

<b>COMMITTEE:</b>	<b>Audit and Governance</b>
<b>MEETING DATE:</b>	16 June 2026
<b>BY:</b>	Depute Chief Executive - Resources and Economy
<b>REPORT TITLE:</b>	<b>Annual Governance Statement - 2025/2026</b>
<b>REPORT STATUS:</b>	Public

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## **1 PURPOSE OF REPORT**

- 1.1 To present the draft Annual Governance Statement (AGS) 2025/2026 and provide the Audit and Governance Committee with the opportunity to scrutinise the Statement prior to it being included in the draft Annual Accounts 2025/26.

## **2 RECOMMENDATIONS**

Members are recommended:

- 2.1 To scrutinise the Annual Governance Statement prior to it being included in the draft Annual Accounts 2025/26, attached at appendix 1.
- 2.2 To note the approach taken to develop and inform the Annual Governance Statement 2025/26 and the conclusion reached that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.
- 2.3 To approve that the Annual Governance Statement is published in the Council's Annual Accounts 2025/26, noting the requirement for the final Statement to be signed by the Chief Executive, Depute Chief Executive - Resources and Economy (Chief Financial Officer), and Leader of the Council at the conclusion of the external audit process.

## **3 BACKGROUND**

- 3.1 As members will be aware, the Council is accountable to the public and other stakeholders for ensuring that there is a sound system of governance. To support this, the Council is required to prepare and

publish an Annual Governance Statement (AGS) as part of the Annual Accounts.

- 3.2 In December the Council approved the Local Code of Corporate Governance which aligns to the principles of good governance set out in the Chartered Institute of Public Finance & Accountancy and Society of Local Authority Chief Executives model framework Delivering Good Governance in Local Government (“the CIPFA/SOLACE framework” 2016) (including the May 2025 addendum).
- 3.3 This Local Code provides a framework to assess where the Council is in terms of governance. This exercise was carried out by the Council’s Corporate Leadership Team and tests the design of the Council’s internal control framework (minor tracked changes made) and improvement actions were developed, attached at Appendix 2.
- 3.4 The exercise does not attempt to rate how effectively or consistently controls were applied. This is undertaken during the population of assurance schedules by members of the Corporate Leadership Team. Each Head of Service and Depute Chief Executive was required to provide a detailed assurance statement on compliance principles set out in the Local Code and identify any areas for improvement. To further strengthen the approach to the review of the application of controls, Heads of Service also carried out a detailed self-evaluation to inform their assurance schedules. Together these exercises combine to provide a holistic look across the Council’s control framework, incorporating both design and application and provide a strong basis to draft the AGS.
- 3.5 In addition, reviews of Internal Audit, External Audit and other assurance providers work was completed by the Monitoring Officer.
- 3.6 Section 8 of the Statement sets out the Progress on 2024/25 Improvement Areas of Governance and Section 10 sets out a governance action plan for 2026/2027.
- 3.7 The Statement concludes 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 There are no direct policy implications. Consideration of policy is made within the Annual Governance Statement and Local Code of Corporate Governance.

#### **5 RESOURCE AND OTHER IMPLICATIONS**

- 5.1 Finance: There were no additional resource requirements to develop the 2025/26 Annual Governance Statement.
- 5.2 Human Resources: The assurance process and draft statement was led by the Council’s Monitoring Officer and had input from all senior officers.

- 5.3 Other (e.g. Legal/IT): None
- 5.4 Risk: Risk is a key element of the Annual Governance Statement and commentary is provided throughout.

## 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.

**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](https://www.eastlothian.gov.uk/info/210602/equality_and_diversity/12014/integrated_impact_assessments)

## 7 APPENDICES

- 7.1 Appendix 1 – East Lothian Council Draft Annual Governance Statement, 2025/26
- 7.2 Appendix 2 – East Lothian Draft Local Code of Corporate Governance

## 8 BACKGROUND PAPERS

- 8.1 [CIPFA/SOLACE Addendum to Delivering Good Governance, May 2025](#)

## 9 AUTHOR AND APPROVAL DETAILS

### Report Author(s)

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<b>Date</b>	02 June 2026

### Head of Service Approval

<b>Name</b>	Sarah Fortune
<b>Designation</b>	Depute Chief Executive
<b>Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed</b>	Confirmed
<b>Approval Date</b>	05 June 2026

### 1. Introduction

This Annual Governance Statement explains how the Council has maintained sound governance arrangements during the financial year 1 April 2025 to 31 March 2026, and up to the date of signing.

The Annual Governance Statement explains how the Council has complied with the Council's Code of Corporate Governance (the Local Code), sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness.

The conclusion from the review activity completed and subject to the successful progression of the areas for improvement highlighted below, 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.

### 2. 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.

This statement also covers the organisations included in the Council's Group Accounts.

This Statement has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014, the Council's Local Code of Corporate Governance, and CIPFA/SOLACE Delivering Good Governance in Local

Government (2016) framework and the May 2025 addendum.

### 3. The Governance Framework

East Lothian Council decision-making responsibilities are exercised by the full Council, Cabinet, and service and regulatory committees. The full Council, comprising of all elected members, is responsible for setting the strategic direction of the authority, including approval of the budget and key strategies, and for ensuring overall democratic accountability. The Cabinet plays a central role in advancing the Council's priorities, policies and overseeing delivery of the Council Plan, while service committees provide oversight and scrutiny of performance, policy implementation and service delivery across their respective areas.

These arrangements are supported by the scrutiny committees, including the Audit & Governance Committee, which provides assurance on the effectiveness of risk management, internal control and financial governance, and the Policy and Performance Review Committee providing scrutiny on Council performance. A clearly defined Scheme of Delegation sets out the responsibilities of officers, ensuring that decisions are taken at the appropriate level and in accordance with established procedures.

This is a high-level summary of decision-making arrangements and does not set out all governance groups. The Council's Standing Orders including the Scheme of Administration and Scheme of Delegation are available on the Council's website.

A Chief Officer structure is in place with new appointments to the positions of Chief Executive (Head of Paid Service), Head of Development and Head of Communities within the reporting period.

Collectively, these arrangements support transparent, accountable and effective decision-making, with appropriate checks and balances and a clear alignment between political leadership and officer management.

The Council Plan 2022–2027 is the Council's key strategic document, setting out the overarching vision, priorities and direction for East Lothian alongside the supporting actions required to deliver these outcomes.

Following a review in 2022 and 2024, the Council agreed to reprioritise the Plan to reflect a changing operating environment, resulting in three core priorities:

(1) ensuring the financial sustainability of the Council through delivery of approved savings and transformation of services;

(2) targeting resources on statutory services and focusing on the highest risks and those most in need; and

(3) delivering key infrastructure, economic development and environmentally sustainable projects within available resources while maximising external funding.

Within the reporting period, the Council Plan Action Plan has been updated and streamlined, reducing the number of actions from 68 to 36, with a clearer alignment to these priorities and removal or consolidation of actions now considered business as usual, thereby providing a stronger focus on delivery and performance. As noted later in this statement, the Corporate Leadership Team has commenced the development of a new Council Plan to align with the Council's budget development strategy for 2027.

Further, East Lothian Council delivers its priorities through a range of established partnership arrangements that support integrated planning, service delivery and regional collaboration. This document does not attempt to list all partnership arrangements but central to this is the East Lothian Partnership, the Council's Community Planning Partnership. Similarly to most other authorities, the Council is a constituent partner alongside NHS Lothian within the East Lothian Integrated Joint Board with responsibility for the strategic planning, commissioning and oversight of integrated health and social care services, while the Council (and NHS Lothian) retain responsibility for the operational delivery of delegated services.

At a regional level, the Council is a key partner in the Edinburgh and South East Scotland City Region Deal, working collaboratively with neighbouring local authorities, the Scottish and UK Governments, and other partners to drive inclusive economic growth, investment in infrastructure and skills development.

#### 4. Our Review of Effectiveness Process

Following consideration by the Audit and Governance Committee, East Lothian Council approved its Corporate Governance Framework in December 2025, which is consistent with the principles and requirements of the CIPFA/SOLACE *Delivering Good Governance in Local Government* (2016) framework and the May 2025 addendum relating to the annual review of governance and the Annual Governance Statement. In doing so, the Council specifically approved the East Lothian Council Local Code of Corporate Governance and noted the approach to the 2025/26 annual assurance process. This process was led by the Council's Monitoring Officer on behalf of the Chief Executive.

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been undertaken.

The review has been informed by assurances from:

- assessment of compliance with the Local Code of Corporate Governance (by key operational officers and the Corporate Leadership Team);
- written assurance statements from the Depute Chief Executives and Heads of Service;
- the Internal Audit annual opinion, findings and recommendations;
- External Audit, including comments and recommendations from the External Auditor; and
- other external scrutiny bodies and inspection agencies.

The outcome of this review is set out in this Annual Governance Statement. The Statement does not include an extensive description of the different aspects of the authority's governance arrangements, as these are available in the Local Code.

### Internal Audit

The Council's Internal Audit function operates in accordance with the Global Internal Audit Standards (GIAS) and provides independent, risk-based assurance on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control, including its group components and the East Lothian Integration Joint Board. During 2025/26, Internal Audit completed 10 audit reviews aligned to the Council's key risks and priorities, with the majority of opinions assessed as reasonable assurance, alongside one substantial assurance and one ungraded review. Across these audits, a total of 56 recommendations were made to strengthen control arrangements, with all recommendations accepted by management.

Internal Audit has identified areas where improvements are required, including strengthening internal governance processes, improving IT system controls, enhancing oversight of group entities, and ensuring consistency in staff performance management arrangements. In addition, significant strategic risks remain in relation to the Council's financial sustainability, asset maintenance and housing pressures, all of which continue to be actively managed. Taking account of the work undertaken, the findings reported and progress made in implementing prior recommendations, Internal Audit's annual conclusion is that reasonable assurance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2026, recognising that further improvements are required in the areas identified.

### External Audit

East Lothian Council's most recent Best Value report was published by Audit Scotland (on behalf of the Accounts Commission) on 3 July 2025 and was based on evidence collected by auditors in the 2022/23 and 2023/24 annual audits. Since then, Audit Scotland has also completed the 2024/2025 Annual Audit Report. Both reports are available on the Council website.

A summary table of the key findings of the Best Value report, agreed management actions and the current status has been included below. The actions continue to be tracked and progress updates reported regularly to the Audit and Governance Committee. There is further commentary on several of the actions later in this statement.

Finding	Action	Status
1	Continue to progress the delivery of the Council's financial strategy and work towards the development of balanced budgets for 2026/27 onwards.	Balanced budget set in February 2026. See further commentary below.
2	Deliver a plan to PPRC to support elected member development.	Complete
2	Finalise and implement review of performance reporting	Complete. See commentary below to further develop performance reporting.
2 & 4	Finalise review of Workforce Plan	Under development and is aligned to the development of the new Council Plan, scheduled for December 2026.
2	Complete review of Council Plan Action Plan to refocus actions and present to Council	Complete
3	Implement and develop new finance system	The first phase of the new system is currently being replanned and will likely be scheduled for implementation in Autumn 2026 and will be delivered in several phases thereafter.
4	Annual report on ESES City Region Deal to Council	Complete
5	Finalise development of participation and engagement strategy	In February 2026, the Council agreed to work to strengthen community engagement and to commission an independent peer review to provide objective assessment and

		recommendations for future delivery. This Review is underway, and Council will consider recommendations within the next reporting period including the development of a participation and engagement strategy.
6	Implement planned improvements to staff engagement and the employee survey	Complete. See commentary below to further address staffing matters.

## 5. Our Assessment of Effectiveness

The key elements of the Council's governance arrangements, as set out in the Council's Local Code of Corporate Governance are summarised below. As noted above, this summary is not intended to provide a comprehensive description of all aspects of the Council's governance framework; full details are set out in the Local Code of Corporate Governance, which is available on the Council's website

Principle	Key Arrangements (Summary)
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	<ul style="list-style-type: none"> <li>• Code of Conduct for Councillors</li> <li>• Standing Orders, including Scheme of Administration, Scheme of Delegation, Councillor/Officer Protocol and Financial Regulations</li> <li>• The East Lothian Way Values and Behaviours (Council Plan)</li> <li>• Employee Performance Review and Development</li> <li>• Appointment of statutory officers</li> <li>• Whistleblowing Policy</li> <li>• Counter Fraud Strategy and Policy</li> <li>• Procurement Strategy (2023–2028)</li> </ul>
B. Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> <li>• Council meetings held in public and webcast</li> <li>• Committee report templates, including impact assessments</li> <li>• Access to Information Policy</li> <li>• Local Outcome Improvement Plan (2026–2036)</li> <li>• East Lothian Partnership Engagement Report (2025)</li> <li>• East Lothian Residents Survey</li> <li>• Community Engagement Review</li> <li>• Partnership working arrangements across sectors</li> <li>• Area Partnerships structure</li> <li>• Consultation Hub ("We asked, you said, we did")</li> <li>• Trade Union Recognition Agreement</li> </ul>
C. Defining outcomes in terms of sustainable	<ul style="list-style-type: none"> <li>• Local Outcome Improvement Plan (2026–2036)</li> <li>• Council Plan (2022–2027, reprioritised 2024/25)</li> <li>• Quarterly financial performance reporting</li> </ul>

economic, social, and environmental benefits	<ul style="list-style-type: none"> <li>• Refreshed Performance Framework</li> <li>• Risk Management Strategy</li> <li>• Five-Year Financial and Capital Strategies</li> <li>• Transformation Strategy (2024–2029)</li> <li>• Procurement Strategy including community benefits</li> <li>• Equality Plan (2025–2029)</li> <li>• Integrated Impact Assessments</li> </ul>
D. Determining the interventions necessary to optimise the achievement of intended outcomes	<ul style="list-style-type: none"> <li>• Council-approved budget process and Cross-Party Budget Group</li> <li>• Budget modelling and scenario planning</li> <li>• Five-Year Financial and Capital Strategies</li> <li>• Business case development and approval processes</li> <li>• Performance Framework</li> <li>• Improvement Framework – Improvement to Excellence</li> <li>• Service planning (three-year plans with annual review)</li> <li>• Quarterly financial performance reporting</li> <li>• Procurement Strategy (2023–2028)</li> <li>• Community Wealth Building Charter and action plan</li> <li>• Integrated Impact Assessments</li> </ul>
E. Developing the entity's capacity, including leadership capability and workforce	<ul style="list-style-type: none"> <li>• Elected Member Induction and briefing programme</li> <li>• Regular leadership meetings (Chief Executive, Leader, Provost, Group Leaders)</li> <li>• Fortnightly Council Leadership Group</li> <li>• Service planning arrangements</li> <li>• Asset Review / Place-Making Programme</li> <li>• Improvement Framework – Improvement to Excellence</li> <li>• Transformation Strategy (2024–2029)</li> <li>• Workforce Plan (2023–2027)</li> <li>• Leadership development programmes</li> <li>• Staff learning and development programme</li> <li>• Employee Performance Review and Development</li> <li>• HR policies framework</li> </ul>

<p>F. Managing risks and performance through robust internal control and strong public financial management</p>	<ul style="list-style-type: none"> <li>• Audit &amp; Governance Committee</li> <li>• Risk Management Strategy and Policy</li> <li>• Risk Appetite Statement</li> <li>• Corporate Risk Group</li> <li>• Corporate and Service Risk Registers</li> <li>• Business case governance processes</li> <li>• Performance Framework</li> <li>• Improvement Framework</li> <li>• Service planning arrangements</li> <li>• Procurement Annual Report</li> <li>• Financial Regulations</li> <li>• Counter Fraud Strategy and Policy</li> <li>• Integrity Group</li> <li>• Access to Information Policy</li> <li>• Records Management Policy</li> <li>• Data sharing protocols</li> </ul>
<p>G. Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<ul style="list-style-type: none"> <li>• Performance Framework and public performance reporting</li> <li>• Council meetings held in public and webcast</li> <li>• External Audit reports to Committee</li> <li>• Internal Audit Charter and annual plan</li> <li>• Annual Assurance process</li> <li>• Statutory Annual Accounts</li> <li>• Other statutory annual reports</li> <li>• Council Improvement Plan</li> </ul>

## 6. Governance Improvements During the Year

As part of the Council's continuous improvement approach, the following areas were identified as governance improvements in 2025/2026:

- The Monitoring Officer conducted a review of officer governance and decision-making arrangements. The key objectives of the review were to ensure that the Corporate Leadership Team was fully informed of all governance groups currently in place across the organisation; to confirm that appropriate governance documentation was in place; to clarify lines of accountability and reporting; and to identify any governance gaps, risks or duplication. Where possible, proposals were developed to streamline governance arrangements. Individual delegations within the Scheme of Delegation and operational service management decisions were out of scope. The Corporate Leadership Team approved recommendations in June 2025 and October 2025 in relation to "tier one" governance groups (Executive Leadership Team, Corporate Leadership Team and Senior Leadership Team) and "tier two" groups reporting directly to these groups, in support of these objectives. These changes strengthened governance by improving transparency, clarifying accountability, and reducing duplication across decision-making structures.

- The Council approved changes to the Chief Officer structure, providing stability and clarity following a period during in which temporary arrangements had been in place. This improved governance by ensuring clear leadership responsibilities and consistent strategic oversight across services.
- A revised Council Action Plan was approved in August 2025, prioritising the actions set out in the Council Plan 2022–2027 (revised in 2024). Senior officers have also commenced the development of a new Council Plan for 2027 onwards. This enhances governance by strengthening strategic alignment, prioritisation, and the Council's ability to monitor delivery of key objectives.
- The Local Outcome Improvement Plan (LOIP) was approved by the East Lothian Community Planning Partnership Board on 9 March 2026, including the associated governance structure, and was subsequently noted by the Council. This improves governance by reinforcing partnership accountability and ensuring clear oversight of shared outcomes with community planning partners.
- The Risk Management Strategy 2026–2028 was approved providing a structured and consistent approach to identifying, managing, and monitoring risks across the organisation.
- The Financial Regulations were updated and approved reflecting the current practice.
- The Council approved a new approach to performance reporting, further rolled out the corporate approach to self-assessment and further embedded service planning across the organisation. These improvements enhance governance by enabling better monitoring of performance, supporting evidence-based decision-making, and driving continuous improvement. Please see Forward Look section below.
- A review of digital decision-making took place within the reporting period to is strengthening the Council's ability to provide clear decision routes, manage digital risks, and develop internal controls for the approval, monitoring and review of digital systems. Please see the Forward Look section below.
- The Council has continued to strengthen its cyber security posture in response to the elevated risk environment and sector-wide incidents. This has included ongoing internal audit activity and assurance reviews to validate the effectiveness of existing controls, alongside targeted technical assessments to identify and remediate vulnerabilities within key systems.

In parallel, the Council has enhanced its incident response capability through the development and refinement of formal response plans and monitoring processes, ensuring that potential threats can be identified, reported and managed in a timely and coordinated manner. As part of this, a multi-agency cyber incident table-top exercise (Project Blue Claw) was undertaken to test organisational readiness, decision-making and response coordination in the event of a significant cyber incident. These activities were further informed by precautionary actions taken within the education environment in response to technical antivirus alerts (no compromise confirmed).

These steps will be built upon in 2026/27. Planned activity includes ongoing risk assessment and assurance work to ensure controls remain effective against an evolving threat landscape, alongside continued investment in technical controls, vulnerability management, and monitoring capabilities. The Council will also further embed its incident response arrangements, including learning from recent exercises and operational events, and aligning processes with national guidance and best practice. Collectively, these actions are intended to strengthen the Council's ability to prevent, detect and respond to cyber threats, while maintaining continuity of critical services.

- The Integrity Group was established in September 2025, chaired by the Council's Monitoring Officer and is a formal sub-group of the Corporate Leadership Team. The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering) and provides assurance to the S95 Finance Officer, the Corporate Leadership Team and to the Audit and Governance Committee. The Counter Fraud Strategy and Policy, along with the Corporate Fraud Risk Assessment, were also approved.
- Other key policy updates during the year included the Anti-Bribery Policy and the Access to Information Policy.
- Governance has been strengthened within some of the Council's Group Components and strategic partnerships including the Edinburgh Innovation Hub where the Chief Executive of the Council is a Board Member and the formulation of a Board overseeing the development of the Blindwells Strategic Outline Business Case.

## 7. Improvement Areas of Governance

- As noted within the 2024/2025 Annual Governance Statement, weaknesses have previously been identified by both Internal and External Audit, as well as the Finance Team, within the control environment for

purchasing and payment authorisation. These are being addressed through the implementation of a new financial system.

However, the implementation of the new system has been delayed, and the Council has therefore continued to operate using its existing manual processes and multiple systems throughout 2025/26. The first phase of the new system is currently being replanned and will likely be scheduled for implementation in Autumn 2026 and will be delivered in a number of phases thereafter.

It was also noted that there has been an upward trend in the use of single-source procurement and Voluntary Ex Ante Transparency (VEAT) notices. The Procurement Team has continued to monitor this throughout 2025/26. To support improvement, a contract and supplier management online training module, alongside face-to-face training, is being rolled out to contract owners and managers. This is intended to strengthen contract management practices and support forward planning of procurement activity, with completion targeted by summer 2026.

- The Council continues to operate within a very challenging financial environment, with further savings and pressures anticipated in the coming years. A lack of clarity regarding future funding settlements creates uncertainty and makes medium-term financial planning particularly challenging.

In December 2025, the Council approved the Financial and Capital Strategies for the period 2026/27 to 2030/31, setting out how it intends to manage its resources over this period to achieve financial sustainability. The *Budget Development 2026/27 Onwards* report, presented to Council in February 2026, outlined the local and wider economic context within which budgets have been developed. It also highlighted the key factors contributing to the funding gap between forecast income and expenditure demands.

Following recommendations from Internal Audit and Audit Scotland, a statement was prepared setting out the Section 95 Officer's opinion. This concluded that, while the budget proposals for the forthcoming financial year were considered competent, the funding gap beyond this period remains significant and presents a risk to the Council's ability to set balanced budgets in future years. It also noted that unallocated general balances, held to mitigate unforeseen risks and emergencies, remain low relative to the overall risk environment.

The Corporate Leadership Team has commenced planning for the 2026/27 budget aligned to the development of a new Council Plan and is undertaking a review of current Strategic Change (formerly

Transformation) portfolio. A significant programme of change will be required to respond to financial and operational challenges, particularly in the context of sustained service demand and growth pressures.

- The Homeless Persons (Unsuitable Accommodation) (Scotland) Order came into effect on 1 October 2021. As noted in the Council's 2024/2025 Annual Governance Statement, the Council is in breach of this Order. The Housing Service has implemented a range of measures to address this issue, with a significant reduction in the number of breaches. Breaches have reduced from a peak of 152 in Q2 2023/24 to 75 by the end of 2025/26, with a total of 15 breaches recorded as at 31 March 2026.

The Scottish Housing Regulator met with the Council in March 2026 and welcomed the improvements and transformation work undertaken across the service. As a result, the Council's status was revised from being at "heightened risk of systemic failure regarding the delivery of homelessness services" to a position of "continued monitoring of temporary accommodation for people experiencing homelessness in East Lothian."

The Scottish Housing Regulator will continue to engage with the Council during 2026/27 and has requested that the Council:

- continues to make every effort to meet its statutory duty to provide temporary accommodation and to comply with the Unsuitable Accommodation Order; and
  - keeps the Scottish Housing Regulator updated on its capacity to meet these statutory duties and achieve compliance with the Order.
- Due to budget constraints, there is a risk that backlog maintenance on Council assets, including roads and coastal and harbor defenses, is not being addressed at the required pace. This may lead to further deterioration in the condition and value of these assets.

The Property Asset Strategy and Management Plan, approved in June 2024, sets out the Council's vision for its property portfolio, along with the guiding principles for asset strategy, management and investment.

A comprehensive review of property assets is central to delivering an efficient and effective estate. The Asset Review Programme has already delivered savings and service improvements. The Place Making Project forms part of this programme and will need to continue at pace throughout 2026/27. Although completed outwith this reporting period, the Council has now completed a Self-evaluation 2026: Best Value Thematic Asset Management Improvement Plan and is committed to the implementation of the recommendations from the Audit Scotland Best Value Asset Management review (due 2026).

- HM Inspector of Health and Safety contacted the Council in January 2026 outlining health and safety contraventions in relation to the Health and Safety at Work etc Act 1974 Control of Asbestos Regulations in Council Assets. The Council has developed an action plan with a programme of works to address the matters raised. Following feedback and adjustments made by the Council, the Inspector confirmed he is supportive that a risk-based approach is being applied and that the Council progress as per the amended action plan.
- Information requests - During the reporting period, the Council approved a new Access to Information Policy. This was developed in response to findings arising from appeals to the Office of the Scottish Information Commissioner under the Environmental Information Regulations (EIR). These cases highlighted areas where the Council's handling of requests, approach to charging for the provision of information, and disclosure practices required review and strengthening.

Over the same period, there has been an increase in both the volume and complexity of EIR requests, Freedom of Information (FOI) requests and complaints. This increase is partly attributable to changes in policy and practice. While response and compliance rates have remained at an acceptable level, this has placed increased pressure on a relatively small team.

In common with many local authorities across the UK, the Council is currently experiencing delays in meeting statutory timescales for responding to Subject Access Requests (SARs), which relate to individuals requesting access to their personal data. This is due to a combination of factors, including a significant rise in the number and complexity of requests. In some cases, requests involve reviewing and redacting thousands of pages of information to remove third-party data and other exempt material.

The Council is proactively engaging with the Information Commissioner's Office (ICO) on a pre-enforcement basis to improve SAR response times. An improvement plan has been agreed, and regular engagement with the ICO is ongoing to support recovery and ensure compliance.

As a result of these combined pressures, including increased demand, greater complexity of casework, and expanded requirements such as Data Protection Impact Assessments, the Information Governance Team has moved into Business Continuity arrangements. Additional senior and operational resources have been allocated to the team, and a plan to return to business-as-usual arrangements is currently being developed.

This plan is scheduled to be considered by the Corporate Leadership Team in June 2026, with implementation targeted during 2026/27.

- A further service area within the Council is currently operating within Business Continuity Arrangements—Environmental Health, Protective Services—with several others working close to this arrangement including the Roads department. Recruitment challenges, along with national factors outwith the control of the Council, continue to have an impact. The Council is currently reviewing the Local Government Pay and Grading model, its approach to developing internal talent and career pathways, and its approach to supporting apprentices and graduates within the organisation to address some of these recruitment challenges.
- Although there has been strengthened governance in place for some of the Council’s Group components in 2025/26 (referenced above), further work is required to ensure they all continue to clearly assist in the delivery of appropriate best value outcomes for the Council. The Internal Audit of Enjoy East Lothian Limited and the Edinburgh Innovation Hub provided improvements in governance, assurance and risk management that require review. The Internal Audit for East Lothian Mid-Market homes is due to take place in 2026/27 and will require to be responded to. Finally, East Lothian Land Ltd is currently in the process of being wound up and will be finalised within the next reporting period.

The introduction of annual reporting on all group components to the Audit & Governance Committee during 2025/26 and 2026/27 and continuing and renewed focus on Group entities through Internal Audit planning and monitoring of implementation of recommendations will assist in the improvement of the governance, risk management and control of these group components.

#### 8. Progress on 2024/25 Improvement Areas of Governance

Improvement Areas Identified in 2024/2025	Updated position
Financial Weaknesses	Please see section 7, bullet point 1
Challenging Financial environment	Please see section 7, bullet point 2
The Homeless Persons (Unsuitable Accommodation) (Scotland) Order	Please see section 7, bullet point 3

adherence	
Council assets	Please see section 7, bullet point 4
Counter Fraud and Bribery procedures and risk	Please see section 6, bullet point 9
Cyber Security Risk	Please see section 6, bullet point 8
Internal Audit findings - Sickness Absence Levels  - Housing Voids  - Capital Expenditure Contracts  All three audits were given reasonable assurance.	Sickness Absence Levels – Of the 6 actions agreed, 4 are fully implemented, 1 is partially implemented (and will be implemented in full by end June 2026), while in the remaining action there has been a change to the original agreed action and alternative arrangements are in place for monitoring sickness absence levels and working with service areas.  Housing Voids – Of the 13 actions agreed, 9 are fully implemented and 4 remain ongoing.  Capital Expenditure Contracts - All agreed actions have been fully implemented.

## 9. Forward Look

- In April 2026, the Corporate Leadership Team agreed to the development and implementation of a Corporate Policy Development and Review Framework for East Lothian Council. The proposed framework will provide a consistent, transparent and proportionate approach to the development, approval, monitoring and review of council policies, and will support improved corporate oversight, assurance and governance.
- As noted above, during 2025/2026, governance was strengthened in relation to the Council's corporate approach to self-evaluation, service planning, public performance reporting and the governance arrangements of the Community Planning Partnership. The Council appointed a Strategy, Policy and Performance Service Manager during the reporting period.

Work is ongoing to establish a team reporting to the Service Manager. The appointment of this team is key to fully implementing, further developing, monitoring, and reviewing this work. Along with the Policy and Development Framework, this will be a key focus in 2026/2027.

This team will also establish a corporate Data and Analytics resource within the Council for the first time, to better support data-driven decision-making. In addition, it will provide further capacity to support corporate equalities work, with an initial focus on reviewing the current approach,

guidance, training, and compliance levels for Integrated Impact Assessments. Further, this team will lead on the collation and monitoring of Council Improvement actions.

Progress on this work will be considered as part of the 2026/2027 Annual Governance Statement.

- As noted above, a review of the Council's "tier one" governance groups (Executive Leadership Team, Corporate Leadership Team and Senior Leadership Team) and "tier two" groups reporting directly to these has been completed, and recommendations have been implemented. The next phase of the review has commenced and will continue throughout 2026/2027 to examine the remaining officer groups currently in place across the organisation, as well as partnership groups.
- As noted above, senior officers have commenced the development of a new Council Plan for 2027 onwards. The approach will work to align the Plan with the Council's budget development strategy. This will not only enhance governance by strengthening strategic alignment, prioritisation, and the Council's ability to monitor the delivery of key objectives but will be required to work towards addressing the medium-term funding gap. Further, as noted above the Council is currently undertaking a review of current Strategic Change (formerly Transformation) Portfolio and this, alongside the budget development strategy and approval of the Council's new Strategic Workforce Plan, will be key to responding to the financial and operational challenges, particularly in the context of sustained service demand and growth pressures.
- As noted above, a review of digital decision-making took place within the reporting period to is strengthening the Council's ability to provide clear decision routes, manage digital risks, and develop internal controls for the approval, monitoring and review of digital systems. The findings of this review will be implemented within the 2026/2027 reporting period. Further work is also currently underway to assess how the Council delivers digital systems administrative support to ensure systems are being appropriately developed and maintained.
- The development of a Leadership Development Strategy, alongside the review of the Council's approach to Employee Performance and Review in 2026/2027, will strengthen governance by enhancing organisational capacity, accountability, and leadership capability. Strengthening leadership at all levels will support more effective decision-making, ensure that leaders are equipped to drive performance, manage risk, and deliver strategic priorities. A clear and consistent approach to employee performance and review will improve oversight of workforce performance, provide assurance that staff are supported and managed effectively, and

embed a culture of continuous improvement. Together, these actions will contribute to more robust governance arrangements by aligning individual performance with organisational objectives, improving transparency and accountability, and ensuring the Council has the skills, capacity, and leadership required to deliver its priorities and meet statutory obligations.

- A short-life Advisory Task Force has been established to review how the Council currently administers a range of Trust & Funds and to explore alternative approaches to deliver this the future. A report is expected to Council in summer 2026 and the implications of this will be considered as part of the 2026/27 annual governance process.
- In December 2025, Council agreed to support work through the Edinburgh and South East Scotland City Region Deal to explore opportunities for further regional collaboration. The outcomes of this work, alongside other partnership opportunities, will be considered in due course. The Council will need to fully consider any organisational and governance impacts of further collaboration and any transfer of duties and responsibilities.
- In February 2026, the Council agreed to work to strengthen community engagement and to commission an independent peer review of community engagement to provide objective assessment and recommendations for future delivery. This Review is underway, and Council will consider recommendations within the next reporting period.

#### 10. Action Plan for 2026/27

Area of Governance Improvement	Actions (where no end date provided the completion will 31 March 2027)
Financial Weaknesses	<ul style="list-style-type: none"> <li>(i) To implement the new financial system (likely implementation autumn 2026)</li> <li>(ii) To develop a contract and supplier management online training module, alongside face-to-face training, is being rolled out to contract owners and managers (currently scheduled for December 2026)</li> </ul>
Challenging financial environment	(i) To align budget development

	<p>for the 2026/27 budget to the development of a new Council Plan (due to be presented to Council in December 2026)</p> <p>(ii) To undertake a review of current Strategic Change (formerly Transformation) Portfolio and agree a prioritised Strategic Change Portfolio (June 2026)</p> <p>(iii) To embed decisions following the recent review of digital decision making to provide clear decision routes, manage digital risks, and develop internal controls for the approval, monitoring and review of digital systems.</p>
<p>The Homeless Persons (Unsuitable Accommodation) (Scotland) Order adherence</p>	<p>(i) To continue best efforts to meet its statutory duty to provide temporary accommodation when it should and to comply with the Unsuitable Accommodation Order; and</p> <p>(ii) To keep the 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</p>
<p>Council assets</p>	<p>(i) To progress the Place Making Project at pace throughout 2026/27.</p> <p>(ii) To deliver the Self-evaluation 2026: Best Value Thematic Asset Management Improvement Plan and any further recommendations</p>

		from the Audit Scotland Best Value Asset Management review (due 2026).
Information Requests	(i)	To approve an improvement plan to return the Information Governance Team to business-as-usual arrangements in June 2026, with implementation targeted during 2026/27.
	(ii)	To maintain dialogue with the Information Commissioner's Office (ICO) on progress with the agreed Subject Access Requests improvement plan to support recovery and ensure compliance.
Staffing challenges	(i)	To review the Local Government Pay and Grading model for implementation in 2027/2028
	(ii)	To review the Council's approach to developing internal talent and career pathways
	(iii)	To review the Council's approach to supporting apprentices and graduates within the organisation
	(iv)	To approve a medium-term Strategic Workforce Plan
	(v)	To approve a Leadership Development Strategy
	(vi)	To review the Council's approach to Employee Performance and Review
Full establishment of the Strategy, Policy and Performance Service to deliver corporate governance leadership and support	(i)	To roll out the Policy and Development Framework
	(ii)	To further develop and

	<p>embed the Council's corporate approach to self-evaluation, service planning, and public performance reporting</p> <p>(iii) To establish a corporate Data and Analytics resource</p> <p>(iv) To review the current approach, guidance, training, and compliance levels for Integrated Impact Assessments (IIAs)</p> <p>(v) To carry out the next phase of the operational governance review to examine the remaining officer and partnership groups.</p>
Trusts and Funds	To consider the findings of the Trusts and Funds short-life Advisory Task Force
Community Engagement	To consider the findings of the Independent Community Engagement Peer Review
Group Components	To ensure annual reporting of all group components to the Audit and Governance Committee for scrutiny

## 11. Conclusion and Assurance Statement

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 Code is operating effectively, and the Council complies with the Local Code of Corporate Governance for the year ended 31 March 2026 in most respects to meet its principal objectives.

## 12. Approval and Signatures

Chief Finance Officer: \_\_\_\_\_

Chief Executive: \_\_\_\_\_

Leader: \_\_\_\_\_

Date: \_\_\_\_\_