East Lothian Council

Report to Members and the Controller of Audit on the 2007/08 Audit

AUDIT SCOTLAND

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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of East Lothian Council. The Council dealt well with significant changes to the format of the accounts.

We have, however, drawn attention to a failure to comply with the statutory requirement that all statutory trading organisations break even on a rolling three year basis. For the three year period to 31 March 2008, two trading organisations failed to achieve the statutory requirement: Facility Services and Sportplus. This was mainly due to the backdated pay provision in 2005/06 for the settlement of equal pay claims. Sportplus has also experienced trading difficulties since then.

The Council achieved a general fund surplus of £3.1 million and HRA surplus of £0.9 million during the year. Added to the amount brought forward from 2006/07, the Council has a general fund balance of £8.8 million and HRA balance of £1.4 million. For the general fund this equates to 4.9% of the Council's net annual expenditure and compares favourably to the Council's reserve policy which sets a minimum reserve level of £3.5 million to guard against financial risk.

Nevertheless the Executive Director of Corporate Services has highlighted that, where they arise, significant overspends directly impact on the financial health of the Council and the groups involved need greater focus on sound financial management so that future spending is contained within budget.

A new Chief Executive, the former Director of Education and Children's Services, was appointed in December 2007 and a new structure for Corporate Departments was established during the year. The new structure has been designed to improve the strategic leadership of the Council and to provide a more stable management structure, thus enabling service improvement.

In response to the 2007 Best Value and Community Planning audit, an Improvement Programme was developed, and implementation of the actions proposed therein has commenced. The Improvement Plan is seen as an ambitious and demanding programme intended to drive performance improvement and provide enhanced services to the people and communities of East Lothian. The Council is making good progress in undertaking regular reviews to ensure the programme is delivered on time and achieving the outcomes intended.

The Council recognise that they have much to do to resurrect an effective risk management system; this area was not maintained in 2007/08. Plans are in place to embed an effective risk management framework throughout the Council in early 2009. In addition a corporate risk register, supporting strategy and monitoring arrangements are to be put in place.

The Council have implemented Single Status as from 1 June 2008 and this is in place for all staff. The Council are currently proceeding with the appeals process.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council needs to manage in delivering its corporate objectives and priorities.

Implementation of the Best Value Improvement Plan will continue in 2008/09 and momentum must be maintained to achieve the intended improvements. The Council itself has recognised that there is a need to review the progress of this process of change and a need for a clear performance improvement framework through which to demonstrate the outcomes achieved.

The Council faces a difficult challenge in curtailing its spending to bring expenditure back in line with Council budgets. This will require difficult decisions to be taken in the period ahead and the Executive Director of Corporate Services has highlighted the urgent need for departments to consider measures to manage service activity levels and appropriate and timely recharging for services as a means of addressing significant and on-going overspends in a number of areas. For Community Services, the Executive Director of Corporate Services has recommended a review by service management to ensure there is a balance between the financial resources allocated to this service by the Council and the activities they currently carry out. However, medium to longer term strategies are also needed for the effective management of all resources, including improved financial planning and asset management.

The Single Outcome Agreement will change the way in which the Council works with its partners. The Council will need to ensure that appropriate governance arrangements are in place and that all partners are working towards the achievement of the desired outcomes. A recent report to Cabinet in October approved the establishment of a new Community Planning Board and underlying performance framework that will support this.

In a tightening fiscal environment, and in pursuance of best value objectives, there will be a continuing need to realise significant efficiencies on an ongoing basis. The Council has made progress in delivering efficiencies and developed an Efficiency Statement based on the Efficient Government Plan definitions and compares the efficiency savings to changes in outputs.

Finally the Council needs to ensure that all elements of an effective internal control framework are in place, making improvements to risk management processes and supporting internal audit to complete its planned programme of work. It is also important that the Council is vigilant against the risk of fraud and corruption.

The co-operation and assistance given to us by East Lothian Council Councillors and staff during the year is gratefully acknowledged.

Audit Scotland
October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of East Lothian Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook, setting out key issues and concerns facing the Council going forward.

2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the Council in March 2008. The AAP summarises the specific governance and other risks that could affect the Council's financial statements. It describes the work we planned to carry out in response to these risks.

3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the Council in May 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the Council and described the work we planned to carry out as part of the annual audit:

   - Strengthening governance and accountability
   - Managing resources to support improvement
   - Working effectively with partners
   - Challenging and improving performance
   - Planning for improvement.

4. Overall conclusions about the Council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.

Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the Council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

6. We audit the financial statements and give an opinion on:

   - whether they present fairly the financial position of the Council and its expenditure and income for the year
   - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

7. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the Council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of East Lothian Council for 2007/08. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

9. The Local Government in Scotland Act 2003 requires Councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted earlier in this report, two of the four statutory trading organisations made aggregate losses in the three years to 31 March 2008, with the result that the Council failed to meet this statutory requirement for the following trading organisations: Facility Services and Sportplus.

   Key Risk Area 1

10. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. The Council dealt well with major changes in the preparation of its financial statements as the result of the introduction of Financial Reporting Standards 26, 27 and 29 on Financial Instruments.

11. The Council's audit working papers were an improvement over previous years and the widening of responsibility for financial statements preparation this year aided our completion of the audit of the Council's financial statements. Audited accounts were finalised by the target date of 30 September 2008 and are now available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Statutory objection

12. No statutory objections were made under section 101(2) of the Local Government (Scotland) Act 1973 in respect of the Council's financial statements.

Accounting practice

13. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:

- accounting for financial instruments based on FRS 25, FRS 26 and FRS 29
- replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
- provision for penalties under the Landfill Allowance Schemes.

14. Overall, we were satisfied that the complex disclosure requirements for the Council's financial statements were in accordance with the revised SORP. It was evident that Council officers had undertaken a high degree of preparatory work to ensure that the Council's accounting treatment and disclosure met the requirements of the SORP.

15. Overall we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. A number of adjustments were made to the accounts to improve their presentation and make them more accurate. However, one was a material adjustment which affected the value of Fixed Assets and Long Term Debtors in the balance sheets of the Core Financial Statements, the Common Good, the Trust Fund Accounts and the Group Accounts by differing amounts. The total impact on the Group Accounts amounted to £5.5 million.

16. The Council adjusted the financial statements to reflect our audit findings. A small number of unadjusted misstatements were reported to the Executive Director of Corporate Services and the Audit Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance.* These mainly relate to adjustments for fixed assets in the Balance Sheet and other minor adjustments for income and expenditure in the Income and Expenditure Account.

Identification and valuation of common good assets

17. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009. The Council's common good assets are recorded, subject to Council valuation policies and separately identifiable in the Council's asset registers, which is compliant with LASAAC guidance.

Legality

18. Each year we request written confirmation from the Executive Director of Corporate Services that the Council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The Executive Director of Corporate Services has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Council's management team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

19. We reported last year that local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures, introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the Council's financial statements, supplemented by appropriate working papers.

20. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

21. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government has also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.

Financial position

Introduction

22. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the Council in managing ongoing financial pressures in funding existing service delivery and future improvement.

Council tax and the general fund

Operating performance 2007/08

23. The Council's net operating expenditure in 2007/08 was £181.2 million. This was met by government grants and local taxation of £179.4 million, resulting in an income and expenditure account deficit of £1.8 million. This is 0.9 % of the net expenditure for the year. The budget set for 2007/08 was based on a Band D Council tax level of £1,118 with a planned contribution of £0.75 million from the general fund. However, and after having made the necessary statutory adjustments, the planned contribution was not required as the general fund balance grew by £3.1 million during the year.

24. The Executive Director of Corporate Services has highlighted that significant overspends (detailed below) directly impact on the financial health of the Council and the groups involved need greater focus on sound financial management so that future spending is contained within budgets. The overall outturn included significant overspends for the following services:

Table 4: Significant service overspends 2007/08

- **Community Services – Adult Social Care £0.789 million** – this included additional spending on the transfer of residents from Cockenzie Nursing Home to Greenfield Park, as well as the opening of the new home. Care packages is another area where the number and costs have risen significantly.

- **Community Services – Homelessness £0.469 million** – the Homeless Unit was overspent by £87,000 and there was a reduction of £382,000 of Department of Works and Pensions housing subsidy in respect of using B&Bs.

- **Community Partnerships £0.213 million** – the overspend arose from unanticipated payments to community groups and the use of agency staff to deal with a backlog of anti-social behaviour cases.

- **Landscape and Countryside £0.156 million** – the overspend arose from unbilled income and overspends on material costs within the Amenity Services Unit, and unanticipated spending on Galas and the cleaning of unofficial Travelling Persons' sites.

Key Risk Area 2

Housing Revenue Account

25. The housing revenue account shows a deficit for the year on HRA services of £1 million for 2007/08. The Council had effectively set a break-even position with minimum rent increases (after statutory adjustments) to maintain a minimum Housing Reserve of £0.5 million. The Council had an in year surplus of £2.9 million of which around £2 million was transferred to the General Fund and £0.9 million was retained in the Housing Revenue Account surplus carried forward, increasing the reserve to £1.4 million. This increase in the minimum reserve position was the result of lower than planned debt charges and some savings on repair costs.

Other Outturn Figures of Note

26. Outturn figures also reflect the impact of the following significant funding decisions and savings:

- an additional £1.9 million was generated from an expansion of the Council tax base as the result of house building in East Lothian and improvements in Council tax collection

- through the refinancing of loans, a saving of some £2.2 million was made on interest charges.

Reserves and balances

27. Table 5 shows the balance in the Council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the Council had total cash backed funds of £14.1 million, an increase of £4.1 million on the previous year.

Table 5: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	8.8	5.7
Housing Revenue Account	1.4	0.5

Capital Fund	2.9	2.9
Insurance Fund	1.0	0.9
	14.1	**10.0**

28. The Council achieved a general fund surplus of £3.1 million and HRA surplus of £0.9 million during the year. Added to the amount brought forward from 2006/07, the Council has a general fund balance of £8.8 million and HRA balance of £1.4 million. For the general fund this equates to 4.9% of the Council's net annual expenditure and compares favourably to the Council's reserve policy. This policy sets a minimum reserve level of £3.5 million to guard against financial risk.

29. At 31 March 2008, £1.0 million of the general fund balance was earmarked for specific purposes leaving an unallocated balance of £7.8 million. Earmarked amounts have been identified for devolved education management balances held by individual schools, the Shared Services Diagnostic Project and the Drug and Alcohol Action Team.

30. The capital fund can be used to defray capital expenditure or repay loan principal. During the year, £4.8 million was spent on capital expenditure in line with budget, leaving the capital fund balance at £2.9 million. Capital expenditure is discussed further in paragraphs 33 to 35.

Group balances and going concern

31. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of Councils. The overall effect of inclusion of all of the Council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £91.1 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and Council tax.

32. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member (Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board, Lothian and Borders Valuation Joint Board, and South East of Scotland Transport Partnership). Three of these boards (Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board, and Lothian and Borders Valuation Joint Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £1,246.1 million, with the Council's group share being £100.7 million.

Spending on assets and long-term borrowing

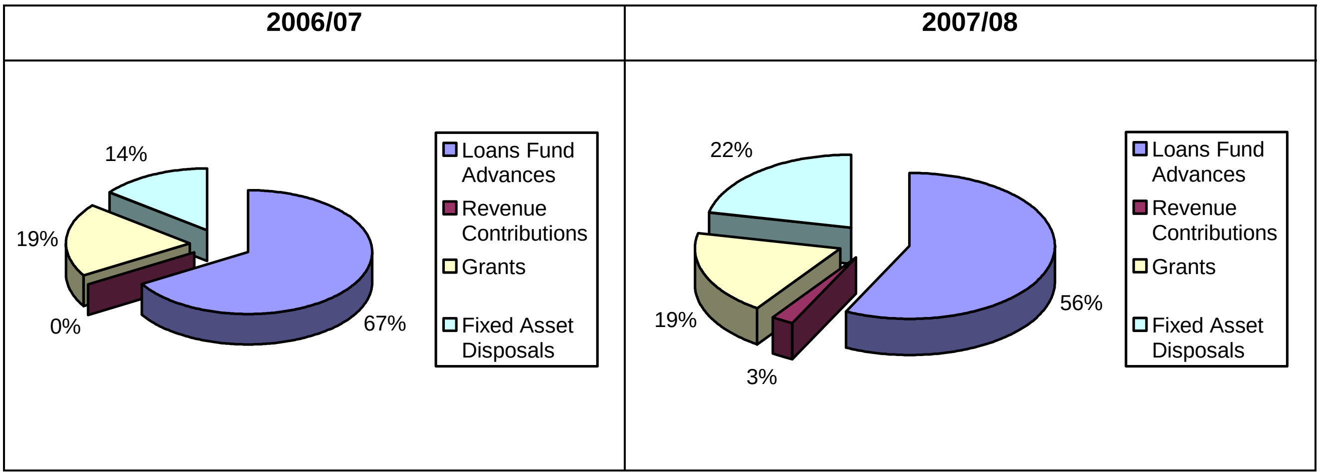
Capital performance 2007/08

33. Since the introduction of the Prudential Code in April 2004, the Council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The Council has used the Code to increase significantly its capital expenditure to improve its asset infrastructure.

34. Capital expenditure in 2007/08 totalled £49.9 million, rising from £47.2 million in 2006/07. Capital investment in the last two years was funded as shown in Chart 4. Overall, capital expenditure was £10.1 million less than planned. A high degree of variability of spend against plan was experienced for most services, which indicates a need for improvements to project planning and expenditure recording methods.

35. Capital investment on Council housing was budgeted at £16.1 million, however, spending on the Council's own housing stock slipped by £1.8 million due to slow progress in initiating planned projects.

Chart 4: Sources of finance for capital expenditure 2007/08



Borrowing and temporary investments

36. In recent years, some Councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

37. As at 31 March 2008, the Council held £3.3 million in cash and had temporary investments totalling £12.3 million. This leads us to enquire whether a body has excess borrowings. We received specific representation from the Executive Director of Corporate Services that all borrowing in advance of immediate requirements has been made for a legitimate purpose in accordance with legislation and has been on-lent in the interests of prudent cash management. In the Executive Director's assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.

38. Our review confirmed that the majority of funds on deposit at 31 March 2008 related to balances held by the Council.

39. Almost 91% of long-term borrowing at the year-end matures after more than 10 years. The Council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk, within a maximum of 25% of total borrowings.

Debt restructuring

40. In 2007/08 the Council reduced its total Public Works Loan Board (PWLB) debt from £147 million to £124 million. With the exception of the early repayment of a PWLB loan, there was no restructuring of debt during the year.

Significant trading operations

41. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

42. The Council has 4 STOs of which two continued to return a cumulative deficit for the three years to 31 March 2008. In the case of two of these, Facility Services and Sportplus, this was mainly due to the impact of equal pay costs. These results mirror the outcome in 2006/07 and improvements are expected in 2008/09 when the impact of equal pay cost provision will have been absorbed. A review undertaken by the Council some time ago indicated its intention to reduce the number of STOs from 4 to 3 but this had still to be implemented at 31 March 2008 with the transfer of the operation and management of Sportplus, the Council's leisure services, to a not for profit company. The Council is continuing to review the options open to it for the efficient delivery of leisure management services.

Key Risk Area 1

Financial outlook

Council tax freeze

43. The Council is party to the concordat between the Scottish Government and COSLA. The financial features of this include an agreement to freeze Council tax levels for three years in return for some additional funding and the removal of some ring fencing. Consequently, the 2008/09 budget assumes additional efficiency savings compared to the previous year. These have proved challenging to deliver in the timescale envisaged. The Council, as a result of a change to planned activities, achieved an unanticipated surplus in 2007/08, with a further surplus forecast of £1.591 million in the current financial year.

44. In September 2008, the Executive Director of Corporate Services reported that the overall financial position across each of the Business Groups at June 2008 was a £1.591 million surplus. Budget pressures still exist within the Council particularly in groups and units such as Adult Social Care, Homelessness and Landscape & Countryside Management who continue to be assessed as high risk. For Adult Social Care and Homelessness, steps have been taken to review this position by service management to ensure there is a balance between financial resources allocated to the service and the activities they carry out. However, to contain or reduce any deficit may impact upon service quality and the level of discretionary services that can be provided. The Landscape & Countryside Group position is not clear because of delays in recharging for services to external organisations. It is imperative that these and other subsequent recharges for work carried out by the Amenity Services Unit are issued promptly.

45. The Council are monitoring all budgets closely to ensure efficiency savings are achieved, particularly in Education Services' school budgets, as well as being aware of a downturn in revenue sources such as Building Warrant fees. Clearly, the Council faces significant challenges in ensuring that planned activity is affordable within available resources. There are likely to be significant consequences for services and staffing levels in the longer term if underlying expenditure issues fail to be addressed.

Key Risk Area 2

46. The Council faces the ongoing challenge of budgeting for no increase in Council tax in 2009/10 and 2010/11. Although the relaxation of approximately £15.6 million of ring fencing does give the Council greater flexibility in the allocation of resources, the Council tax freeze increases the pressure to identify and deliver efficiency savings. The Council still receives approximately £3 million in ring fenced funds and intends to review these during 2008/09. It is likely, however, that there will be no significant changes to individual spending areas previously ring fenced in the current financial year.

Equal pay

47. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English Councils, the extent of exposure of Scottish Councils arising from individual pay claims began to emerge during 2006/07.

48. Estimated costs of £1.3 million were recognised in the 2007/08 financial statements to deal with the equal pay legislation. After the implementation of Single Status on 1 June 2008, final settlements were to be made to 743 staff after meetings in September 2008 to cover the period 1 July 2006 to 31 May 2008. A further 20 staff are progressing their claims to a Tribunal. Known settlements in 2006/07 amounted to £4 million. The Council considers the existing provision of £1.3 million to be adequate.

Single status

49. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

50. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, implementation was extended by agreement between local authorities and unions to April 2004.

51. Several Scottish Councils have now implemented single status or have firm plans in place for implementation by 31 December 2008. East Lothian Council implemented single status on 1 June 2008 and this is in place for all staff. A significant amount of work has been done in terms of job evaluation and the Council is at present working through the single status appeal process. Until this is finalised there is still a continuing but low risk in estimating the costs to the Council.

Future capital programme

52. The capital investment programme between 2008/09 and 2010/11 anticipates annual capital expenditure of £26.6 million, £44.0 million and £40.3 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing of around £36.3 million over the three years.

53. Over the same period £59.2 million is planned to be spent on the Council's housing stock, funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing of around £30.3 million over the three years. The Council expects to comply fully with the Scottish Housing Quality Standard by 2015.

54. The capital programme is being closely monitored for slippage and it has been noted that project timings have slipped behind Plan for 2008/09. Both General Services and HRA capital programmes are being partly funded by receipts from asset sales and developer contributions and in the current economic climate they are likely to reduce, impacting on future years' capital investment.

EC Landfill Directive

55. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the Council in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and have not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish Councils will be allowed to trade landfill allowances. If one Council performs better than its targets, it can sell its excess allowances to other Councils.

56. The recycling rate for 2007/08, including composting, was 35.44% (2006/07: 32.63%). 45,172 tonnes of waste were sent to landfill (2006/07: 45,625 tonnes). Scottish Government targets for 2007/08 and 2006/07 were 32% and 31% respectively. The Scottish Government is currently reconsidering the penalty issue and the Council believes that it is unlikely to face penalties given its good performance in surpassing Scottish Government targets.

Pension liabilities

57. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

58. The Council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Lothian Pension Fund by £21.417 million, reducing from £52.554 million in the previous year.

Budgeted contributions are expected to rise from 315% of employee contributions in 2006/07 to 325% by 2008/09.

59. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009/10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Governance

Introduction

60. In this section we comment on key aspects of the Council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

61. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the Council had systems in place that operated well, within a sound control environment.

62. Internal Audit arrangements are designed to ensure the provision of an independent opinion on the adequacy and effectiveness of the system of internal financial control. Independence is promoted by a direct reporting line to the Executive Director of Corporate Services. Internal Audit undertake an annual programme of work based on an annual audit plan approved by the Corporate Governance Policy and Performance Review Panel (PPRP) and operate to relevant professional standards. Since September 2008, Internal Audit's annual plan is now approved by the Audit Committee.

63. Individual audit reports are issued directly to the Chief Executive, the relevant Chief Officer, the Executive Director of Corporate Services and Audit Scotland. Significant matters are also reported to the Corporate Governance PPRP (Audit Committee from September 2008). Recommendations made in Internal Audit Reports are required to be implemented by management.

64. The Cabinet receives quarterly financial review reports, which provide a detailed overview of the Council's finances and highlight any areas of concern. Council performance issues feature as standard items on the agenda of the Board of Directors and Corporate Management Team.

Statutory report

65. In June 2007 the Controller of Audit submitted a report to the Accounts Commission under S102(1) of the Local Government (Scotland) Act 1973: Departmental reorganisation and voluntary redundancy of the Chief Executive.

66. As indicated above, a new Chief Executive was appointed during the year, in an open competition. However there is an ongoing legal dispute with the former Chief Executive.

67. With effect from 1 September 2008, the Council's corporate departments were reorganised. The Chief Executive's Department became the Chief Executive's Office and a number of services moved to other departments. The Department of Corporate Finance and IT ceased to exist and a new Department of Corporate Services formed.

Political Governance

68. The political context for Councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Nearly half of the Councillors elected in May 2007 were new to local government. Last year's Council elections for East Lothian reflected the national changes from one party control to coalition or minority administrations. A total of 12 out of 23 East Lothian Councillors are new to local government and a new SNP/Lib Dem coalition administration of 13 members was installed to lead the Council.

69. As part of the Best Value Improvement Plan the Council has implemented a comprehensive induction programme for both newly elected and returning members to ensure that they have the necessary skills. Several senior members are participating in the Improvement Service Leadership Programme and the Council, with the Improvement Service are participating in a pilot in 2008/09 to introduce PDP for all members.

70. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The Council is developing and rolling out community planning frameworks based on multi-member wards with the intention of achieving greater involvement by partners and communities in local decision-making, including the prioritisation of resource allocation. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

Audit Committee

71. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. During 2007/08, members in the Council continued to have the opportunity to challenge service activities and performance through the operation of a range of scrutiny panels.

72. An Audit Committee was formed in September 2008. This role was previously performed by the Corporate Governance PPRP which is now focussed on matters relating to the performance of the Chief Executive's Office and the Corporate Services Department. The Audit Committee's remit includes risk management, IT security and anti-fraud reporting including benefit fraud as well as audit.

73. The Audit Committee is in its initial development stage and at its first meeting established its remit and received reports from internal and external audit. The Committee has received some initial training involving Policy, Finance and External Audit. Further training is being sought via CIPFA who will run an on site course specifically for East Lothian Council.

Internal Audit

74. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework. Internal Audit broadly achieved their audit plan, and all work on which we planned to place reliance was completed and the relevant assurances obtained.

Systems of internal control

75. A Statement on the System of Internal Financial Control for the Council and its group was included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the Council, including the Internal Audit Manager, the Executive Director of Corporate Services concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the Council and group entities.

76. The Executive Director of Corporate Services acknowledged that further work is required to promote improvements to business planning arrangements, regular financial review processes, written procedures and workflows for some financial processes, capital asset management planning, and recovery of sundry debts.

77. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Budgetary Control
- Main Accounting system
- Payroll
- Accounts Payable
- Accounts Receivable
- Benefits
- Housing Rents
- Council Tax
- Non-domestic rates
- Repairs and Maintenance

Prevention and detection of fraud and irregularities

78. At the corporate level, the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

79. In 2007/08, the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings of £37 million to date for Scottish public bodies, including £9.7 million from the 2006/07 exercise. Where fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

80. Overall, 534 data matches were identified in respect of East Lothian Council. At 15 October 2008, 516 of these items had been cleared with 5 cases under investigation. Preparations are underway for the 2008/09 NFI exercise with data uploads via a secure electronic upload facility due for submission by 6 October 2008. The NFI 2008/09 results (data matches) will be made available to Councils in January 2009 using the current web-based application.

Housing Benefit

81. From April 2008, Audit Scotland took over responsibility for inspecting the housing and Council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all Councils will be inspected during an 18 month period.

Data handling and security

82. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The Council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

83. The Council’s IT department took immediate action in response to the media coverage by reminding and/or advising staff of their responsibilities towards information security. In particular a data handling survey was conducted across the Council to identify areas of risk. This information was considered when drafting the revised IT security policy which, once formalised, will be issued to all staff together with a number of underlying procedures which are being developed. The Council also introduced a number of measures to minimise risk to data, including the use of encrypted USB sticks. They are currently piloting remote access as an alternative to using laptop devices for home working.

Payment card standards

84. The Payment Card Industry Data Security Standard (PCI DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI DSS compliant or risk losing their ability to process credit card payments.

85. The bulk of the Council’s card transactions are processed by Capita's Managed Services (telephone and internet payments) and Capita comply with PCI DSS. The volume of card payments processed at the public counters is considered low. The Council have completed their PCI DSS self assessment and a couple of issues have been identified which still need to be addressed before they are fully compliant.

Governance outlook

Single outcome agreements

86. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each Council and the government. The SOA sets out the Council’s contribution to the government’s 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

87. The SOA includes in excess of 97 detailed indicators supporting the 15 national outcomes, split between 25 national and 72 local indicators. These have been based on those recommended by the Improvement Service and, where available, local indicators. However, some indicators have still to be developed.

88. The Council agreed its first SOA with the Scottish Government by 30 June 2008. The Council has recognised the need to have adequate governance and reporting arrangements to monitor and report achievement of outcomes on a regular basis to the Council and its PPRPs. A mid-year report will be coming forward by the end of 2008 for the Council. The Council have also noted that negotiations with the Scottish Government were positive and involvement of the community planning partners had been greater than expected at this early stage. In future, SOA's will be used to engage partners and to monitor performance in some detail so it is important that the Council continues to develop robust governance arrangements for the development and monitoring of this key document.

Performance

Introduction

89. In this section we summarise how the Council manages its performance. We discuss the overall arrangements before focussing on the specific areas of East Lothian Council. We comment on the findings of Audit Scotland's national performance studies, relating them to the Council's situation. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

Corporate objectives and priorities

90. Following the May 2007 elections, the former Labour administration of East Lothian Council was replaced by a Scottish National Party and Liberal Democrat coalition. The Council's new Corporate Plan for 2008 – 2012 sets out the key priorities for the Council until 2012 and explains how it plans to achieve these. The Corporate Plan identifies the following core priorities:

- Provide affordable housing
- Keep the environment clean and green
- Help build safer communities
- Raise educational attainment
- Encourage enterprise and skills
- Promote healthy living and improve social care.

91. A total of 65 targets are linked to these themes and some of the more significant are listed below:

- Support the building of 200 affordable homes by 2007
- The recycling or converting to compost of 32% of domestic waste for 2007/08
- Reduce fatalities and serious injuries in road incidents
- Raise educational attainment
- Increase the number of carer's assessments by 100% by 2008
- Maintain the number of children in the care of the local authority at below the national average
- Increase the percentage of qualified staff working in Older Peoples' Residential Units and Residential Care to 90% by 2010.

Overview of performance in 2007/08

Annual Report

92. The Chief Executive will provide his 2007/08 annual report on Corporate Performance Indicators to the Council in November 2008. This report will highlight: the Council's performance against targets over the previous 12 months; steps taken to achieve targets, and steps to be taken to achieve missed targets. (See paragraph 91 for some of the Council's main targets). However, it does appear late to be reporting 2007/08 performance, leaving little, if any time, to amend actions to achieve 2008/09 targets.

Key Risk Area 3

Measuring Performance

93. The Council have refined their approach to the Corporate Performance Indicators report for 2007/08 taking into account anticipated developments associated with the introduction of Single Outcome Agreements and the new annual performance report.

94. Performance reports (balanced scorecards) are prepared quarterly (six weeks after the end of the period) and these are submitted to the Corporate Management Team, Divisional Management teams and Policy & Performance Review Panels (PPRPs) for individual services. They contain on average 20 to 40 indicators for each service business unit.

95. The introduction of ASPIREVIEW performance management software during 2008/09 will allow information currently provided on EXCEL scorecards, to be presented to Members in a more flexible and accessible format. These scorecards will also be considered at PPRP meetings.

96. As part of the Council's Best Value Improvement Plan actions, a Performance Monitoring Framework is being developed further which will also report on progress on the Community Plan. It should be in place by 2009/10.

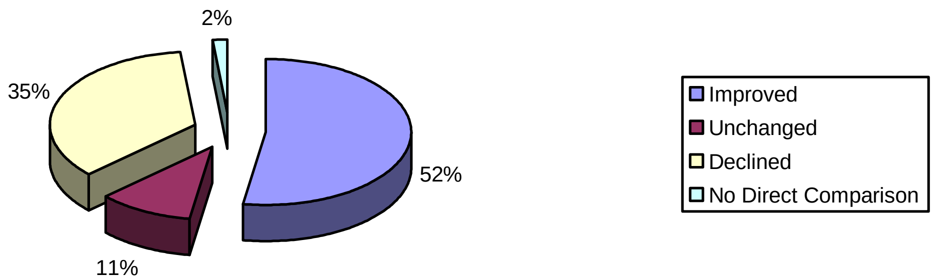
97. The Council as a result of the Best Value Audit is developing a corporate scorecard and an integrated framework for continuous improvement, which will not be in place until quarters one and two of 2009 respectively. Until then the Council does not have in place arrangements to fully monitor progress towards the achievement of core priorities and lacks an overarching corporate approach to achieving continuous improvement.

98. Performance information is submitted to members in accordance with an approved timetable, approximately six weeks after the period and is subject to review by several layers of management.

Statutory performance indicators

99. One of the ways of measuring Council performance is through the statutory performance indicators (SPIs). At East Lothian Council, key SPIs are already included within service scorecards. With regard to 2007/08, a total of **57 SPIs** were required. These were submitted to the Corporate Governance Policy and Performance Review Panel on 7 October 2008 for initial discussion and consideration of whether any aspects of the Council's performance are in need of improvement or investigation. In overall terms, the following chart confirms that the Council has made improvements in a number of areas.

Chart 2: Improvements demonstrated by SPIs (Total 57 indicators)



100. Generally the picture was mixed with each service unit reporting improvements in some areas and a decline in performance in other areas. Each year we review the reliability of the Council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was satisfactory. However, the information supplied in the main lacked pertinent commentary as to how that indicator was performing. The timetable for the provision of SPI information also conflicts with audit work on the financial statements. We will work with the Council to improve the overall arrangements. No indicators were classified as unreliable (2006/07 – one).

Key Risk Area 4

Best Value audit

101. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response, the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years, short follow-up reviews are carried out by the local auditor.

102. An audit of best value and community planning in East Lothian Council was carried out in 2007 and the findings published in October 2007.

103. A Best Value Improvement Plan was agreed with the Accounts Commission in February 2008. Some good early progress has been made and a more comprehensive review of progress against the Improvement Plan will be undertaken as part of future years' audits. A number of the areas covered by the Improvement Plan are referred to in sections below

Performance outlook – opportunities and risks

Introduction

104. In the course of our audit work we identified some of the strategic risks to East Lothian Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the Council during the year and the key risks yet to be fully addressed. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Strengthening governance and accountability

105. Good governance strengthens credibility and confidence in public services and is necessary to enable the Council to pursue its vision effectively, as well as underpinning achievement of the vision with mechanisms for control and management of risk. The Concordat between the government and COSLA signals the start of what are likely to be significant changes for Councils.

106. In respect of strengthening governance and accountability the Council has implemented the following changes:

- delivered a comprehensive induction programme, including training on principles and approaches to scrutiny, to support elected members
- established an Audit Committee
- increased the transparency of scrutiny and decision-making arrangements by holding Policy and Performance Review Panel (PPRP) meetings in public
- widened public access to its agendas, reports and minutes
- reviewed and revised the powers and membership of PPRPs

- implemented LASAAC guidance to account for Common Good Funds
- provided Internal Audit with additional computer audit expertise to assist completion of their audit plan for 2008, thus supporting the review of internal controls in the Council.

107. The Council intends to develop risk management processes in 2008/09 including: embedding an effective risk management framework, developing a risk register and strategy, and developing a formal monitoring process. Also in the plans for 2008/09 will be the introduction of an Improvement Service Personal Development Plan pilot scheme to further enhance member competences.

108. We would recommend that to further strengthen governance and accountability, in view of the number of fraud investigations undertaken, more robust key internal control measures should be promoted throughout the Council.

109. The Council needs to be aware of the main risks it faces in strengthening governance and accountability, such as not having appropriate awareness of the risks it is exposed to or not formally monitoring the risk management process where the Council cannot therefore demonstrate that existing processes are effective in identifying and managing risk. The Council needs to ensure that the work of Internal Audit and the annual review of internal controls is adequately supported. Some consideration should also be given to the frequency of fraud investigations undertaken to see if this indicates an unacceptable level of fraud and irregular activity.

Key risk area 5

Challenging and improving performance

110. Effective scrutiny plays a central role in challenging and holding the administration and officers to account for service performance. Within the Council there is a developing culture of continuous improvement, i.e. of reviewing practices and considering where there are opportunities to do better. The Council has also recognised the importance of a robust performance management framework in achieving its aims. The framework, developed some years ago, continues to evolve across the Council, now ensuring the regular reporting of balanced scorecard measures to all Divisional Management teams, the Corporate Management Team and Policy & Performance Review Panels.

111. The Council in respect of challenging and improving performance has:

- introduced new performance management software (ASPIREVIEW) to enable information to be presented to members in a more flexible and accessible format
- completed a strategic review of communications and developed a communications strategy and improvement plan

- changed and expanded current scrutiny arrangements to make them more open and transparent
- implemented an efficiency statement which identifies and categorises the definition of efficiency gains in line with the Efficient Government plan.

112. Turning to the future, the Council:

- is developing a new enhanced performance monitoring framework to be implemented by 2009/10 which will also be used to report progress on the Community Plan and Single Outcome Agreement
- is developing a corporate scorecard that will enhance disclosure of information by the second quarter of 2009
- is planning to embed within service operations a system of rigorous self evaluation of service performance and systems of control.

113. We would encourage the Council to use the performance management system to record achievement of core priorities, address areas of poor performance and maintain an environment of continuous improvement. This includes regular review of systems of internal control, including those that are key to the delivery of services. As well as identifying weaknesses in internal controls, that require remedial action, best practice in systems should also to be identified for wider dissemination, as appropriate.

114. In challenging and improving performance these are some of the main risks that the Council faces.

Key Risk Area 5

Managing resources to support improvement

115. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Sound financial planning is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.

116. The Council has many measures in place to manage resources to support improvement. Key developments in this area are:

- the development of long term financial planning for the Housing Revenue Account
- the introduction of the Performance Monitoring Framework to monitor and measure achievement of the Community Plan
- development of closer links between the Corporate Plan 2008-12 and the East Lothian Community Plan, as reflected in the budget for 2008/09 to 2010/11

- development of a reserves strategy that will cushion the impact of uneven cashflows and is consistent with the efficient operation of the Council
- participation in the national diagnostic on shared services (Phase 1) which will be completed in 2008/09
- implementation of the single status agreement
- implementation of an efficiency statement instead of an efficiency register, which details cash and non-cash gains against Service Outputs.

117. The Council has plans in place to develop and implement an Asset Management Strategy by mid 2009.

118. However there are many more steps the Council needs to take including:

- a longer term financial plan for the General Fund
- development of a corporate approach for identifying, classifying, calculating and monitoring efficiencies
- refinement of the performance management system to demonstrate that efficiencies have no detrimental impact on service provision or service quality
- a focus on increasing usage of the e-PECOS system in order to fully benefit from savings generated from e-procurement
- providing balanced reporting on areas where performance has fallen short as well as where expectations have been met
- ensuring that the wider aspects of transforming service delivery are achieved by clearly linking IT strategy to business change and improvement through the future Corporate Improvement Programme
- the improvement of existing business continuity and disaster recovery arrangements.

119. In managing resources to support improvement these are some of the main risks that the Council faces. Insufficient resources may exist to support the achievement of corporate objectives and the Council's core priorities. If the budgeted efficiency savings are not achieved then there is a risk that there could be a detrimental impact on service provision. Unless a corporate approach is taken to asset management and utilisation, there are risks that economies of scale and opportunities to share are not fully realised. There is a risk that the Council is not adequately prepared to ensure service continuity should a serious incident occur when business continuity planning and disaster recovery arrangements are not up to date.

Key Risk Area 5

Planning for improvement

120. The Council's vision looks to the year 2020. However, the Council's planning horizon currently only looks to the four year period of the administration. While the Council has now recognised the need to put longer term strategies in place, these are all at an early stage of development. The new Corporate Plan 2008-2012 provides stronger links between the Council's aims and the East Lothian Community Plan.

121. The Council, in planning for improvement has:

- delivered and implemented a restructured Chief Executive's Office and Corporate Services function
- linked its Corporate Plan core priorities through to the Council's business planning framework, including Level 1, 2 and 3 Business Plans
- developed an overall work plan and budgetary monitoring statement for monitoring community planning.

122. Once again there is room from improvement and we would encourage the Council to consider:

- developing integrated long term planning (ensuring there are clear linkages between corporate planning, workforce planning, asset management planning and financial planning)
- embedding workforce management planning within the Council's financial strategy
- how to meet the demand for affordable housing more effectively.

123. In planning for improvement these are some of the main risks that the Council faces. There is a risk that the Council cannot fully demonstrate achievement of the community plan nor demonstrate that corporate strategies and objectives are supported by longer term financial, workforce and asset management plans through which it can ensure that it has the capacity to deliver its vision. There is a risk that employee related costs, including pensions cannot be met in the longer term if workforce management planning is not linked to the Council's financial strategy. The Efficient Government Initiative expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.

Key Risk Area 5

Working effectively with partners

124. Increasingly, the Council is dependent on partnership working to deliver service improvements and efficiencies. Councils also have a statutory duty under the Local Government in Scotland Act (2003) to initiate and facilitate community planning in their areas, working with other public sector organisations, local communities and the voluntary and business sectors.

125. The Council in working effectively with partners has:

- included within its corporate plan a detailed commitment to joint working with partners
- continued to develop partner engagement and consultation within the East Lothian Community Planning Partnership
- progressed localised community planning.

126. Effective partnership working will be further enhanced when the Council:

- embeds community planning, monitoring and task groups into partnership arrangements
- completes and monitors the East Lothian Community Planning Implementation Group work plan
- embeds a performance management and reporting framework in any partnership arrangement
- extends SOA into the community planning partnership agreements
- demonstrates improved outcomes as part of the SOA process
- demonstrates continuous improvement in outcomes and community well being as a result of community planning and other partnership working
- develops an Arms Length Organisations strategy
- develops appropriate working and governance practices for other partnership arrangements coming on-stream.

127. In planning for working effectively with partners, these are some of the main risks that the Council faces. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of overall public resources as a result. Until monitoring arrangements are fully embedded in partnership arrangements, it will be difficult to demonstrate that resources allocated to partnerships are being used efficiently and effectively. There also remains a risk that the partnership is unable to fully demonstrate its impact on outcomes in the East Lothian area, if at all, due to the nature of the outcomes.

Key Risk Area 5

National studies

128. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the Council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

129. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between Councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/02 to 25% in 2005/06. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- Increased recycling has led to increased costs for Councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

Currently, East Lothian Council is recycling and composting 36.5% of all waste, which is an increase of 8% on the 2005/06 figures.

Free personal and nursing care

130. Since July 2002, all Councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland
- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services
- Councils should provide clear information to older people on what is covered by FPNC

- Councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

131. By 2006/07 the number of older persons in East Lothian receiving free personal care had increased by 26.4% since the policy was introduced in 2002/03 (705 to 891). In 2007/08 net expenditure on older people's services of £21.261 million represented approximately 11.7% of the Council's net operating expenditure (2002/03 – 10.1%) and accounted for 51.2% of total Social Work net expenditure (2002/03 – 51.2%).

Scotland's school estate

132. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and Councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that at the current rate of progress it will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and Councils to help improve arrangements and support future achievements. These include:

- better planning by Councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy.
- greater use of the Scottish Government guidance by Councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- making environmental sustainability a key element of school design.
- doing more to identify and share good (and bad) practice in school design and estate management.
- estimating pupil rolls for at least ten years ahead with minimum annual review.

This report has been reviewed by the Council's Board of Directors and will be subject to further review as the recommendations are applied to the Council in due course.

Overview of sport in Scotland

133. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and Councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- Arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

134. East Lothian Council's Sports Development Strategy has now been updated to reflect the changing picture of sport and leisure and to take account of the role that sport and leisure can play in helping healthy living and community wellbeing. The Sport and Education Advisory Group continues to shape development and direction in sport and leisure. The most recent development that the group has steered is the new performance athletes in school programme (PAIS) where talented pupils from East Lothian schools are receiving sport specific training, strength and conditioning training, sports medicine and lifestyle management as part of a flexible curriculum.

135. The Council continues to take a strategic approach to its facility provision by ensuring the Council is adequately provided with sports halls, swimming pools, all-weather pitches and grass pitches. The most recent facility developments have included new changing pavilions in North Berwick, Tranent and Musselburgh. The Council also benefits from an integrated approach to sport and leisure where all staff providers in this area are within the same service: Healthy Living. This allows for improved planning of work and development.

Final Remarks

136. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

137. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed ‘planned management action’. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management’s response to the identified risks.

138. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.

139. The co-operation and assistance given to us by East Lothian Council members and staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	9 42	**Statutory trading organisations (STOs)** Two of the STOs continue to return cumulative losses. ***Risk: the Council may not be achieving best value from current arrangements for services provided by those STOs.***	Accepted: under the direction of the Executive Director of Community Services an Improvement Board has been set up to review the ongoing operations and efficiency of Sportplus. The Council has agreed to transfer Sportplus to a Non Profit Distribution Organisation (NPDO) and explore the potential benefits of transferring other activities and services into a NPDO. The organisational structure of Facilities Management is currently being reviewed as part of the Council's improvement agenda.	Head of Community Well Being	April/June 2009
2.	24 45	**Financial position** Significant overspends need to be contained within budgets. Budget monitoring processes need to be improved and all key staff need to take effective ownership of their own budgets e.g. Community Services - Adult Social Care & Homelessness, Community Partnerships and Landscape and Countryside. In addition planned efficiency savings need to be achievable to avoid further pressure on the financial position. ***Risk: unplanned action***	Accepted: these are areas of priority for the Executive Director of Community Services under whose direction various management actions are underway reviewing service delivery and efficiencies. The Executive Directors of Community Services and Corporate Services now meet as part of a Project Board reviewing procurement arrangements having regard to quality and cost of service. The Department of Community Services also has a dedicated departmental resource to support financial management of this service. The Council has also made progress in delivering efficiencies and developed an Efficiency Statement based on the Efficient Government Plan definitions and compares the efficiency savings	Community Services Management Team	February 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		such as service reduction or a significant increase in Council tax levels may be necessary to control expenditure within the approved budget.	to changes in putputs.		
3	92	**Annual Report** The Chief Executive will provide his 2007/08 annual report on Corporate Performance Indicators to the Council in November 2008. This report will highlight the Council's performance against target over the previous 12 months, steps taken to achieve targets and steps to be taken to achieve missed targets. ***Risk: the annual report is produced late in the financial year leaving little if any time to amend actions to achieve targets.***	Accepted: Following further discussion with the External Auditor, the Council accepts that it would be helpful to produce an earlier annual performance report to members, ideally before the summer recess, but that this can only be done on a provisional basis using unaudited data. **Action: Chief Executive will report on provisional annual performance to the Council meeting immediately before the summer recess.**	Head of Chief Executive's Office	June 2009
4	100	**SPI's** Overall, the quality of working papers provided to support the SPIs was satisfactory, however, the information supplied in the main lacked pertinent commentary as to how that indicator was performing. The timetable for the provision of SPI information conflicts with audit work on the financial statements. ***Risk: poor performance or errors may not be readily recognisable.***	Partially accepted: We will work with the External Auditor to improve the scheduling arrangements for both the production and audit stages. Efforts will be made to complete the non-financial SPI's and submit them for audit before the end of May. Subject to completion of the financial accounts we will aim to complete the financial SPI's by the end of June. We disagree that poor performance may not be readily recognisable from the reports currently made available to members.	Head of Chief Executive's Office	May/June 2009
5.	109 114 119 123 127	**Performance Outlook – Strategic Risks** There is a need to review and address the strategic risks that the Council faces to ensure continued progress in best value improvements.	Accepted: Within the BVIP, the Council is committed to deploying the Risk Management framework throughout the Council.	Head of Corporate Finance/ Board of Directors	April 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk: failure to deliver the Best Value Improvement Plan may impact on the Council's ability to fully deliver continuous improvement and to meet the challenges of the future.			