Government and NHS Lothian had recently received additional funding to be able to address some of the challenges around A&E waiting times and a reduction in discharge times to create beds for people to move into. He noted from a financial perspective the additional funding was welcomed and from a risk perspective there would only be solutions put in place for which we had funding. Mr Hood highlighted a number of things from the workforce risk detailing which received additional funding and ones that did not receive any.

### **Decision**

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

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

### **3. INTERNAL AUDIT REPORT: MARCH 2025**

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

Duncan Stainbank, Service Manager for Internal Audit, reported since the last meeting of the Committee final reports had been issued in respect of the following audits; Adult Social Work Case Management System and Housing Voids both of which provided reasonable assurance. He provided an update of the key findings and recommendations for the completed audits, noting the completion dates for each.

Responding to questions from Councillor McLeod, Mr Stainbank stated he was not aware of visits to properties being recorded if the tenant was not present as the purpose of pre-termination visits are to talk with the tenant about the state the property needs to be in when they return it, not to review the state of the property at that particular time. He also made Members aware he did not have a figure for the recovery of funds, but he would provide this information to them out with the meeting. Wendy McGuire, Head of Housing added that if a tenant is not there when visiting a property to do a pre-termination inspection then officers are not allowed to access the property to do the inspection. She noted there had been discussions around whether officers could take forced entry which she did not think was possible, but it was something she could discuss with legal. Ms McGuire recovery of funds was an area that required improvement, but the exact figures would be provided to Members.

### **Decision**

The Audit and Governance Committee noted:

- i. the main findings and recommendations from the Internal Audit reports issued during the period from January 2025 to March 2025 as contained in Appendix 1; and
- ii. Internal Audit's progress against the annual audit plan for 2024/25 as set out in Appendix 2.

## **4. INTERNAL AUDIT CHARTER 2025/26**

A report was submitted by the Service Manager – Internal Audit. It had been noted to the Audit & Governance Committee in December 2024 that the change from Public Sector Internal Audit Standards (PSIAS) to Global Internal Audit Standards (GIAS) was likely to require a revised Internal Audit Charter to be developed and approved, and the revised charter would be submitted to the Audit and Governance Committee. The report provided the updated Internal Audit Charter, in accordance with GIAS, for approval that defines the purpose of internal audit and the mandate for internal audit within East Lothian Council. The Charter clarified the independence, organisational position, and reporting relationships of Internal Audit; outlining the roles and responsibilities of the Audit Committee and the Chief Audit Executive, who is the Service Manager – Internal Audit for East Lothian Council and East Lothian IJB. The updated Internal Audit Charter was being presented to the Audit and Governance Committee for approval, for use from 1 April 2025. The Internal Audit Charter would continue to be presented for approval on at least an annual basis.

Duncan Stainbank, Service Manager – Internal Audit, presented the report. He advised that the Charter had been developed using the Chartered Institute of Internal Auditors' template Charter, and was in accordance with GIAS, for implementation from 1 April 2025. He highlighted that page 50 outlined the oversight required by the Audit and Governance Committee.

Councillor Jardine commented on the use of Americanised spellings, and Mr Stainbank advised that some sections had come from templates with Americanised spellings; he would look at this.

Councillor Trotter moved to a roll call vote, and Committee members unanimously agreed to approve the report's recommendations.

### **Decision**

The Audit and Governance Committee agreed to:

- Note that the Internal Audit Charter had been fully updated in accordance with the Chartered Institute of Internal Auditors model charter and in compliance with Global Internal Audit Standards in application in the UK public sector from 1 April 2025;
- Approve the revised Internal Audit Charter shown at Appendix 1 for use from 1 April 2025; and
- Note that the Internal Audit Charter would be reviewed annually.

## **5. INTERNAL AUDIT STRATEGY & PLAN 2025/26**

A report had been submitted by the Service Manager – Internal Audit to inform the Audit and Governance Committee of Internal Audit's Operational Plan for 2025/26.

Mr Stainbank presented the report. He explained that the Committee was asked to approve the Internal Audit Strategy and the Internal Audit Plan in accordance with GIAS. He advised that the Internal Audit Strategy at Appendix 1 outlined the strategic direction of how internal audit would achieve its objectives, which were set out in the Internal Audit Charter and conformed with GIAS. The Internal Audit Plan was also included as Appendix 2, with expected audits set by the current directorate, including Enjoy Leisure. He explained that specific proposed audit assignments would be reviewed throughout the year, and significant changes to the plan would come to the Audit and Governance Committee for approval.

There were no questions or comments on the report, so Councillor Trotter moved to a roll call vote. Committee members unanimously agreed to approve the report's recommendations.

### **Decision**

The Audit and Governance Committee agreed to:

- Approve the Internal Audit Plan for 2025/26; and
- Approve the Internal Audit Strategy 2025/26.

**Sederunt:** *Councillor McMillan joined the meeting.*

## **6. COUNTER FRAUD ANNUAL PLAN 2025/26**

A report had been submitted by the Service Manager – Internal Audit to inform the Audit and Governance Committee of the Counter Fraud Operational Plan for 2025/26.

Mr Stainbank presented the report. He highlighted two specific areas; that 100 days would be spent on coordinating with other Council services and completing investigation into NFI matches provided every two years across the UK public sector



including matches in council tax benefits, payroll, non-domestic rates, housing, car parking permits and blue badges. In addition 40 days was being allocated to develop an enterprise wide fraud risk assessment as a result of the guidance from the Economic Crime and Corporate Transparency Act 2023.

Responding to a question from Councillor McLeod, Mr Stainbank advised that there was a permanent Counter Fraud Officer in post, and progress made in terms of money recovered would be presented to the Committee in June. Councillor McLeod responded that when significant amounts of money were being saved, this put a lot of pressure on one officer; he looked forward to the June report. Mr Stainbank confirmed the post was initially a temporary post for a trial period to prove the concept and that post was made permanent last year.

Councillor Jardine asked about whether counter-fraud activities concentrated more on individuals inside or outside the organisation. Mr Stainbank advised that the majority of time is spent on people outside the organisation with investigation of individuals inside the organisation coming up periodically and at short notice, so there was flexibility within the plan to move between internal and external investigations.

Councillor Trotter moved to a roll call vote, and Committee members unanimously agreed to approve the report's recommendations.

### **Decision**

The Audit and Governance Committee approved the Counter Fraud Plan for 2025/26.

## **7. ANNUAL AUDIT PLAN 2024/25 (AUDIT SCOTLAND): VERBAL UPDATE – John Boyd**

John Boyd presented a verbal update on the Annual Audit Plan 2024/25 providing an update on the completion of the annual audit for 2023/24 which included the upcoming sign off of accounts on the 27<sup>th</sup> April as audit work had been completed and the updated accounts had been amended to reflect the valuation work undertaken by officers. He also provided Members with an update on the audit plan for 2024/25 making them aware a draft plan would be made available to management on Friday or Monday the following week with the draft plan being presented to Committee in June.

Mr Boyd explained in terms of planning work, one of the responsibilities of the accounts commission was to have coordinating scrutiny so Audit Scotland would be liaising with scrutiny partners in a local area network which was scheduled for early next month and the outcomes would be shared with East Lothian Council's management team. He added audit planning work was going well, and he didn't see any delays from the prior year having a detrimental impact in terms of delivery this year therefore was working towards a November or December sign off for this year and then a September sign off over the next couple of years.

Mr Boyd confirmed the final audit report would be presented at full Council in April as part of concluding the 2023/24 audit work. He made Members aware that the conclusions of the annual audit report and wider best value work had been undertaken over the last two years.

There were no questions or comments on this report.

## **Decision**

The Audit and Governance Committee noted the verbal update.

**Sederunt:** *Councillor Ritchie left the meeting.*

## **9. ENJOY LEISURE REPORT**

Bill Axon, Chief Executive – Enjoy Leisure, presented his report drawing Members attention to two major things; lack of funding and lack of investment. He added that around 50% of the reduction in visitors had come from the closure of the Loch Centre swimming pool and RAAC issues within the North Berwick site. Mr Axon also highlighted the issues Enjoy had faced with the transition to a new management information system so the information may not accurately reflect the numbers who have been visiting facilities due to downtime with the system from Wi-Fi issues or the change over to the new system.

Robert Fennessey, Head of Finance – Enjoy Leisure provide an overview of the end of year position which included an overspend of £131,000, the primary reason for this was vacancies held across various centres over the course of the year which created operational issues. He added the £131,000 overspend included a significant underspend on pay budgets of around £225,000 so the income received was £50,000 under budget for the year which is £140,000 better off than the year before. Mr Fennessey explained the closure of the Loch Centre swimming pool, the temporary closure of squash courts and trampolining area within the North Berwick centre and also the four month closure of Wiggles soft play within the Loch Centre all contributed to Enjoy not achieving the budgeted outcome they would have liked to achieve. He noted the increase in the national minimum wage continued to cause additional financial pressure.

Councillor Jardine asked what amount of the reserves were restricted and unrestricted. Mr Fennessey reported in terms of liquid reserves that can be used there was around £1.1 million with only around £18,000 of that being restricted at the end of 2023/24. He explained the restricted reserves had mostly been received from grants or donations that were to be used for a specific purpose.

Responding to a follow up question from Councillor Jardine, Mr Fennessey stated that work was currently being conducted on Enjoy's wider framework of available activities and the pricing structure and this would be reported to the Board within the next reporting cycle. He added there was absolutely no question what Enjoy provides was as good as, if not better than other local authorities on the basis that there were facilities in each major town. Mr Fennessey noted facilities were utilised by local clubs, communities and individual groups across swimming and classes. He explained Enjoy would continue to review what they provide and if there was opportunity to improve then this was something they would do however, due to some of the challenges they faced Enjoy would need to be assured any changes they made to their programming and what they offer wouldn't put an additional financial strain on the organisation.

Councillor Jardine asked specifically about market analysis and if this was something Enjoy had carried out. Mr Fennessey confirmed that was currently being done with the marketing manager and external organisation.

Responding to a question from Councillor McLeod, Mr Axon confirmed there was new competition within East Lothian but there was nothing to suggest this had had a drastic impact on Enjoy and instead the major issue was around closure of facilities and the length of time repairs were taking to be carried out. Mr Axon wanted to make it clear he was making no criticism against Mr Reid and his team and instead this delay was caused by external specialised companies no longer having stores and stock within their businesses post covid. He instead applauded the Council's property maintenance team for their identifying problems quickly it was just unfortunate those issues would not be remedied as fast. Mr Axon added that there was no doubt the closure of facilities over the year period had significantly impacted Enjoys ability to maximise on service delivery. He also noted that since covid the recruitment of staff had been more difficult due to not receiving any money from the government to cover losses during lockdown, Enjoy had been unable to provide a wage increase to staff which meant there was not a 14% pay difference between East Lothian Council and Enjoy staff on the same grade. Mr Axon confirmed Enjoy would be implementing a new strategy to align themselves with East Lothian Council payment structure. Mr Reid stated although the Loch Centre had suffered significant periods of closure and would probably close for a further year for a £5 million capital refurbishment this would be completed by 2027 an equally the Aubigny had received over £1 million investment through section 75 to allow for expansion of the gym and upgrade work. He added there had been a significant increase in memberships since the expansion in Haddington.

Councillor McGuire commented that he thought we were in danger of getting fixated on the cost and reducing numbers which there are a variety of reasons for and are all justifiable. He added that the Haddington extension had definitely increased numbers greatly as the gym was incredibly busy. He added that East Lothian had a great track record of sporting activities from kids to older people right across the county a lot of which he believed started off at facilities provided by Enjoy as well as the ongoing benefits of health and well-being, not only physical but mental as well

## **Decision**

The Audit and Governance Committee noted the report.

**Sederunt:** *Councillor Ritchie re-joined the meeting.*

## **8. EAST Lothian INVESTMENTS LTD**

A report had been submitted by the Companies Manager – East Lothian Investments Ltd. to inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd. in 2023/2024.

Lisa Deegan, Companies Manager – East Lothian Investments Ltd presented her report, drawing Members attention to a few key points including a fundamental change to key personnel extending across the company manager role and administrative support for the day to day operation of the loan fund. She explained in order to manage the inevitable risk during this transitional period the loan book was

closed to new applications throughout the first nine months of the reporting period with it reopening in December 2023.

Ms Deegan reported two applications were received and presented to the decision panel in the first round of her tenure, with one to value of £25,000 successfully awarded and issued. A second loan decision panel was held in March 2024 where four loan applications were reviewed, two of which were awarded with a combined value of £37,000 received loan offers and ultimately £25,000 completed. She stated these were not included in the reported figures as they were completed after the end date, so she felt 2023 to 2024 had been a transitional year.

Ms Deegan noted in the last 12 months ELI had issued 17 new loans to a total value of £307,000 which was going directly to small businesses across East Lothian. However, the Board have been closely monitoring indicators of financial stress across the existing loan book and there have been an increase in the number of clients requesting support, such as payment holidays as well as uplifts in bad debt with write-offs of £47,000 in the year. She stated this was due to two sizeable businesses going into liquidation during the period with remaining balances on their loans at the time of default. Ms Deegan said the Board remained firmly committed to supporting East Lothian businesses with an ambition to prosper and grow and considerable focus would be given to exploring opportunities to secure new funding sources and partnerships for ELI loan funds.

Councillor Jardine asked if any analysis of the distribution of funds to businesses, whether they've got a particular demographic, or equalities split. Ms Deegan stated the historic record keeping was variable and she wouldn't want to share any analysis from years gone by which may be misleading, but she did have some demographic analysis for the new loans written during her tenure since July 2023 and she was happy to share that with Committee outside of this meeting.

Responding to a further questions from Councillor Jardine, Ms Deegan stated ELI was industry agnostic, but she did see flutters of specific sectors coming in with applications such as hospitality and leisure and outdoors activities being prominent at the moment. She confirmed there was an alignment between ELI and QMU Innovation Hub and she was hopeful to see new and exciting opportunities coming from them.

Councillor McLeod asked if Ms Deegan could provide the amount of debt left within the company as a monetary figure as opposed to the percentage shown within the report. Ms Deegan was happy to provide this outside of the meeting.

Councillor McMillan declared he was the director of ELI. He asked Ms Deegan to say something around the due diligence that goes into looking at a loan beyond the purely financial elements and the role of the Board in their local knowledge of the market, economy and local businesses and the way in which the decisions about granting a loan or allowing repayment holidays were taken. Ms Deegan stated there was a focus on the financial review and the due diligence that goes into that was at a high bar, but the Board did also consider the merits of existing and historic performance of the company and financial projections within the business case. She added that the diversity of the Board was valuable in allowing an additional layer of knowledge and insight with regards to East Lothian.

## **Decision**

The Audit and Governance Committee noted the report.

Signed .....

Councillor T Trotter  
Convener of the Audit and Governance Committee

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**REPORT TO:** AUDIT AND GOVERNANCE COMMITTEE

**MEETING DATE:** 17 June 2025

**BY:** Chief Executive

**SUBJECT:** Corporate Risk Register

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## **1 PURPOSE**

- 1.1 To present to the Audit and Governance Committee the Corporate Risk Register (Appendix 1) for discussion, comment and noting.

The Corporate Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document which is reviewed and refreshed on a regular basis, led by the Corporate Risk Working Group (RWG).

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Corporate Risk Register and in doing so, is asked to note that:
- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
  - the total profile of the Corporate risk can be borne by the Council at this time in relation to the Council's appetite for risk.
  - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks and are likely to be a feature of the risk register over a number of years.
  - note that the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

## **3 BACKGROUND**

- 3.1 The Risk Register has been compiled by the Corporate RWG on behalf of and in consultation with Council Management Team. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
- Very High risk is unacceptable, and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
  - High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
  - Medium risk is tolerable with control measures that are cost effective;
  - Low risk is broadly acceptable without any further action to prevent or mitigate risk.
- 3.4 The 2025 Corporate Risk Register as updated, currently includes 5 Very High Risks, 7 High Risks, 7 Medium Risks and 1 Low Risk. All most recent updates to risk text are highlighted in red.
- 3.6 In accordance with the Risk Management Strategy 'Very High' and 'High Risks' identified in the Corporate Risk Register will be subject to closer scrutiny by the Council Management Team, the Cabinet and the Audit and Governance Committee.
- 3.7 The CMT sub-group on Risk Management meets on a bi-monthly basis to monitor and drive Risk Management council-wide and to review the Corporate Risk Register. This group includes the Executive Directors and ensures that Risk is given prominence by CMT.
- 3.6 Committee can be reassured that CMT, its Risk Management Sub-Group, the Corporate Risk Management Group and its Linking Risks Sub-Group, continue to closely monitor all Corporate Risks. Informed by global and national risks, via the annual Global Risk Report produced by the World Economic Forum in January each year, and by the Scottish Government's National Risk Assessment (NRA) produced annually, every effort is made to ensure that the Corporate Risk Register reflects current and future risks with appropriate mitigations in place.

## **4 POLICY IMPLICATIONS**

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

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial –The financial impact of the associated risks and measures remain under regular close monitoring and review. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Council Management Team, and if required will be reported to Council.



6.2 Personnel – There are no immediate implications, however, given the current significant staffing challenges and operational impacts resulting, this area is under constant review.

6.3 Other – Effective implementation of the Corporate Risk Register will require the support and commitment of the risk owners identified within the register.

## **7 BACKGROUND PAPERS**

7.1 Appendix 1 – Corporate Risk Register

7.2 Appendix 2 – Risk Matrix

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<b>DESIGNATION</b>	Team Manager - Emergency Planning and Resilience	
<b>CONTACT INFO</b>	<a href="mailto:skennedy@eastlothian.gov.uk">skennedy@eastlothian.gov.uk</a>	01620 827900
<b>DATE</b>	06 June 2025	

## East Lothian Council Corporate Risk Register

Risk ID	Category	Title	Description	Impact	Probability	Current Risk Score	Residual Risk Score	Corrective Actions	Review Date	Latest Update
			<p>Rapid rehousing policy requires the Council to transform homelessness services, place people quickly into permanent accommodation (negating use of temporary accommodation) and significantly reduce temporary accommodation stock. Resource allocation, further exacerbated by a series of legislative change, has been and will continue to be insufficient for service transformation.</p> <p>Legislative change regarding local connection came into force in 2022 and requires the Council to accept rehousing responsibility for additional homeless cases. This adds to pressures posed by discretion around intentionality. Changes continue to be enacted without clear guidance on practical implementation, placing the Council at risk regarding threats of judicial review and presentations from neighbouring authorities are exacerbating existing pressures. With 33% of homeless assessments in September / October 2024 from households outwit EL, and circa 5-10 live section 38 referrals at October 2024 over and above this, the position is concerning.</p> <p>There is a higher financial cost burden for the general services budget due to increased costs due to a recent retendering exercise.</p> <p>Ongoing breaches of the Unsuitable Accommodation Order due to a shortage of 'suitable' temporary accommodation, and subsequent daily breaches.</p>					<p>618 - Further iterations of Rapid Rehousing Transition Plans (RRTP) with clear plans to transform homelessness services kept under regular review in context of resource allocation and changing legislation.</p> <p>619 - Continue new build activity to increase housing stock, exploring potential to further increase supply within context of the growth agenda.</p> <p>620 - Mid-market rent properties coming forward to be targeted at homeless / threatened with homelessness households.</p> <p>621 - The leader will write to both UK and SG asking for an urgent response to the affordable housing emergency.</p> <p>622 - Housing Options Training Toolkit is being rolled out to Community Housing and Homelessness staff to improve homelessness prevention and complement new Prevention Duty anticipated 2025, with revised approach to be agreed and implemented.</p> <p>623 - Implementation of recent changes to Allocations Policy agreed at Cabinet September 2024</p> <p>624 - Plan to reduce service demand, temporary accommodation, and associated costs to continue being rolled out and monitored closely.</p> <p>625 - Revised Homelessness Operations Policy is ongoing, alongside comprehensive review of existing policies and procedures, to ensure service is operating efficiently and effectively.</p>		

R287	Legal	Homelessness and Housing Pressures	<p>Enforceable temporary accommodation standards framework implemented from 2021/22 which further reduces the existing portfolio of 'suitable' accommodation and includes specific requirements re occupancy agreements / temporary accommodation handbook.</p> <p>Proposed changes re the new prevention duty poses further risk to existing practice. Implementation will likely result in increased referrals and homeless assessments.</p> <p>Reduced supply of private lets due to landlords' ongoing concerns re Private Residential Tenancy, legislative change, welfare reform impacts and cost of living increase, resulting in increased rents. This is further exacerbated by reliance on the PRS as a suitable housing option for Ukraine households. A significant increase in LHA rates from April 2024 makes private lets even more unaffordable.</p> <p>The policy area of migrant homelessness and destitution is becoming increasingly complex within a context of limited guidance.</p> <p>There are ongoing concerns regarding limited flow through the housing system and inability to accommodate people in emergency accommodation, due to lack of supply. This can impact upon the ability to source emergency accommodation at times of crisis.</p>	5	5	25	20	<p>626 - Improved partnership working RSLs could potentially result in formal revisions to nominations for single person households.</p> <p>627 - Continue to engage with the Scottish Government to review and monitor the impact that legislative changes and Resettlement Schemes are having on meeting RRTP ambitions</p> <p>628 - Significant resource channelled to improve void turnaround times including establishing a team to address long-term major works voids.</p> <p>629 - Rollout of revised approach to occupancy agreements / handbooks.</p> <p>630 - Further communication with the Housing Minister is likely, regarding requests for assistance to help alleviate housing pressures</p> <p>631 - Planned tenancy conversions and temporary increase in % allocations to increase flow through the system and enable reduction in temporary accommodation to be met.</p> <p>632 - Review of Response, Accommodation and Prevention Teams to enable more efficient ways of working, cost savings and increased focus on prevention for vulnerable groups via service transformation.</p> <p>633 - The City Region is taking a holistic approach to reviewing and understanding the pressures across the region, particularly in relation to Homelessness and Ukraine to help find a more joined up solution</p> <p>634 - Ongoing engagement with SHR to gather further information and</p>	02/07/2025	16/05/2025
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		<p>SHK has highlighted ELL is at heightened risk from systemic failure, noting breaches and length of stay in temporary accommodation.</p> <p>Reduction/slowdown in the Affordable Housing Supply Programme can be expected given the recent reduction in SG investment meaning less affordable housing properties coming forward to meet the needs of homeless households.</p> <p>The Homelessness Service is at risk of being unable to operate within budget going forward, due to a combination of rising costs generally, procurement of emergency accommodation which directly resulted in increasing costs, increasing demand from outwit EL, and lengthy periods of time in temporary accommodation.</p>					assurance re service with an ask to provide updates on capacity to meet statutory duties re-temporary accommodation and UAO.		
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R267	Financial Impact	Maintenance of Assets	<p>The Council has a significant asset base covering a wide range of services. Many of these physical assets require significant capital investment to ensure they meet both condition and suitability asset requirements and will also require significant on-going maintenance to ensure they can be maintained to an appropriate condition.</p> <p>There is a risk that the Council will not have the available financial resource and staffing requirement to carry out essential repairs and maintenance programmes to ensure buildings are maintained in a good condition, and on-going capital investment is required to ensure suitability and condition of buildings remain appropriate and aligned to national conditions.</p> <p>Failure to carry out repairs and maintenance programmes could result in unavailability of buildings e.g. school closure and reputational damage to the Council and could ultimately result in a failure of building elements and impacts on safe operation of an asset with the risk of closure or enforcement by Statutory or Regulatory authorities.</p> <p>Failure to carry out repairs and maintenance programmes could result in injury/loss of life of public building users and legal action against the Council. There is also a high risk to health and safety and of reputational damage.</p> <p>The risks posed through the identification of RAAC/Siporex and subsequent costs from the implications in respect of management, remediation and or total loss of assets.</p> <p>There remains significant cost pressures aligned to on-going cost of construction including challenges around availability and supply of goods/ services.</p> <p>There are a growing range of new policy requirements aligned to public infrastructure and funding including net zero and energy targets, which require additional monitoring, specification requirements and costs. These require significant additional finance commitment and staff resource is required to achieve this, assess the current status, and plan works to bring buildings up to the required standard.</p>	5	5	25	20	<p>531 - On-going monitoring of condition and other data to inform the planned delivery of works required to ensure buildings comply with statutory and legal requirements and are maintained in a safe operating condition.</p> <p>532 - The service continues to regularly evaluate the current situation as regards material availability and works to mitigate any adverse effects of cancelled or delayed orders for this year's major summer works programme.</p> <p>533 - Review and identify staffing resource required within SACPM, Education and Engineering Services.</p> <p>534 - Identification and management of assets affected by RAAC and Siporex with option appraisals to identify remediation and or demolition and future provision.</p> <p>535 - The Asset and Engineering teams will use both the asset review, available budgets and asset management partnership working to identify temporary and permanent solutions.</p> <p>536 - Contingency plans are being prepared to mitigate restricted use or unavailability of parts of buildings following assessments. Council Management and Executive Team to be made aware of emergency planning proposals.</p> <p>537 - The security of secondary school grounds will be reviewed with Education and will be prioritised in terms of risk and available capital and revenue budget. Work is ongoing.</p> <p>538 - The security of primary school grounds will be reviewed with Education and will be prioritised in terms of risk and available capital and revenue budget.</p> <p>539 - Progress with work to support the asset review including Place Based Asset Review which will assist in prioritising future place-based assets and will inform future capital investment opportunities.</p>	01/05/2026	12/05/2025
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R266	Financial Impact	Managing the Financial Environment	<p>The financial environment continues to present substantial risks to the council's capacity to meet its objectives and sustain service provision over the medium term.</p> <p>The Council faces a significant residual budget gap over the next 5 years, despite efforts to close this through identification of savings and planned increases to council tax income.</p> <p>Pressures arise from:</p> <ul style="list-style-type: none"> <li>- The level and complexity of national funding, with resources not keeping pace with growing demands, and around 70% of national funding being directed to support specific policy obligations and settlement conditions.</li> <li>- Significant increased cost of service delivery arising from previous high inflation and pay settlements.</li> <li>- Growing pressure within demand led services arising from social, demographic and legislative change.</li> <li>- Significant and sustained population growth, giving rise to costs of new associated infrastructure such as new schools.</li> <li>- Significant capital expenditure pressures including higher levels of inflation and interest charges, gaps between s75 contributions and the cost of new infrastructure, significant investment needed to support an aged and wide-ranging asset base, as well as meeting the cost of enhanced infrastructure policy obligations including net zero.</li> </ul> <p>The level of unallocated reserves being held by the Council as a contingency to mitigate any unforeseen events remains very low relative to the concurrent risks the Council currently faces. Given the risk environment, it is possible that the current level of reserves may not be sufficient to meet future unplanned events leading to earmarked reserves needing to be redirected.</p> <p>The IJB has set a balanced budget for 2025/26 but has now fully depleted its general reserve meaning that any future budget overspends will need to be met by funding partners in the future. In 2024/25 this has resulted in an additional contribution of £2.8m from the council to the IJB being required.</p>	5	5	25	20	<p>605 - Enhanced programme of monitoring of Council's budget aligned to risk currently being developed.</p> <p>606 - On-going review of Capital Planning and capital infrastructure priorities.</p> <p>609 - Continue to support national discussions through CIPFA Directors of Finance aligned to ensuring the on-going financial sustainability of local government.</p> <p>610 - On-going engagement with Scottish Government and COSLA on local government funding and distribution to support a fair and adequate allocation of resources to deliver local services.</p> <p>612 - Continue to engage with Scottish Government and COSLA to adequately resource the funding requirements associated with population growth arising from the Local Development Plan, taking into consideration both revenue and capital costs.</p> <p>613 - Continue to support regional placed based funding discussions with City Region Deal Partners.</p> <p>615 - The financial and capital strategies will be refreshed and presented to Council in December.</p> <p>616 - Support national conversations aligned to SOLACE / Improvement Service Transformation Programme.</p> <p>640 - Updated scenario planning will be present to Council in August 2025.</p> <p>641 - 2025/26 budget approved by Council. This incorporates significant new investment in demand led services which aims to deliver on the council's priority of targetting resources to areas of highest need, and reduce the risk of in year overspends.</p> <p>642 - Council management team leading on work to model the impact of budget reductions across all service areas. Joint discussions with elected members are progressing through the cross party budget group.</p> <p>643 - Continue to prioritise and support the statutory annual audit process which underpins strong financial governance.</p>	28/08/2025	01/04/2025
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			<p>This combination of financial challenges facing the council presents a risk to the delivery of current and future obligations within the resources which are now available, and it is important that focus is given to targeting resources at key priority areas, and redesigning services to ensure on-going financial sustainability.</p>			<p>which underpins strong financial governance.</p> <p>644 - CIPFA's financial management code has been adopted and remains under regular review by CMT and Audit &amp; Governance Committee with a view to promoting collective responsibility and a culture of strong financial management across the council.</p> <p>645 - The implementation of the new finance system aims to further support effective financial management and opportunities for efficiency through improved reporting and greater visibility of financial information.</p>		
			<p>Both the UK and Scottish Government have responded to recent immigration and humanitarian crisis by introducing refugee schemes that largely required to be administered by local authorities, with confirmation January 2024 that changes to visa requirements / schemes will enable Ukraine households to remain in the UK until 2026.</p> <p>These schemes are broader in scope and of a significantly greater scale than previous refugee schemes. Consequently, this means greater demands placed on Council services (including service areas not previously involved) in administering the schemes, supporting hosts and refugees as well as placing additional demand on schools and Health and Social Care services. The challenges posed are further compounded by the requirement for local authorities to commit to accommodating refugees via the cap on safer and legal routes and request to assist Mears regarding local procurement of properties and corresponding support requirements.</p> <p>Current challenges include, but are not limited to:</p> <p>Complexity and variation between different schemes and more recent changes to visa extensions to 2026</p>			<p>543 - Quantification of future resource requirements to be identified and articulated as new and changing schemes are rolled out.</p> <p>544 - Working closely with SG and COSLA to inform future iterations of Guidance for clarity and confirming with SG and COSLA colleagues that ELC cannot source social housing properties as housing pressure continues to be extreme.</p>		

R270	Impact on People	Refugee Asylum Schemes	<p>Constant changing and revision of national guidance, which continues to evolve through ongoing discussion between SG, COSLA, Home Office and local authorities</p> <p>Understanding the scale of and resourcing the challenge in the context of existing commitments to the global refugee scheme, Afghan schemes, Asylum dispersal scheme.</p> <p>Clarity as to whether funding will continue going forward at what level and in what form</p> <p>Two Tenancy Support Officer (refugee and asylum seeker) posts ended Nov 2023 and Feb 2024 with no dedicated resource for this client group.</p> <p>Implementation of mandatory national transfer scheme means the Council must accept an allocation of unaccompanied asylum-seeking young people set by the Home Office. Notification will be short notice and frequency is dependent on rate of arrival in the UK. This presents a resource challenge re-provision of accommodation and social work support. The national local crisis in fostering resources is compounding the service risk.</p> <p>A change in Scottish Government policy focus from a 'warm Scots welcome' to delivery of a 'warm Scots future' within the context of wider homelessness and housing pressures.</p> <p>Mears procurement is being carried out with limited communication and arrivals flagged to local authorities with limited notice.</p>	4	5	20	16	<p>545 - Children's services are considering a host families scheme to provide accommodation and support for UASC.</p> <p>546 - Discussions are ongoing with Scottish Government and the Home Office about the increase in numbers of UASC children coming to East Lothian.</p> <p>547 - Work with ALACHO, SOLACE, COSLA and others to ensure future funding arrangements are adequate, in accordance with the revised approach to a warm Scots future.</p> <p>548 - Completion and allocation of seven properties in Haddington (Brown Street) for a small number of Ukraine households to be accommodated in settled accommodation until 2026 as host accommodation comes to an end.</p>	01/07/2025	12/05/2025
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R268	Impact on People	Risk to Services Delivery due to Workforce Challenges	<p>Maintaining a stable and skilled workforce is essential to efficient, effective and safe delivery of services.</p> <p>The Council continues to face on-going workforce challenges to meet the diverse range of services including:</p> <p>Recruitment and retention of staff</p> <p>High level of sickness absence in some service areas, placing pressure on service delivery</p> <p>Impact of pay and grading structure and annual pay awards</p> <p>Attractive employment opportunities in other sectors risks staff migrating out of Council services</p> <p>Impact of Council financial mitigation measures including enhanced recruitment mitigations</p> <p>Aging workforce and impact on succession planning</p> <p>35 hour working week makes Council salaries look lower than neighbouring authorities paying the same hourly rate.</p> <p>Failure to preserve business critical activities within these</p>	4	5	20	15	<p>540 - Update Management Arrangements on Fire Safety and First Aid</p> <p>541 - Workforce planning to be added to service plan templates.</p>	26/03/2026	12/05/2025
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		<p>services could lead to increased risks in respect of 'life and limb' services, financial and severe reputational damage to the Council.</p> <p>Insufficient staff can also lead to an inability to open facilities, or to reducing opening hours/days, impacting on local access to services and reducing community programmes of activity, particularly those supporting early intervention and prevention activities.</p> <p>Staffing challenges may result in a lack of cross-service staff capacity to meet emergency response requirements and any other concurrent risks which may create risks to public safety, bringing reputational damage to the Council.</p> <p>The Council has a duty of care to the workforce, a breach of which may affect the health, safety and wellbeing of employees leading to increased sickness absence, pressures on service delivery and added potential for employee liability claims against the Council for incidents involving employees or non-employees or enforcement action by the Health &amp; Safety Executive.</p>				542 - A review of the Council's workforce plan action plan.		
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[illegible]

R272	Impact on People	Climate and Nature Emergency	<p>There are no clear funding paths to meet the budgeted costs to reduce greenhouse gas emissions and adapt to climate change. This includes moving all our energy in buildings and our fleet and supporting infrastructure to zero emission sources. To meet the challenge, investment for Buildings is estimated at £1bn. Fleet is more difficult to calculate at present due to the emerging technology and changes in market costs, but it is noted as a significant investment. Both cannot be met through existing core funding or grant availability.</p> <p>The latest IPCC sixth assessment reports show that we have reached a tipping point where we will face extreme weather and climate change impacts despite efforts to mitigate greenhouse gas emissions. These will be cascading risks that can lead to power outages, shortages of water and supplies, and disruptions to transportation. The Council must reduce its emissions to mitigate the severity of climate change and have robust climate adaptation measures to respond to this growing crisis.</p> <p>The State of Nature Scotland Report (2019) found that 49% of Scottish species have decreased in abundance and 11% are under threat from extinction. Failure to halt biodiversity loss and restore nature will have a detrimental impact on our environment, economy, jobs, health and wellbeing and impact our capacity to adapt to and mitigate the climate crisis. The Council is making progress in reducing the Climate and Nature Emergency risks. However, there is an urgent need to secure the funding, resources, tools and powers to enable us to deliver net zero and become nature positive. Until then, our capability for transformational change to reduce these risks is uncertain.</p>	4	4	16	12	<p>554 - Secure the tools, powers and resources to enable the delivery of a 'Net Zero Council' and a Climate-ready Council.</p> <p>555 - Identify interim emission reduction targets across Council Services. Identify effective and necessary climate adaptation measures for Council assets &amp; services. Implement a monitoring &amp; evaluation framework for both.</p> <p>556 - Engage East Lothian Partnership to include carbon emissions reduction targets in review and update of the East Lothian Plan.</p> <p>557 - Re-engage with the Resilient Communities initiative</p>	01/01/2026	12/05/2025
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R273	Legal	Limitation (Childhood Abuse) (Scotland) Act 2017	<p>The Act covers the period prior to 2004 for civil actions arising from allegations of childhood abuse for children who have been in the care system.</p> <p>The Scottish Child Abuse Inquiry is currently in its 8th Phase, with a 9th identified. Survivors may continue to come forward for the period from 1964 to 2004. Historic and current insurers are put on notice where claims are received. The level of deductible or excess is the financial pressures if historic claims of child abuse are made and upheld against East Lothian Council as the statutory successor.</p> <p>The Council's insurers have indicated that where the policy can respond, they will cover appropriate external legal costs and compensation payments subject to the deductible in force. However, the requirements to comply with SCAI S21 requests are placing significant strain on internal resources within the legal, social work and records management teams for which there is no additional budget.</p> <p>Redress Scotland established to provide survivors with an avenue to compensation where they do not wish to submit a claim directly to a successor organisation. Where the Redress Scheme is not used, any legitimate claimant may still raise action against ELC.</p> <p>Note that there remains a period from 2004 to present which is not covered by Scottish Government proposals/legislation for compensation schemes and as such any legitimate claim arising would need to be taken forward through ELCs Insurers.</p>	4	4	16	12	<p>558 - Discussions planned to consider how to ensure sufficient staffing resource available to deal with claims court actions and submission of S21 requests and recovery of documentation and to preserve the Councils position</p> <p>559 - Fully engage with the SCAI to anticipate and forecast future claims and ensure ELC is represented well in the public hearings.</p> <p>560 - Ensure current social work practice with children who are accommodated away from home meets high professional standards and complies with legislation and national standards to ensure they are safe and reduce the likelihood of any 'new' claims arising.</p> <p>561 - Full review of the overall Council Records Management systems and behaviours required to be undertaken to streamline obtaining the relevant information requested.</p> <p>562 - A draft agreement regarding historical liabilities for the successor authorities of LRC is out for consultation with each authority and it is hoped it will be agreed in 2024.</p>	31/03/2026	12/05/2025
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R271	Impact on Reputation	Cyber Security Threats	<p>External Cyber Security Threats</p> <p>There is a risk that the Council suffers a cyber-attack by a 3rd party (e.g. hacker, terrorism, nation state) causing the loss of access to or the destruction of all or part of its IT infrastructure and / or information systems.</p> <p>This could be caused by a direct attack on the Council or indirectly via an attack on a trusted supplier or element of national infrastructure.</p> <p>The attack vectors continue to evolve and in recent months the supply chain has become a favoured route.</p> <p>The current conflicts in Ukraine and the Middle East are resulting in a continuous risk of Nation State led cyberattacks on the UK which could potentially affect National Infrastructure in a way that has a direct impact on East Lothian Council.</p> <p>Internal IT Security Threats</p> <p>Council IT systems are compromised by the actions of an internal employee - causing the loss of a system, virus/trojan/ransomware infection or loss/disclosure of data.</p> <p>Unpatched/unsecured/hardened "shadow IT" has been identified in some areas this alongside IOT devices. These provide easy path into the ELC network. IT are essentially blind to these devices and systems until they are found and decoupled.</p> <p>Our traditional security architecture needs to align with modern approaches, this has been the key finding for many data breaches, ransomware attacks alongside supply chain attacks which are becoming increasingly intelligent in their attack vectors.</p>	4	4	16	12	<p>549 - Contract a 24x7 Network Operations Centre to monitor our network log and perform MXDR SOC duties</p> <p>550 - ELC to take tech lead for procurement of National SOC project by Digital Office. Initial meetings with 3rd parties around managed SOC SIEM solution initiated.</p> <p>551 - Recruit IT Security Specialist.</p> <p>552 - Evaluate and initiate project to deploy a "Zero trust" Architecture effectively changing how we handle cyber security internally versus our traditional LAN/WAN based network.</p>	01/09/2025	12/05/2025
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R274	Impact on People	Flooding and Coastal Erosion	As the incidence of flooding and coastal erosion increases as an impact of Climate Change, there is an increased risk of disruption and damage to road and path networks, impact on public and community safety, property, businesses, harbours and natural heritage sites and an associated increase in claims against the Council.	4	4	16	9	<p>563 - Flood studies for Dunbar, West Barns &amp; North Berwick (Coastal), Cockenzie, Port Seton, Longniddry &amp; Prestonpans, and Tranent &amp; Macmerrie have been included in the 2021-28 Flood Risk Management Plan and the 2022-28 Forth Estuary LFRMP.</p> <p>564 - As part of the 2022-28 Local Flood Risk Management Plans Flood Protection Schemes for Musselburgh and Haddington are included in the list of actions for the Forth Estuary Local Plan District.</p> <p>565 - ELC have undertaken Flood Studies for Musselburgh and Haddington within the 2016-2022 FRM cycle and are currently progressing the Musselburgh Flood Protection Scheme which is a fully established project.</p> <p>566 - Musselburgh FPS is not yet approved under the Flood Risk Management (Scotland) Act 2009.</p> <p>567 - A full report on Coastal Change in Musselburgh was completed and published in March 2024.</p>	20/03/2026	09/05/2025
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R276	Impact on Reputation	Data Protection Threats	<p>Under the Data Protection Act 2018 and the UK GDPR, the Council is required to ensure that personal data is processed lawfully, fairly and securely. Breaches of the Data Protection Act / GDPR could result in:</p> <ul style="list-style-type: none"> <li>- harm to individuals;</li> <li>- legal action;</li> <li>- fines of up to £17.5 million or 4% of turnover, whichever is higher;</li> <li>- requirement to pay compensation;</li> <li>- adverse publicity;</li> <li>- damage to reputation</li> </ul> <p>The Council has a mandatory 72-hour window in which to report relevant breaches to the Information Commissioner's Office.</p> <p>Limited security, procedural and environmental controls at the Dunbar Road records store mean that records and personal data are at risk of security breach and/or accidental loss or destruction. The shift to home/digital working has also placed additional pressures to digitise paper records management systems and ensure new ways of working remain secure.</p> <p>Requests for personal data (SARs) and other information (FOIs) continue to increase persistently in both number and complexity (average increase of 28% every year since 2021). Staffing challenges and disproportionate impact of frequent requesters mean the Council is at higher risk of missing statutory timescales for responses.</p> <p>DP compliance is dependent on good records management. The Council's Records Management Plan 2014-2019 needs to be formally updated to account for GDPR/DPA18 as well as changes to recordkeeping practice across the Council. This is also a requirement of the Public Records (Scotland) Act 2011 (PRSA).</p> <p>Current pressures on Registration service and increased demand from Services for review of Data Sharing Agreements / Data Protection Impact Assessments are impacting capacity to address Records Management.</p>	4	3	12	8	<p>573 - The Team Manager–Information Governance and Team Manager-IT Infrastructure &amp; Security drafting an Information Transformation Strategy</p> <p>575 - Procurement exercise to identify best value for document management services for all paper records. Existing contract has been extended with supplier Oasis by six months to allow for completion amidst other service pressures.</p>	05/05/2025	18/03/2025
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R278	Impact on Service Objectives	Duty of Care to Public	<p>The Council has a responsibility to provide care and support for the people of East Lothian and East Lothian's environment. Any breach of this duty of care may compromise legislative duties, health, safety and wellbeing, impacting on, for example, the protection of children and adults.</p> <p>Failure to fulfil the duty of care could also result in serious harm/death to an individual/s, prosecution, having to pay compensation and have a negative impact on the reputation of the Council.</p> <p>Additional pressure within this area caused by external providers struggling to deliver through staffing issues.</p> <p>The Council took out QBE policy in 2021 with Medmal, which now includes cover for some intrusive medical intervention (e.g. tube feeding or assistance with diabetic pumps). However, prior to this there is a 5 year period where the Council was without any cover, the claims for which may not be submitted for many years (particularly if it relating to children) meaning this risk will remain for some time.</p> <p>Members of the public access services in many public buildings which require to operate within statutory health and safety requirements relating to the building itself, and spaces within it. Some services are provided in the outdoor public realm. Failure to operate services safely both within ELC buildings and in outdoor spaces could risk harm to members of the public and staff, resulting in injury, financial liability and reputational damage.</p> <p>Serious and Organised Crime (SOC) poses a physical and virtual threat, be that human trafficking, drug supply, sexual exploitation, fly-tipping, fraud, unsafe consumer sales et al. These risks can include cyber-attacks, corruption, bribery, IT system infiltration, human 'plants' into organisations. SOC poses risks to our communities through targeting of vulnerable people and their properties e.g. to act as conduits for drug supply, door-step fraud, on-line crime et al.</p>	4	3	12	8	<p>579 - Review of oversight and governance arrangements for assessment. Recent review of Social Governance arrangements undertaken by General Manager for Adult Social Work.</p> <p>580 - Alteration of the workforce model for delivery of care at home service including expansion of internal delivery and piloting of alternative models via Care at Home Change Board.</p> <p>581 - Utilisation of SDS option 3 to support delivery of care at home.</p> <p>582 - Establishment of daily Care at Home Huddle and approval via Change Board to pilot alternative models of Care at Home delivery</p> <p>583 - Continual recruitment underway for care at home with recruitment events designed and held including media, open days etc to encourage applications.</p> <p>584 - Review of existing CAH packages underway to identify any capacity that can be released and support unmet needs at home or currently waiting at hospital</p> <p>585 - Refresh of Serious and Organised Crime Multi-Agency Plan, aligned to review of Anti-social Behaviour Strategy.</p>	04/07/2025	23/04/2025
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R279	Impact on People	National Power Outage	<p>The National Electricity Transmission System (NETS) transports electricity across Great Britain. Total failure of this system would cause a nationwide loss of electricity supplies instantaneously and without warning. This would cause cascading failures across multiple sectors including telecoms, water, gas, sewage, food, health and fuel, and cause significant disruption to public service provision and most businesses and households. These disruptions could lead to physical and psychological casualties or fatalities due to the loss of the services relied upon by many, especially those with health and wellbeing vulnerabilities.</p> <p>ELC must be prepared, as best we can, to respond and recover should widespread electricity failure ever occur. Communications will be seriously interrupted, the care of vulnerable people will become hugely challenging and the continued provision of our critical activities, highlighted within our Business Continuity plans, will be seriously tested.</p>	5	2	10	6	<p>586 - Complete ELC NPO framework Plan</p> <p>587 - All services to carry out an annual BC test based on NPO.</p> <p>588 - Review ELCs usage of UHF and VHF radios for both corporate and community resilience purposes. Purchase radio equipment and appropriate licence to operate. Provide training to Staff on the use of radio equipment during an incident.</p>	30/06/2025	28/04/2025
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East Lothian Council Risk Matrix

Likelihood Description

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

Impact Description

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

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

Key

Risk	Low	Medium	High	Very High
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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 June 2025

**BY:** Service Manager – Internal Audit

**SUBJECT:** Internal Audit Report – June 2025

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## **1 PURPOSE**

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

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from the Internal Audit reports issued during the period from March 2025 to June 2025 as contained in Appendix 1;
  - ii. the findings from Internal Audit's follow-up work, per Appendix 2;
  - iii. Internal Audit's progress against the annual audit plan for 2024/25 as set out in Appendix 3.

## **3 BACKGROUND**

- 3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: Sickness Absence and Monitoring, Area Partnerships and Attainment Scotland Funding.
- 3.2 The main objective of the audits was to ensure that the governance, risk management and internal controls in place were operating effectively. A summary of the main findings and recommendations from the Sickness Absence and Monitoring, Area Partnerships and Attainment Scotland Funding audits are contained in Appendix 1.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- Sickness Absence and Monitoring – Reasonable Assurance
  - Area Partnerships – Reasonable Assurance
  - Attainment Scotland Funding – Reasonable Assurance

- 3.4 In addition an assurance review of cybersecurity has been completed and will be presented later in the agenda.
- 3.5 Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for four audits that were reported in previous years. Recommendations that have not been fully implemented are detailed in Appendix 2 with revised dates for implementation. Our findings are detailed below:

#### **Agency Worker & Contractor Use Management**

- 3.6 The Internal Audit report on Agency Worker & Contractor Use Management was issued in May 2024 and provided Limited Assurance. The report made 8 recommendations of which 2 were graded high. Our follow-up review identified that 5 recommendations have been fully implemented, including both high graded recommendation, and 3 recommendations partly implemented. Processes have been developed in the areas with the partially completed recommendations that will be implemented by August 2025.

#### **Adult Social Care Commissioned Services Forecasting**

- 3.7 The Internal Audit Interim Assurance Statement on Adult Social Care Commissioned Services Forecasting was issued in May 2024. The report made 7 ungraded recommendations, of which 6 have been fully implemented and 1 is yet to be implemented. This recommendation is linked to the implementation of the new financial ledger system scheduled for phase 1 implementation this year. The Internal Audit of Adult Social Care Case Management completed as part of the 2024/25 Internal Audit Plan provided Reasonable Assurance and indicated the progress made in this area over the year.

#### **Bowles Report – Primary School Capacity**

- 3.8 The Internal Audit Assurance Statement on Adult Social Care Commissioned Services Forecasting was issued in June 2024. The report made 8 ungraded recommendations, of which; 6 have been fully implemented, 1 has been partially implemented and 1 is yet to be implemented as it was never expected to be implemented until April 2026. Good progress has been made in implementing improvements to ensure that Governance, Risk Management and Control are operating to best practice in assessing pupil numbers.

#### **Financial Sustainability – CIPFA FM Code**

- 3.9 The Internal Audit report on Financial Sustainability - CIPFA FM Code was issued in May 2024 and provided Reasonable Assurance. The report made 7 Medium recommendations, of which 6 have been fully implemented and 1 is yet to be implemented, as new CIPFA guidance was in development until finalisation in May 2025, which has delayed the revision and then formal adoption of a Local Code of Governance for East Lothian Council, this will now be completed during 2025.

## **Progress Report 2024/25**

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

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – None  
6.2 Personnel – None  
6.3 Other – None

## **7 BACKGROUND PAPERS**

- 7.1 None

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<b>DATE</b>	8 June 2025

# Appendix 1 Executive Summary: Sickness Absence and Monitoring

## Conclusion: Reasonable Assurance

The internal controls in place for Sickness Absence and Monitoring are generally reliable, however there are some improvements that can be made to provide a fully effective control process, including a review of the Managing Attendance Policy, the arrangements in place for completing self-certification sickness forms, guidance on Managing Attendance training and the further development of the Strategic HR Panel to provide an appropriate governance framework for monitoring sickness absence levels.

### Background

Sickness absence levels temporarily declined in local authorities during the Covid-19 pandemic; however, absence levels have risen sharply in the past three financial years reaching an all-time average high of 13.9 days in 2023/24 for all Scottish local government employees (an increase of 4.6% from 2022/23) and an average of 7.6 days for teachers (an increase of 12.5%). The Council uses the iTrent integrated HR and payroll system for the administration of sickness absence and guidance is available on the Council's intranet to assist line managers with managing attendance, including a Managing Attendance Policy, which was formally approved by Cabinet on 08 November 2016. The initial trigger point for Management intervention is either three absences of any length or two absences totalling 10 calendar days or more in any rolling 12-month period and this requires the line manager to hold a Sickness Absence Support Meeting with the employee – the policy goes on to outline stages 1 to 4 of the absence monitoring process.

### Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by Management**:

- A review of the Managing Attendance Policy should be carried out, to ensure that it is up to date and reflects current practice. *Management have agreed to undertake a review of the Managing Attendance Policy by December 2025.*
- The Strategic HR Panel requires to be further developed to provide an appropriate governance framework for monitoring sickness absence levels, which addresses any underlying problems in service areas and identifies appropriate actions for implementation. *Management have agreed to refine the role of the Strategic HR Panel in relation to sickness absence by December 2025.*
- The arrangements in place for completing self-certification sickness forms require review – in number of instances copies of the forms were not retained on file by service areas and in one case the line manager had been completing the self-certification forms (part 1) on behalf of employees in the team. *Management have advised that service areas will be provided with a reminder note on the completion and retention of self-certification sickness forms (parts 1 and 2) by June 2025.*
- There was a lack of appropriate guidance on Managing Attendance training – in some cases no training had been undertaken, prior to line managers recording sickness absence and where applicable intervening to monitor frequent absences. *Management advised that additional clarity will be provided on Managing Attendance training and new Managers will be provided with training during their HR induction by December 2025.*

### Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	6	-	6
Prior Report	N/A	N/A	N/A	N/A*

\* No prior report exists for Sickness Absence and Monitoring.

### Materiality

For East Lothian Council, the average number of sickness absence days per local government employee for 2023/24 was 13.73 days (10.9 days in 2022/23) compared to the Scottish average of 13.9 days and the average number of sickness absence days per teacher was 6.66 days (5.8 days in 2022/23) compared to the Scottish average of 7.6 days.



# Headlines

Objectives	Conclusion	Comments
1. Adequate policies and procedures are in place for administering sickness absence, which complies with relevant legislation.	Reasonable	A Managing Attendance Policy is in place (effective from 01 January 2017), which was formally approved by Cabinet on 08 November 2016, however the policy requires to be reviewed to ensure that it is up to date and reflects current practice. Guidance is available on the Council's intranet to assist line managers and employees with procedures on sickness absence, which includes a range of forms for recording and monitoring absence, monthly cumulative absence statistical data and other useful information.
2. Service areas are complying with the procedures in place for managing attendance at work.	Reasonable	We selected a sample of 30 cases and sought to establish if service areas were correctly complying with the Managing Attendance Policy when employees were absent on sick leave. We found that in each case the employee had telephoned or contacted their line manager by other means (email, text etc.) on the first day of absence to confirm that they were unable to work. Where the employee continued to be off work, they kept in regular contact and from the eighth day onwards obtained a Doctor's Fit note.
3. Adequate arrangements are in place for completing documentation and for recording periods of sickness absence.	Limited	For the sample of 30 sickness absence cases, we checked to ensure that the procedures for sickness absence had been appropriately followed, and we found that the period of sickness absence and the reason were correctly recorded on the iTrent system for each employee. However, the arrangements in place for completing self-certification sickness forms require review – in 13 cases, copies of the forms were not retained on file, and we were unable to establish if a return-to-work meeting had been undertaken. In one case the line manager had been completing the self-certification forms (part 1) on behalf of employees in the team. For a sample of five long term sickness absence cases examined, in four cases evidence was held on file to confirm that appropriate management intervention had been carried out, however for the remaining case there was a lack of a clear audit trail as the process had been undertaken verbally.
4. Adequate arrangements are in place for monitoring the different stages of sickness absence and for taking appropriate action to improve health and wellbeing.	Reasonable	We sought to establish if appropriate governance arrangements are in place for monitoring absence levels and we found that a Strategic HR Panel had recently been set up to identify the potential risks associated with managing the workforce, including managing overtime, addressing performance information and targeting a reduction in sickness absence. However the Strategic HR Panel requires to be further developed to provide an appropriate governance framework for monitoring sickness absence levels, which addresses the underlying problems in service areas and identifies appropriate actions for implementation. A workshop was also held within HR to consider ways to be more effective in supporting service areas with absence.
5. Appropriate training is provided to staff members on sickness absence.	Reasonable	The Managing Attendance Policy is available on the intranet, together with a range of forms for sickness absence and other useful information. We were informed that HR have held four workshops on the Managing Attendance Policy over the last twelve months and HR Advisors have also provided ad hoc training sessions to service areas on request. However, there was a lack of clear guidance available on the training required for line managers on sickness absence and in some cases no training had been undertaken, prior to line managers recording sickness absence and where applicable intervening to monitor frequent absences.

## Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	Appropriate arrangements are in place for recording sickness absence on the iTrent system including for service areas where certain staff members do not routinely have access to laptops.
2.	Appropriate arrangements were in place to ensure service areas complied with the Managing Attendance Policy when employees were absent on sick leave – for the sample reviewed the employee telephoned or contacted their line manager by other means (email, text etc.) on the first day of absence to confirm that they were unable to work. Where the employee continued to be off work, they kept in regular contact and from the eighth day onwards obtained a Doctor's Fit note.
3.	Monthly cumulative absence statistical data is accessible showing the levels of sickness absence across the Council by Staff Group, and a further breakdown into Divisions and Business Units is available, together with reports on the absence reasons.

# Recommendation Grading/Overall Opinion Definitions

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

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

# Executive Summary: Area Partnerships

## Conclusion: Reasonable Assurance

The processes and internal controls in place for Area Partnerships are generally reliable and there is clear evidence of legislative compliance, appropriate processes of application, assessment and decision-making along with evaluation of funds awarded addressing the funds management and fulfilling the local needs. Some areas for further improvement have been highlighted, including the need to ensure clearer documentation of scoring applications and managing conflict of interest, greater transparency in leadership, stronger oversight and maintaining records of meetings crucial to maintain public trust, provide transparency, maintaining a proper audit trail and smooth operations of the area partnerships.

### Background

In 2014, the East Lothian Community Planning Partnership established six Area Partnerships: Dunbar and East Linton, Fa'side, Haddington and Lammermuir, Musselburgh, North Berwick Coastal; and Preston Seton Gosford. The aim of community planning is to help public agencies to work together with the community to plan and deliver better services and Area Partnerships are the local voice of community planning. The members of each Area Partnership comprise of Community Councillors, East Lothian Councillors, Local Community Groups, Pupil and Parent Council Representatives, Tenants and Residents Groups and Other Constituted Community Groups. Each Area Partnership has an Area Plan which provides a profile of the main features of the local area and their priorities for improvement. This helps to focus the allocated budget on the priorities which local people have identified, to help reduce inequalities in their community. Each quarter, the area partnerships meet to discuss the applications received for funding and consider the recommendations and views of the sub-groups including Scrutiny/Governance groups. In addition, each area partnership conducts an Annual Public Meeting, where Area Managers present impact stories, outline work of the area partnerships and review membership of the area partnership.

### Summary of findings & recommendations

We reviewed three area partnerships – Musselburgh, Preston Seton Gosford (PSG) and Dunbar & East Linton (DEL). The following key findings and recommendations are highlighted, which have all been **agreed by Management**:

- There had been a delay in preparing the area plans covering the period 2025 – 2030. *Management have confirmed that Area Partnership Plans are in development will be presented to the East Lothian Governance Group for approval as soon as they are ready by **March 2026**.*
- There was a lack of up-to-date detailed documented guidance available to assist applicants in completing their application form. *Management have confirmed that a detailed documented guidance will be prepared and will be available on the Council's website by **November 2025**.*
- Where conflicts of interest are identified, there is a need to ensure that there is a clear record of how these conflicts are managed and the actions taken by the member. *Management have agreed to discuss this with the area partnership Chairs in **July 2025**.*
- All Area Partnership meetings should have formal minutes taken, while for Scrutiny/Governance and subgroups a record should be maintained of the key actions/decisions taken. *Management have agreed that Connected Communities will engage with Council Support to explore the administration arrangements and discuss with Area Partnership Chairs to develop an approach and document the key points from each group by **November 2025**.*

### Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	15	-	15
Prior Report (Sept 2019)	-	11	-	11

### Materiality

In 2024/25, the total budget devolved to Area Partnerships was £1,215,000 – each Area Partnership had a budget of £195,000 (£240,000 for the Musselburgh Area Partnership) comprising £45,000 on general projects in the area (£90,000 for the Musselburgh Area Partnership), £50,000 of the Roads budget (*influential* spend) for the area, and £100,000 (*influential* spend) of the Amenity Services budget for the area

# Headlines

Objectives	Conclusion	Comment
1. The Council has adequate arrangements in place for complying with relevant legislation for developing public services with communities, and the roles and responsibilities of Area Partnerships are clearly set out.	Reasonable	The Council has appropriate frameworks in place to support compliance with the relevant legislation – The Local Government (Scotland) Act 2003 and the Community Empowerment (Scotland) Act 2015. Governance structures such as Standing orders, Member’s handbook and the East Lothian Partnership Governance group, outline roles and responsibilities and support effective oversight. However, East Lothian Partnership Governance Group meetings have not recently provided a strong reporting mechanism for Area Partnerships or effective oversight.
2. Area Plans have been developed and approved based on local needs and priorities, including consultation with key stakeholders.	Reasonable	Area Plans outline key local features and priorities, guiding the effective use of funds to reduce inequalities and improve quality of life. While each plan covers a five-year period, our review found that the plans are pending final approval, despite the new funding cycle having started. Delays in finalising these plans may prevent funding being used for current local needs.
3. An appropriate application and assessment process is in place, and is consistently applied, for all Area Partnership funding applications received, that ensures due consideration is given to financial sustainability.	Reasonable	Each Area Partnership is allocated an annual budget to support local projects through a multi-layered review process involving managers, subgroups, and governance groups. While this structure promotes strong oversight, we noted issues such as incomplete or unclear application responses, lack of up-to-date detailed documented guidance and the nature of funding requested which could affect the decision quality.
4. Appropriate decision-making processes are in place for the awarding of funding by Area Partnerships, recognising all conflicts of interest and ensuring segregation of duties, with an accurate record maintained of all decisions made.	Limited	The Area Partnership has established a robust and structured decision-making framework, with applications being reviewed by subgroups and Scrutiny/Governance groups using defined criteria and scoring matrices, followed by consideration by the Area Partnerships. Meeting minutes and recommendations are generally well recorded, supporting transparency. However, there are some areas where improvement could enhance the process further – including clearer documentation of scoring and conflict of interest, greater transparency in leadership term rotation, and review of the Roads and Amenities budget alignment processes.
5. Clear processes are in place to ensure that all Area Partnership grant payments made are accurate and are in accordance with the approved amounts, with appropriate monitoring and review processes to ensure that funding awarded is achieving the approved outcome/impact.	Reasonable	The Council has implemented a well-structured payment process with multiple layers of review, including verification by Connected Communities Managers and then processing by Creditors team to ensure payments are accurate and appropriately recorded. Evaluation forms are also requested from awardees to assess impact and fund usage, and annual public meetings provide a platform to share the Area Partnerships’ achievements. While these reflect strong practices, there are opportunities for improvement – such as ensuring timely approval of annual public meeting minutes and requesting supporting evidence from awardees to verify appropriate fund utilisation.

## Areas where expected controls are met/good practice

No	Areas of Positive Assurance
1.	<b>Proactive funding alignment by the managers</b> - The Connected Communities Managers engage with applicants early on to understand the purpose, funding needs, and planned outcomes before issuing the application form, helping to ensure that only relevant and impactful proposals are considered. This assists in making the application and assessment process strong and efficient.
2.	<b>Robust multi-layered assessment process</b> – Funding applications undergo multiple layers of review – by managers, subgroups, and the Scrutiny/Governance group, before final approval by the Area Partnership. This structured approach enhances quality and fairness of decision-making.
3.	<b>Structured payment approval process</b> - Payment to awardees go through a layered review process involving the Business Support Administrators issuing the payment forms and their line managers and the Connected Communities Managers approve the payment form and ensure all the details are correct. This strengthens the financial control and reduces the risk of payment errors.

# Recommendation Grading/Overall opinion definitions

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

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

# Executive Summary: Attainment Scotland Funding

## Conclusion: Reasonable Assurance

The internal controls in place for Attainment Scotland Funding are generally reliable, however there are some improvements that can be made to provide a fully effective control process, including the arrangements in place for ensuring a clear audit trail exists when completing financial returns for the Strategic Equity Fund and the Care Experienced Children and Young People Fund, a review of the arrangements in place for reconciling the Strategic Equity Fund to the general ledger and the arrangements in place for completing and monitoring Pupil Equity Funding Plans.

## Background

The Scottish Attainment Challenge was initially launched in 2015, however the Scottish Government set out fresh plans (effective from April 2022), with the aim of using education to improve outcomes for children and young people impacted by poverty. The Scottish Attainment operating guidance stipulates that funding should not be used in ways that stigmatises children and young people or their parents and carers. Local authorities are also required to be mindful of the interconnection between poverty and additional support needs. Funding is distributed to local authorities through Pupil Equity Funding (PEF), Strategic Equity Funding (SEF), and Care Experienced Children and Young People Funding (CECYPF). The PEF is allocated directly to schools based on pupils registered for free school meals and schools submit an annual PEF plan for evaluation and feedback. The SEF was utilised to set up the Equity & Inclusion – Education Outreach Service for supporting learners at risk of under achieving, focusing in particular on learners impacted by poverty, care experience or requiring additional support needs (referrals come in through the Child Planning Framework – Locality Teams). The CECYPF funded an Education Support Officer (ESO) role to help create better environments for care experienced learners in schools. The figures for 2023/24 show that the poverty related attainment gap in East Lothian is closing in the key areas of literacy and numeracy.

## Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by Management**:

- In some instances, there was a lack of a clear audit trail for the financial returns submitted to the Scottish Government – for the SEF and the CECYPF supporting evidence and a breakdown of the expenditure had not been retained in a separate folder for each resource category. *Management will introduce revised procedures for completing financial returns and supporting evidence will be retained by June 2025.*
- The existing arrangements in place for reconciling the Strategic Equity Fund require review to ensure that the amounts claimed agree to the general ledger. *Management have advised that the arrangements for reconciling the Strategic Equity Fund will be reviewed, prior to the first SEF submission for 2025/26 by November 2025.*
- The arrangements in place for completing and monitoring the Pupil Equity Funding Plans require review – in some instances, the school's annual PEF Plans did not outline the costs for the intended outcomes or include the section on consultation with parents and other stakeholders. *Management have advised that the approach to the completion of the PEF Plans will be fully evaluated for the start of the next academic year by August 2025.*

## Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	8	-	8
Prior Report	N/A	N/A	N/A	N/A*

\* No prior report exists for Attainment Scotland Funding.

## Materiality

East Lothian Council had a budget of approximately £2.52 million for Attainment Scotland Funding in 2024/25, which was distributed between PEF - £1,816,063, SEF - £595,488 and CECYPF - £108,617. For 2023/24 P1, P4 & P7 literacy was at the highest attainment level and there was the lowest gap between learners in quintiles 1 & 5 for 5 years.



# Headlines

Objectives	Conclusion	Comments
1. Adequate policies and procedures are in place for administering Attainment Scotland Funding.	Substantial	The Scottish Government have issued national guidance to assist local authorities with the Attainment Scotland Funding process, and Education produced a PEF Operating Guidance document to help schools in East Lothian prepare their PEF Plans and mid-year reviews. The Equity and Inclusion Team also have other guidance documents, including an Excellence & Equity: Raising Attainment for All Strategy 2023/24 – 2025/26 and the Included, Engaged and Involved – Equity and Inclusion Education Outreach Team Practice Guidelines.
2. Processes are in place for planning and budgeting outcomes, which are subsequently evaluated in line with the National Operational Guidance.	Limited	From our review of the financial returns submitted to the Scottish Government for the Strategic Equity Fund and the Care Experienced Children and Young People Fund, we found that in some instances there was a lack of a clear audit trail – supporting evidence and a breakdown of the expenditure had not been retained in a separate folder for each resource category. The arrangements in place for completing the Pupil Equity Funding Plans require review – in four of the five cases examined, the Pupil Equity Funding Plans did not outline the costs for the intended outcomes or include the section on consultation with parents and other stakeholders. However, in three of these cases, information on consultation with parents and other stakeholders was included in the School Improvement Plan. The existing arrangements in place for reconciling the Strategic Equity Fund require review to ensure that the amounts claimed agree to the general ledger.
3. Parent Councils are in place to support parental and family engagement throughout a pupil's education.	Reasonable	We were informed that East Lothian schools have Parent Councils for ensuring parental involvement in key decisions regarding their children and Parent Councils aim to represent parents' views to the school, the Education Authority and Education Scotland. They also help promote better communication between schools, parents, pupils and the local community, however from a sample of five PEF Plans reviewed, we found that in some instances the plans did not highlight the link with the Parent Council.
4. There is regular reporting of performance information on the impact of Attainment Scotland Funding.	Substantial	Performance information is regularly reported to both the Local Government Benchmarking Framework and the Policy and Performance Review Committee e.g. for 2023/24 P1, P4 & P7 literacy was at the highest attainment level and there was the lowest gap between learners in quintiles 1 & 5 for 5 years, leavers attaining five or more qualifications at level 5 (A-C) was at the highest attainment for learners in quintile 1 for 5 years and the attainment gap between quintiles 1 and 5 for P1, P4 & P7 combined in numeracy was 19.8%.
5. Adequate governance frameworks are in place for the effective monitoring of Attainment Scotland Funding.	Substantial	The Council has a governance framework in place for monitoring Attainment Scotland Funding (Pupil Equity Funding, Strategic Equity Funding and Care Experienced Children and Young People Funding), which includes regular meetings, providing updates to the Education and Children's Services Committee on raising attainment and pupil attendance, and submitting an overview of the local authority's progress in implementing the Scottish Attainment Challenge (SAC) programme to the Scottish Government via Triannual or Biannual reports.

# Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	Education produced a PEF Operating Guidance document to help schools in East Lothian prepare their Pupil Equity Funding Plans and mid-year reviews. The Equity and Inclusion Team also have other guidance documents, including an Excellence & Equity: Raising Attainment for All Strategy 2023/24 – 2025/26 and the Included, Engaged and Involved – Equity and Inclusion Education Outreach Team Practice Guidelines.
2.	The Council has a governance framework in place for monitoring Attainment Scotland Funding, including regular meetings, providing updates to the Education and Children’s Services Committee on raising attainment and pupil attendance, and submitting an overview of the local authority’s progress in implementing the Scottish Attainment Challenge (SAC) programme to the Scottish Government via Triannual or Biannual reports.
3.	Performance information on the impact of Attainment Scotland Funding is regularly reported to both the Local Government Benchmarking Framework and the Policy and Performance Review Committee.

# Recommendation Grading/Overall Opinion Definitions

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

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

## OUTSTANDING RECOMMENDATIONS

## AGENCY WORKER &amp; CONTRACTOR USE MANAGEMENT (MAY 2024)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
3.2	<p><u>Partly Implemented</u></p> <p>On an annual basis management should on a small sample basis as a quality assurance check obtaining evidence from agencies to ensure that adequate pre-employment checks are being carried out in accordance with the Council requirements for staff in these agency supported roles.</p>	Medium	Transformation & Digital Portfolio Manager	An MS Teams channel is currently being created to capture this.	September 2024	August 2025
3.3	<p><u>Partly Implemented</u></p> <p>Management should put procedures in place to ensure that agency workers undertake the appropriate mandatory e-learning modules, and that this completion is monitored for compliance.</p>	Medium	Operational Development Manager Service Managers	Induction Checklists have been developed and will soon be published for managers to ensure they are providing access to the mandatory e learning modules that are appropriate.	May 2024	August 2025
3.4	<p><u>Partly Implemented</u></p> <p>Guidance should ensure that there is a clarity that a new agency worker should have an induction checklist completed.</p>	Medium	Operational Development Manager Service Managers	Induction Checklists have been developed and will soon be published for managers with guidance.	May 2024	August 2025

**ADULT SOCIAL CARE COMMISSIONED SERVICES FORECASTING INTERIM ASSURANCE STATEMENT (MAY 2024)**

<b>REC REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>ACTION UPDATE</b>	<b>AGREED TARGET DATE</b>	<b>REVISED TARGET DATE</b>
<b>7.</b>	<p><b><u>Awaiting Implementation</u></b></p> <p>As part of any new finance system implementation within East Lothian Council, a system should be purchased that allows for a full commitment based accounting, in conjunction with Mosaic changes, as required to provide a pathway to obtain more accurate actual expenditure on a monthly basis.</p>	<b>Not Graded</b>	<b>Head of Finance</b>	<b>Will be progressed as part of phase 1 implementation of the new financial ledger system.</b>	<b>To be considered as part of any financial systems project.</b>	<b>Dec 2025</b>

# **BOWLES REPORT – PRIMARY SCHOOL CAPACITY (JUNE 2024)**

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
2.	<p><b><u>Partly Implemented</u></b></p> <p>For projections of new primary school pupils expected from the yearly house completions in any academic year, consideration should be given to applying a more nuanced approach (weighted to earlier pupil year groups where applicable), rather than assuming an even spread between classes P1 to P7.</p>	Not Graded	Principal Officer (Performance Analysis and Research)	This work was partially completed during the last annual roll projections update, focussing initially on a review of the spread of year groups tracked since their formation in the three new primary school catchments and establishments. The next phase of work, looking at the remaining catchment areas where new build is under construction or planned.	December 2024	August 2025

# FINANCIAL SUSTAINABILITY – CIPFA FM CODE (MAY 2024)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
2.2	<p><u>Awaiting Implementation</u></p> <p>Consideration should be given to developing and maintaining an up-to-date local code of governance in compliance with CIPFA FM standard D.</p>	Medium	Service Manager – Internal Audit	The implementation of this recommendation has been delayed as a result of the consultation on new guidance from CIPFA in relation to an addendum to the CIPFA Solace framework on delivering good governance. This further guidance has only just been finalised following a period of consultation and a local code will now be developed for September 2025.	February 2025	September 2025

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



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

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is sometimes required to provide a statement of compliance with grant conditions on an annual basis.	September 2024	Completed
Scottish Housing Regulator (SHR) Annual Assurance Statement	Work required to provide assurance on the regulatory requirements set out in the Scottish Housing Regulator's Chapter 3 of the Regulatory Framework.	September 2024	Completed
Assurance Reviews	<p>Where resources allow, undertake assurance reviews on areas of key controls for new or evolving systems of control to provide support for developing systems. Potentially including the following:</p> <ul style="list-style-type: none"> <li>➤ Transformation Project Management reviews;</li> <li>➤ Financial Systems project reviews developing new processes;</li> <li>➤ School Transport; and</li> <li>➤ Asylum and Refugee scheme funding monitoring.</li> </ul>	Not yet scheduled, dependent upon in year resource availability.	Resource has not become available within year and will be applied to the 2025/26 audit plan.

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 June 2025

**BY:** Service Manager – Internal Audit

**SUBJECT:** Annual Internal Audit Report 2024/25

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4

## **1 PURPOSE**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit team and an annual opinion on the effectiveness of the Council's Governance, Risk Management and Internal Control environment for the 2024/25 financial year which supports the Council's Annual Governance Statement.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2024/25 and the formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2025.

## **3 BACKGROUND**

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit team seeks to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit reports administratively to the Executive Director for Council Resources (who is the section 95 officer), functionally to the Audit and Governance Committee and Chief Executive has direct access to the Monitoring Officer.

- 3.3 The Public Sector Internal Audit Standards (PSIAS) require that the annual report must incorporate a statement on Internal Audit's conformance with the PSIAS and Local Government Application Note and the results of the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2024/25 through the following processes:
- Compliance with PSIAS.
  - A tailored audit approach using a defined methodology for financial audits.
  - A programme of quality control measures, which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
  - The development of personal and training plans – Internal Audit staff members are required to undertake a programme of Continuous Professional Development (CPD).
- 3.4 The PSIAS require the development of a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An External Quality Assessment of the Council's Internal Audit service was undertaken by the Chief Internal Auditor of Dumfries and Galloway Council and reported to the March 2024 Audit and Governance Committee. A QAIP indicating compliance against the new Global Internal Audit Standards (GIAS) that came into place for the UK Public Sector from the 1 April 2025, will be reported to the March 2026 Audit & Governance Committee.

### **Delivery of the Internal Audit Service**

- 3.5 In March 2024, the Audit and Governance Committee approved the Internal Audit Plan for 2024/25. The plan was scoped to address the Council's key risks and strategic objectives.
- 3.6 In order to ensure a constant review of ongoing concurrent risks to the Council a revised Internal Audit Plan for 2024/25 was then approved by the Audit and Governance Committee in September 2024. Subsequent changes to the audit plan was also notified to the Audit and Governance Committee in March 2024 as part of this ongoing review. The Roads Audit and the Building Asset Data review were paused in order to complete an assurance review of Cybersecurity which was considered appropriate due to the recently upgraded risk in this area.
- 3.7 Three planned reviews are not fully complete however they have all been progressed and will be reported later in 2025 when fully complete. However, some assurance has been received that has been used to inform the annual assurance of East Lothian Council, in the areas where work is complete. Three further potential reviews have not been undertaken within

the 2024/25 plan year as a result of the challenges of recruiting a new Auditor within the team following a full service review within the year. An Auditor has now been recruited and onboarded with the hope that the Internal Audit Team will remain fully staffed throughout 2025/26.

3.8 In 2024/25, Internal Audit completed 12 audit reviews. Table A (see section 3.10 below) outlines the audit work undertaken in 2024/25. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 12 audit reviews completed in 2024/25:

- In 1 case, Internal Audit provided Substantial assurance.
- In 9 cases, Internal Audit provided Reasonable assurance.
- In 2 cases, Internal Audit did not grade the overall report.

3.9 For the 12 audit assignments finalised, a total of 85 recommendations were made – 67 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); 6 recommendations were graded as low (recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.); 12 recommendations have not been graded as is the Internal Audit procedure for assurance statements. Our recommendations sought to address the weaknesses identified in the design of controls and/or their operational effectiveness.

3.10 We have completed the following reviews in 2024/25:

**Table A**

<b>Audit Assignment</b>	<b>Level of Assurance</b>
Capital Expenditure Contract Cost Management	Reasonable
Additional Support Needs	Reasonable
Tyne and Esk Funding	Substantial
Scottish Housing Regulator Annual Assurance Statement	Not Graded
IT Education Software Purchasing	Reasonable
Treasury Management Income Generation	Reasonable
Adult Social Care Case Management	Reasonable
Housing Voids	Reasonable
Area Partnerships	Reasonable
Sickness Absence and Monitoring	Reasonable
Attainment Scotland Funding	Reasonable
Cybersecurity Assurance Review	Not Graded

3.11 Internal Audit also completed stage gate reviews in conjunction with the Transformation Teams control and governance processes, including provision of reports to project sponsors, for the following Projects:

- TP043 Enterprise Resource Planning (ERP) Systems Procurement and Implementation Stage Gate 3;

- TP049 Website Replacement Stage Gates 1 & 2; and
  - TP051 M365 Rollout Stage Gate 3.
- 3.12 Counter Fraud and Internal Audit has also undertaken 9 Whistleblowing/Fraud and Irregularity or management request investigations/reviews in 2024/25, see the Counter Fraud Annual report for further details.
- 3.13 Internal Audit has also undertaken follow-up reviews of previous years' work to ensure that recommendations have been implemented by Management and have prepared reports for the East Lothian Integration Joint Board (IJB) Audit and Risk Committee.

### **Conflicts of Interest**

- 3.14 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

### **Performance Indicators**

- 3.15 We have undertaken our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit and Governance Committee. Performance information for 2024/25 covers:
- Completion of the annual Audit Plan – 75%
  - % of recommendations accepted by Management – 100%
  - % of staff with CCAB accounting qualifications – 80%

### **Basis of Opinion on Governance, Risk Management and Internal Control**

- 3.16 The Council's senior management has responsibility for establishing a sound system of Governance, Risk Management and Internal Control and for monitoring the continuing effectiveness of these processes. The main objectives of the Council's Governance, Risk Management and internal control systems are:
- Achievement of the Council's strategic objectives;
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations and programmes;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, policies, procedures and contracts.
- 3.17 A sound system of Governance, Risk Management and Internal Control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls or the occurrence of unforeseen circumstances. The Council is continually seeking to improve the effectiveness of its system of Governance, Risk Management and Internal Control.

3.18 Our evaluation of the control environment is informed by a number of sources in addition to the work of Internal Audit:

1. The policies and procedures of the Council, including:
  - Standing Orders and Financial Regulations;
  - Strategy for the Prevention and Detection of Fraud and Corruption;
  - Information Security Policy;
  - IT Acceptable Use Policy;
  - Code of Conduct;
  - Disciplinary Code;
  - Disciplinary Procedure; and the
  - Whistleblowing Policy.
2. The planning, monitoring, review and reporting arrangements within the Council, including:
  - The Budget Setting Process;
  - Budget Monitoring Statements;
  - Policy and Performance Review Committee;
  - Performance Management Framework;
  - The work of the Council Management Team.

3.19 Internal Audit's opinion for 2024/25 does not cover the internal control systems of other organisations that are included in East Lothian Council's 2024/25 Statement of Accounts under the Group Accounts section. However as required by Global Internal Audit Standards reviews are being undertaken in 2025/26 to ensure that this assurance can be extended to these Group entities.

### **Assessed Areas for Improvement**

3.20 During 2024/25, areas identified with scope for improvement included the following:

- Sickness absence levels temporarily declined in local authorities during the Covid-19 pandemic, however absence levels have risen sharply in the past three financial years reaching an all-time average high of 13.9 days in 2023/24 for all Scottish local government employees (an increase of 4.6% from 2022/23) and an average of 7.6 days for teachers (an increase of 12.5%). Whilst East Lothian Council's levels remain lower than the Scottish Averages, they were recorded at an all-time high of an average number of sickness absence days per local government employee for 2023/24 being 13.73 days (10.9 days in 2022/23) for local government employees in 2023/24 and 6.66 days (5.8 days in 2022/23) for teachers in 2023/24. Internal Audit review has recommended greater focus by Service Management on retaining self-certification documentation and further development of Strategic HR

panels to focus on improvements at an individual service level focussing on staff health and wellbeing.

- Whilst noting that Internal controls are generally reliable for housing voids as a result of significant improvements made since October 2024 that the undertaking of pre-termination visits aligned with some further control improvements, including improved review of reporting on average turnaround times could further improve the housing void process.
- In relation to Capital Expenditure Contracts there was a lack of clear audit trails and a consistent approach for the authorisation of contract variations. A monthly cost reporting tool was being reintroduced to ensure that this was in place.

3.21 The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended. The follow-up work completed during 2024/25 identified that 82% of the 79 recommendations made during 2023/24 have been fully implemented, with all 7 of the high graded recommendations having been fully implemented.

3.22 The Council has highlighted risk ELC CR1 Managing the Financial Environment as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. This indicates that the Council is currently operating beyond the risk tolerance of the Council. The Capital and Revenue Budgets paper presented to Council in February 2025 identified the local and wider economic context within which budgets have been developed, including the factors which have contributed to the funding gap between forecast income levels and expenditure demands which taking account of planned savings and indicative council tax increases of 5% was £45.9 million to 2029/30. The council continues to progress transformation workstreams to enable the significant programme of change that will be required to meet financial and operational challenges in the context of substantial growth pressures. This is compounded by a growing range of external cost and demand pressures, policy and legislative obligations and financial pressures aligned to population growth. The level of unallocated reserves being held by the Council as a contingency to mitigate any unforeseen events remains very low relative to the concurrent risks the Council is currently facing. Given the current level of in year overspend and future financial projections, there remains a high degree of risk that this may not be sufficient to meet current / future unplanned events.

3.23 The Council has also highlighted risk ELC CR2 Maintenance of Assets as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. The risk highlights that the Council may not have the available financial resource and staffing requirement to carry out essential repairs and maintenance programmes to ensure buildings are maintained in a good condition, and the on-going capital investment



required to ensure suitability and condition of buildings remain appropriate and aligned to national conditions.

- 3.24 Finally the Council has also highlighted risk ELC CR3 Homelessness and Housing Pressures a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. The risk highlights that the rapid rehousing policy requires the Council to transform homelessness services, place people quickly into permanent accommodation, negating the use of temporary accommodation and requiring a significant reduction in temporary accommodation stock. Resource allocation, further exacerbated by a series of legislative change has been insufficient for service transformation and the approach has resulted in an inability to accommodate those in need, forcing use of B&Bs out-with area / noncontracted. East Lothian Council declared an 'Affordable Housing Emergency' on the 12 November 2024, interim amendments to the Council's Housing allocations Policy were approved on the 10 September and continue to be reviewed and amended to ensure that the Council is continuing to do all it can do to prevent, tackle and mitigate homelessness pressures. All three of these risks highlight concerns that the current financial position may start to impact the key control processes of the Council.
- 3.25 The opinion is restricted by the assurance work that has not yet been completed, however with 75% audit plan full completion, in conjunction with additional assurance work completed allows a formal assessment to be made on substantial evidence.

### ***Opinion***

- 3.26 It is Internal Audit's opinion, subject to the weaknesses outlined in section 3.20 above and the comments made in 3.22-3.24 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2025.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	dstainbank@eastlothian.gov.uk
<b>DATE</b>	31 May 2025

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 June 2025

**BY:** Service Manager – Internal Audit

**SUBJECT:** Annual Governance Statement 2024/25

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**5**

## **1 PURPOSE**

- 1.1 To provide the Audit and Governance Committee members with the opportunity to scrutinise the 2024/25 draft East Lothian Council Annual Governance Statement prior to it being included in the draft Annual Accounts 2024/25.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee:
- i. Consider the details of the draft Annual Governance Statement 2024/25 at Appendix 1 to ensure it reflects the governance, risk and control environment in place to achieve the Council objectives, and acknowledge the actions identified by management to improve the internal controls, risk management and governance arrangements of the Council; and
  - ii. Approve that it be published in the Council's Statement of Accounts 2024/25, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive, Executive Director for Council Resources, and Leader of the Council at the conclusion of the external audit process.

## **3 BACKGROUND**

- 3.1 The Council adopted the principles of Corporate Governance based on the CIPFA / SOLACE guidance in 2010. CIPFA / SOLACE published a new 'delivering good governance' framework in 2016. This is based on Section 3.7 of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, which governs the preparation and publication of an Annual Governance Statement. The framework defines the principles that should underpin the governance of each local government organisation. To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the framework.
- 3.2 The Framework has seven core principles:

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

B: Ensuring openness and comprehensive stakeholder engagement

C: Defining outcomes in terms of sustainable economic, social and environmental benefits

D: Determining the interventions necessary to optimize the achievement of the intended outcomes

E: Developing the council's capacity, including the capability of its leadership and the individuals within it

F: Managing risks and performance through robust internal control and strong public financial management

G: Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

3.3 A self-evaluation exercise based on this framework was undertaken by the Council Management Team (CMT) in May 2025, testing the Council's governance arrangements against the Good Governance Framework. The self-evaluation has drawn on extensive evidence from Council policies, procedures and practices and from Audit Scotland and other external assurance providers. Detailed responses are provided under each of the seven core principles in the Annual Governance Statement, see appendix 1.

3.4 Each member of the CMT was requested to provide a detailed assurance statement on compliance with the framework principles and identify any areas for improvement. In addition, reviews of Internal Audit, External Audit and other assurance providers work was completed by the Service Manager – Internal Audit. The seven Improvement areas of Governance are then highlighted on pages 8 to 10 of the Annual Governance Statement.

3.5 The governance statement also reviews the progress against prior year areas for improvement identified in the 2023/24 Annual Governance Statement. Page 10 of the Annual Governance Statement identifies the progress that has been made against the four areas for improvement during 2024/25.

3.6 Page 10 of the Annual Governance Statement also provides the conclusion and overall opinion which is "subject to the successful progression of the areas for improvement highlighted above, our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of East Lothian Council's systems of governance, risk management and internal control".

## **4 POLICY IMPLICATIONS**

4.1 None directly from this paper.

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6      RESOURCE IMPLICATIONS**

- 6.1    Financial – None
- 6.2    Personnel – None
- 6.3    Other – None

## **7      BACKGROUND PAPERS**

- 7.1    None

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<b>DATE</b>	8 June 2025

# Draft East Lothian Council Annual Governance Statement 2024-25

## Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Good Governance in Local Government Framework (2016) for the year ended 31 March 2025, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

## Scope of Responsibility

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of East Lothian Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

The system can only provide reasonable and not absolute assurance of effectiveness.

## Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework defines the seven core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Management Team completes on an annual basis an assessment against the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016) being completed at the CMT meeting on the 14 May 2025.

## The Council's Governance Framework

The key elements of the Council's governance arrangements, as set out in the Council's Local Code of Corporate Governance, include:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in standing orders, last reviewed and approved by Council in February 2025 and scheme of delegation for officers, scheme of administration, and financial regulations.

Codes of conduct are in place for Councillors, who were trained on the code as part of their induction in May 2022 and the Officers code of conduct which is included in the scheme of Administration which define the high ethical values and standards of behaviour expected from elected members and officers to make sure that public business is conducted with fairness and integrity. Refresher training was also provided in 2023 and in March 2025 by the standards commission.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. Council Values and East Lothian Way Behaviours are understood by senior management and staff and included as integral parts of the 2022-27 Council Plan. Council values and behaviours are embedded in the PRD process and guidance has been reviewed to make it easier to use and relevant to all staff and reissued to managers.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, concluded that:

- The Council's leadership have been effective in setting out a clear vision and priorities in the Council Plan 2022-27.
- The Council's vision is aligned to the community plan priorities.
- The Council's leadership has been effective in setting clear priorities but now needs to demonstrate sustainable plans for delivering them.

In February 2024 the Council approved a reprioritisation of the Council Plan following multiple changes in risk factors and this translated into three interlinked, complementary priorities which are aligned to the Council Plan's overarching and long-term thematic objectives.

The Council seeks feedback from the public through a regular East Lothian Residents Survey and the customer feedback procedures. A Whistleblowing Policy is in place covering all Council workers and was updated and approved by Cabinet, September 2022.

## B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so which are fully documented in accordance with the legislation on all occasions. When Council and Committee meetings are held using a virtual platform, they are live-streamed to ensure public access, and recordings can be accessed from the Council's website.

Unless confidential, decisions made by Council or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users including the 2024 East Lothian Residents Survey as reported to the October 2024 Council.

The 2017-2027 East Lothian Plan clearly sets out the objectives and outcomes for the East Lothian Partnership and each member; the Council is also an active partner in the City Region deal and the education regional collaborative.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, concluded that:

- The council's vision is aligned to the community plan priorities;
- The council communicated the publication of the new Council Plan to citizens, staff and partner agencies;
- Community empowerment is a key principle in the Council Plan 2022-27;
- The Connected Communities Service has a key role in delivering the Council's community empowerment objectives, encompassing the Community Learning and Development Service, support for Local Area Partnerships, Community Councils and grant funding for community organisations. There are 6 locally based Connected Communities teams with a significant focus on taking a place-based approach;
- There are 6 Local Area Partnerships in East Lothian. These are chaired by local residents and supported by the Council via Connected Communities managers. Elected members from the relevant wards attend the partnerships but recognise the partnerships' independence. The partnerships foster good engagement and communication between local communities and the Council.

## C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council's vision, strategic objectives and priorities are set out in the 2022-2027 Council Plan and East Lothian Plan 2017-27 set out clear objectives, strategic goals and outcomes that are clearly linked to the vision and form the basis of overall strategy, other strategic plans and service plans. As part of East Lothian Council's 2023 'State of the Council' and Annual Performance Report in February 2024 the Council agreed a reprioritisation of the Council Plan in order to respond to the new challenges and the limited resources it has the Council focusing on delivering a smaller number of priorities. The Council has identified Top 50 Council Plan indicators to map out progress against the Council Plan objective, strategic goals and outcomes.



The Council's financial and capital strategies 2025-30 were approved by Council in December 2024 is based on delivering the Council Plan's outcomes on a sustainable basis within the resources that will be available however has been in the context that pressure on public finances will remain alongside a range of growing demands and pressures, which will mean some difficult choices in the years ahead in terms of developing sustainable services for East Lothian communities.

Capital and Revenue Budgets reports presented to Council in February 2025 identified the local and wider economic context within which budgets have been developed, including the factors which have contributed to the funding gap between forecast income levels and expenditure demands which taking account of planned savings and indicative council tax increases of 5% was £45.9 million to 2029/30.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, stated that:

- The council has well established financial management and reporting arrangements including a 5-year financial strategy for revenue and capital spend. It has a track record of delivering within its annual budget, but financial pressures are increasing significantly, future funding levels are uncertain, and the council needs to take more radical steps to secure sustainable service delivery. Longer term financial planning with robust scenario planning is needed to support strategic decision making.
- The council's priorities have a focus on the need to reduce inequalities and on tackling climate change.

The Council approved the ELC Transformation Strategy 2024-2029 aiming to build on ambitions and prior achievements, in recognition of the financial challenges and the Changing world in which the Council is operating that there is a need to continue to modernise how we deliver Council services.

The Council commissioned consultants to produce a new local economic strategy during 2023 and the East Lothian Local Economy Strategy 2024-2034 was approved at the April 2024 Council Meeting setting out a shared vision and a set of shared objectives, actions, and performance measures for East Lothian Council and its partners to work towards over the next ten years.

The Climate Change Strategy 2025-30, approved by Council in April 2025 updated East Lothian Council's approach to tackling climate change. Making use of the latest guidance and best practice, aligning with recent national policy developments, and fulfilling the statutory obligations relating to climate change and sustainability.

East Lothian Partnership's Poverty Plan 2024-2028 approved by Council in August 2024 focuses on 4 key objectives that focus on getting more cash in people's pockets, living in resilient communities that are ready for the future and are in line with Scottish legislative requirements.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council approved the ELC Transformation Strategy 2024-2029 is developing a set of user-friendly Portfolio Management toolkits and templates to improve consistent delivery and control of transformation projects, linked to a Stage gate control process. Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals.

Capital projects, new income charge proposals and transformation change projects are mainly accompanied by business cases which include options appraisal, outcome or benefits projection and risk assessment.

Customer feedback, user surveys, and Residents Survey are all used to inform decisions about services.

Council has undertaken budget consultation exercises to gauge public opinion on the 'hard choices' and 'trade-offs' it needs to make to balance budgets when resources are constrained and demand for service is rising.

The council has established cross party working arrangements for budget development which have been in place since 2022. All political parties are represented on the group which meets at regular intervals throughout the year. The purpose of group is to steer the development of the budget and savings proposals and to facilitate opportunities for cross-party working in relation to this.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Council Standing Orders (including the Scheme of Administration and scheme of Delegation), Officers and Councillors Codes of Conduct set out the roles and responsibilities of elected members and senior officers.

The Schemes of Administration and Delegation clearly specify the remits of Council, Cabinet and Committees and specifies what is delegated to officers.

The Council has placed a strong emphasis on leadership development. The Council Management Team and Service managers have undertaken a comprehensive leadership development programme. In the last year, two further programmes targeted at Aspiring Senior Leaders and Aspiring Service Managers have been rolled out, aimed at strengthening leadership capacity and building capacity in succession planning.

The Council has a rigorous annual Personal Review and Development (PRD) process in place whereby all staff should have a PRD session which takes account of training or development needs. Changes to the templates during 2024 are fully supported by the CMT and reported to improved flexibility of recording PRD's.

The Elected Members Induction Programme took place following elections in May 2022 with a follow up training programme in 2023 and is supplemented by training events, seminars and briefings on a monthly basis. Members appointed to certain committees have also received specific training related to the responsibilities on these committees.

The 2023-2027 Council Workforce Plan has 32 actions based around three themes:

- Sustain a skilled, flexible, resilient and motivated workforce.
- Support and initiate transformational change, encouraging and supporting staff to work in a more agile way.
- Build and sustain leadership and management capacity.

The Audit Scotland best Value thematic work in East Lothian Council 2023-24 finalised in December 2024 highlighted that; 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. The council must continue to explore opportunities to develop long-term sustainable solutions to meet the challenges it faces. The report contained 8 recommendations, and they are all being taken forward for implementation.

F. Managing risks and performance through robust internal control & strong public financial management

Corporate and Service Risk Registers – reviewed and revised regularly by Corporate and Service risk groups and CMT before being presented to Council and/or Audit & Governance Committee. The Council risk strategy is reviewed every four years and risks are reviewed regularly by the Corporate Risk Management Group leading to strong risk management within the Council.

The Council has overall responsibility for directing and controlling the organisation. The Cabinet is a principal decision-making committee of the Council. The Performance Review and Scrutiny Committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact.

The Council adopted a new set of Top 50 Council Plan Indicators based on the 2022-2027 Council Plan. These are reported on to PPRC in June, PPRC also reviews a series of quarterly KPI's and regular reporting on specific areas as requested by the Committee.

The Executive Director for Resources, as the Section 95 officer, along with the Head of Finance is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations reviewed as part of the review of standing orders in February 2025, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. This remains reliant on the staff within the framework to ensure management supervision and accountability are diligently enforced. It is noted that the Council ledger system will be out of support in 2026 and requires modernisation a project is underway to implement a new system and improvements in internal control are anticipated as part of this project.

In October 2019 CIPFA issued the Financial Management Code (FM Code). The FM Code is designed on a non-statutory basis, to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out proposed standards of forward financial management for local authorities. Full compliance with the code was expected in 2021/22. The Council is able to confirm that, in all major regards, it conforms to the FM Code. The Head of Finance brought a full report on the implementation of the financial management code to the Audit & Governance Committee in September 2023, and Internal Audit Review provided reasonable assurance on implementation of the CIPFA FM code in June 2024. As part of the implementation of the recommendations from this review the Cabinet formally approved the principles of the CIPFA FM code in January 2025.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, stated that:

- The council has well established financial management and reporting arrangements including a 5-year financial strategy for revenue and capital spend. It has a track record of delivering within its annual budget, but financial pressures are increasing significantly, future funding levels are uncertain, and the council needs to take more radical steps to secure sustainable service delivery. Longer term financial planning with robust scenario planning is needed to support strategic decision making.

The Council has an approved strategy to tackle fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively, in all major regards it complies with the 2014 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. It is however recognised that strategies and policies in relation to Fraud theft, bribery and corruption require to be reviewed and update during the 2025/26 financial year.

On the 10 January 2025 the Accounts Commission wrote in a letter to all Chief Executives of Scottish Local Authorities, copying in Directors of Finance and external auditors highlighting the report of the 12 December 2024 relating to a significant council tax fraud perpetrated against Aberdeen City Council. Highlighting the Chief Executives responsibility to ensure arrangements are in place to help assure elected members and the public that risks are being identified and managed effectively. The letter encouraged all Chief Executives to use the annual governance statement as an opportunity to take stock of the key controls and processes and whether self-assessment procedures are sufficient to provide elected members and officers with the required assurances. The East Lothian Council Chief Executive had already commissioned a counter fraud assurance report completed in September 2024 in relation to Council Tax refunds that provided assurance that the Council tax system enforces segregation of duties, and has appropriate systems documentation, recommendations for improved monitoring have been implemented and testing identified that no substantial issues could be identified.

Revenue and Capital Budget Monitoring reports are presented to the Council on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, & audit to deliver effective accountability

The independent and objective audit opinion of the Head of Internal Auditor (Service Manager – Internal Audit) is stated within the Internal Audit Annual Assurance Report 2024/25. This is based on work carried out by an in-house team, in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision. In April 2019 CIPFA issued a statement on the Role of the Head of Internal Audit (HIA). The statement articulated the core responsibilities of the HIA, with five principals defining the core activities and behaviours that belong to the role of the HIA. For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. This statement is, in all major regards, is conformed with and the Internal Audit service external quality assessment as reported to the Audit & Governance Committee in March 2024 demonstrated that the service fully conformed.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement. The Audit & Governance Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. The Audit & Governance Committee completes an Annual assessment against CIPFA Audit Committee Guidance, last completed in September 2024 although this has not been presented to Council as indicated with the guidance as best practice.

Quarterly Performance Reports were presented to the Performance, Review and Scrutiny Committee for monitoring the achievement of strategic priorities and key performance indicators.

The Annual Accounts and Report sets out the financial position in accordance with relevant accounting regulations.

## Review of Adequacy and Effectiveness of the Council's Governance Framework

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out. The output is this Annual Governance Statement which is presented to the Audit & Governance Committee.

The review was further informed by assurances from: assessment of compliance against the Local Code; written assurance statements from the Executive Directors and Heads of Service; Internal Audit annual opinion, findings and recommendations; External Audit, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

The Council however recognises improvements are required in the areas presented below.

### Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where improvement in governance arrangements can continue to be made to enhance compliance with the CIPFA/SOLACE Good Governance in Local Government Framework (2016) and to demonstrate Best Value:

- 1) There are weaknesses which have previously been identified by both Internal and External audit and the finance team within the control environment for purchasing and payment authorisation that are being resolved through the implementation of the new financial system. The Council will continue to operate with its current manual and multiple systems during 2025/26 whilst the new financial system is implemented in a number of phases. It is further noted that there has been an upward trend in use of single source procurement and VEAT notices the procurement teams will continue to work with services to examine if resourcing issues are impacting on appropriate procurement rigour throughout 2025/26. It is also noted that a budget monitoring framework and procedures along with associated training and procedures have been introduced during 2024/25 to improve these processes.
- 2) The Council continues to operate within a very challenging financial environment with further challenges and savings to be achieved in the coming years. This may mean a reduction in service delivery in some areas. The Capital and Revenue Budgets paper presented to Council in February 2025 identified the local and wider economic context within which budgets have been developed, including the factors which have contributed to the funding gap between forecast income levels and expenditure demands which taking account of planned savings and indicative council tax increases of 5% was £45.9 million to 2029/30. The council continues to progress transformation workstreams to enable the significant programme of change that will be required to meet financial and operational challenges in the context of substantial growth pressures. The lack of clarity on future funding settlements creates additional challenges to providing medium term certainty around funding to public and third sector partners. Work has been undertaken on strengthening our approach to the awarding of contracts and grants, including to the 3rd sector (one Council Partnership Fund). The National context remains uncertain and matters such as the ongoing debate around teacher numbers and learning hours. There remains uncertainty around the numbers of children who may require either an external residential placement or secure care. It is impossible to predict

numbers and despite significant work undertaken around controls in this area in recent years, this may place additional strain on Council resources.

- 3) The Homeless Persons (Unsuitable Accommodation) (Scotland) Order came into effect on 1 October 2021. Whilst the Council are working to transform the service during the year, with a significant reduction evident in the number of breaches from a peak of 152 at Q2 2023/24, a total of 75 breaches recorded at 31 March 2025. The Housing Regulator met with the Head of Housing and the Service Manager at the end of January 2025 and although noting all of the efforts and transformation across the service, continues to highlight the heightened risk of systemic failure in the delivery of services to people experiencing homelessness in East Lothian. The Scottish Housing Regulator will continue to engage with the Council and is asking for the following, during 2025/26:
  - continue best efforts to meet the Council's statutory duty to provide temporary accommodation when it should and to comply with the Unsuitable Accommodation Order; and
  - keep the Scottish Housing Regulator updated on our capacity to meet our statutory duty to provide temporary accommodation when it should and to comply with the Unsuitable Accommodation Order.
- 4) Due to budget restrictions, there are risks that backlog maintenance on Council assets, including building roads and coastal defences (other than Musselburgh Flood Prevention Project), is not being completed and deteriorating the value of these assets. Further work will continue to be completed in accordance with the Property Asset Strategy and Management Plan 2024-28, approved by Council in May 2024 and the Capital strategy 2025-30 approved by Council in 2025-30 to manage the Councils assets within the budgets available in 2025/26.
- 5) A review of the Council Counter Fraud Bribery and Corruption procedures and risks is required during 2025/26 as a result of the implementation of UK government guidance on the Crime of Failure to Prevent Fraud. The Council is putting in place an officer Integrity Group who will oversee the implementation of these procedures and appropriate risk assessments.
- 6) The Cybersecurity risks to the Council have recently been reassessed and the risk assessment increased in severity. Reviews are being undertaken to ensure that the controls in place provide an appropriate framework for the current risk.
- 7) Internal Audit highlighted the following key areas for improvement as a part of the 2024/25 Internal audit work:
  - Sickness absence levels temporarily declined in local authorities during the Covid-19 pandemic, however absence levels have risen sharply in the past three financial years reaching an all-time average high of 13.9 days in 2023/24 for all Scottish local government employees (an increase of 4.6% from 2022/23) and an average of 7.6 days for teachers (an increase of 12.5%). Whilst East Lothian Council's levels remain lower than the Scottish Averages, they were recorded at an all-time high of an average number of sickness absence days per local government employee for 2023/24 being 13.73 days (10.9 days in 2022/23) for local government employees in 2023/24 and 6.66 days (5.8 days in 2022/23) for teachers in 2023/24. Internal Audit review has recommended greater focus by Service Management on retaining self-certification documentation and further development of Strategic HR panels to focus on improvements at an individual service level focussing on staff health and wellbeing.

- Whilst noting that Internal controls are generally reliable for housing voids as a result of significant improvements made since October 2024 that the undertaking of pre-termination visits aligned with some further control improvements, including improved review of reporting on average turnaround times could further improve the housing void process.
- In relation to Capital Expenditure Contracts there was a lack of clear audit trails and a consistent approach for the authorisation of contract variations. A monthly cost reporting tool was being reintroduced to ensure that this was in place.

## Prior Year Improvement Areas of Governance Implemented

The 2023/24 Annual Governance Statement for East Lothian Council contained the following areas of improvement all of which have been taken forward:

- 1) Continue to work to close the identified residual budget gap for the next five years and continue to develop longer term financial planning whilst continuing to maintain sustainable services this has been progressed during 2024/25 and the budget gap further closed when possible but further work continues to be required as highlighted above.
- 2) Continue to monitor improvement in the participation rates in the annual Personal Review and Development (PRD) process and take action to improve participation if required. The CMT continues to monitor this and take appropriate action including revised PRD formats for multiple situations being utilised in 2024/25.
- 3) The Governance and Control processes covering the legal, financial and operational processes between the Council and the Brunton Theatre Trust had substantial gaps that required to be resolved. An SLA is now in place between the Council and the Brunton Theatre Trust and leases have been reviewed, further work is ongoing in response to the ongoing changes in relationship.
- 4) The Council required to improve its control processes in relation to Agency Workers in particular to ensure that a control list of agency workers is maintained that an authorisation process is in place for agency workers that is utilised across the council consistently, and that a process for Agency Worker review should be in place to ensure adequate challenge of ongoing Agency contracts. Processes have been amended and regular information is now requested by HR teams on agency workers.

## Conclusion and Opinion on Assurance

The conclusion from the review activity completed and subject to the successful progression of the areas for improvement highlighted above, our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of East Lothian Council's systems of governance, risk management and internal control. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Governance is operating effectively, and that the Council complies with the CIPFA/SOLACE Good Governance in Local Government Framework (2016) for the year ended 31 March 2025 in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

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Sarah Fortune (CPFA)

Executive Director of Resources (CFO)

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Laurence Rockey

Chief Executive

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Norman Hampshire

Leader of the Council

DRAFT



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 June 2025

**BY:** Service Manager – Internal Audit

**SUBJECT:** Counter Fraud Annual Report

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6

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the Counter Fraud and Whistleblowing, prevention detection and investigation work undertaken during 2024/25.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the report.

## **3 BACKGROUND**

- 3.1 The Audit & Governance Committee approved the Shared Service arrangement with Midlothian Council in October 2022. As part of the overall agreement the funds being received from Midlothian Council were utilised to recruit a Counter Fraud Officer. This Officer was then recruited on a two-year contract and started work in May 2023. Following the evaluation completed in the summer of 2024 the Counter Fraud Officer has now been made a permanent post in the Internal Audit & Counter Fraud Team. This report provides an update on the work completed by the Counter Fraud Officer who is supported by the Internal Audit team and many other Services within the Council, including particularly: Revenues, People & Council Support, and Housing.
- 3.2 The work of the Counter Fraud Officer has 4 key areas of focus, which are the following:
- National Fraud Initiative Investigation (NFI) work;
  - Fraud Investigations undertaken following reporting from service teams either through counter fraud reporting processes or whistleblowing;
  - Pro active fraud detection processes and further data matching analysis; and
  - Preventative processes with communication of Council counter fraud processes, procedures, risk management and reporting best practice.
- 3.3 The NFI is a UK wide data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments. East Lothian Council, along with

other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland. Some initial work on the 2024/25 exercise whilst some of the savings accruing in 2024/25 were as a result of the 2022/23 matching exercise.

3.3 As part of the 2024/25 NFI exercise, the Council submitted data for the following areas:

- Housing (Current Tenants and Waiting Lists)
- Payroll
- Residents Parking Permits
- Council Tax and Electoral Register
- Creditors (Standing Data and Payment History)
- Taxi Driver Licences
- Council Tax Reduction Scheme
- Non-Domestic Rates Small Business Bonus Scheme

In addition, Benefits details are submitted by the DWP, HMRC are due to provide various data sources, with Blue Badge details submitted directly by the Blue Badge Digital Service.

3.6 Appendix 1 provides a summary of the Counter fraud outcomes achieved that includes the NFI outcomes that have been delivered. For the 2024/25 exercise matches only initially became available in December 2024 and all matching exercises are not yet complete, however of the Core 76 reports received to date 34 have been fully investigated with 558 of the 3,591 matches completed and 650 having been reviewed. From these core matches to date the following areas of error were identified:

- 54 individuals were removed from the Housing Waiting list with NFI estimated savings of £231,282;
- 90 individuals had Blue Badges removed with and NFI estimated saving of £54,786.

3.7 In addition to these matches the NFI process also provides Council tax single person discount matches with the electoral register, identifying when data suggests more than one individual lives in a property. A process has been developed by the Counter Fraud Officer to review the households identified against existing Council information and then write to households for further details when required. Following either receipt of further information or non-response to reminder communication a request is made for the Revenues team to remove single person discount or make further amendments based on current household situation. In addition, Council officers submit further information which allows for further recovery of Council tax. A total of £73,903.56 has been added to Council tax bills within the year and a further £56,878.50 is expected to be increased income in future years as a result of the work done against Council Tax SPD matches.

3.8 In addition to the NFI developed matches within the Council the Counter Fraud officer has completed Counter fraud training with housing teams and developed processes to review potential further fraud issues with 1 Council Property was recovered following investigation of potentially abandoned recoveries using information obtained by the Counter Fraud Officer, the NFI estimates this as a saving to the Council of £78,300. In addition 1 homeless application was withdrawn prior to issue of a temporary

accommodation and 2 withdrawals from temporary accommodation, resulting in an estimated saving of £28,283 based on NFI estimates. Further investigations are ongoing in housing aimed at ensuring that social housing is allocated to appropriate households. Overall, 38 housing investigations have been undertaken in the 2024/25 year.

- 3.9 In addition, the Counter Fraud Officer and other Internal Audit staff have been involved in 7 whistleblowing investigations. Three of these investigations remain ongoing and reports are provided when appropriate improvements are required by management.
- 3.10 Within the last year the counter fraud officer has investigated in excess of 1000 cases and provided estimated savings of £449,530 and the Council has or is actively recovering £73,904 of income/wrongly paid expenditure and has brought back into use one Council property.
- 3.11 In conclusion the NFI exercise remains a useful and appropriate way of detecting fraud. Providing a capability to detect and recover underpaid income and overpaid expenditure. In addition, further work is planned within 2025/26 to complete a Council wide risk assessment of procedures in place as a result of the new Crime of Failure to Prevent Fraud applicable to the Council from September 2025. The Counter Fraud Officer undertook training in March to May 2025 on fraud risk assessment to prepare for this work.

#### **4 INTEGRATED IMPACT ASSESSMENT**

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

#### **5 RESOURCE IMPLICATIONS**

- 5.1 Financial - None
- 5.2 Personnel - None
- 5.3 Other – None

#### **6 BACKGROUND PAPERS**

- 6.1 None

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<b>DATE</b>	9 June 2025

## Appendix 1 Counter Fraud Savings 2024/25

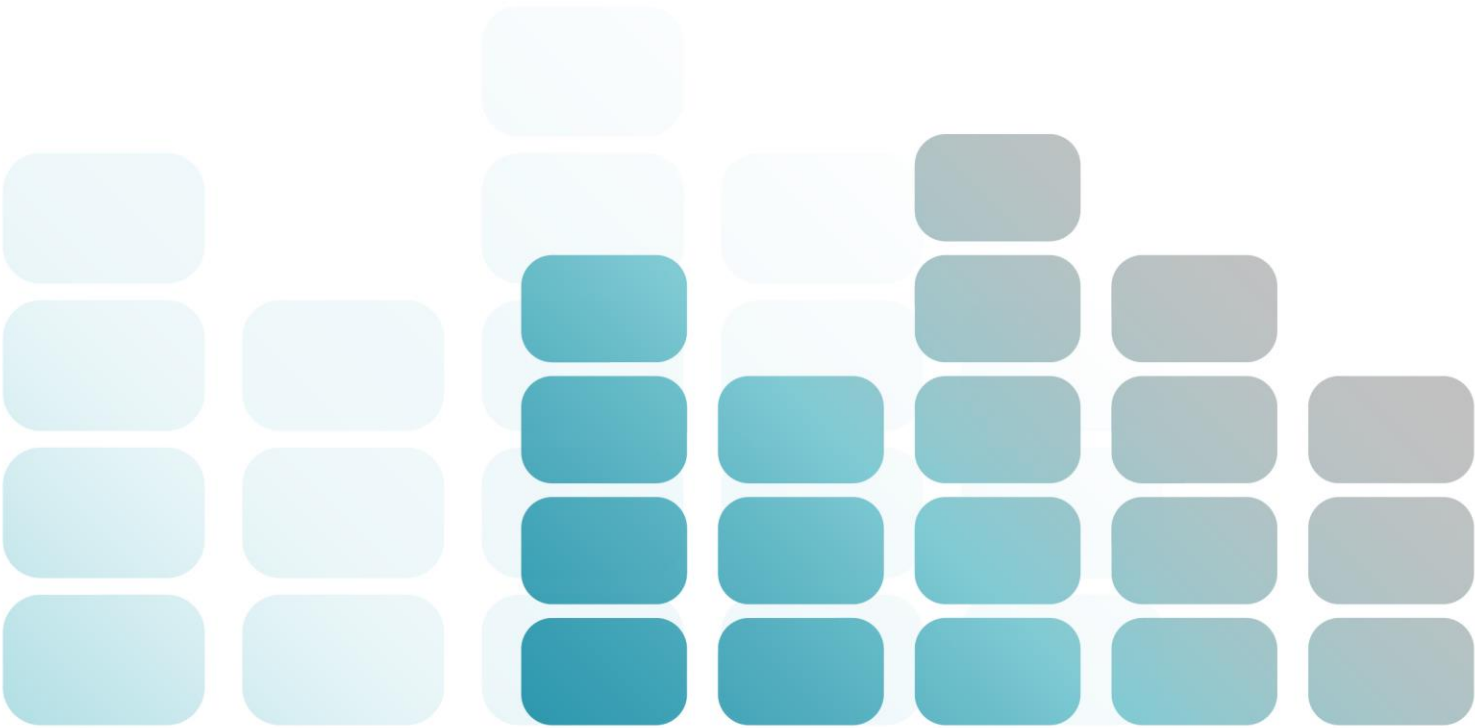
Saving Type	Total Estimated future Savings *	Recovering	TOTAL
NFI - Blue Badge Parking Permit to DWP Deceased/and movement out with area	£54,786.00		£54,786.00
NFI - Waiting List to DWP Deceased/Housing Benefit claimants	£231,282.00		£231,282.00
NFI Council Tax Single Person Discount Exercise (2022-23 exercise mainly)	£56,878.50	£52,440.96	£109,319.46
Council Service Team Reported Fraud (Single Person Discount services notified)		£21,462.60	£21,462.60
Reported Tenancy Fraud (Tenancy Abandonment - Property Reclaimed)	£78,300.00		£78,300.00
Temporary accommodation Recoveries (three properties)	£28,283.00		
	<b>£449,529.50</b>	<b>£73,903.56</b>	<b>£523,433.06</b>

\*Recovery value based on NFI Outcome Calculations.

# East Lothian Council

Annual Audit Plan 2024/25 DRAFT

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## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of East Lothian Council's annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. John Boyd, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of East Lothian Council for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. John Boyd and the audit team are independent of East Lothian Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of East Lothian Council to communicate.

# Audit scope and responsibilities

## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on East Lothian Council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the East Lothian Council arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, the Whole of Government Accounts return, and summary financial statements.
- A review of East Lothian Council arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of East Lothian Council and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information



reported within the annual accounts, and concluding on East Lothian Council arrangements in place for the wider scope areas.

### **East Lothian Council responsibilities**

8. East Lothian Council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

# Audit of the annual accounts

## Introduction

9. The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

12. The materiality levels determined for the audit of East Lothian Council and its group are outlined in [Exhibit 1](#).

### Exhibit 1 2024/25 Materiality levels for East Lothian Council and its group

Materiality	Audited body	Group
<b>Materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of East Lothian Council’s operations, the benchmark used to determine materiality is gross expenditure based on the 2023/24 financial statements presented to Audit & Governance in December 2024. Materiality has been set at 2 per cent of the benchmark. This will be revisited on receipt of the unaudited statements.	£9.3 million	£9.35 million

Materiality	Audited body	Group
<b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£5.9 million	£6.0 million
<b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.	£460,000	£465,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** The risk assessment process draws on the audit team's cumulative knowledge of East Lothian Council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**14.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

**15.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to East Lothian Council and those charged with governance, where relevant.

**Exhibit 2****Significant risks of material misstatement to the financial statements**

Significant Risk of material misstatement	Planned audit response
<p><b>Fraud caused by management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are assessed as higher risk.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> </ul>
<p><b>Valuation of property, plant and equipment</b></p> <p>East Lothian Council held £1,288 million of property, plant, and equipment (PPE) at 31 March 2024, of which over £1,100 million was land and building assets.</p> <p>East Lothian Council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over the valuation process.</li> <li>• Review the information provided to the valuer and assess this for completeness and accuracy.</li> <li>• Evaluate the competence, capabilities, and objectivity of the valuer.</li> <li>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required.</li> <li>• Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.</li> </ul>

Significant Risk of material misstatement	Planned audit response
<p><b>Estimation of the pension liability</b></p> <p>East Lothian Council had a pension liability of £11.8 million at 31 March 2024.</p> <p>East Lothian Council is a member of Lothian Local Government Pension Scheme (LGPS) which is a defined benefit pension scheme. Lothian LGPS is subject to formal valuation every three years, and this sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal valuation was carried out at 31 March 2023.</p> <p>An estimation of East Lothian Council share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by Hymans Robertson LLP. There is a significant degree of subjectivity in the estimation of the pension liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over the pension liability estimation process.</li> <li>• Review the information provided to the actuary and assess this for completeness and accuracy.</li> <li>• Evaluate the competence, capabilities, and objectivity of the actuary.</li> <li>• Obtain an understanding of the management's involvement in the estimation process to assess if appropriate oversight has occurred.</li> <li>• Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and challenge these where required.</li> <li>• Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required.</li> </ul>

Significant Risk of material misstatement	Planned audit response
<p><b>Risk of fraud in the completeness of expenditure</b></p> <p>In December 2024, the Council's Financial Review 2024/25 forecast that before applying the planned use of reserves there is a projected 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. Taking the above into account, the unplanned overspend is currently forecast to be £3.7 million for 2024/25.</p> <p>Management have implemented an action plan with the aim of reducing the level of overspend faced but there remains a significant risk that East Lothian Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves. This creates an increased risk of material misstatement in the accounts. Our risk is focused on those expenditure streams where there is greatest opportunity for manipulation including non-pay expenditure.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over expenditure.</li> <li>• Undertake substantive audit testing at a significant risk level on non-pay expenditure transactions recorded in period 1 and 2 of 2025/26 to confirm costs have been recognised in the appropriate period.</li> <li>• Review expenditure accruals for indication of understatement.</li> </ul>

**Source: Audit Scotland**

## Key audit matters

**16.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**17.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.

- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**18.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

## Group audit

**19.** East Lothian Council is part of a group and prepares group financial statements. The group is made up of ten components, including East Lothian Council which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

### Exhibit 3

#### Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
East Lothian Council	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
East Lothian Land Ltd	Consolidated on a line-by-line basis	No	No	Greaves West & Ayre
East Lothian Mid-Market Homes LLP	Consolidated on a line-by-line basis	No	No	Whitelaw Wells
East Lothian Council Trust Funds	Consolidated on a line-by-line basis	No	No	Audited by Audit Scotland as part of East Lothian Council annual accounts

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
East Lothian Council Common Good	Consolidated on a line-by-line basis	No	Yes	Audited by Audit Scotland as part of East Lothian Council annual accounts
East Lothian Integration Joint Board	Accounted for on equity basis	No	No	Audit Scotland
Edinburgh Innovation Park Joint Venture	Accounted for on equity basis	No	No	Chiene & Tait
East Lothian Investments	Accounted for on equity basis	No	No	Greaves West & Ayre
Enjoy East Lothian Ltd	Accounted for on equity basis	No	No	Azets
Brunton Theatre Trust	Accounted for on equity basis	No	No	Whitelaw Wells
Lothian Valuation Joint Board	Accounted for on equity basis	No	No	Audit Scotland

**Source: Audit Scotland**

**20.** Where audit procedures are required on a component's financial statements, and the component auditor is different to East Lothian Council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.



# Wider scope and Best Value

## Introduction

**21.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on East Lothian Council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering East Lothian Council's medium - to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering East Lothian Council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

**22.** A conclusion on the effectiveness and appropriateness of arrangements East Lothian Council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

## Best Value

**23.** Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors

are required to take a risk-based approach to assessing and reporting on whether East Lothian Council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

**24.** The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on East Lothian Council. The thematic review for 2024/25 is on the subject of service transformation and involves considering how East Lothian Council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report, where required.

**25.** At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on East Lothian Council performance in meeting its Best Value duties. The second year of this programme runs from October 2024 to August 2025. East Lothian Council's Controller of Audit report is due to be presented to the Accounts Commission in June 2025. As part of our 2024/25 audit we will follow up on the progress East Lothian Council has made in implementing any Controller of Audit's findings made and Accounts Commission recommendations.

**26.** Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the characteristics. In addition, auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this will be carried out during the 2024/25 audit.

## **Significant wider scope and Best Value risks**

**27.** The risk assessment process has identified significant risks in the wider scope areas and Best Value as outlined in Exhibit 4, and this includes the planned audit procedures in response to the risks.

## Exhibit 4

### Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p><b>Financial sustainability</b></p> <p>East Lothian Council continues to operate in an increasingly complex and challenging environment, aiming to provide the best possible service within the resources available.</p> <p>Although a xx position of £xx million is projected for 2024/25, the council has identified a savings requirement of £78.212 million for the next five years to 2029/30.</p> <p>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.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Review of the council's annual budget setting arrangements.</li> <li>• Review and assessment of budget monitoring arrangements.</li> <li>• Review of the council's medium to longer term financial planning including how the council aligns savings plans and transformation activity with strategic priorities.</li> <li>• On-going review of the council's financial position and delivery of planned savings.</li> </ul>

**Source: Audit Scotland**

# Reporting arrangements, timetable and audit fee

## Audit outputs

**28.** The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to East Lothian Council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to East Lothian Council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

**29.** The matters to be reported in the outputs will be discussed with East Lothian Council for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**30.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2025 for local government bodies.

**31.** The audit team will be unable to achieve the target date of 30 September 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 30 November 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

## Audit timetable

**32.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will

be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with East Lothian Council and reported to those charged with governance, where required.

## Exhibit 5

### 2024/25 audit timetable

Audit activity	East Lothian Council target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		31 March 2025	TBC
<b>Annual accounts:</b>			
<ul style="list-style-type: none"> <li>Consideration of unaudited Choose an item by those charged with governance</li> </ul>	17 June 2025		17 June 2025
<ul style="list-style-type: none"> <li>Submission of unaudited annual accounts and all working papers to audit team</li> </ul>	30 June 2025		
<ul style="list-style-type: none"> <li>Latest date for audit clearance meeting</li> </ul>	31 October 2025	31 October 2025	
<ul style="list-style-type: none"> <li>Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report</li> </ul>		3 November 2025	20 November 2025
<ul style="list-style-type: none"> <li>Agreement of audited and unsigned annual accounts</li> </ul>	3 November 2025	3 November 2025	
<ul style="list-style-type: none"> <li>Approval by those charged with governance and signing of audited annual accounts</li> </ul>	20 November 2025		20 November 2025
<ul style="list-style-type: none"> <li>Signing of Independent Auditor's Report and issue of Annual Audit Report</li> </ul>		20 November 2025	
Issue of Best Value Management Report		25 April 2025	TBC
Certification of Non-Domestic Rates Return		19 December 2025	
Certification of Housing Benefit Subsidy Claim		19 December 2025	

Audit activity	East Lothian Council target date	Audit team target date	Relevant committee date
Certification of Whole of Government Accounts		19 December 2025	

**Source: Audit Scotland**

## Audit fee

**33.** East Lothian Council audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is set out in [Exhibit 6](#).

**34.** In setting the audit fee, it is assumed that East Lothian Council has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

**35.** In 2023/24 additional external audit work was required to obtain assurances on the valuation of property, plant and equipment. As detailed in exhibit 2 above, there is a significant risk of material misstatement within the 2024/25 financial statements. As such, due to the additional audit work that will be required we have agreed with Officers an uplift in the External auditor remuneration baseline of £10,000 (4 per cent) for 2024/25.

## Exhibit 6

### Audit fee (including VAT)

Fee component <sup>1</sup>	Fee (£)
External auditor remuneration	246,840
Additional external audit fee	10,000
Pooled costs, such as travel and subsistence costs	6,200
Contribution to audit support costs, including technical guidance and support to auditors	

<sup>1</sup> Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

Fee component <sup>1</sup>	Fee (£)
Contribution to the performance audit programme	60,760
Adjustment for average audit price increase	(520)
<b>Total 2024/25 fee</b>	<b>313,820</b>

**Source: Audit Scotland**

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# Other matters

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## Internal audit

**36.** East Lothian Council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

**37.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

**38.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**39.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.



**40.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**41.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**42.** Audit Scotland may periodically seek the views of East Lothian Council on the quality of audit services provided. The audit team would also welcome feedback at any time.

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# East Lothian Council

Annual Audit Plan 2024/25 DRAFT DRAFT

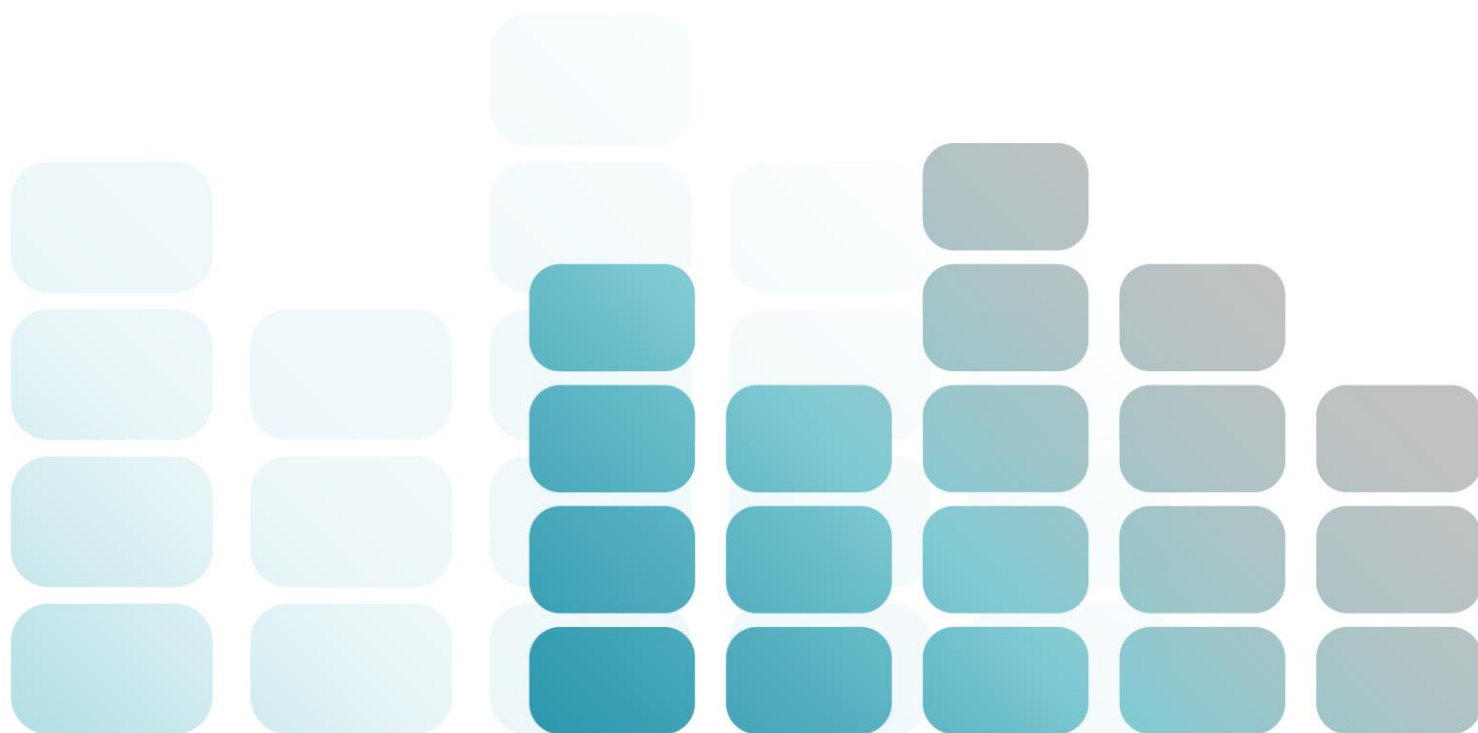


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# Dr Bruce Fund (SC019149)

Annual Audit Plan 2024/25 DRAFT

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 AUDIT SCOTLAND

Prepared for the Dr Bruce Fund  
March 2025

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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of the Dr Bruce Fund annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. Mark Ferris, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the Dr Bruce Fund for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. Mark Ferris and the audit team are independent of the Dr Bruce Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the Dr Bruce Fund to communicate.

# Audit scope and responsibilities

## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts and the Trustees Report.
- Reporting on the Dr Bruce Fund arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of the Dr Bruce Fund and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the Dr Bruce Fund arrangements in place for the wider scope areas.

### Dr Bruce Fund responsibilities

**8.** The Dr Bruce Fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.

- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

# Audit of the annual accounts

## Introduction

**9.** The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

**10.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**11.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**12.** The materiality levels determined for the audit of the Dr Bruce Fund are outlined in [Exhibit 1](#).

## Exhibit 1

### 2024/25 Materiality levels for the Dr Bruce Fund

Materiality	Audited body
<b>Materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of the Dr Bruce Fund's operations, the benchmark used to determine materiality is net assets based on the audited 2023/24 financial statements. Materiality has been set at 2 per cent of the benchmark.	£400



Materiality	Audited body
<b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75 per cent of planning materiality.	£300
<b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.	£20

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** The risk assessment process draws on the audit team's cumulative knowledge of the Dr Bruce Fund, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**14.** Based on the risk assessment process, a significant risk of material misstatement to the financial statements has been identified and is summarised in [Exhibit 2, page 8](#). This is the risk which has the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

**15.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the Dr Bruce Fund and those charged with governance, where relevant.

## Exhibit 2

### Significant risk of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p><b>Fraud caused by management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are assessed as higher risk.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> </ul>

Source: Audit Scotland

## Key audit matters

**16.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**17.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**18.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risk of material misstatement to the financial statements that has been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

# Wider scope and Best Value

## Introduction

**19.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas.

**20.** Due to the nature and size of the Dr Bruce Fund and its limited financial activity, it is considered a less complex body for the wider scope audit. Therefore, the wider scope audit does not consider all four wider scope areas and is instead limited to concluding on the financial sustainability of the Dr Bruce Fund.

**21.** Financial sustainability means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the Dr Bruce Fund's medium to longer-term planning for service delivery. The financial sustainability of the Dr Bruce Fund will be reported in the Annual Audit Report.

## Best Value

**22.** Under the Code of Audit Practice, the duty on auditors to consider the arrangements an audited body has in place to secure Best Value applies to audited bodies that fall within section 106 of the Local Government (Scotland) Act 1973, which the Dr Bruce Fund does.

**23.** Consideration of the arrangements the Dr Bruce Fund has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the Dr Bruce Fund has in place will be reported in the Annual Audit Report.

## Significant wider scope and Best Value risks

**24.** No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**25.** The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the Dr Bruce Fund and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to the Dr Bruce Fund and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope audit, and recommendations, where required.

**26.** The matters to be reported in the outputs will be discussed with the Dr Bruce Fund for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**27.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual accounts, which is 30 September 2025 for local government bodies.

**28.** The audit team will be unable to achieve the target date of 30 September 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 30 November 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

## Audit timetable

**29.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will

be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the Dr Bruce Fund and reported to those charged with governance, where required.

### Exhibit 3

#### 2024/25 audit timetable

Audit activity	Dr Bruce Fund target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		31 March 2025	TBC
<b>Annual accounts:</b>			
• Consideration of unaudited annual accounts by those charged with governance	17 June 2025		17 June 2025
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2025		
• Latest date for audit clearance meeting	31 October 2025	31 October 2025	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		3 November 2025	20 November 2025
• Agreement of audited and unsigned annual accounts	3 November 2025	3 November 2025	
• Approval by those charged with governance and signing of audited annual accounts	20 November 2025		20 November 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report		20 November 2025	

**Source: Audit Scotland**

### Audit fee

**30.** The Dr Bruce Fund audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is set out in [Exhibit 4](#).

**31.** In setting the audit fee, it is assumed that the Dr Bruce Fund has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

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**Exhibit 4**  
**Audit fee (including VAT)**

Fee component <sup>1</sup>	Fee (£)
External auditor remuneration	2,000
<b>Total 2024/25 fee</b>	<b>2,000</b>

**Source: Audit Scotland**

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<sup>1</sup> Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

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# Other matters

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## Internal audit

46. The Dr Bruce Fund is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

47. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

**32.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**33.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

**34.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**35.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**36.** Audit Scotland may periodically seek the views of the Dr Bruce Fund on the quality of audit services provided. The audit team would also welcome feedback at any time.



# Dr Bruce Fund

Annual Audit Plan 2024/25 DRAFT DRAFT



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Best Value thematic work

# East Lothian Council

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**Transformation: how councils are redesigning and delivering more efficient services to achieve planned outcomes**



Prepared by Audit Scotland  
June 2025

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## Accessibility

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# Key messages

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- 1 The Accounts Commission's [Local government in Scotland Financial bulletin 2023/24](#) notes that councils need to intensify transformation activity, progressing at scale and pace to ensure their financial sustainability.
- 2 East Lothian Council has a clear vision and plan to support the transformation of its services, which aims to deliver a portfolio of change over a five-year period and support the financial sustainability of the council. It has a defined transformation programme in place that clearly sets out what transformation activity is underway. In addition, there are several projects, led at service level, that the council consider to be transformational. The council should ensure that each of these projects meet the objectives set out within its transformation strategy.
- 3 The council faces a projected funding gap of over £17 million for 2025/26, rising to over £79 million by 2029/30. It estimates that the current portfolio of transformation projects will deliver recurring savings of £6.1 million over the five-year period to 2029/30<sup>1</sup>. While recognising that transformation is a key enabler to financial sustainability, the council's financial and transformation strategies make it clear that it is only part of the council's solution to closing its funding gap. Other measures include cost reduction through energy efficiency, investment in early intervention and prevention and developing and growing income streams. The council's collective change activity needs to be sufficiently ambitious to respond to the scale of its financial challenges.
- 4 Over half of the council's current 15 transformation projects are in the delivery stage and detailed information has been compiled for each of these. The council has allocated earmarked reserves totalling £18.5 million to support and enable transformation and in 2024/25, £1.486 million was spent from this reserve.

<sup>1</sup> [Cross-party General Services Revenue and Capital Budget Including Council Tax Proposals 2025/26 - 2029/30](#)

- 5 The council has robust governance arrangements in place for projects in its transformation programme. It has a dedicated transformation team but is experiencing staffing issues on some projects due to staff turnover and staff vacancies linked to the temporary nature of these projects. Also, there are constraints on the availability of some staff carrying out business-as-usual work to contribute to the transformation programme due to heavy workloads. This presents a significant risk to the progress of the council's transformation programme.
  - 6 The council has effective arrangements in place for reporting progress on the projects in its transformation programme to its senior leadership team and plans to enhance reporting to elected members. An overview of all significant transformation activity is not currently compiled. This creates a risk that elected members are not fully sighted on the progress of all key transformation activity across the council as a whole.
  - 7 The majority of the council's current transformation programme is council led and does not involve working with partners. The council is at an early stage of progressing opportunities to work with partners in service-led transformation activities outside its current transformation programme.
  - 8 The council has shared examples of where it is listening to its communities in relation to transformation projects. Integrated Impact Assessments (IIAs) are being carried out during the development of transformation projects where the council believe they are appropriate and there are examples of community engagement taking place in relation to these.
  - 9 The council has had a transformation programme in place since 2016. In the context of the growing financial challenges facing the council, the focus of this programme has shifted in recent years. A new framework was introduced in 2024 and is being developed which better captures, monitors and reports on the financial and non-financial benefits of transformation projects. The council is due to present its first annual progress report on transformation to full council in Autumn 2025.
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# Introduction

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**1.** Transformation is about radically changing how councils operate and deliver services to achieve planned outcomes in a financially sustainable way ([Transformation in councils](#), Accounts Commission, October 2024). The [2023 Local Government Overview \(LGO\)](#) notes that councils have never faced such a challenging situation. Service demands have increased after the Covid-19 pandemic and funding is forecast to reduce in real terms.

**2.** The Accounts Commission's [Transformation in councils](#) report recognises that, while work has been ongoing in relation to local government transformation for decades, a step change is required and the pace and scale of transformation must increase significantly. Transformation, through greater collaboration with partners, will be key for councils to deliver more sustainable service models in challenging financial climates.

**3.** This report sets out how the council is redesigning and delivering more efficient services to achieve planned outcomes.

**4.** [The Accounts Commission's Strategy \(2021-26\)](#) sets out its priorities to focus on inequalities, funding, communities and recovery. The [Code of Audit Practice](#) sets out the Best Value work required to report on these priorities.

**5.** This report covers the thematic aspect of the Best Value audit requirements. The Commission has directed auditors to report on transformation and how councils are redesigning and delivering more efficient services to achieve planned outcomes. In carrying out the work, auditors have considered the following questions:

- To what extent does the council have clear plans for transformation that link to its priorities and support long-term financial sustainability?
- To what extent do the council's programme management arrangements facilitate effective oversight of its transformation plans?
- To what extent are partners and communities involved in the development and delivery of the council's plans for transformation?

- To what extent has the council considered the impact of its transformation activity, including on vulnerable or protected groups?

**6.** An improvement action plan is included at Appendix 1 of this report. This sets out audit recommendations in key areas, and the council's planned response including responsible officers and dates for implementation.

**7.** The coverage of the work is in line with the expectations for council's arrangements for the seven Best Value themes in the [Local Government in Scotland Act 2003, Best Value Statutory Guidance 2020](#) and we have considered the Accounts Commission's transformation principles set out in [Transformation in councils \(Exhibit 1\)](#).



## Exhibit 1

### Transformation principles

Transformation is about radically changing how councils operate and deliver services to achieve planned outcomes in a financially sustainable way.

Principle	
<b>Vision</b>	<p>Have a clear vision that sets out the intended end state of any transformation activity, focused on:</p> <ul style="list-style-type: none"> <li>• delivering large-scale recurring savings or generating income for the council, contributing to its longer-term financial sustainability</li> <li>• improving outcomes for citizens in line with council priorities</li> <li>• taking a whole-system approach to see and realise opportunities both within councils and more widely</li> <li>• meeting the needs of the people who use services and reduce inequalities</li> <li>• focusing on preventative activity, where applicable, to reduce the demand for services and to make them sustainable in the longer term.</li> </ul>
<b>Planning</b>	<ul style="list-style-type: none"> <li>• Be clear on the scale of the change required and ensure transformation plans are sufficiently ambitious to credibly respond to the scale of the challenge.</li> <li>• Commit staff with appropriate skills, time, and resources to ensure transformation occurs at the scale and pace required and that there is enough capacity for the changes to be embedded.</li> <li>• Be clear about the timescales, costs, outcomes, and anticipated impacts of transformation projects.</li> <li>• Show urgency and progress projects at pace without compromising appropriate governance on projects.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Have a clear process for monitoring, evaluating, and reporting progress.</li> <li>• Put in place effective governance and escalation processes so that the transformation activities are well managed in their own right, but also able to be given priority alongside other business-as-usual activities.</li> </ul>
<b>Collaboration</b>	<ul style="list-style-type: none"> <li>• Develop better working relationships with communities and/or partners to achieve a sustainable model of service delivery.</li> <li>• Actively consider the opportunities offered by regional or national sectoral collaboration, or by integrating services locally with partners, or by supporting individuals and communities to achieve desired outcomes in place of an existing service.</li> <li>• Learn from good practice across Scotland and beyond.</li> </ul>
<b>Innovation</b>	<ul style="list-style-type: none"> <li>• Implement new ways of thinking, including innovation, creativity and a desire, willingness, and action to change and do things in new and different ways that achieve the outcomes needed.</li> <li>• Embed the right culture and behaviours to manage change and help maximise the contribution of all the team.</li> </ul>

Source: Accounts Commission, [Transformation in councils](#), October 2024

# Transformation planning

8. The council needs to ensure it can deliver sustainable services now and in the future, and difficult decisions will need to be made to achieve this. The Accounts Commission's [Local government budgets 2024/25](#) briefing noted that councils' cumulative funding gap between 2025/26 and 2026/27 is £780 million. This means that, cumulatively, councils need to identify and deliver recurring measures such as savings or increased income of five per cent of their overall revenue budget to be financially sustainable in the short term.

## Findings and evidence relating to the council's transformation planning

Findings	Evidence
<p><b>East Lothian Council has a clear vision and plan to support the transformation of its services. It has a defined transformation programme in place that clearly sets out what transformation activity is underway.</b></p> <p><b>In addition, there are a number of projects, led at a service level, that the council consider to be transformational. The council should ensure that each of these projects meet the objectives set out within its transformation strategy.</b></p>	<ul style="list-style-type: none"> <li>• The council approved its Transformation Strategy (2024-2029) in August 2024. The plan sets out a clear vision to "deliver a portfolio of change over a five-year period (aligned to the Financial Strategy 2024-2029) which will support the financial sustainability of the council aligned to Council Plan / Corporate Priorities."</li> <li>• East Lothian Council has agreed three new short-term priorities, since the publication of its Council Plan in 2022, to more accurately reflect the current financial challenges it faces. Transformation features prominently in the first of these new priorities, which aims to "ensure the financial sustainability of the council through the delivery of approved savings and transforming the way we deliver services."</li> <li>• The Transformation Fund and the projects it supports are regarded as critical enablers to support long-term financial sustainability within the council. Commitment to investing in transformation is shown in the council's latest Financial Strategy (2025-2030), where it has committed a movement of over £12 million (between March 2023 and March 2024), earmarking £18.5 million in its reserves for the Transformation Fund.</li> <li>• The council plans to use this fund to progress and accelerate key transformation projects</li> </ul>

Findings	Evidence
	<p>including the asset review, parking strategy and new corporate systems during 2024/25.</p> <ul style="list-style-type: none"> <li>• The council has committed to reviewing and updating its Transformation Strategy (2024-2029) on an annual basis to ensure continued alignment with supporting the delivery of its priorities and outcomes.</li> <li>• Officers have told the audit team about other significant transformation projects (see Part 3) that are being taken forward by services that are not included in the current transformation programme.</li> <li>• The council must ensure that each of these projects meet the objectives set out within its transformation strategy and that officers and members are provided with a clear overview of all transformation activity across the council.</li> </ul>
<p><b>The council faces a projected funding gap of over £17 million for 2025/26, rising to over £79 million by 2029/30. It estimates that the current portfolio of transformation projects will deliver recurring savings of £6.1 million over the five-year period to 2029/30.</b></p> <p><b>While recognising that transformation is a key enabler to financial sustainability, the council's financial and transformation strategies make it clear that it is only part of the council's solution to closing its funding gap. Other measures include cost reduction through energy efficiency, investment in early intervention and</b></p>	<ul style="list-style-type: none"> <li>• East Lothian Council faces a projected funding gap of over £17million for 2025/26 (before applying budget efficiencies, increases to the council tax charge or use of reserves). This figure is projected to rise to over £79 million over the next five years to 2029/30<sup>2</sup>.</li> <li>• To date, the council has identified estimated recurring annual savings of £6.1 million from its current portfolio of transformation projects over the five years to 2029/30. The council expects more savings to be made as projects progress and benefits are captured.</li> <li>• The council has emphasised that making savings is not the sole objective of its transformation programme and that it will not be possible to deliver the financial savings required to close the budget gaps it faces through transformation alone.</li> <li>• The council's Financial Strategy (2025-2030) sets out the measures it will take in addition to transformation to achieve financial sustainability, including cost reduction through energy efficiency, investment in early intervention and prevention and developing and growing its income streams.</li> </ul>

Findings	Evidence
<p>prevention and developing and growing its income streams. The council's collective change activity needs to be sufficiently ambitious to respond to the scale of its financial challenges.</p>	<ul style="list-style-type: none"> <li>• After current planned savings and the additional measures set out above have been taken into account, there remains a funding gap of over £45.9 million over the next five years.</li> </ul>
<p>Over half of the council's current 15 transformation projects are in the delivery stage and detailed information has been compiled for each of these. The council has allocated earmarked reserves totalling £18.5 million to support and enable transformation and in 2024/25, £1.486 million was spent from this reserve.</p>	<ul style="list-style-type: none"> <li>• There are currently 15 projects within the council's transformation portfolio which are grouped into the following categories: energy transformation; income generation; asset review; systems; processes as well as data and governance. The March 2025 update to the Transformation Portfolio Board shows that eight projects are in the delivery stage.</li> <li>• Total project costs and spend to date for individual projects, using a methodology that is in development, are reported at Transformation Portfolio Board meetings.</li> <li>• The council has allocated earmarked reserves totalling £18.5 million to support and enable transformation and in 2024/25, £1.486 million was spent from this reserve. The highest project costs incurred to date are attributed to assets, parking and digital projects.</li> <li>• High level benefits are being reported at Transformation Portfolio Board meetings, but officers have noted that there are some inconsistencies in the approach to capturing and reporting on benefits. To address this, the council is planning to verify its methodology for portfolio level financial information with finance, and has run benefits workshops to improve the reporting of both financial and non-financial benefits going forward.</li> </ul>

## Recommendations

While we recognise that transformation activity is designed to have wider benefits beyond financial savings, the council should ensure its plans for transformation are sufficiently ambitious to respond to the financial challenges it faces.

There are a number of projects, led at service level, that the council consider to be transformational. The council should take the opportunity, when conducting the annual review of its Transformation Strategy (2024-2029), to ensure all significant transformation activity is reflected as well as ensuring that each project meets the objectives set out within its transformation strategy.

# Programme management

9. It is essential that the council has good programme management arrangements in place to ensure it is making sufficient progress against its transformation plans. It is important that the council has the structures and the staffing resource in place to deliver its transformation ambitions. In addition, the council must ensure that both senior officers and elected members have appropriate oversight of progress.

## Findings and evidence relating to the council's programme management arrangements

Findings	Evidence
<b>The council's programme management arrangements for transformation do not cover all the transformation activity being undertaken at the council.</b>	<ul style="list-style-type: none"> <li>The council's programme management arrangements for transformation are focused on the projects it includes in its transformation programme. Officers have told the audit team about other significant plans for change (see Part 3) that are being taken forward by services that are not included in the transformation programme and are not specifically included in programme management arrangements for transformation.</li> </ul>
<b>The council has effective arrangements in place for reporting progress with projects in its transformation programme to its senior leadership team and plans to enhance reporting to elected members.</b>	<ul style="list-style-type: none"> <li>A review of the Transformation Portfolio Board papers shows that overarching portfolio and project progress is being monitored and reported against high level timescales, cost and estimated benefits at each meeting. RAG dashboard reporting shows delivery confidence for the overarching transformation portfolio, as well as progress for each of the 15 individual transformation projects. Reporting on costs includes portfolio resource allocation, detailing project costs and spend to date, as well as planned savings to date. Updates on the status and delivery confidence of both financial and non-financial benefits are also reported at each meeting, alongside very high risks and issues, stakeholder impact assessments and approvals required at each meeting.</li> <li>There is a clear focus on improvement, with recommendations being made at each meeting. For example, in the March 2025 update to the Transformation Portfolio Board officers noted that high-level benefits are identified but that there are some inconsistencies in the approach to capturing and reporting on benefits. The council facilitated benefits workshops in Spring 2025 to address this, as well as</li> </ul>



Findings	Evidence
	<p>working with finance staff to improve its reporting of financial benefits.</p> <ul style="list-style-type: none"> <li>• East Lothian Council's Transformation Strategy commits to reporting on performance against financial targets through regular finance updates to the Cabinet/ Council (starting in December 2024). It has also committed to producing an annual report capturing performance for transformation for each financial year. In addition, the October 2024 Finance update states that "regular updates on progress, status and benefits delivered will be incorporated into future reporting to Council."</li> <li>• Officers have committed to sharing detailed reporting on transformation progress, status and benefits delivered with elected members as part of its annual report, starting from Autumn 2025. Progress towards delivering key financial savings is included as part of quarterly financial reporting to council. Officers recognise the need to enhance reporting to elected members on transformation delivery targets and benefits realisation as projects progress from delivery to business as usual.</li> </ul>
<p><b>The council has robust governance arrangements in place for projects in its transformation programme. It has a dedicated transformation team but is experiencing staffing issues on some projects due to staff turnover and staff vacancies linked to the temporary nature of these projects. Also, there are constraints on the availability of some staff carrying out business-as-usual work to contribute to the transformation programme due to heavy workloads. This presents a significant risk to the progress of the council's transformation programme.</b></p>	<ul style="list-style-type: none"> <li>• The Transformation Portfolio Board oversees the monitoring of delivery and performance of transformation within the council. It comprises of the Executive Management Team, with the Chief Executive leading on meetings every 6-8 weeks.</li> <li>• Other aspects of governance arrangements which are in place include the stage gate review process, reporting cycle and risk escalation process. There is also a Digital Transformation Board chaired by the Executive Director for Council Resources which oversees digital transformation, as well as the prioritisation of digital projects and resources.</li> <li>• Work is ongoing to implement a permanent Programme Management Office for the transformation programme, which is due to complete in November 2025. There is an ongoing recommendation within Transformation Portfolio Board updates to review and optimise governance arrangements for transformation.</li> <li>• The council has faced some recruitment challenges for digital and IT roles. The council has been working to address these issues by growing its capacity internally and utilising resources such as the Scottish Digital Academy, the Digital Office and the Improvement Service.</li> <li>• Resource allocation for March 2025 shows that the council is using a combination of permanent, temporary and service staff to deliver its transformation ambitions. A total of 22 staff have been allocated to the transformation portfolio, 12 of</li> </ul>

Findings	Evidence
	<p>which are permanent staff and the remaining 10 are a combination of service and temporary staff. The council has now successfully filled one of three existing vacancies, and recruitment is underway for the remaining two vacant posts within the transformation portfolio.</p> <ul style="list-style-type: none"> <li>• Overall delivery confidence for the Transformation Portfolio continues to present as ‘amber’ with resource management being cited as a key factor. Resource risks are primarily around the clash of increased demand for transformation resource and the ability of the wider organisation to release staffing resource to transformation projects due to the demands of business-as-usual workload.</li> <li>• The Transformation Portfolio Board is asked to note that overall portfolio progress is being delayed due to resourcing issues and recommended actions to address this include ensuring the availability of operational staff to support project delivery.</li> </ul>

## Recommendations

The council should ensure it delivers on its commitment to report on transformation to elected members. This should include regular reporting on planned and realised financial and non-financial benefits from its transformation work in line with what is set out in the Transformation Strategy. The council should put in place arrangements to report to elected members on the full range of transformation activity being progressed.

The council should ensure that its workforce has capacity to deliver on its transformation ambitions. This includes balancing workforce planning with the resource needs of wider business groups and recruiting additional roles for transformation if required.



# Partnership working and community engagement

**10.** The [Best Value in Scotland](#) report noted that councils must now rethink how they work together, and with local partners and communities, to provide financially sustainable services. Few councils provide services jointly or share support services across different councils to a great extent. The scale and nature of the challenge, as set out in the [Transformation in councils](#) report, means that it is only by working more collaboratively that councils and their local partners, communities and the third sector will be able to provide sustainable local services.

## Findings and evidence relating to the council's partnership working and community engagement arrangements

Findings	Evidence
<b>The majority of the council's current transformation programme is council led and does not involve working with partners. The council is at an early stage of progressing opportunities to work with partners in service-led transformation activities outside its current transformation programme.</b>	<ul style="list-style-type: none"> <li>• Nine of the council's current transformation projects are internally focused, for example, M365 roll-out, finance system replacement and the development of a Portfolio Management Office, with limited opportunities for partner involvement.</li> <li>• Six projects have an external focus, for example the parking strategy, energy transformation and assets review. The council is working with partners to deliver energy transformation and its assets review.</li> <li>• Examples of service-led transformation activity being progressed outside the current portfolio of transformation projects, involving working with partners, includes the Development Framework for Blindwells New Settlement and the former Cockenzie Power Station site.</li> </ul>
<b>One of the projects in the council's current transformation programme is to be jointly funded with a partner</b>	<ul style="list-style-type: none"> <li>• The council provided two examples of successful transformation where it had received funding from external bodies. Its waste project received £2.7 million funding from Zero Waste Scotland, while the Community Empowerment Winterfield Golf Club transformation project received funding from the UK Shared Prosperity Fund (UKSPF).</li> </ul>

Findings	Evidence
<p><b>The council has shared examples of where it is listening to its communities in relation to transformation projects.</b></p>	<ul style="list-style-type: none"> <li>• There are plans for the energy transformation project, one of the 15 projects in the council's current transformation programme, to be jointly funded with a partner, Clear Futures.</li> <li>• A number of the council's current transformation projects have involved or are planning to involve consultation with the community. This includes the council's new parking strategy that will lead to the introduction of charges for parking in North Berwick later this year and its asset reviews. The council conducted a consultation on the introduction of parking charges in North Berwick with 586 people responding. The consultation summary noted opposition to the scheme that has attracted an extensive campaign and objections.</li> <li>• Mitigations were recommended to the council in relation to the objections. An Integrated Impact Assessment was conducted and an action plan produced, as described in Part 4.</li> <li>• In relation to its asset reviews, the council proposes to reduce the number of council-owned buildings by creating several centralised service hubs that include a customer access point, library and some meeting space. It has begun implementing its plan for engagement and consultation with stakeholders.</li> <li>• In the examples of successful transformation projects the council provided to the audit team, we asked what partners had been involved in the project and what community engagement there had been. The council's examples included working with Zero Waste Scotland and FCC Environment on its waste services project and working with the Improvement Service on its online customer platform project. It engaged with its communities on its community empowerment projects and waste services project.</li> </ul>

# Impact of transformation

**11.** It is important that the council has success measures in place to demonstrate the impact of its transformational activity on service quality; outcomes for people who use services, inequalities and/or savings.

## Findings and evidence relating to the impact of the council's transformation activity

Findings	Evidence
<p><b>The council has had a transformation programme in place since 2016. In the context of the growing financial challenges facing the council, the focus of this programme has shifted in recent years. A new framework was introduced in 2024 and is being developed which better captures, monitors and reports on the financial and non-financial benefits of transformation projects. The council is due to present its first annual progress report on transformation to full council in Autumn 2025.</b></p>	<ul style="list-style-type: none"> <li>• The council has had a transformation programme in place since 2016. The programme initially set out to create efficiencies, as well as improving services, transparency and sustainability. The Transformation Strategy (2024-29) includes a section summarising the achievements of the previous transformation work. This lists projects under four headings – digital transformation, front-line service redesign, commercialisation and supporting service redesign. Under each heading project benefits are described but not quantified using phrases such as 'costs avoided', 'customer satisfaction', 'increased income' and 'resources released'.</li> <li>• The council's intention to improve the capture, monitoring and reporting of benefits from 2024 onwards is set out in the Transformation Strategy (2024-2029).</li> <li>• In 2024 the council developed a defined list of financial and non-financial benefits for its transformation projects. These were developed with consultants and are used to report across the portfolio. For example, non-financial benefits identified for the finance system replacement project include resources released, reduced transaction time, reduced failure rate, customer satisfaction and increased transparency.</li> <li>• Project managers can also add in any additional benefits not included in the generic list. The council recognises that benefits reporting is an area requiring further work to improve accuracy and consistency.</li> <li>• As noted above, the council plans to report annually on the impact of its transformational activity to elected members and the public. The first progress report is scheduled for Autumn 2025.</li> </ul>

Findings	Evidence
<p><b>The examples of successful transformation projects provided by the council, although pre-dating the new benefits tracking regime, set out a range of benefits including financial savings and improvements to processes and service quality. Some financial benefits are estimated, however most are not quantified.</b></p>	<ul style="list-style-type: none"> <li>• In the examples of successful transformation projects the council provided to the audit team, we asked for realised and projected cost and service quality benefits to be highlighted as well as the impact projects had had on people who use services. The council has noted that these projects pre-date the new regime of benefits tracking.</li> <li>• Examples of successful transformation projects provided by the council included its online customer platform project and delivering changes in waste services.</li> <li>• The online customer platform project, delivered in 2021 and enhanced since then, involved the council developing more online services. A saving of £23,500 per year was identified alongside unspecified decreases in processing and cash-handling costs. Its impact on service users is mainly around the benefits associated with the provision of 24/7 online access to council services. Customer platform statistics show there were nearly three times as many online requests in 2024 compared to 2023.</li> <li>• The waste services project aimed to move the council's non-recyclable waste collection service from a two-weekly to a three-weekly cycle from April 2024, introduce a garden waste permit scheme to generate income in July 2024 and start a booking system for recycling centre visits. The project is estimated to reduce waste disposal costs by around £200,000 per annum with income from the garden waste permit offsetting the costs of delivery of the service.</li> </ul>
<p><b>Integrated Impact Assessments are being carried out during the development of transformation projects where the council believe they are appropriate and there are some examples of community engagement taking place in relation to these.</b></p>	<ul style="list-style-type: none"> <li>• We reviewed a sample of Integrated Impact Assessments (IIAs) shared by East Lothian Council. Five of these relate directly to the council's current transformation programme with four of these covering specific transformation projects.</li> <li>• The council carried out an IIA in relation to its Transformation Strategy (2024-2029) in May 2024. This considered whether the Transformation Strategy has consequences and impacts for people, equalities, the environment and for the storage and collection of personal data. The council answered no to each of these questions, concluding that there was no need for a full impact assessment to be carried out. The IIA notes that although the Transformation Strategy itself will not have a direct impact on service user experience, individual transformation projects might and therefore specific impacts will be considered at project level.</li> <li>• An IIA was completed in April 2023 for the council's proposals to introduce charges for parking in North Berwick. It notes that several consultations were carried out using a range of different methods, including a survey (both online</li> </ul>

Findings	Evidence
	<p>and paper copies), as well as drop in events, meetings and a postal address for submitting detailed feedback on the proposals. The IIA clearly sets out both positive and negative impacts in relation to equalities and human rights, reducing poverty and environmental and sustainability issues. The IIA was updated in March 2025 to reflect feedback from consultations which it notes have informed options for modifications to the proposals. The action plan also states that options have been developed for potential changes to the scheme and will be considered by elected members. Amendments for North Berwick were considered in April 2025.</p> <ul style="list-style-type: none"> <li>• An IIA was carried out in February 2025 for the planned replacement of the council's existing financial IT systems with one single digital platform. It concluded that a full IIA was not required to be carried out as the proposals will not affect people or their access to services or have impacts for equalities.</li> <li>• A Data Protection Impact Assessment was carried out for the council's Housing Management System Replacement project between October 2020 and October 2024. It states that consultation with individuals will not be carried out as this is a project focused on improving existing systems and processes.</li> <li>• A project to replace East Lothian Council's website began in January 2024 and is due for completion in August 2026. An IIA for the website replacement was carried out during the development of the project in October 2024. It notes that a survey has been issued to both citizens and internal staff on what they would like to see delivered in a new website and there are plans to inform users of any changes or improvements to the functionality. It is not yet clear what changes will be made to the new website or how the consultation will influence planned changes to services. Once this information is available it should be captured in the action plan section of the IIA, in line with the council's guidance on <a href="#">Integrated Impact Assessments</a>.</li> </ul>

### **Recommendation**

The council should continue to improve its methodology for measuring financial and non-financial benefits for its transformation projects.

# Appendix

## Improvement action plan

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Ensuring transformation plans are sufficiently ambitious</b></p> <p>The council faces a projected funding gap of over £17 million for 2025/26, rising to over £79 million by 2029/30. It estimates that the current portfolio of transformation projects will deliver recurring savings of £6.1 million over the five-year period to 2029/30. Whilst we recognise that transformation alone will not offer the full solution to the council's funding gap, the level of financial savings from the council's collective change activity should be commensurate with the scale of its financial challenges.</p>	<p>While we recognise that transformation activity is designed to have wider benefits beyond financial savings, the council should ensure its plans for transformation are sufficiently ambitious to respond to the financial challenges it faces.</p>	<p>The Council is prioritising its resources to support a range of projects focused on key enablers of change. It has also prioritised the delivery of transformation as a key council objective.</p> <p>An update will be provided to Council in August 2025.</p> <p>Transformation &amp; Digital Portfolio Manager</p> <p>August 2025 / ongoing</p>
<p><b>2. Including all significant transformation activity in transformation strategy</b></p> <p>Officers have told the audit team about other significant transformation projects that are being taken forward by services that are not included in the current transformation programme.</p>	<p>There are a number of projects, led at service level, that the council consider to be transformational. The council should take the opportunity, when conducting the annual review of its Transformation Strategy (2024-2029), to ensure all significant transformation activity is reflected as well as ensuring that each project meets the objectives set out within its transformation strategy.</p>	<p>Officers will consider options for incorporating service led transformation activity within future reporting, with a view to capturing resource commitment and benefits delivered.</p> <p>Transformation &amp; Digital Portfolio Manger</p> <p>August 2026</p>



Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Reporting on transformation</b></p> <p>Officers have committed to sharing detailed reporting on the progress of its transformation programme with elected members as part of its annual report, starting from Autumn 2025.</p> <p>Officers have told the audit team about other significant plans for change that are being taken forward by services that are not included in the transformation programme. There is a risk that officers and members do not have a full overview of the range of transformation activity taking place within the council.</p>	<p>The council should ensure it delivers on its commitment to report on transformation to elected members. This should include regular reporting on planned and realised financial and non-financial benefits from its transformation work in line with what is set out in the Transformation Strategy. The council should put in place arrangements to report to elected members on the full range of transformation activity being progressed.</p>	<p>A report will be presented to Council in August providing an update on progress made towards delivering the council's transformation strategy.</p> <p>This report will also consider how wider transformation activity can be incorporated into future updates to Council.</p> <p>Transformation &amp; Digital Portfolio Manager</p> <p>August 2025</p>
<p><b>4. Resourcing transformation</b></p> <p>The demands of the council's business-as-usual activities are limiting the wider organisation's ability to respond to the increased demand for transformation staff resource. These pressures present a risk to the progress of the council's transformation programme.</p>	<p>The council should ensure that its workforce has capacity to deliver on its transformation ambitions. This includes balancing workforce planning with the resource needs of wider business groups and recruiting additional roles for transformation if required.</p>	<p>The Council has allocated significant resources within earmarked reserves to support transformation activity, and this will remain under review to ensure that there is sufficient capacity to deliver on our ambitions in the context of acute funding constraints.</p> <p>Transformation &amp; Digital Portfolio Manager</p> <p>December 2025</p>



Issue/risk	Recommendation	Agreed management action/timing
<p><b>5. Measuring the impact of transformation</b></p> <p>The council is monitoring and reporting on the financial and non-financial benefits from its transformation projects. It recognises that benefits reporting is an area requiring further work to improve accuracy and consistency.</p>	<p>The council should continue to improve its methodology for measuring financial and non-financial benefits from its transformation projects.</p>	<p>The council recognises the importance of ensuring that the benefits of transformation are captured and reported. While the financial savings delivered are already being reported through regular finance updates, future reporting will also capture the non-financial benefits delivered.</p> <p>Transformation &amp; Digital Portfolio Manager</p> <p>August 2025</p>

# East Lothian Council

**Transformation: how councils are redesigning and delivering more efficient services to achieve planned outcomes**



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**REPORT TO:** **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING DATE:** 17 June 2025

**BY:** Executive Director for Council Resources

**SUBJECT:** Annual Treasury Management Review 2024-25

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**10**

**1 PURPOSE**

- 1.1 To update the Committee on Treasury Management activity during financial year 2024-25.

**2 RECOMMENDATIONS**

- 2.1 Members are asked to note the report.

**3 BACKGROUND**

- 3.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an Annual Treasury Management Review, in accordance with the CIPFA Treasury Management Code of Practice and Prudential Code.
- 3.2 The review set out in **Appendix 1** updates members on the Treasury Management activity during 2024-25 and reported relative to the indicators set out in the Treasury Management Strategy approved in February 2024. The figures contained within the report are based on the draft unaudited accounts, and therefore remain subject to change during the course of the audit. Members will be kept informed should there be any significant change arising during this period.

## **4 POLICY IMPLICATIONS**

- 4.1 There are no direct policy implications associated with this report; however the council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy.

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – There are no direct financial implications associated with this report however the Council's Treasury Management activity clearly has a significant impact on the management of the Council's financial resources.
- 6.2 Personnel - none
- 6.3 Other - none

## **7 BACKGROUND PAPERS**

- 7.1 Treasury Management Strategy 2024-25 to 2028-29 – East Lothian Council 20 February 2024.
- 7.2 Treasury Management Mid-Year Review 2024-25 – Audit & Governance 17 December 2024.

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<b>DATE</b>	06 June 2025

## **Annual Treasury Management Review 2024-25**

# Annual Treasury Management Review 2024-25

## 1. Introduction

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024-25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). The review is based on figures contained within the draft unaudited accounts and should any significant and material changes arise during the course of the audit, updated information will be made available and communicated to members.

The minimum Treasury Management reporting requirements are that members of the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 20 February 2024)
- a report on performance against all forward-looking indicators at least quarterly as part of the authority's integrated revenue and capital monitoring
- a mid-year (minimum) treasury update report (Audit and Governance 17 December 2024)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

Training was provided to members by our Treasury Advisors in February 2025 to enhance their knowledge of treasury management practices and give them a deeper understanding in their role in treasury management.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee with the annual strategy approved by Council.

## 2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), with expenditure in excess of these resources giving rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The results from 2023-24 are shown for illustrative purposes.

	2023/24 Actual £'000	2024/25 Budget £'000	2024/25 Outturn £'000
<b>General Services</b>			
Capital expenditure	51,589	117,196	91,921
Financed in year	(29,243)	(66,650)	(56,206)
<b>Net Borrowing Need for the Year</b>	<b>22,346</b>	<b>50,546</b>	<b>35,715</b>
<b>HRA</b>			
Capital expenditure	42,849	31,579	32,471
Financed in year	(11,788)	(2,396)	(5,913)
<b>Net Borrowing Need for the Year</b>	<b>31,061</b>	<b>29,183</b>	<b>26,558</b>
<b>Total Net Borrowing Need for the Year</b>	<b>53,408</b>	<b>79,729</b>	<b>62,273</b>

### 3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and deemed only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023-24) plus the estimates of any additional capital financing requirement for the current (2024-25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure but allows the Council some flexibility to borrow in advance of its immediate capital needs if required.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2024 Actual £'000	31 March 2025 Budget £'000	31 March 2025 Outturn £'000
<b>General Services</b>			
CFR	313,376	365,070	342,283
Gross borrowing position	267,201	310,907	304,529
(Under) / over funding of CFR	<b>(46,175)</b>	<b>(54,164)</b>	<b>(37,754)</b>
<b>HRA</b>			
CFR	265,745	291,180	286,472
Gross borrowing position	226,589	247,979	254,874
(Under) / over funding of CFR	<b>(39,156)</b>	<b>(43,201)</b>	<b>(31,598)</b>

The use of fiscal flexibility for PPP assets has created a difference between the external borrowing position and the CFR (previously these were equal). An under-borrowing has been created and will change annually. The PPP CFR reflects the new profile for repayment. The under-borrowing is created when comparing this to the

balance outstanding on the PPP contract. The CFR has also increased due to the inclusion of Right of Use Assets as required by IFRS 16. The budget for 2024/25 was set before the decision to make use of the PPP Flexibility and the recognition of the Right of Use Assets

	31 March 2024 Actual £'000	31 March 2025 Budget £'000	31 March 2025 Actual £'000
<b>PPP/Leases /Right of Use Assets</b>			
CFR	45,919	29,104	54,102
Outstanding Debt	30,688	29,104	37,712
(Under) / over funding of CFR	(15,231)	-	(16,390)

## 4. Treasury Position as of 31 March 2025

At the beginning and the end of 2024-25 the Council's treasury position (excluding borrowing by PPP ,finance leases and Right of Use Assets), was as follows:

£'000	31 March 2024 Principal	Rate/ Return	Average Life yrs	31 March 2025 Principal	Rate/ Return	Average Life yrs
CFR	579,120			628,755		
Over / (under) borrowing	(85,331)			(69,353)		
Total debt	493,789	3.36%	25	559,402	3.36%	22
Total investments	22,903	2.58%	6	25,506	2.78%	5
Net debt	470,886			533,896		

- **The authorised limit** - the Council has kept within its authorised external borrowing limit as shown in the table below.
- **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. This indicator is set at the start of the financial year and is as per the Treasury Strategy.

	2023-24 Actual £m	2024-25 Budget £m	2024-25 Actual £m
Authorised limit	636	726	708
External Debt	494	559	559
Operational Boundary	594	656	645



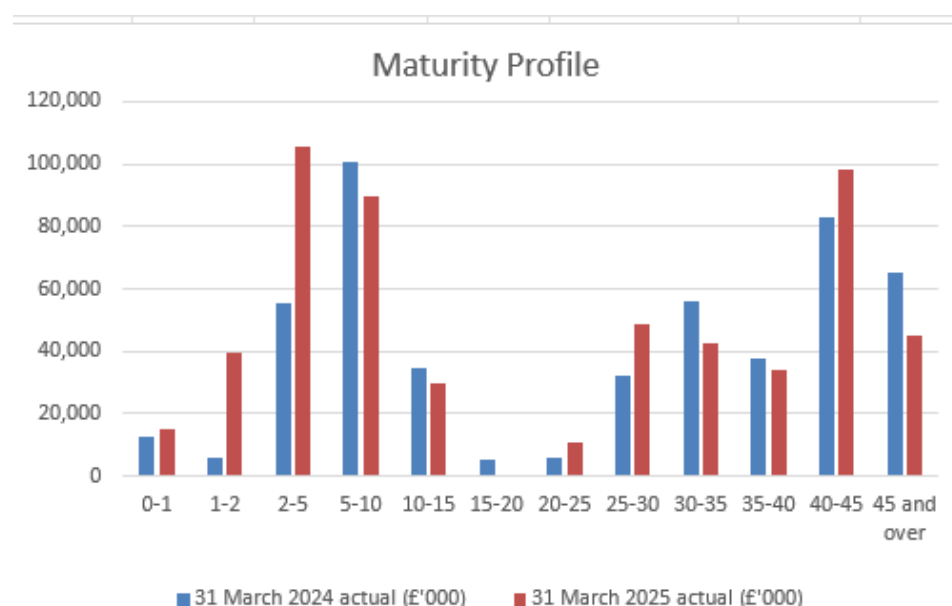
As of 31 March 2025 the average interest rate for all external debt was 3.18% (3.36% as of 31 March 2024). The average life across all loans is 22 years (25 years as of 31 March 2024).

The maturity structure and profile of the debt portfolio is set out in the tables below:

	31-Mar-24 Actual £m	(Paid) or New Loan* 2024-25 £m	31-Mar-25 Actual £m	Net movement** 2024-25 £m
Under 12 months	12.81	-12.81	15.11	2.31
12 months and within 24 months	5.73	9.39	39.63	33.90
24 months and within 5 years	55.70	43.18	105.90	50.20
5 years and within 10 years	100.75	20.71	89.96	-10.79
10 years and within 15 years	34.50	5.15	29.51	-5.00
15 years and within 20 years	5.00		0.00	-5.00
20 years and within 25 years	5.90		10.90	5.00
25 years and within 30 years	32.00		49.00	17.00
30 years and within 35 years	56.00		42.50	-13.50
35 years and within 40 years	37.40		33.90	-3.50
40 years and within 45 years	83.00		98.00	15.00
45 years and over	65.00		45.00	-20.00
Total	493.79	65.62	559.41	65.62

\* More detail on this is set out in Section 6 below

\*\* Net movement shows the change between the maturity bands for existing loans



## 5. The strategy for 2024-25

### 5.1 Investment strategy and control of interest rate risk

The Council's approved investment strategy prioritises security, liquidity and then return. The Council adopts a prudent approach to managing risk and followed the approved 2024-25 Strategy where investments were only considered where the type of investment and exposure to risk was low or very low. Limits were set for fixed and variable interest rate exposure which were not exceeded during the year.

Investment returns decreased in 2024-25 as the Bank of England responded a reduction in inflationary pressures, meaning that ongoing tighter monetary policy was not required.

### 5.2 Borrowing strategy and control of interest rate risk

During 2024/25, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal, short-dated borrowing (<5 years) and longer borrowing where Equal Instalments of Principal are made as appropriate.

The policy of avoiding new borrowing where possible by close monitoring of cash balances is kept under continual review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated.

Bank Rate reduced steadily through the course of the financial year (three 0.25% rate cuts in August, November and February ) bringing the headline rate down from 5.25% to 4.5%. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26. The CPI measure of inflation is expected to reach 3.75% by the autumn of 2025, which could provide for some pressure on the Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. Although markets currently expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

Forecasts from our Treasury advisors at the beginning of February 2025 suggest interest rates will fall slightly during 2025-26 and continue to gradually reduce over the following year before settling at 3.50%. This remains a very challenging position, and the forecast and planning of borrowing will remain under review during 2025-26 and beyond.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
<b>BANK RATE</b>	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

PWLB rates are based on gilts (UK Government bonds) yields through H.M.Treasury who determine a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, the ongoing impact of the Ukraine war, inflationary pressures (especially energy and food) and labour market factors.

The margins over gilt yields are:

- **PWLB Standard Rate** - gilt plus 100 basis points
- **PWLB Certainty Rate** - gilt plus 80 basis points
- **PWLB HRA Standard Rate** - gilt plus 100 basis points
- **PWLB HRA Certainty Rate** - gilt plus 80 basis points
- **Local Infrastructure Rate** - gilt plus 60 basis points

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index (CPI) measure) moves lower.

**High/Low/Average PWLB Rates during 2024-25 over indicative borrowing terms:**

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.77%	4.31%	4.52%	5.08%	4.88%
<b>Date</b>	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.34%	5.71%	6.18%	5.88%
<b>Date</b>	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
<b>Average</b>	5.14%	4.86%	5.07%	5.56%	5.32%
<b>Spread</b>	0.84%	1.03%	1.19%	1.10%	1.00%

## 5. Borrowing Activity during 2024-25

**Borrowing** – the following loans were taken during the year:-

Lender	Principal £m	Type	Interest Rate	Maturity	Date
PWLB	10	EIP	4.19%	11 Years	02/04/2024
PWLB	5	Fixed interest rate	4.19%	6 years	02/04/2024
PWLB	15	EIP	4.37%	11 years	25/09/2024
PWLB	10	EIP	3.97%	11 years	25/09/2024
PWLB	15	Fixed interest rate	4.63%	2.5 years	25/09/2024
PWLB	20	EIP	4.92%	3.5 years	07/02/2025
PWLB	5	EIP	4.81%	6 years	27/03/2025
<b>Total</b>	<b>80</b>				

As PWLB rates have remained at an elevated level during 2024-25 the Council has, in conjunction with our Treasury advisors decided to undertake borrowing at shorter durations than in recent preceding years as well as repaying principle in instalments over the period of the loan. This is to lessen interest costs in future as per Section 5.2 above, as interest rates are expected to reduce in the coming years.

#### **Borrowing in advance of need**

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

#### **Rescheduling**

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

#### **Repayments**

The following loans were repaid in full during the year:-

<b>Lender</b>	<b>Principal £m</b>	<b>Type</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Date</b>
PWLB	3.5	Fixed Interest rate	3.09%	12 years	21/09/2024
PWLB	3.5	Fixed Interest rate	3.09%	12 years	24/09/2024
PWLB	0.64	Fixed interest rate	8.25%	29 years	28/09/2024
<b>Total</b>	<b>7.64</b>				

Instalments of £6.74 million were also paid on 12 loans which are payable as an Annuity or EIP (equal instalments of principal) basis rather than on maturity.

## **6. Investment Activity for 2024-25**

#### **Investment Policy**

The Council's investment policy is governed by Scottish Government investment regulations which have been implemented in the annual investment strategy approved by the Council on 20 February 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy as set.

#### **Investments held by the Council**

During 2024-25 and in accordance with the approved strategy 23 short term investments were made and repaid. Any other surplus cash balances were held in the Council's bank account, which is an interest bearing account.

Investment with	Principal £m	Interest Rate	Investment Date	Term (Days)	Interest	Date Repayable/ Repaid
DMADF (UK Government)	5.00	5.190%	08/05/2024	2	£1,421.92	10/05/2024
DMADF (UK Government)	10.00	5.190%	08/05/2024	5	£7,109.59	13/05/2024
Lloyds	5.00	5.280%	08/05/2024	33	£23,868.49	10/06/2024
DMADF (UK Government)	10.00	5.190%	11/06/2024	1	£1,421.92	12/06/2024
DMADF (UK Government)	10.00	5.190%	12/06/2024	9	£12,797.26	21/06/2024
Central Bedfordshire	5.00	5.250%	24/05/2024	31	£22,294.52	24/06/2024
DMADF (UK Government)	10.00	5.190%	26/06/2024	1	£1,421.92	27/06/2024
DMADF (UK Government)	5.00	5.190%	03/07/2024	2	£1,421.92	05/07/2024
Central Bedfordshire	5.00	5.250%	24/06/2024	14	£10,068.49	08/07/2024
DMADF (UK Government)	10.00	5.190%	09/07/2024	1	£1,421.92	10/07/2024
Lloyds	5.00	5.280%	11/06/2024	30	£21,698.63	11/07/2024
DMADF (UK Government)	10.00	5.190%	10/07/2024	2	£2,843.84	12/07/2024
DMADF (UK Government)	5.00	5.200%	01/07/2024	14	£9,972.60	15/07/2024
DMADF (UK Government)	5.00	5.190%	17/07/2024	1	£710.96	18/07/2024
DMADF (UK Government)	10.00	5.190%	12/07/2024	7	£9,953.42	19/07/2024
DMADF (UK Government)	4.00	5.190%	15/07/2024	4	£2,275.07	19/07/2024
DMADF (UK Government)	5.00	5.190%	18/07/2024	4	£2,843.84	22/07/2024
DMADF (UK Government)	5.00	5.190%	15/07/2024	14	£9,953.42	29/07/2024
DMADF (UK Government)	5.00	5.190%	22/07/2024	7	£4,976.71	29/07/2024
DMADF (UK Government)	5.00	5.190%	24/07/2024	6	£4,265.75	30/07/2024
DMADF (UK Government)	20.00	5.190%	30/07/2024	1	£2,843.84	31/07/2024
DMADF (UK Government)	20.00	5.190%	31/07/2024	1	£2,843.84	01/08/2024
Standard Chartered Sustainable	5.00	5.150%	08/05/2024	92	£64,904.11	08/08/2024
DMADF (UK Government)	6.50	4.940%	02/08/2024	6	£5,278.36	08/08/2024
Lloyds	5.00	5.250%	11/07/2024	32	£23,013.70	12/08/2024
DMADF (UK Government)	10.00	5.030%	01/08/2024	11	£15,158.90	12/08/2024
DMADF (UK Government)	8.00	4.940%	08/08/2024	4	£4,330.96	12/08/2024
DMADF (UK Government)	10.00	4.940%	12/08/2024	4	£5,413.70	16/08/2024
DMADF (UK Government)	8.00	4.940%	16/08/2024	3	£3,248.22	19/08/2024
DMADF (UK Government)	7.00	4.940%	13/08/2024	7	£6,631.78	20/08/2024
Central Bedfordshire	5.00	5.150%	22/07/2024	31	£21,869.86	22/08/2024
Monmouthshire CC	5.00	5.240%	19/06/2024	92	£66,038.36	19/09/2024
Lloyds	5.00	4.940%	12/08/2024	31	£20,978.08	12/09/2024
DMADF (UK Government)	10.00	4.940%	21/08/2024	9	£12,180.82	30/08/2024
DMADF (UK Government)	5.00	4.940%	21/08/2024	6	£4,060.27	27/08/2024
DMADF (UK Government)	5.00	4.940%	27/08/2024	2	£1,353.42	29/08/2024

DMADF (UK Government)	6.00	4.940%	28/08/2024	1	£812.05	29/08/2024
DMADF (UK Government)	10.00	4.940%	30/08/2024	7	£9,473.97	06/09/2024
DMADF (UK Government)	4.00	4.940%	04/09/2024	2	£1,082.74	06/09/2024
DMADF (UK Government)	3.00	4.940%	05/09/2024	8	£3,248.22	13/09/2024
DMADF (UK Government)	7.00	4.940%	06/09/2024	6	£5,684.38	12/09/2024
DMADF (UK Government)	1.50	4.940%	12/09/2024	0	£406.03	12/09/2024
DMADF (UK Government)	3.00	4.940%	11/09/2024	1	£406.03	12/09/2024
DMADF (UK Government)	8.00	4.940%	12/09/2024	8	£8,661.92	20/09/2024
DMADF (UK Government)	9.00	4.940%	20/09/2024	3	£3,654.25	23/09/2024
DMADF (UK Government)	9.00	4.940%	26/09/2024	1	£1,218.08	27/09/2024
Lloyds	5.00	4.950%	20/09/2024	31	£21,020.55	21/10/2024
DMADF (UK Government)	10.00	4.940%	26/09/2024	8	£10,827.40	04/10/2024
Wrexham	2.00	5.000%	27/09/2024	14	£3,835.62	11/10/2024
DMADF (UK Government)	2.00	4.940%	08/10/2024	3	£812.05	11/10/2024
LB Haringey	5.00	5.000%	30/09/2024	30	£20,547.95	30/10/2024
DMADF (UK Government)	2.00	4.840%	25/10/2024	5	£1,353.42	30/10/2024
DMADF (UK Government)	8.00	4.940%	08/10/2024	22	£23,820.27	30/10/2024
DMADF (UK Government)	4.00	4.940%	16/10/2024	2	£1,082.74	18/10/2024
DMADF (UK Government)	4.00	4.940%	22/10/2024	3	£1,624.11	25/10/2024
DMADF (UK Government)	10.00	4.940%	31/10/2024	1	£1,353.42	01/11/2024
Standard Chartered Sustainable	5.00	4.890%	08/08/2024	92	£61,627.40	08/11/2024
DMADF (UK Government)	10.00	4.940%	01/11/2024	7	£9,416.44	08/11/2024
DMADF (UK Government)	4.00	4.710%	13/11/2024	2	£1,032.33	15/11/2024
LB Barking & Dagenham	5.00	5.050%	30/09/2024	59	£40,815.07	28/11/2024
DMADF (UK Government)	2.00	4.700%	15/11/2024	3	£772.60	18/11/2024
DMADF (UK Government)	9.00	4.700%	14/11/2024	8	£9,271.23	22/11/2024
DMADF (UK Government)	1.00	4.700%	18/11/2024	4	£515.07	22/11/2024
DMADF (UK Government)	5.00	4.710%	21/11/2024	15	£9,678.08	06/12/2024
DMADF (UK Government)	7.00	4.700%	22/11/2024	3	£2,704.11	25/11/2024
DMADF (UK Government)	4.00	4.700%	25/11/2024	3	£1,545.21	28/11/2024
DMADF (UK Government)	5.00	4.700%	27/11/2024	1	£643.84	28/11/2024
DMADF (UK Government)	4.00	4.700%	28/11/2024	1	£515.07	29/11/2024
DMADF (UK Government)	6.00	4.700%	28/11/2024	4	£3,090.41	02/12/2024
DMADF (UK Government)	6.00	4.700%	29/11/2024	7	£5,408.22	06/12/2024
DMADF (UK Government)	7.00	4.700%	03/12/2024	6	£4,506.85	09/12/2024
DMADF (UK Government)	10.00	4.700%	06/12/2024	7	£9,013.70	13/12/2024
DMADF (UK Government)	3.00	4.700%	09/12/2024	10	£3,863.01	19/12/2024
DMADF (UK Government)	9.00	4.700%	13/12/2024	6	£6,953.42	19/12/2024

DMADF (UK Government)	3.00	4.700%	16/12/2024	3	£1,158.90	19/12/2024
DMADF (UK Government)	5.00	4.700%	18/12/2024	1	£643.84	19/12/2024
LB Barking & Dagenham	5.00	5.050%	28/11/2024	21	£14,527.40	19/12/2024
NE Lincs	5.00	4.900%	30/09/2024	59	£39,602.74	28/11/2024
Lloyds	5.00	4.840%	22/10/2024	31	£20,553.42	22/11/2024
DMADF (UK Government)	10.00	4.700%	19/12/2024	1	£1,287.67	20/12/2024
DMADF (UK Government)	10.00	4.700%	03/01/2025	7	£9,013.70	10/01/2025
DMADF (UK Government)	3.00	4.700%	08/01/2025	2	£772.60	10/01/2025
DMADF (UK Government)	5.00	4.700%	03/01/2025	10	£6,438.36	13/01/2025
DMADF (UK Government)	4.00	4.700%	15/01/2025	2	£1,030.14	17/01/2025
DMADF (UK Government)	5.00	4.700%	17/01/2025	7	£4,506.85	24/01/2025
DMADF (UK Government)	7.00	4.700%	14/01/2025	6	£5,408.22	20/01/2025
DMADF (UK Government)	4.00	4.700%	22/01/2025	2	£1,030.14	24/01/2025
DMADF (UK Government)	10.00	4.700%	30/01/2025	4	£5,150.68	03/02/2025
DMADF (UK Government)	5.00	4.700%	24/01/2025	3	£1,931.51	27/01/2025
DMADF (UK Government)	0.50	4.485%	04/02/2025	23	£1,413.08	27/02/2025
DMADF (UK Government)	4.00	4.460%	06/02/2025	21	£10,264.11	27/02/2025
DMADF (UK Government)	7.50	4.450%	07/02/2025	7	£6,400.68	14/02/2025
DMADF (UK Government)	7.50	4.450%	07/02/2025	14	£12,801.37	21/02/2025
DMADF (UK Government)	2.50	4.450%	12/02/2025	2	£609.59	14/02/2025
DMADF (UK Government)	5.00	4.450%	14/02/2025	7	£4,267.12	21/02/2025
DMADF (UK Government)	5.00	4.450%	14/02/2025	13	£7,924.66	27/02/2025
DMADF (UK Government)	3.00	4.450%	21/02/2025	0	£731.51	21/02/2025
DMADF (UK Government)	9.00	4.450%	21/02/2025	7	£7,680.82	28/02/2025
DMADF (UK Government)	3.00	4.450%	21/02/2025	3	£1,097.26	24/02/2025
DMADF (UK Government)	11.00	4.450%	03/03/2025	1	£1,341.10	04/03/2025
DMADF (UK Government)	4.00	4.450%	26/02/2025	9	£4,389.04	07/03/2025
DMADF (UK Government)	5.00	4.450%	04/03/2025	3	£1,828.77	07/03/2025
DMADF (UK Government)	4.00	4.450%	05/03/2025	2	£975.34	07/03/2025
DMADF (UK Government)	6.00	4.450%	04/03/2025	10	£7,315.07	14/03/2025
DMADF (UK Government)	5.00	4.450%	07/03/2025	7	£4,267.12	14/03/2025
DMADF (UK Government)	3.00	4.450%	12/03/2025	2	£731.51	14/03/2025
DMADF (UK Government)	10.00	4.450%	14/03/2025	7	£8,534.25	21/03/2025
DMADF (UK Government)	3.00	4.450%	19/03/2025	9	£3,291.78	28/03/2025
DMADF (UK Government)	8.00	4.450%	21/03/2025	3	£2,926.03	24/03/2025
DMADF (UK Government)	4.00	4.450%	21/03/2025	4	£1,950.68	25/03/2025
DMADF (UK Government)	6.00	4.450%	25/03/2025	6	£4,389.04	31/03/2025
DMADF (UK Government)	6.00	4.450%	26/03/2025	1	£731.51	27/03/2025

DMADF (UK Government)	9.00	4.450%	27/03/2025	4	£4,389.04	31/03/2025
Total					£918,494.32	

Additionally, a call account at Lloyds was used to hold funds which yielded a further £103k in interest.

The Council also has the following loans to third parties which fall under the scope of the Council's approved Investment Strategy.

	<b>Loan balance on 31 March 2024 £'000</b>	<b>Loan balance on 31 March 2025 £'000</b>
East Lothian Housing Association	7,914	7,629

Under accounting standard IFRS9, an expected credit loss for all loans to third parties must be obtained and recognised in the Council's Income and Expenditure account within Surplus/Deficit on Provision of Services.

This was £0.055m for 2024-25 and was decreased to £0.031m for 2025-26 to reflect the risk profile of the debt in the current financial environment.

### **Investments held by Fund Managers**

The Council uses Rathbones (previously known as Investec) as external fund managers to invest cash balances on behalf of the 4 Common Good Funds and the ELC Charitable Trusts. The performance of the managers against the benchmark return was:

<b>£m</b>	<b>Investments held 31 March 2024</b>	<b>Investments held 31 March 2025</b>	<b>Return</b>	<b>Benchmark</b>
Charitable Trusts	3.807	3.844	3.32%	6.34%
Common Good Funds	3.850	3.891	3.36%	6.34%
Total	7.657	7.753	£0.096m	

The Council's investment advisors have reported that the portfolio has performed modestly for 2024-25 with a net return of 3.36% for the Common Good and 3.32% for the Charitable Trusts as global equity markets should a fair amount of volatility. This was driven by continued geopolitical risks with a number of ongoing conflicts globally and the trade tariffs set in the USA. These are mitigated by having investments in companies with strong balance sheets.

Officers continue to engage with the Investment Advisers, and consider any necessary action aligned to the Treasury Investment Strategy should there be any significant change to fund projections. The need to ensure the on-going viability of the funds is essential to ensure the long-term benefits of these investments.

The return achieved was lower than the benchmark for both portfolios.



## Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2023/24	2024/25	2024/25
	<b>Actual £'000</b>	<b>Budget £'000</b>	<b>Outturn £'000</b>
<b>Capital Expenditure</b>			
General Services	51,589	117,196	91,921
HRA	42,849	31,579	32,471
TOTAL	94,438	148,775	124,392
<b>Ratio of financing costs to net revenue stream</b>			
General Services	4.26%	5.57%	4.95%
HRA	33.13%	36.24%	33.63%
<b>Gross borrowing requirement - General Services</b>			
brought forward 1 April	295,377	321,667	313,376
carried forward 31 March	313,376	365,070	342,283
in year borrowing requirement	17,999	43,403	28,907
<b>Gross borrowing requirement - HRA</b>			
brought forward 1 April	240,066	267,835	265,745
carried forward 31 March	265,745	291,180	286,472
in year borrowing requirement	25,679	23,345	20,726
<b>Gross Debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>CFR</b>			
General Services	313,376	365,070	342,283
HRA	265,745	291,180	286,472
TOTAL	579,121	656,250	628,755
<b>Annual Change in Capital Financing Requirement</b>			
General Services	17,999	43,403	28,907
HRA	25,679	23,345	20,726
TOTAL	43,679	66,748	49,633
<b>Annual Impact of Capital Investment Decisions</b>			
General Services – Debt per Band D Equivalent	5,118	5,940	5,740
HRA – Debt per dwelling	28,389	31,112	30,201

2. TREASURY MANAGEMENT INDICATORS	2023/24	2024/25	2024/25
	Actual £'000	Budget £'000	Outturn £'000
<b>Authorised Limit for External Debt -</b>			
Borrowing	636,000	726,000	708,000
Other long term liabilities	31,000	30,000	38,000
Total	667,000	756,000	746,000
<b>Operational Boundary for External Debt -</b>			
Borrowing	594,352	656,249	645,144
Other long term liabilities	30,688	29,104	37,712
Total	625,040	685,354	682,856
<b>Actual External Debt</b>			
Borrowing	441,503	558,885	561,529
Other Long Term Liabilities	32,214	29,104	29,105
Total	473,717	587,989	590,634

	31 March 2024 Actual £m	31 March 2025 Budget £m	31 March 2025 Outturn £m
<b>3. LOANS FUND</b>			
<b>General Services</b>			
Opening balance	295	322	313
Add advances	22	51	36
Less repayments	(4)	(7)	(7)
Closing balance	313	365	342
<b>HRA</b>			
Opening balance	240	268	266
Add advances	31	29	27
Less repayments	(5)	(6)	(6)
Closing balance	266	291	286
<b>Total</b>			
Opening balance	535	590	579
Add advances	53	80	62
Less repayments	(10)	(13)	(13)
Closing balance	579	656	629

## ABBREVIATIONS USED IN THIS REPORT

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**HRA:** housing revenue account.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England. which meets for one and a half days. eight times a year. to determine monetary policy by setting the official interest rate in the United Kingdom. (the Bank of England Base Rate. commonly called Bank Rate). and by making decisions on quantitative easing.

**PPP:** Private Public Partnership – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation.

**CPI.** Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.



**REPORT TO:**           **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING DATE:**   **17 JUNE 2025**

**BY:**                   **EXECUTIVE DIRECTOR-COUNCIL RESOURCES**

**SUBJECT:**           **INFORMATION GOVERNANCE ANNUAL REPORT**

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**11**

## **1     PURPOSE**

- 1.1    To report on the delivery and continuous improvement of East Lothian Council's ('the Council's') compliance with regulatory regimes relating to Data Protection, Information and Records Management, and the Regulation of Investigatory Powers during 2024.

## **2     RECOMMENDATIONS**

- 2.1    To note the contents of the report and, where appropriate, highlight areas for further action or consideration.

## **3     BACKGROUND**

- 3.1    Information Governance covers a range of policies, procedures, tools and guidance used to support the Council in maintaining compliance with information legislation, ensuring that our information assets remain relevant and accessible over time, and empowering both the Council's employees and the citizens of East Lothian to derive the greatest possible benefits from the valuable public records in our custody.

- 3.2    A summary of the relevant legislation and key features is provided in [Appendix 1](#) to this report.

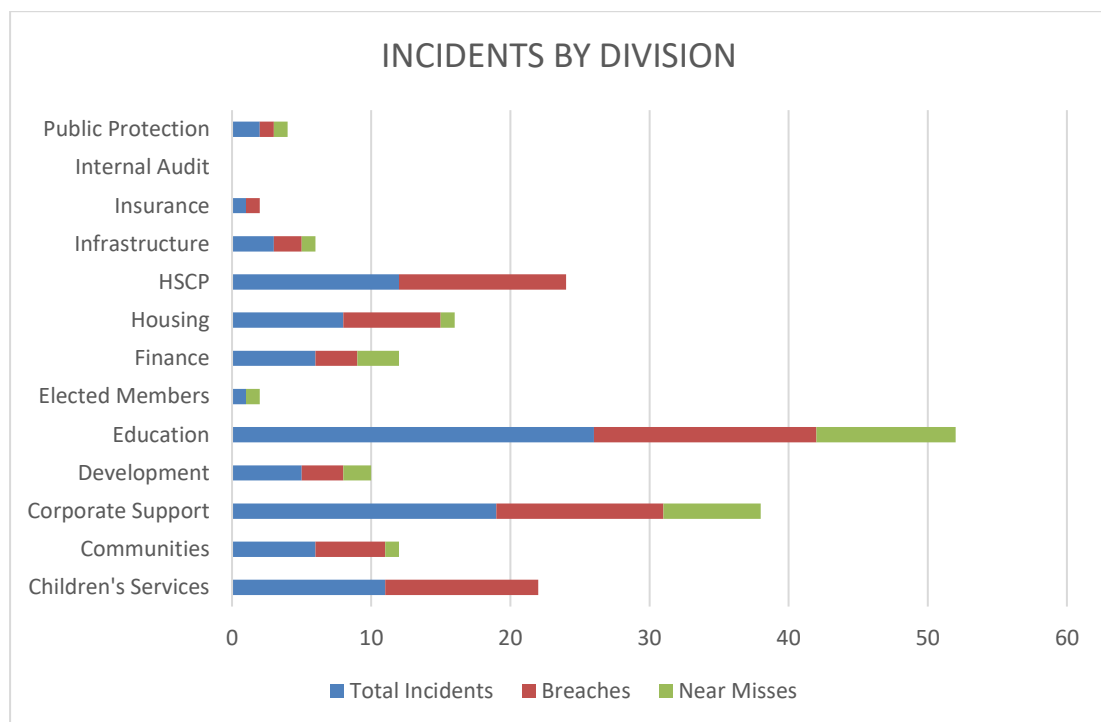
### **Data Protection**

- 3.3    The protection of personal data in the UK is governed by the Data Protection Act 2018 ('DPA2018') and the UK General Data Protection Regulation ('UK GDPR'). In 2018, the Council implemented a raft of new measures to support compliance; these measures were subject to their first assessment by the Council's Internal Auditors in November 2022.
- 3.4    The audit found reasonable assurance overall, with multiple points of good practice noted as well as a number of recommendations made for further improvements.
- 3.5    The audit identified five recommendations overall, of which four are currently complete and one is partially complete. The outstanding action relates to the timely completion of Data Protection Impact Assessments ('DPIAs') and Data

Sharing Agreements ('DSAs'). With the recruitment of a new Team Leader the backlog of DPIAs and DSAs has considerably reduced. Work is ongoing to further reduce the backlog of approvals and improve processing times for new DPIAs.

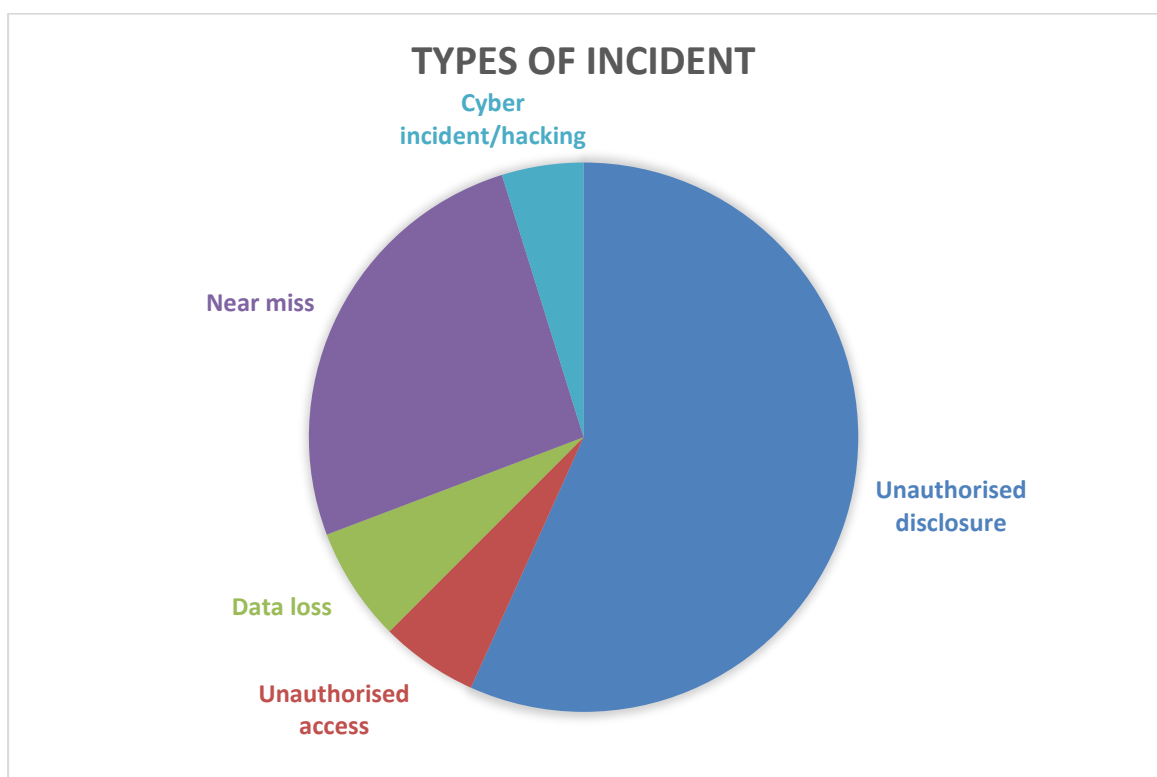
### *Data Breaches*

- 3.6 The Council's Data Breach Procedure requires all staff to report personal data breaches internally to the Council's Data Breach Team within 24 hours, to allow for a risk assessment and a decision to be taken whether to formally report to the national regulator, the Information Commissioner's Office ('ICO'). Where incidents meet the threshold of 'likely risk' to the rights of the data subject, by law the Council must report to the ICO within 72 hours; where incidents meet the threshold of 'high risk' to the data subject, the Council must also report the incident to the data subject(s) concerned.
- 3.7 Data breaches can present significant financial and reputational risks to the Council; the ICO has the power to levy significant fines and/or take enforcement action where significant or systemic failures are identified. Over the course of 2024, the Council recorded 71 Data Breaches and 27 Near Misses, resulting in a total of 98 incidents. These incidents occurred across Council Divisions as follows:

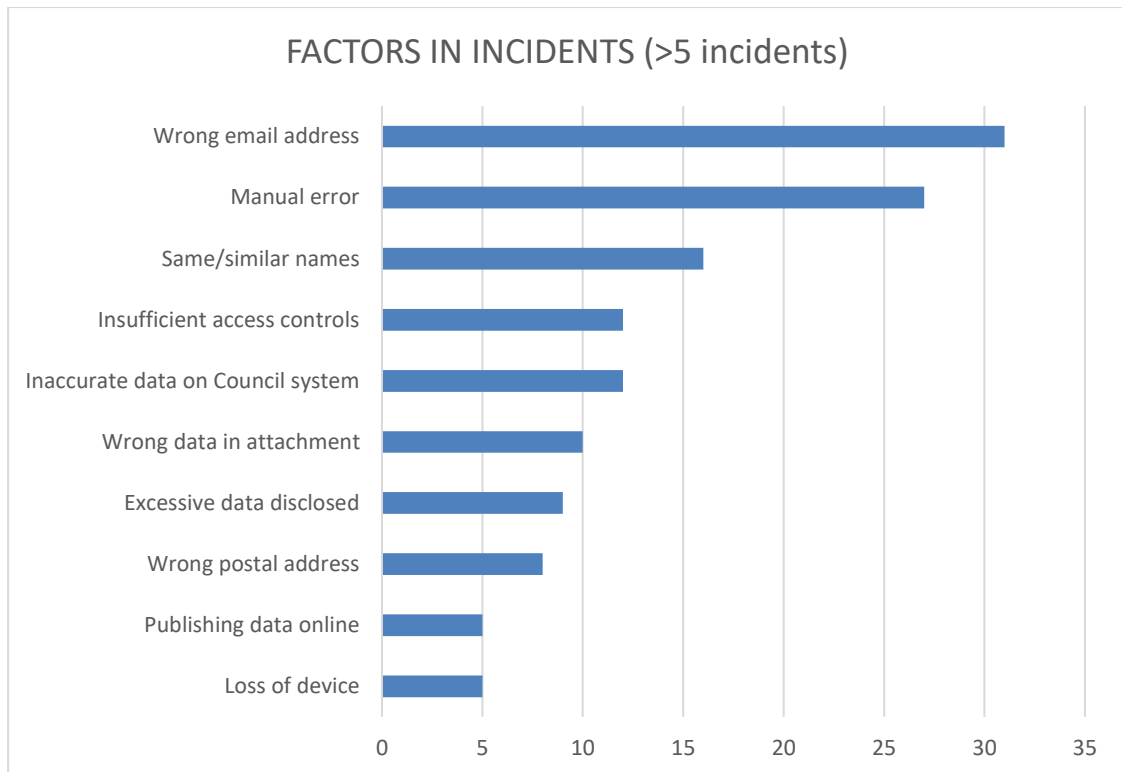


- 3.8 A total of four incidents were considered to meet the 'likely risk' threshold for reporting to the Information Commissioner's Office. In all four cases, the ICO found that the Council had appropriate technical and organisational measures in place, and took no further action.
- 3.9 The most prevalent type of incident was unauthorised disclosure, i.e. the unnecessary or disproportionate sharing of Council-controlled personal data. There were also several incidents of unauthorised access, i.e. gaining or procuring access to Council systems without an authorised business purpose for doing so.

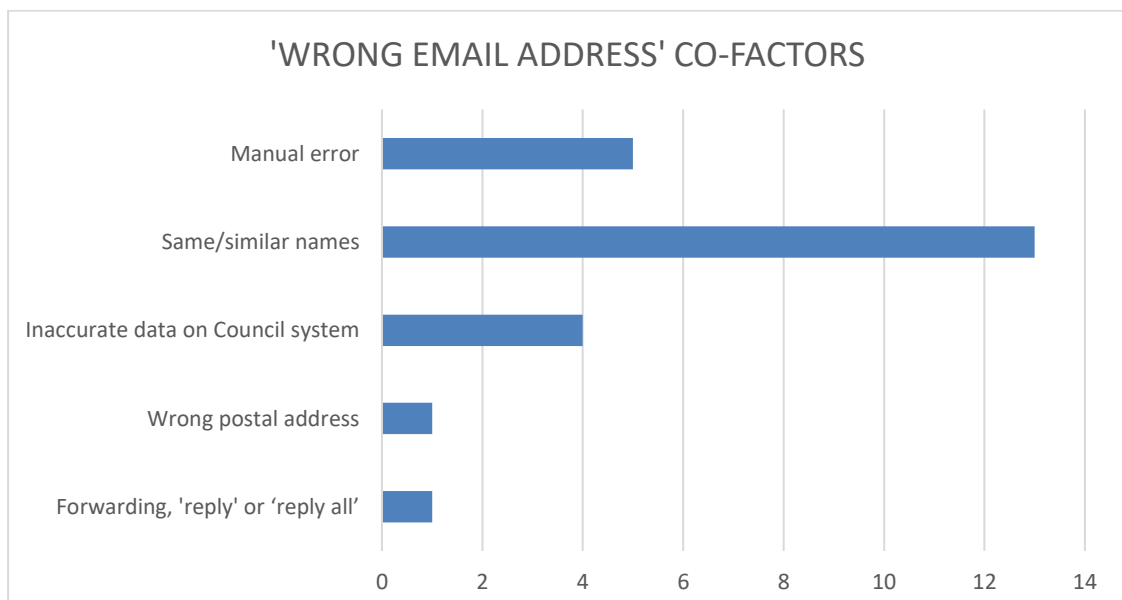
- 3.10 2024 has also seen an increase in the number of cyberattacks reported by Suppliers involving Council-controlled data. Where appropriate, the Council continues to liaise actively with these Suppliers to ensure that all appropriate remedial action is taking place to reduce the impact of these incidents and the likelihood of recurrence in future. Where appropriate, the Council is seeking to change Supplier in cases where the balance of risk and business benefits no longer meets the Council's needs.
- 3.11 In addition to Data Breaches, the Information Governance team tracks Near Misses to gather additional data, identify trends and put appropriate preventative measures in place. The Council is not required by law to track Near Misses, but this provides a useful tool in understanding information management practices and where/how breaches might arise.



- 3.12 There are a number of trends evident in the factors and circumstances contributing to incidents (including both Data Breaches and Near Misses). The most frequently occurring factor by far remains the misdirection of email, which occurred in 31 instances, although this represents a decrease from 45 instances in 2023.



3.13 The factors identified above might not occur in isolation, i.e. a single incident might involve multiple factors. For example, an incident might involve the use of a 'wrong email address' due to the individual 'using "to" or "cc" instead of "bcc", and so both are recorded as relevant factors to the incident. The chart below identifies the factors that most commonly appear alongside a 'wrong email address':



3.14 Regarding the four breaches reported to the ICO, contributing factors included:

- Manual error
- Inaccurate data on Council systems
- Loss of device / insufficient access controls (laptop stolen from car)



- Wrong data received from external organisations
- Redaction errors
- Publication of data online

3.15 While the ICO did not find enforcement action to be necessary in relation to the four reported incidents, they did make a number of recommendations for the Council to consider going forward, including:

- Continuing to review our processes and procedures when changing or adding personal data to systems, for example enacting a policy whereby staff do not work on more than one record simultaneously;
- Implementing double-checking processes when changing or adding usernames/identity information to accounts;
- Reviewing the contents and frequency of data protection training, including role-specific training;
- Maintaining awareness of data protection amongst staff via the use of routine reminders provided through staff emails/newsletters, staff intranet, team meetings, posters and screensavers;
- Conducting quality assessment checks at reasonable intervals;
- Ensuring staff have the time they need to double-check their work to prevent further breaches;
- Increasing awareness and reviewing our policies for handling the personal data of those at most risk of harm. This may involve additional training to relevant members of staff, systematic tools to mark and track those at most risk of harm and well circulated policies for handling their data with sensitivity.

3.16 No incidents were considered to meet the statutory 'high risk' threshold requiring reporting to the Data Subject(s).

*Trends, lessons learned and next actions*

3.17 Every data incident is assessed on a case-by-case basis, and accordingly the Information Governance team makes recommendations to Services for future improvements to their information management practices. In some cases, additional technical measures can be put in place, for example putting labels in Active Directory that identify employees with the same or similar names by department. Many cases, however, and particularly those involving misdirected email, require careful manual checking by individual employees, relying on their professional knowledge and training to maintain compliance.

3.18 In 2023, the Council recorded 62 data breaches and 22 near misses, resulting in a total of 84 incidents reported over the year. This means that 2024 has seen a 16.7% increase in the number of incidents reported compared with 2023, and a 25.6% increase compared with 2022. It is important to note that while this increase could be due to an increase in the number of incidents that occurred, it is also possible that this is due to an increase in reporting.

- 3.19 Overall, the profile of the types of incident, factors in incidents and distribution of incidents in Council Services has remained similar to that of 2023; in 2023 the most prevalent factor in incidents was the use of the wrong email address, with same/similar names and manual errors the primary co-factors. Unauthorised disclosure was likewise the most frequent type of breach, with the greatest number of incidents occurring in Education.
- 3.20 In 2024 we have seen a drop in email breaches where the use of “to” or “cc” instead of “bcc” has been a factor, which has been a target for awareness-raising by the Information Governance / IT teams over 2024.
- 3.21 In relation to incidents reported to the ICO, the ICO has consistently highlighted points of good practice by the Council in relation to our policies, procedures, staff training and incident response. The Council’s Internal Auditors have also found that we continue to have effective risk control measures in place. Recognising this, we remain committed to continuous improvement in data protection compliance across the organisation.

**2022 Internal Audit Recommendations:**

- Seek to ensure that relevant policies and procedures are reviewed on a regular basis;
- Ensure that Data Sharing Agreements are put in place on a timely basis;
- Ensure that appropriate progress is made in development of the Information Asset Register;
- Ensure that timescales for planned risk control measures are realistic and implemented on a timely basis;
- Roll out Communications Plan across the Council to reinforce the importance of Data Protection compliance.

**2024 Actions Taken:**

- Series of support sessions held for Head Teachers in conjunction with Legal Services;
- Continued development of training via the compliance platform MetaCompliance, including a practice email phishing exercise;
- Team Leader-Information Governance has delivered (and will continue to deliver) regular training on data protection, with an initial focus on DPIA completion;
- DPIA ‘triage’ process introduced to improve submissions and prioritise assessment in line with Procurement priorities;
- One Information Asset Register workshop conducted. In lieu of additional workshops, work is ongoing to replace the Register, in whole or in part, with features in Microsoft Sharepoint;
- Data Breach reporting now set up within MetaCompliance and undergoing testing before wider roll-out to Services;
- Regular meetings have been held (and will continue) between Information Governance, IT, Procurement and Business Transformation to continuously improve procurement processes and guidance for staff. This has included regular communication with Procurement to identify high-priority procurements and adjust Information Governance/IT priorities accordingly;
- DSA and DPIA backlog reduced; all contracts using the Council’s Standard Terms and Conditions now include a Data Protection Schedule as standard.

**2025 Planned Actions:**

- Supplement e-learning with face-to-face training sessions and recorded sessions;
- Continue to develop and improve training and awareness through compliance software MetaCompliance;
- Implement compliance features within Microsoft Sharepoint and Microsoft Purview;
- Undertake regular reporting to senior managers on data breaches, security incidents and trends;
- Development of an Information Strategy to underpin and support the Digital Strategy.

**Records Management**

- 3.22 The Public Records (Scotland) Act 2011 ('PRSA') requires public authorities to develop and maintain a Records Management Plan ('RMP') subject to approval by the Keeper of the Records of Scotland ('the Keeper'). East Lothian Council's first and current RMP was approved in 2015 on an 'improvement plan' basis, highlighting a number of areas for ongoing development and improvement. The Council has continued to engage constructively with the Keeper's Assessment Team via a process of voluntary annual review since 2015, apart from a brief hiatus over the period of the pandemic. Since the last Information Governance Annual Report, the Keeper has reduced the review interval from annual to bi-annual.
- 3.23 A procurement mini-competition has recently closed to identify a best value Supplier for all storage, retrieval and destruction services for paper records. Following evaluation and selection of a Preferred Supplier, the contents of the Dunbar Road paper records store (c.8000 boxes) will be emptied and transferred to the chosen Supplier. This will introduce significant service improvements through flexible and responsive retrievals services, secure transactions and effective environmental controls.
- 3.24 The Information Governance team continues to contribute to the Microsoft 365 ('M365') implementation project. The team is currently supporting the completion of a pilot Sharepoint site and digital document store for Legal Services. The Information Governance features of M365 are robust, and will allow the automatic application of retention rules to individual records belonging to all Council Services as well as automatic version control and tracking. This is a key step in practically applying the Records Management Plan to the Council's digital records, and will provide a significant improvement to compliance.
- 3.25 Due to a combination of maternity leave and pressures on the Council's statutory information request-handling processes in 2024, a number of planned actions for records management from 2024 will carry forward into 2025. This includes progression of the Council's digital preservation programme, which has paused over 2024. This is expected to be re-instated in the second quarter of 2025-26.

- 3.26 The Council's Records Management Plan is modelled after the Keeper's Model Plan, which at the time of creation included 14 Elements (now 15 for current submissions).

<b>2022 Internal Audit Recommendations:</b>
<ul style="list-style-type: none"> <li>• Review guidance on Council Intranet;</li> <li>• Continue to develop the Information Strategy;</li> <li>• Complete record audits of Council offices in line with the Asset Review project;</li> <li>• Ensure that records retention rules are applied to digital records;</li> <li>• Continue to develop Information Asset Register, including as a tool to support the regular review/destruction of records;</li> <li>• Progress actions to address the long term preservation of digital records;</li> <li>• Ensure that a complete and accurate representation of changes to records' content and location is captured in relation to both paper and digital records ('audit trail');</li> <li>• Review staff training requirements and ensure these remain up to date;</li> </ul>
<b>2024 Actions Taken:</b>
<ul style="list-style-type: none"> <li>• Corporate retention schedule reviewed and updated on a monthly basis. Legal Services schedule modified to conform to a more streamlined set of retention rules, which will be applied to other Services in 2025;</li> <li>• Information Officers continue to feed in to the national group addressing model retention schedules for Scottish Local Authorities;</li> <li>• Digital Preservation Policy approved;</li> <li>• Mini-competition for a Document Management Supplier (paper records storage) advertised, with evaluation currently in progress;</li> <li>• Records Management provisions designed for standard Supplier Scorecard;</li> </ul>
<b>2025 Planned Actions:</b>
<ul style="list-style-type: none"> <li>• Re-instate digital preservation programme, including options for a digital repository;</li> <li>• Complete and sign off Information Strategy;</li> <li>• Complete procurement for Document Management Supplier and commence transfer of records;</li> <li>• Continue to support M365 implementation;</li> <li>• Develop Records Management training and awareness;</li> <li>• Identify a new solution for disposal of confidential waste in collaboration with corporate Council projects;</li> <li>• Develop tools to assist contract managers across Services to monitor Supplier compliance with records management requirements in line with national guidance.</li> </ul>

### **Covert Surveillance**

- 3.27 The Regulation of Investigatory Powers (Scotland) Act 2000 ('RIPSA') was enacted to provide a statutory framework for the operation of covert surveillance investigative techniques by public authorities. This framework gives public authorities powers to undertake necessary and proportionate surveillance while

respecting the individual's 'right to respect for private and family life' under the Human Rights Act 1998 ('HRA').

- 3.28 In order to carry out surveillance under RIPSA, Council officers must follow a prescribed statutory process, according to statutory roles and responsibilities. In order to undertake an investigation under RIPSA, the Investigating Officer must submit an application to a senior Authorising Officer, who must consider and document the decision to proceed. This process exists primarily to ensure that risks have been considered appropriately, that effective mitigations are put in place, that the investigation is fully documented to appropriate standards, and that the investigation is monitored and reviewed over time.
- 3.29 East Lothian Council has to-date made very limited use of its RIPSA powers, and there were no applications made in 2024.
- 3.30 At the end of 2024, the Council was advised that an inspection by the Investigatory Powers Commissioner's Office ('IPCO') would not be required in 2025, due to the Council's appropriate level of compliance. The next inspection by the IPCO will be in 2028.

<b>2023 Recommendations</b>
<ul style="list-style-type: none"> <li>• RIPSA Gatekeeper (Team Manager-Information Governance) to feed back to Investigating Officers via review of Application Forms prior to authorisation;</li> <li>• Business Classification Scheme / Retention Schedule to be updated to include RIPSA material;</li> <li>• E-learning module to be developed;</li> <li>• Service Manager-Governance to undertake external training.</li> </ul>
<b>2024 Actions Taken</b>
<ul style="list-style-type: none"> <li>• Documentation updated to reflect changes in staffing.</li> </ul>
<b>2025 Planned Actions</b>
<ul style="list-style-type: none"> <li>• Training and awareness resources to be developed and publicised;</li> <li>• Training sessions for specific Services to be held;</li> <li>• Service Manager-Governance to undertake re-scheduled training.</li> </ul>

## **4 INTEGRATED IMPACT ASSESSMENT**

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

## **5 RESOURCE IMPLICATIONS**

- 5.1 Financial – there are no financial implications for this report.
- 5.2 Personnel - there are no personnel implications for this report.
- 5.3 Other – there are no other resource implications for this report.

## **6 BACKGROUND PAPERS**

- 6.1 There are no background papers.

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<b>DATE</b>	04/06/2025

## APPENDIX 1

Legislation	Key Features
Data Protection Act 2018 / UK GDPR	<ul style="list-style-type: none"> <li>• Governs the protection of <b>personal data</b>;</li> <li>• Mandatory recording and reporting of <b>personal data breaches</b>. Any breach meeting the 'likely risk' threshold must be reported to the UK Information Commissioner's Office ('ICO') within 72 hours. Any breach meeting the 'high risk' threshold must be reported to the data subject(s).</li> <li>• A 'personal data breach' is defined as 'a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data.'</li> </ul>
Public Records (Scotland) Act 2011	<ul style="list-style-type: none"> <li>• Governs the management of <b>public records</b>;</li> <li>• All named authorities must create a 15-point <b>Records Management Plan</b> in line with the Model Plan created by the Keeper of the Records of Scotland ('the Keeper');</li> <li>• Authorities can undergo <b>optional review</b> of their Records Management Plans by the Keeper's Assessment Team on an annual basis, called the 'Progress Update Review Mechanism' ('PUR'). This is not mandatory, but active engagement provides greater assurances regarding the authority's compliance.</li> </ul>
Regulation of Investigatory Powers (Scotland) Act 2000	<ul style="list-style-type: none"> <li>• Governs the use of <b>covert surveillance</b>;</li> <li>• Provides a framework for public officers to undertake <b>necessary and proportionate surveillance</b> while maintaining compliance with 'the right to respect for private and family life' under the Human Rights Act 1998;</li> <li>• RIPSAs investigations undergo a rigorous <b>process of authorisation and review</b> with frequent oversight by qualified Senior Officers within the Council;</li> <li>• Only applies to '<b>core functions</b>,' i.e. the specific public functions undertaken by a particular authority. It does not apply to 'ordinary functions' such as employment/Human Resources which are undertaken by all authorities.</li> </ul>