

COMMITTEE:	East Lothian Council
MEETING DATE:	26 August 2025
BY:	Executive Director for Council Resources
REPORT TITLE:	Accounts Commission – Best Value
REPORT STATUS:	Public

1 PURPOSE OF REPORT

- 1.1 To provide Members with an update on the key findings from the Accounts Commission – Best Value Controller of Audit report.

2 RECOMMENDATIONS

Members are recommended to:

- 2.1 Note the key findings from the Accounts Commission review of Controller of Audit's report on Best Value in East Lothian Council, as set out within Appendix 1.
- 2.2 Note the Council's response and summary of actions detailed within Appendix 2 and summarised at paragraph 3.4.

3 BACKGROUND

- 3.1 Audit Scotland presented the 2023/24 annual audit report to Council on 29 April 2025, and at that meeting Members were informed that East Lothian Council would be subject to a Best Value report in line with statutory guidance. The Controller of Audit has prepared a Best Value report on East Lothian Council based on evidence collected by auditors in the 2022/23 and 2023/24 annual audits. This report has been considered by the Accounts Commission with their key findings published on 3 July 2025. There is a statutory process aligned to this reporting which includes the following:

- The Council must consider the findings at a Council meeting within 3 months of receiving the report.
- The notification of this meeting must be published in a newspaper in the local area stating when the findings will be considered, and the nature of these findings and recommendations. This notification has been formally published in the East Lothian Courier on 7 August 2025.
- The local authority must inform the Commission as soon as possible after the meeting of any decisions made.
- The Council must publish in a newspaper a notice containing a summary of any such decisions.

3.2 Senior ELC officers were in attendance at the public session on 12 June 2025 where the Controller of Audit and the Council's External Auditors presented their findings to the Accounts Commission. The findings from the Accounts Commission were published on 3 July, and these are included within **Appendix 1** alongside the Controller of Audit report. In addition, senior officers, including a number of Elected Members, will discuss the findings with the Accounts Commission on 20 August 2025. An update on the discussion will be provided to Members following the meeting.

3.3 The delivery of Best Value and the key findings remain aligned to the Council Plan, values and key corporate strategies including financial and transformation, many of which are subject to separate reports to be considered at the Council meeting on 26 August 2025.

3.4 A response to each of the key findings is reflected in **Appendix 2** with a summary of key next steps set out in the table below. Aligned to the statutory process, a detailed response will be issued to the Accounts Commission following Council discussion.

Finding	Action	Responsible	Target Completion Date
1	Continue to progress the delivery of the Council's financial strategy and work towards the development of a balanced budgets for 2026/27 onwards.	Executive Director / Head of Finance	February 2026 & ongoing
2	Deliver a plan to PPRC to support Member development.	Head of Corporate Support	September 2025

2	Finalise and implement review of performance reporting	Transformation and Digital Portfolio Manager	June 2026
2 & 4	Finalise review of workforce plan	Head of Corporate Support	December 2025
2	Complete review of Council Plan Action Plan to refocus actions and present to Council	Service Manager - Communications	August 2025
3	Implement and develop new finance system	Exec Director / Head of Finance	November 2025 (phase 1)
4	Annual report on ESES City Region Deal to Council	Exec Director / Head of Development	October 2025
5	Finalise development of participation and engagement strategy	Exec Director / Head of Communities	December 2025
6	Implement planned improvements to staff engagement and the employee survey	Organisational Development Manager	April 2026

Table 1: Key actions in response to Accounts Commission findings

4 POLICY IMPLICATIONS

- 4.1 This report will support the achievement of the Council's strategic priorities, as set out within the Council Plan and provides external validation of the Council's commitment to delivering Best Value, in line with its statutory duties. The findings will not in themselves result in any direct policy implications but provide a commentary on the Council's arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost).

5 RESOURCE AND OTHER IMPLICATIONS

- 5.1 Finance: No direct implications arising from the recommendations in this paper; however, the Controller of Audit's report highlights that financial sustainability must remain a key priority for the Council.
- 5.2 Human Resources: No direct implications arising from the recommendations in this paper.

- 5.3 Other (e.g. Legal/IT): None identified.
- 5.4 Risk: No direct implications arising from the recommendations in this paper.

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 ***Select the statement that is appropriate to your report by placing an 'X' in the relevant box.***

An Integrated Impact Assessment screening process has been undertaken and the subject of this report does not affect the wellbeing of the community or have a significant impact on: equality and human rights; tackling socio-economic disadvantages and poverty; climate change, the environment and sustainability; the Council's role as a corporate parent; or the storage/collection of personal data.

X

or

The subject of this report has been through the Integrated Impact Assessment process and impacts have been identified as follows:

Subject	Impacts identified (Yes, No or N/A)
Equality and human rights	
Socio-economic disadvantage/poverty	
Climate change, the environment and sustainability	
Corporate parenting and care-experienced young people	
Storage/collection of personal data	
Other	

[Enter information on impacts that have been identified]

The Integrated Impact Assessment relating to this report has been published and can be accessed via the Council's website:

https://www.eastlothian.gov.uk/info/210602/equality_and_diversity/12014/integrated_impact_assessments

7 APPENDICES

- 7.1 Appendix 1 – Accounts Commission – Controller of Audit Report
- 7.2 Appendix 2 – Key Findings & Management Responses

8 BACKGROUND PAPERS

- 8.1 Report to Council, 29 April 2025 – Annual Audit Report 2023/24
https://www.eastlothian.gov.uk/meetings/meeting/17334/east_lothian_council

9 AUTHOR AND APPROVAL DETAILS

Report Author(s)

Name	Sarah Fortune
Designation	Executive Director for Council Resources (CFO)
Tel/Email	sfortune@eastlothian.gov.uk
Date	15 August 2025

Head of Service Approval

Name	Laurence Rockey
Designation	Chief Executive
Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed	Completed
Approval Date	18 August 2025

Best Value

East Lothian Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
July 2025

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

	270	Square miles
	113,000	Population
	4,144	Workforce (FTE)
	22	Elected members 10 Scottish Labour, 6 Scottish National Party, 4 Scottish Conservative and Unionist, 1 Scottish Green Party, 1 Independent. Minority Labour Administration
	£45.9m	Cumulative budget gap for 2026/27 and the following three years (based on a flat cash settlement and 5 per cent increases in council tax)
	£286m	Net revenue budget/expenditure 2023/24
	£141m	Capital budget 2023/24, (£107m General Fund, £34m HRA)

Commission findings

The Accounts Commission endorses the Controller of Audit's report on Best Value in East Lothian Council ([presented at page 6](#)) and the recommendations made by auditors in their recent reports. Following consideration of these reports at its meeting on 12 June, the Commission has made the findings presented below:

- 1** Against the demand challenges presented by East Lothian's growing population, the council has improved or maintained performance across many service areas. But this is set against the use of reserves to balance budgets. The council recognises that this is no longer sustainable, and we are pleased to see a financial strategy that commits to limiting the use of one-off resources going forward and to using reserves for 'invest to save' initiatives. Elected members must continue to work together to take the difficult decisions necessary to address the projected cumulative budget gap and ensure financial sustainability.
- 2** In response to resource and demand-led pressures, the Council Plan now focuses on a smaller number of key priorities, underpinned by its financial strategy, transformation strategy and workforce plan. A focus on defining actions, setting clear targets, maintaining oversight of performance, and clearly articulating required improvement actions for these plans is important, if the council's ambitions are to be realised. As auditors have recommended, the council must also be clear about what is an acceptable level of performance in non-priority areas.
- 3** We expect to see evidence in subsequent audits of significant progress in relation to the council's transformation strategy. Of particular importance is ensuring capacity to deliver its digital transformation projects, which have the potential to shape the workforce of the future and lay the foundations for service transformation. We encourage digital and finance teams to continue to work collaboratively as a new finance system is implemented, so that risks are minimised and the system's full benefits can be realised, including improved efficiency and more robust internal controls.
- 4** Like many councils, East Lothian faces persistent workforce capacity, recruitment and retention challenges, so we would encourage it to build on its existing workforce planning foundations and fully implement the auditors' recommendations

as a matter of priority. The council should also continue to seek opportunities to collaborate and share services and staff with other councils and partners. The Commission recognises the council's commitment to leadership development for officers, and training for elected members on effective scrutiny. Ensuring continued development for councillors is critical given the difficult choices that lie ahead.

- 5** The council's commitment to community engagement and empowerment is demonstrated through its service structures and delegated funding. We were encouraged by the way the council engaged with residents in advance of decisions on council tax (as part of setting its 2025/26 budget) and look forward to hearing about how its new Participation and Engagement Strategy can deepen dialogue with communities about the difficult choices that lie ahead. Community views will be invaluable to the cross-party budget working group when taking tough decisions about prioritisation and future budgets.
 - 6** A high response rate to the council's most recent staff engagement survey is encouraging and we look forward to seeing what more it does in future surveys to encourage and facilitate more front-line, non-office-based staff to complete the survey. The survey identified issues around work-related stress and workloads, so it is important to have a complete picture, allowing appropriate action plans to be developed and implemented.
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Controller of Audit report

1. This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973. It is based on evidence collected in the 2022/23 and 2023/24 annual audits of the council, with the latter reported in March 2025. [Appendix 1](#) includes links to the 2022/23 and 2023/24 Annual Audit Reports (AAR) and [Appendix 2](#) includes a link to the Best Value Statutory Guidance.

2. The reporting of Best Value is undertaken through the annual audit of each council and includes detailed work focusing on a Scotland-wide theme. The Best Value theme for 2022/23 was councils' leadership of the development of new local strategic priorities while the 2023/24 theme focused on workforce innovation.

3. The Best Value theme for 2024/25 is Transformation and how councils are redesigning and delivering more efficient services to achieve planned outcomes. The work undertaken by the auditor at the council was not complete in time to be covered here and will be reported on in the 2024/25 Annual Audit.

Pace of continuous improvement

4. East Lothian Council (the council) are committed to the principles of Best Value, with performance in most areas improving over time and relative to family group and national averages.

5. The council has an experienced management team in place that has been relatively stable in recent years. In February 2025, the former chief executive retired and a new chief executive joined the council in April 2025.

6. The council have been largely receptive to the improvement recommendations made by the auditor. However, a number of internal control inconsistencies and inefficiencies persist, and the council needs to strengthen the digital strategy, cybersecurity, and the business continuity management strategy and associated policies, to address prior year audit recommendations.

7. Financial sustainability must remain a priority for the council which has a relatively low level of reserves. The council will need to maintain a focus on financial resilience including developing key indicators and measures.

Best Value Assurance Report follow-up

8. The council has made good progress in implementing the improvement actions in response to the findings and conclusions from the previous (BVAR) in 2018. The recommendations have been tracked through the council's improvement plan, alongside other external audit recommendations and council identified improvement accounts. This is monitored annually. As the council has implemented the improvement actions, further improvement opportunities have been identified as the council looks for continuous improvement. The external auditor will continue to monitor the council's progress in relation to these wider improvement actions as part of their annual audit.

Leadership review

9. Leadership in the development of new local strategic priorities was the subject of Best Value thematic work in 2022/23. The auditor concluded that the council's leadership have been effective in setting out a clear vision and priorities but could enhance the performance objectives it wants to achieve in its priority areas.

10. Governance arrangements are well established, but auditors highlighted that in June 2024 the Audit and Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled as both were not quorate.

11. The Council Plan 2022-27 was approved by the council in August 2022. In February 2024, the council approved proposals to re-prioritise the council plan recognising that the context, including the longer-term impact of the pandemic and cost of living, had changed. The council agreed to focus on delivering a smaller number of priorities than originally envisaged. The council's vision is aligned with community planning priorities in the East Lothian Plan 2017-27 (the Local Outcome Improvement Plan).

12. The council has now set clear performance outcome targets for each of its refreshed priority areas to ensure resources are allocated appropriately. However, greater clarity on what is an acceptable level of performance in non-priority areas is still needed.

13. The council has a range of plans and strategies underpinning the council plan's vision and objectives. These include a Transformation Strategy, Recovery and Renewal Plan, Poverty Plan, Equality Plan, Climate Change Strategy, Integration Joint Board Strategic Plan and the Economic Development Strategy. The Council Action Plan, containing 68 actions, includes implementation of each of these strategies/plans as a single action.

14. Council priorities continue to reflect the need to reduce inequalities, and the council approved the East Lothian Partnership's four-year plan to tackle poverty across the area in August 2024.

15. The council has a Climate Change Strategy which is due to be updated for 2025-30, following consultation on a revised draft at the end of 2024. It is important that actions in the strategy have specific targets for improvement.

16. The council has a Digital Strategy, approved in January 2023, structured around the key themes of the council plan and the need to invest in digital technology to drive transformation. A digital transformation board has been established to oversee performance against the digital strategy and provide the governance, prioritisation and allocation of resources.

17. The council recognise that service transformation is at the heart of delivering financially sustainable public services and a Transformation Strategy was approved in August 2024.

18. A leadership development programme was introduced in 2022 to empower officers to make informed decisions. Corporate and senior management teams have participated in the programme with ongoing roll-out in 2024/25.

19. Training and development are available to all elected members. An induction programme was provided to newly elected members after the May 2022 elections. Officers are responsive to elected members' requests for information. Briefings are regularly provided to give more detailed explanations than is possible in a formal council meeting.

20. There are cross-party working groups including the Budget Working Group and the Climate Change and Sustainability Forum. These foster cross-party discussion and exploration of options for priority areas in advance of formal decision-making at council meetings.

Citizen and community engagement

21. The council are committed to community empowerment as a key principle of its vision. The council's 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 six locally based Connected Communities teams with a significant focus on taking a place-based approach.

22. Communities had the opportunity to put forward their views on council priorities through public consultation for the 2023/24 budget. Further community engagement will be needed so that local citizens understand the difficult decisions needed to ensure financial sustainability of public services.

23. The council has delegated a £200,000 budget to each of its area partnerships (Musselburgh £250,000) for use in relation to general projects, citizen and community engagement and local amenity services.

Effectiveness of performance reporting

24. The council reports on a series of annual performance measures in its Annual Performance and State of the Council Report. The report details how the council is endeavouring to deliver Best Value and good governance and summarises progress made against the actions set out in the council plan action plan.

25. The council has a continuous improvement framework 'Improvement to Excellence' that encompasses objective-setting, planning and management, performance management, self-evaluation and external assessment and accreditation.

26. A key part of the framework is the adoption of a suite of 'Top 50' council plan indicators as the key indicators that monitor progress in achieving the council's strategic goals. A sub-set of 'Top 10' of these indicators has been identified to show at a glance how the council is performing in achieving the council plan.

27. These indicators are updated quarterly and reported through the Policy and Performance Review Committee. The reports are readily accessible on the council's website and show actual performance against target performance, performance trend (whether improving or deteriorating) and a brief commentary on performance.

28. The auditor has concluded that the council has satisfactory arrangements for the preparation and publication of statutory performance information. However, there remains scope to enhance public performance reporting via inclusion of fuller commentary on changes in performance, areas of underperformance and measures to be taken.

Reported performance

29. Performance for 2022/23 was reported to council in the 'State of the Council' report in February 2024. The report for 2023/24 is delayed until June 2025 following the departure of the officer responsible for coordinating the report.

30. Information available on 2023/24 performance was included in the council's accounts. Only 37 of the 'Top 50' indicators could be reported. Of these indicators 15 (40.5 per cent) had improved, eight (21.6 per cent) stayed the same and 14 (37.8 per cent) showed a decline when compared to the previous year.

31. The council reported that 43 per cent of the 37 indicators included in the accounts were on or above target (green), 32 per cent just below or moving towards target (amber), and 24 per cent below target (red).

32. Of the council's 'Top 10' indicators, five were reported as maintained or improving, and two as showing a decline. Data was not available for the other three indicators at the time the accounts were compiled.

33. A review of all LGBF indicators shows that 60 of 107 (56 per cent) available indicators have improved since the base year, five (five per cent) have stayed the same and 42 (39 per cent) have declined. The proportion of the 76 'performance' indicators improving is higher at 64 per cent, with the proportion of the 20 'cost' indicators showing improvement lower at 55 per cent. All 11 of the 'satisfaction' indicators have declined.

34. Of the council's 76 LGBF 'performance' indicators 55 per cent are in the top two quartiles, having increased from 43 per cent in the base year.

35. Considering the latest year in isolation, 45 per cent of the council's LGBF indicators have improved, 40 per cent were assessed as deteriorating and 15 per cent as staying the same. Only three councils had a larger proportion of indicators improve.

Workforce planning

36. In 2023/24, the Best Value thematic review focused on workforce innovation and how councils are responding to workforce challenges. The auditor identified scope to improve target-setting and use of data in the council's workforce planning arrangements, recommending that the council develop a workforce planning performance management framework, linked to its workforce plan, to inform future workforce planning. In total the auditor made eight recommendations.

37. The council Workforce Plan 2023-27 was approved by the council's cabinet in January 2023. It includes an overall vision that the council will be an employer of choice and nine core objectives. It is not clear, however, how workforce planning takes place at the service level to support the council level plan and auditors recommended that the council prepare guidance and templates to support service level planning.

38. The council's workforce plan provides data on the overall headcount and grading, a breakdown by protected characteristics, and available trend data. However, how data is informing the overall strategic approach to workforce planning could be clearer. The workforce plan is supported by an action plan with 40 actions; however not all have appropriate targets which makes it difficult to objectively evaluate what progress has been made and define what success looks like.

39. The council continues to look for opportunities to share services but has limited formal arrangements in place. The council does share a chief internal auditor with Midlothian Council and has an arrangement with the

City of Edinburgh Council who carry out insurance services on its behalf following the retirement of the person undertaking this work.

40. The council has completed a limited number of corporate digitalisation projects. Auditors concluded that the council needs to increase the pace of roll out of its digital transformation projects and address capacity issues within the IT team. Measures for the impact of digital technology on workforce productivity and service outcomes need to be developed. The council could also better set out how it expects digital technology to shape its future workforce, and the progress it is making in tackling digital exclusion among its staff.

41. The council conducted an employee engagement survey in 2023 focused on staff health and wellbeing with an overall response rate of just under 46 per cent. In the survey, 50.9 per cent of wider council staff, 81.5 per cent of teachers and 44.7 per cent of non-teaching school staff who responded reported work-related stress and concerns about workload. The council developed a corporate action plan in response to the 2023 staff survey, actions from which have been integrated into the workforce plan action plan, and a range of initiatives are in place to promote staff wellbeing.

42. The council has revised its flexible and homeworking policies and developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely but has not applied this. Auditors have recommended that the council should review the effectiveness of its Work Smart policy.

Financial management and sustainability

43. The auditor concluded that the council's medium-term financial plans reflect the council's strategic priorities, budget and savings plans are aligned with the 2022-27 Council Plan, and that the council has appropriate budget-setting and monitoring arrangements in place. The auditor highlighted, however, ongoing internal control inconsistencies and inefficiencies at the council, which increase the risk of control weaknesses. Measures need to be put in place to address these issues before the council migrates to a new financial system.

44. The council recognise the financial challenges facing the organisation and in August 2024 approved the Transformation Strategy 2024-29 to help address longer-term sustainability issues.

45. The council's planning context includes population growth, with a 12.6 per cent increase between 2011 and 2022 (99,717 to 112,300 people) and it has a slightly higher proportion of people over 75 years old (9.8 per cent compared to the Scottish average of nine per cent).

46. In 2022/23, the council reported a £6 million overspend, and the general fund balance fell from £29.7 million to £26.4 million. An overspend was also reported for 2023/24 when the council overspent

by £12.3 million. The council have been unable to fully deliver against its savings plans and mitigation actions.

47. Of the £12.3 million overspend in 2023/24, £3.1 million was met from IJB reserves and £9.2 million met from council reserves. Despite the overspend, the General Fund balance increased by £7.8 million to £34.2 million as the council made use of financial flexibilities relating to service concession arrangements (PPP/PFI).

48. The overall general fund balance at 31 March 2024 was £34.2 million, with £26.6 million earmarked for specific priorities. The uncommitted balance was £7.6 million or 2.2 per cent of the revenue budget for the year. The council's policy was to hold a minimum uncommitted general fund balance of £7.2 million.

49. The financial strategy 2025-30 sets a target minimum unallocated general fund balance of 2.5 per cent of the net revenue budget, which would be £8.6 million based on the 2025/26 budget. Key financial information for the council is included in [Exhibit 1](#).

Exhibit 1.

East Lothian Council – key financial information

Budget-setting	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Budget gap	12.9	19	17.3	17.7
Planned to be met via:				
• Savings and flexibilities	0.4	6.7	9.8	2.3
• Use of reserves	8.7	7.4	2.9 ¹	5.9 ¹
• Additional council tax/funding	3.8 (3%)	4.9 (7%)	4.6	9.5 (10%)
Actual				
Savings delivered	0.4	5.8 (87%)		
Reserves			Forecast²	
Use of / (contribution to) reserves	(6.5)	(10.3)	2.2	
Total usable reserves carried forward	45.2	55.5	53.3	
• General fund	26.4	34.2	36.1	
– Earmarked	19.2	26.6	27.6	
– Uncommitted	7.2	7.6	8.5	

Notes:

1. Includes use of capital reserves.

2. Council provided figures May 2025.

Source: Council accounts, committee papers and provided figures

50. Of the councils £26.6 million earmarked general fund balance at the 31 March 2024, £18.5 million is earmarked for transformation, £1.1 million is earmarked for future budgets, £1.1 million is held in respect of devolved school management, and £1.8 million is earmarked for other purposes. Remaining amounts relate to affordable housing (£1.6 million), Scottish Futures Trust funding (£1.3 million) and service concession support (£1 million).

51. The council's total usable reserves carried forward at 31 March 2024 (£55.5 million) represents 17.1 per cent of its budget. This is below the family group and national averages, which are 21 per cent and 23.9 per cent respectively. The council was ranked 26 for this LGBF indicator.

52. The council is forecasting a further overspend in 2024/25 and an unplanned use of reserves of £1.1 million (February 2025 quarter 3 financial review). It is expected that total usable reserves will fall by £2.2 million, to £53.3 million, when the outturn is reported for 2024/25 (based on figures provided by the council at the end of May 2025).

53. The council's current financial strategy includes a set of budget development principles which includes a commitment to minimising the use of one-off resources to balance the budget and ensuring that use of reserves is limited to investment that will deliver ongoing cost reduction.

54. The auditor is satisfied that reserves levels are being regularly reviewed but highlights ongoing sustainability issues associated with using reserves to fund recurring expenditure. A clear plan and effective management of the council's reserves will be a necessary part of maintaining financial sustainability. Given the scale of the financial challenge, auditors have recommended that the council develop financial resilience indicators and resilience measures with a greater emphasis on its reserve position.

55. When the budget was set for 2025/26, the council identified savings of £2.3 million and planned to use £5.9 million of capital reserves to smooth loan charges. A council tax increase of ten per cent was approved.

56. The council is forecasting a cumulative budget gap of £45.9 million for the period 2026/27 to 2029/30 (based on a flat cash settlement and five per cent increases in council tax). This assumes the proposed savings of £2.3 million are delivered in 2025/26. The council has yet to set out how it will close its budget gap for 2026/27 and beyond, and elected members will need to work together to take some difficult decisions.

Housing revenue account

57. In 2023/24, the council planned for and delivered a surplus on the HRA prior to the charging of £1.3 million of capital expenditure to revenue. The HRA reserve increased slightly to £1.5 million.

58. Gross rent arrears as at 31 March as a percentage of rent due for that year increased from 5.8 per cent in 2022/23 to 6.3 per cent in 2023/24.

Delivery of the capital programme

59. The council approved a general services capital programme for 2023/24 of £98.9 million, and a housing capital programme of £33.9 million.

60. The outturn on the general services capital programme spend was reported as £51.1 million for 2023/24, representing a slippage of 53 per cent against the revised budget. The underspend reflects measures agreed by the council to pause or delay any uncommitted expenditure as well as a variation from the expected timing of spend across a number of projects.

61. The housing capital programme outturn was reported as £42.9 million for 2023/24, £9 million higher than the original budget. This reflects the increase in the number of new build council house sites which has been met by additional grant funding and an increase in borrowing.

62. The council's overall capital financing requirement (its underlying need to borrow) increased from £567.7 million to £625 million in 2023/24. The council's ratio of general fund financing costs to net revenue stream in 2023/24 was below the family group and national averages (ranked ten). While the HRA financing cost ratio is above family group and national averages (ranked 21 out of 26). The auditor has recommended that the council should establish clear indicators to support its assessment of the ongoing affordability of the capital programme.

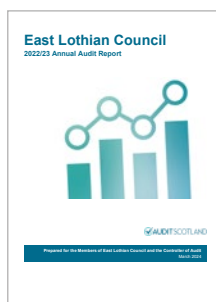
Appendix 1

2022/23 and 2023/24 Annual Audit Reports

These reports summarise the findings from the 2022/23 and 2023/24 annual audits of East Lothian Council.

Each Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts
- conclusions on the council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
 - Financial management
 - Financial sustainability
 - Vision, leadership and governance
 - Use of resources to improve outcomes.



2022/23 Annual Audit Report **East Lothian Council** March 2023



2023/24 Annual Audit Report **East Lothian Council** March 2024



Appendix 2

Best Value Statutory Guidance

The Local Government in Scotland Act 2003 introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

East Lothian Council



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500 Email: info@audit.scot

www.audit.scot

ISBN 978 1 915839 77 0

Appendix 2 - Accounts Commission – Controller of Audit Report Key Findings

1. Against the demand challenges presented by East Lothian's growing population, the council has improved or maintained performance across many service areas. But this is set against the use of reserves to balance budgets. The council recognises that this is no longer sustainable, and we are pleased to see a financial strategy that commits to limiting the use of one-off resources going forward and to using reserves for 'invest to save' initiatives. Elected members must continue to work together to take the difficult decisions necessary to address the projected cumulative budget gap and ensure financial sustainability.

- a. ELC management response:

- i. Managing the financial environment and the financial sustainability remains a key priority of the Council, and Council reports and strategies remain aligned to this priority.
 - ii. The Council-approved financial strategy aims to minimise the use of reserves, and this objective was evidenced through the approved budget for 2025/26. The strategy includes the establishment and use of a Transformation Fund which supports investment in critical areas to support transformation and financial sustainability.
 - iii. The cross-party budget working group remains a fundamental pillar to support effective discussions aligned to the budget development process. The 2025-26 budget achieved cross party support, and discussions are progressing on developing budget proposals for 2026-2031.

2. In response to resource and demand-led pressures, the Council Plan now focuses on a smaller number of key priorities, underpinned by its financial strategy, transformation strategy and workforce plan. A focus on defining actions, setting clear targets, maintaining oversight of performance, and clearly articulating required improvement actions for these plans is important, if the council's ambitions are to be realised. As auditors have recommended, the council must also be clear about what is an acceptable level of performance in non-priority areas.

- a. ELC management response:

- i. The Council has a wide range of statutory duties and functions. Key performance areas are closely monitored and reviewed by the Council Management Team and political oversight and scrutiny are reported through the Council's governance structures.
 - ii. The Council has been reviewing its strategic approach to performance reporting and some key areas of development are summarised below:
 1. Wider scrutiny of performance has been an area of review by PPRC, and the Committee supported by officers and the Improvement Service, have undertaken a self-assessment to support and enhance effective scrutiny and drive forward improvement. A development plan will be presented to PPRC in September to support member development.

2. The Council Management Team has been undertaking a review of performance indicators, and wider oversight in terms of reporting to inform future discussions both at official and political level aligned to the future shape and delivery of services going forward.
 3. A refreshed approach to performance reporting was presented to PPRC in June 2025, which includes a focus on both strategic and service level performance and structured around the Council's key strategies and priorities. The first Directorate level performance reports will be presented to PPRC in September 2025.
 4. In addition, national Local Government Benchmarking report continues to be presented to PPRC, and additional training will be developed for members to support effective scrutiny.
 5. Officers have been progressing a review of the workforce plan with reference to the audit Best Value thematic recommendations. This review has included a review of actions and SMART measurable targets and alignment with enhanced service planning. An update will be presented through the Council's political governance in forthcoming months.
 6. Work has been ongoing to review the Council Plan Action Plan including alignment with Performance reporting. A separate report will be presented to Council in August 2025, including a reduction and refocus from 68 actions to 36.
- iii. Given the challenging fiscal environment and enhanced demands, the need to consider Best Value in how the Council resources are allocated within the budget is an important and ongoing area of focus. This also remains an important area to support both local and national discussions around the level of funding and impact of funding in supporting outcomes for our communities.
3. We expect to see evidence in subsequent audits of significant progress in relation to the council's transformation strategy. Of particular importance is ensuring capacity to deliver its digital transformation projects, which have the potential to shape the workforce of the future and lay the foundations for service transformation. We encourage digital and finance teams to continue to work collaboratively as a new finance system is implemented, so that risks are minimised and the system's full benefits can be realised, including improved efficiency and more robust internal controls.
- a. ELC management response:
- i. In August 2024, Council approved a refreshed Transformation Strategy from 2024-2029, and an annual update setting out progress on the Transformation Strategy will be presented to Council in August 2025.
 - ii. The Transformation Strategy remains aligned to support the financial sustainability of the Council and has a number of key

enablers and strategic objectives, including to support digital transformation.

- iii. The Council has already earmarked a transformation fund to support organisational change, and this fund has been used to support investment in digital technology particularly investment to enable the development of the new Finance system.
 - iv. The Council has in place a Digital Transformation Board which is chaired by the Executive Director for Council Resources and remains the key focus for strategic digital workstreams.
 - v. The Council's focus to date has been on progressing with upgrading key corporate systems which remain fundamental to the effectiveness of the delivery of council services and supports the wider customer and transformation journey.
 - vi. The implementation of the new finance system remains a critical priority for the organisation and is on progress to implement the first phase in autumn 2025. This new system will result in enhanced integration, and automation and standardisation of many processes which required manual interface.
4. Like many councils, East Lothian faces persistent workforce capacity, recruitment and retention challenges, so we would encourage it to build on its existing workforce planning foundations and fully implement the auditors' recommendations as a matter of priority. The council should also continue to seek opportunities to collaborate and share services and staff with other councils and partners. The Commission recognises the council's commitment to leadership development for officers, and training for elected members on effective scrutiny. Ensuring continued development for councillors is critical given the difficult choices that lie ahead.
- a. ELC management response:
 - i. The Council's workforce plan was approved by Cabinet in 2023 and remains in place until 2027. Officers have been reviewing the workforce plan action plan in line with the Audit recommendations to there are clear deliverable actions, and to further integrate workforce planning within strategic plans and service plans.
 - ii. This work has been overseen by the Council Management Team and the Head of Corporate Support has now taken over as Senior Responsible Officer to oversee strategic workforce planning. An update will be presented through the Council's political governance in forthcoming months.
 - iii. The Council has in place a number of shared services, such as Insurance and Internal Audit, and continues to explore wider opportunities which would support a shared services / collaboration with other councils where it is feasible and beneficial to do so. Shared partnership working with a broad range of stakeholders including other Councils remains a key focus, with significant regional discussions progressing through City Region Deal partnership. An update on the City Region Deal and areas of

focus will be presented to Council in October. Effective partnership and collaborative working remains a fundamental priority for the Council.

- iv. The Council Management Team remains committed to Leadership Development and over recent years has continued to support a broad programme of leadership development across the organisation including Aspiring Leaders Programme, sponsored by Executive Director for Education & Children's Services.
 - v. The Council continues to support elected member development, and in March 2025 facilitated a Member development session supported by the Improvement Service to support scrutiny, and further work has also been undertaken to conduct self-evaluation assessments within scrutiny Committees in Audit & Governance and Policy Performance Review Committee. Ensuring Members have the continued skills, and knowledge to support effective decisions remains an important and on-going area of development.
5. The council's commitment to community engagement and empowerment is demonstrated through its service structures and delegated funding. We were encouraged by the way the council engaged with residents in advance of decisions on council tax (as part of setting its 2025/26 budget) and look forward to hearing about how its new Participation and Engagement Strategy can deepen dialogue with communities about the difficult choices that lie ahead. Community views will be invaluable to the cross-party budget working group when taking tough decisions about prioritisation and future budgets.
- a. ELC management response:
 - i. Community engagement and empowerment remains fundamental to support the delivery of council services and aligned to the needs of our communities. The Council has supported extensive engagement with the community on a broad range of issues, and on-going engagement remains fundamental to support Council decisions.
 - ii. The cross-party budget agreed in February 2025, recognised a joint commitment to ensure that we continue to support effective and meaningful engagement in reporting and monitoring the financial decisions that underpin the budget. A participation and engagement strategy remains under development with the aim to support and enhance our community engagement and consultation.
 - iii. Consideration will be given to running a budget survey in order to supplement this work ahead of the 2026-27 budget. This will help to inform future decisions to support the sustainability and direction of the Council.
6. A high response rate to the council's most recent staff engagement survey is encouraging and we look forward to seeing what more it does in future surveys to encourage and facilitate more front-line, non-office-based staff to complete the survey. The survey

identified issues around work-related stress and workloads, so it is important to have a complete picture, allowing appropriate action plans to be developed and implemented.

a. ELC management response:

- i. Staff engagement and consultation remains fundamental to the effective running of the organisation and remains even more critical given the organisation focus and need to support effective change to support ongoing financial sustainability to support the delivery of community outcomes.
- ii. Officers have also been reviewing how we engage with the workforce and have developed a range of interventions including staff engagement survey, toolbox talks etc to ensure that our workforce are engaged and supported. In addition, the new Chief Executive has introduced a weekly video message to staff, designed to inform and engage all areas of the workforce.
- iii. Wider staff engagement will continue to be developed and supported to ensure that all staff have the opportunity to engage and support effective and open communication across the organisation. In June 2025 the Council Management Team considered and approved a series of recommendations to develop and improve staff engagement, the effectiveness of the employee survey and actions to address digital exclusion in the workforce. These improvements will be implemented over the coming months.
- iv. Officers have been developing and updating an integrated approach to service planning and workforce planning which incorporates a continued focus on health and wellbeing. The Head of Corporate Support has now taken over as Senior Responsible Officer to oversee strategic workforce planning, and an update on the workforce plan will be presented through the Council's political governance in forthcoming months.