

East Lothian Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**

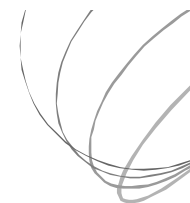


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Key Messages

We have given an unqualified opinion on the financial statements of East Lothian Council.

The council managed net expenditure of £221 million in 2009/10. There was a deficit of £8.6 million on the Income and Expenditure Account, but, with statutory adjustments, this resulted in a surplus of £0.9 million. Better than anticipated council tax receipts, budget savings, lower than planned debt interest and repayments and 'windfall' receipts for VAT and utilities charges contributed to the position. As part of the 2009/10 budget, the council planned to contribute £3.75 million from the General Fund reserve to balance planned income and expenditure. This contribution was not required and the council have instead added £0.9 million to the General Fund reserve.

Staffing costs comprise nearly two thirds of the council's net expenditure. Clearly, well trained and motivated staff are critical to the achievement of the council's objectives. The council's first-ever Employee Engagement Survey was held in February 2010 and the response rate of 55.2% (of all employees) is the highest known response rate within Scottish local government in recent years. The new Performance Review and Development Scheme (PRD) is being rolled-out council-wide during 2010/11, linking individual work and development plans and performance targets to Business Plan objectives. The council has made significant progress in developing a new performance management self-evaluation framework: 'How Good Is Our Council'? The council's levels of sickness absence have reduced year on year and are generally lower than the national average for both local government staff and teachers.

In some other areas of performance, there is a need for improvement. For example, the council has yet to fully implement a corporate approach to asset management. In our national study *Asset Management in Local Government, May 2009*, East Lothian was broadly similar to 50% of other councils in terms of an Asset Management Strategy (draft) and the condition and suitability for purpose of its properties. The council is working on an Asset Management Strategy which has yet to be approved. A number of individual asset management plans are already in place. A more general Property Asset Management Plan will be presented in draft to the Council meeting in October with the overarching strategy document expected before Council in December.

From 1st April 2009, responsibility for Risk Management rests with the Chief Executive's Office. A Risk Management Strategy was approved by Council in December 2009. Council also agreed to support the establishment of a Corporate Risk Management Group that includes representatives from all service departments within the council. An initial meeting of the Corporate Risk Management Group has been arranged for January 2011 to produce the first draft of the Corporate Risk Register, taking details from the various Service Risk Registers. It is intended to have an agreed Corporate Risk Register by March 2011.

The council have excluded Enjoy East Lothian Ltd from the Group Financial Statements on a narrow interpretation of the council's 'interest' in the company. The council satisfies all the major requirements for



treating Enjoy East Lothian Ltd as an associate in their Group Accounts. The six month account figures omitted from the Group Accounts are significant, but do not result in a material error. A full year's figure may breach the accounts' materiality level in 2010/11. We have asked the Head of Finance to reconsider the inclusion of Enjoy East Lothian Ltd in the Group Financial Statements for 2010/11.

Outlook

The announcement of the Comprehensive Spending Review by the UK Government is expected by the end of October 2010 and this will be a central factor in determining the funding available to the Scottish Government; the announcement of grant funding to local authorities is expected by the end of November/early December 2010. The settlement for local government is not expected to be finally known until January 2011. Until this information is obtained, the Head of Finance's assessment of the council's financial prospects is based around well informed public commentary on the current financial position e.g. the Centre for Public Policy for Regions and the Scottish Government's Chief Economic Advisor.

There is a clear indication that the council will have significantly less income in 2011/12 and there is a high degree of risk that this will continue in future years. The best case appears to be that next year the council will have to adapt and operate with £7 million less than it has now, and then hold that position for the next four years. The worst case is that income is going to fall by £23 million over the next five years, £13 million of which happens next year.

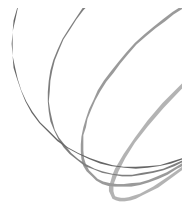
The council will have to report under International Financial Reporting Standards (IFRS) with effect from 2010/11, which will require additional accounting disclosures as well as separate pension fund report and accounts. From April 2012, the UK Government proposes a simplified Carbon Reduction Commitment energy efficiency scheme with revenues being used to support public finances, including spending on the environment, rather than recycling revenues to participants.

In June 2010, we submitted our shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

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

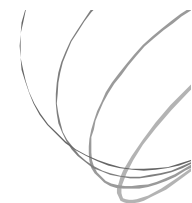
October 2010





Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of East Lothian Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) available on our website at www.audit-scotland.gov.uk. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Improving public sector efficiency
 - Overview of local government in Scotland 2009
 - Protecting and improving Scotland's environment
 - Scotland's public finances – preparing for the future
 - Making an impact – overview of best value audits 2004 - 09.
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website at www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.



6. This report is addressed to Members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

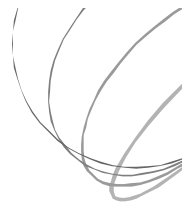
7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of East Lothian Council give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of the council as at 31 March 2010 and its income and expenditure for the year then ended. We also certify that the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973.
9. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2009/10 accounts were of a good standard, but there is still scope for further improvement in the quality of supporting information e.g. Fixed Assets and late submission of PFI information. The designation of one officer to control the production of the accounts and deal with audit queries has also aided the audit process. However, East Lothian Council had difficulties in obtaining relevant PFI information for the unaudited financial statements, which resulted in substantial, late and material amendments impacting on the clearance timetable.
11. We are working in partnership with Finance and continuing to clarify our requirements in order to help improve the processes for the preparation and audit of the financial statements in future. In particular, it would be helpful to have the Accounting Code of Practice Disclosure Checklist (ACOP/SORP) provided for the beginning of our audit in 2010/11.
12. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members 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.

Accounting issues

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). With effect from 2010/11,



local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but there are still significant issues to be addressed. A restated balance sheet as at 1 April 2009 and shadow accounts for 2009/10 will be required and the process is likely to be resource intensive.

Key Risk Area 1

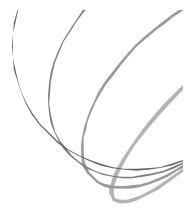
14. This year, councils had to account for PFI projects on an IFRS basis. We were satisfied with the council's accounting treatment for bringing its PPP scheme on-balance sheet and the subsequent accounting entries for 2009/10. However, the process was long and intensive because of delays to key information, which resulted in substantial amendments to the draft financial statements near the final sign off stage.
15. Whole of government accounts (WGA) are also required on an IFRS basis from 2009/10. We were satisfied with the council's 2009/10 WGA submission to the Scottish Government.
16. Overall, we were satisfied that the council broadly prepared the accounts in accordance with the 2009 SORP.
17. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Head of Finance and the Audit Committee. Details of significant accounting issues arising in the course of our audit are summarised below.

Audit testing

18. As part of our work, we took assurance from 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
- Housing Rents
- Main Accounting System
- Council Tax
- Payroll
- Repairs and Maintenance
- Accounts Payable
- Non-Domestic Rates Income
- Accounts Receivable

19. We relied on the work of internal audit in the following areas to support our work:



- Benefits
- Community Care - Charging for Services Provided
- PPP Contract Monitoring
- Payroll Payments.

Prevention and detection of fraud and irregularities

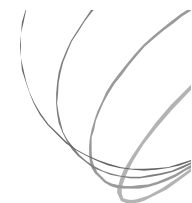
20. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees. The council's strategy for the Prevention and Detection of Fraud and Corruption states that all instances should be investigated by Internal Audit.

NFI in Scotland

21. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, 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 outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
22. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. We were satisfied with the council's procedures for following up the matches identified for East Lothian Council.
23. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The council is using the self-appraisal checklist and arrangements for the 2010/11 NFI exercise are considered adequate.

Housing Benefit

24. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period. The risks to East Lothian Council's benefits service were assessed in March 2009 and a detailed report was issued in April 2009. An action plan has been agreed and is currently being progressed.



25. The council has been improving its processing performance speed year on year and the effectiveness of its counter fraud activity. However, the council's efforts in other areas had been hampered by an IT system that did not support the integration of functions such as its intervention programme. In 2008 the council initiated a project to replace the Civica application, which had become dated with limited possibilities for development. Following a tendering exercise, a solution from Capita was selected as the replacement system. Capita was implemented in December 2009 and during 2009/10, we completed an application services review of the replacement system. The results of our own review and those of Internal Audit's HBCOUNT work during 2009/10 indicate that the implementation was successful.
26. The benefits service plans to take over the responsibility for recovering its housing benefit debt from the corporate debt section. We believe the council's actions in response to the risks we identified in the Risk Assessment Report will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

Group accounts

27. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure. The council has interests in two subsidiaries and four associate companies. They have been included in group accounts in accordance with the SORP (refer to Exhibit 1 below). Audit assurances were obtained through consideration of the council's monitoring of the Group position, a review of the accounts (audited and/or in draft) of the bodies and contact with the auditors of the associate companies.

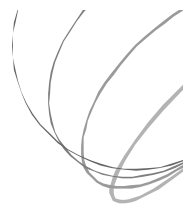
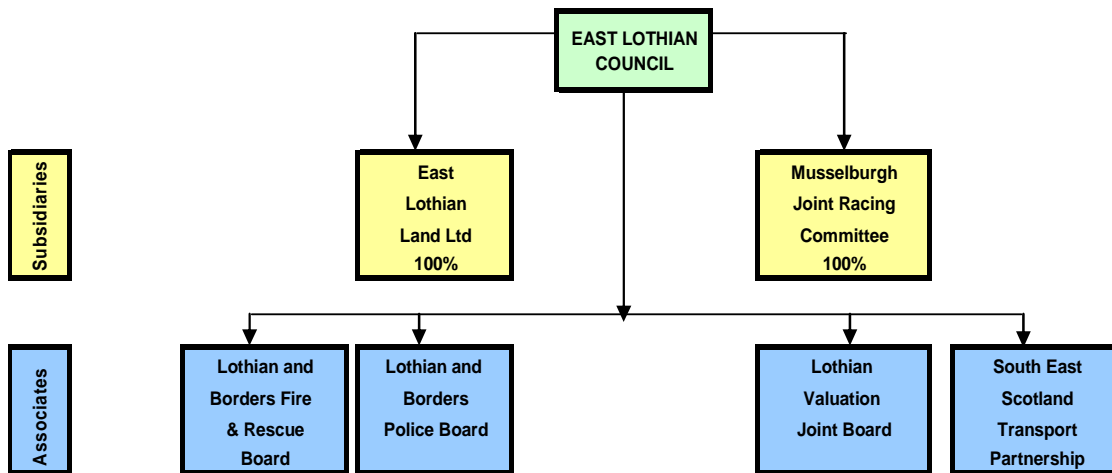


Exhibit 1

East Lothian Council Group Structure



28. We would like to highlight the following issues:

- all bodies within the Group that have completed their audits received unqualified audit opinions from their external auditors. The financial statements for one subsidiary, Musselburgh Joint Racing Committee, are now finalised but have yet to have a signed audit certificate appended; the council's Head of Finance has provided us with assurances that the figures will not be subject to material change.

Risk Area 2

- in accordance with recommended accounting practice, accounting periods and key accounting policies for component bodies (such as pension costs and the valuation of fixed assets at market value) have been aligned with those of the council.
- as in previous years, the overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the Group Balance Sheet is to reduce the net worth by £153m, mainly as a result of the council's share of the pension liabilities of the joint boards. However, the Group 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.

29. The council have excluded Enjoy East Lothian Ltd (Enjoy) from the Group Financial Statements on a narrow interpretation of the council's 'interest' in the company. The council have entered into an



agreement with Enjoy to provide an agreed level of service for a 'Funding Commitment' to finance the body's deficit expenditure. Both funding and service level provision can only be varied with the council's agreement. The council is also a guarantor to the Lothian Pension Fund for Enjoy to obtain admitted body status to the pension fund. As such, the council in terms of 'substance over form' have an interest in the body.

30. Enjoy is a corporate body in its own right, which provides a service to the council. As well as the council having access to the benefits of the service they also have exposure to the risk of losses by variation to the 'Funding Commitment' and/or alteration of the level of service as describe above. The council does not control the majority of voting rights in the body, but has a significant influence by controlling 33% of the voting rights. In addition, the significant influence is supported by the council's control of the body's 'Business Plan' and 'Funding Commitment' where the body has to adopt council policies and enhance the image and reputation of the council etc.
31. Thus, the council satisfies all the major requirements for treating Enjoy as an associate in their Group Accounts. The six month account figures omitted from the Group Accounts are significant, but do not result in a material error. A full year's figure may breach the accounts' materiality level in 2010/11. We have asked the Head of Finance to reconsider the inclusion of Enjoy in the Group Financial Statements for 2010/11.

Trust funds

32. Local authorities with registered charitable bodies 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. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
33. During 2009/10 the trusts received income of £596,000 (2008/09: £123,000), relating principally to grants, dividends from external investments, interest earned on balances invested in the council's loans fund and rents and other income. The increase in income is largely due to grants received, with a corresponding increase in property costs in relation to the Wrights and Masons Trust. Disbursements of grants and to events totalled £30,000 (2008/09: £38,000). The net assets of the trusts at 31 March 2010 amounted to £3.4 million (2008/09: £2.8 million).

Common good fund

34. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance required the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.



35. A separate account for the common good is disclosed in the council's financial statements and a separate fixed asset register is also maintained. Further work is being carried out to ensure the completeness of common good assets. During 2009/10, the funds received income of £1,008,000 (2008/09: £622,000) whilst incurring expenditure of £750,000 (2008/09: £191,000). As at 31 March 2010 the funds had net assets of £6.4 million (2008/09: £6.2 million).

Pension fund – the Local Government Pension Scheme

36. The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2008. This concluded that the Fund's objective of holding sufficient assets to meet the estimated current costs of benefits was not being met; this is required to be funded over the next twenty years. East Lothian Council's share of the funding shortfall is £50 million.

37. Employee contributions were increased from 1 April 2009; a tiered contribution structure has been introduced which is estimated to average out at 6.3%. Employer contributions for East Lothian Council were increased to 22.5% for 2009/10, and will be reviewed again in future, to meet current service costs. It is intended that the shortfall on past service costs will be met by one-off payments into the Fund and £1.3 million was paid in 2009/10. The next formal valuation is due at 31 March 2011.

38. A full actuarial valuation of the pension fund for FRS 17 purposes for East Lothian Council was undertaken as at 31 March 2010 and the actuary's final report was presented in April 2010. The council's estimated pension liabilities at 31 March 2010 exceeded its share of the assets in the Lothian Pension Fund by £142.8 million, an increase of £83.5 million over the previous year.

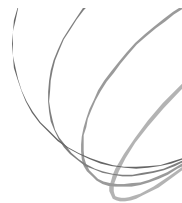
39. The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.

Legality

40. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Chief Executive and Council Management Team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

A number of changes to financial reporting are expected to apply from 2010/11 and 2011/12:



- full compliance with IFRS. This is not simply a technical accounting matter; the Scottish Government is in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.
- pension funds. Separate statements for pension funds will be required. The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the audit which is done as part of the administering council's annual audit.
- carbon trading. From April 2010 a new and complex system for charging for carbon emissions was introduced by the EU, which the UK Government is simplifying. The council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage from April 2012. The government's proposal is to use the revenues from allowance sales to support public finances, including spending on the environment, rather than recycling revenues to participants.
- charity accounts. As previously mentioned, full compliance with OSCAR's reporting requirements is likely to be required. The council contacted OSCAR in June 2009 and received advice on how to undertake a review of the council's trusts and bequests. A review and possible rationalisation of the trusts is included in the Corporate Finance Business Plan for 2010/11 in order to move towards the reporting requirements.



Use of resources

Financial results

42. In 2009/10, East Lothian Council spent £363 million on the provision of public services. Some £311 million was spent on revenue services and the remainder was capital expenditure. The council's net operating expenditure in 2009/10 was £221 million. This was met by central government and local taxation of £212.5 million, resulting in a deficit of £8.6 million, 4.1% of the net expenditure for the year.
43. The 2009/10 budget was based on a Band D council tax level of £1,118 with planned contributions of £3.75 million from the general fund reserves. In fact, after taking account of statutory adjustments of £9.5 million, an additional £0.9 million statutory surplus was added to the general fund reserves. This surplus was attributable mainly to savings on treasury management and windfall receipts, as well as savings across service budgets and better than anticipated council tax receipts.
44. Exhibit 2 below shows the departmental results reported on a regular basis to members and clearly highlights the spending patterns throughout the financial year. There has been a positive performance against budgets throughout the year for nearly all departments, mainly because of savings on debt charges. During the year the only significant overspend was in quarter 2 for Community Services, which arose because of difficulties in managing Adult Social Care, Health & Wellbeing and Amenity Services budgets. A departmental reserve of £0.5 million was made available to Community Services to assist them in their efforts to deliver what are mainly demand led services. At the year-end, all departments were underspent and within this position only seven business groups were marginally overspent. This reflects the initiatives taken by budget holders in vacancy management and control of discretionary spending. The main area of concern highlighted in quarterly financial reviews reported to the council is the worsening position on the Devolved School Management balances with an increasing number of schools showing deficits by the year-end.

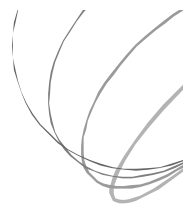
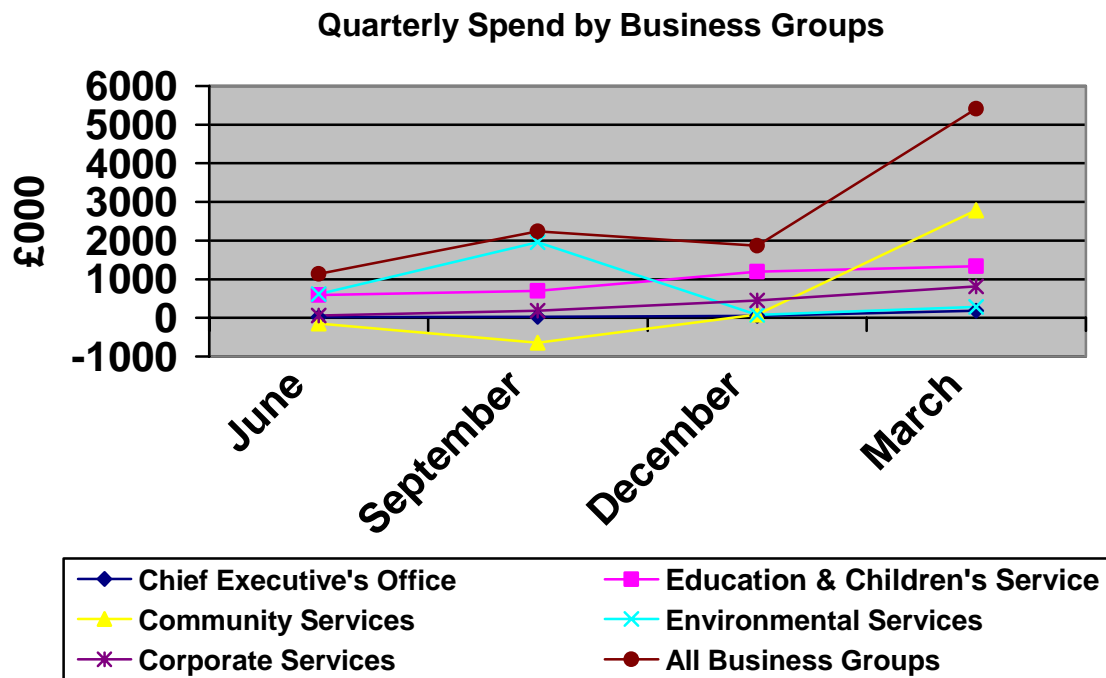


Exhibit 2

Quarterly over/under spends by period 2009/10



45. The following table provides some information about the council's financial position compared to other Scottish councils.

Ratio	Description	Value for East Lothian Council	Range for all Scottish councils
Useable reserves compared to general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	0.10	0.17 - 0.04
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	2.40	0.48 - 2.95
Long term assets compared to long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	3.74	7.55 - 2.33



46. These ratios indicate the liquidity and financing position of the council but there are a number of factors which vary across councils and affect the indicators. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The three island councils have been excluded. The useable reserves position of East Lothian Council is consistent with the average across other councils.
47. The long term borrowing position of East Lothian Council is in the higher third of Scottish councils and is being monitored through the council's Treasury Management Strategy. However, most of the council's recent borrowing is to finance the building of social housing and debt charges can be met from housing revenues. The long term assets position of East Lothian Council is in the lower third of Scottish councils, which indicates that the council's borrowing levels are affordable and the council retains the ability to borrow to finance replacement assets etc.
48. Overall the council has managed the immediate financial pressures in the current year with a statutory surplus of £0.9 million, which is similar to last year.

Reserves and balances

49. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund and a capital receipts reserve which may be used to defray capital expenditure or repay loan principal, an insurance fund which will be used to meet future liabilities and a housing revenue account which will be used to meet future running costs of council houses. At 31 March 2010, the council had total funds of £23 million, an increase of £6.8 million on the previous year.
50. The increase of £6.8 million is accounted for in three main reserves, an increase in the Housing Revenue Account of £1.0 million and in the General Fund of £0.9 million (discussed in the next paragraph) and the creation of a capital receipts reserve with £4.9 million from the receipts of asset sales. The latter was created to fund lending (to housing association etc.) that cannot be supported by borrowing and as a source of funding for future capital expenditure.

Exhibit 3

Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	10.5	9.6
Housing Revenue Account	3.6	2.6
Capital Fund	2.9	2.9



Capital Receipts	4.9	-
Insurance Fund	1.1	1.1
	23.0	16.2

51. The general fund increased by £0.9 million during the year to a balance of £10.5 million, which equates to 4.8% of the council's net annual expenditure. Of this balance, £3.1 million is held for specific purposes: various departmental reserves totalling £2.8 million; earmarked reserves (including devolved school management balances held by individual schools) totalling £0.3 million. This leaves a balance of £7.4 million in corporate reserves, most of which has already been the subject of proposed allocations to road repairs (£3.0 million), repairs & renewals mainly at schools (£2.0 million) and civil emergency (£1.0 million).
52. This balance of £7.4 million in corporate reserves compares favourably to the council's reserves policy which sets a minimum unallocated reserve level of £2.0 million (2008/09: £2.0 million) to guard against financial risk. This minimum unallocated reserve level represents just under 1.0% of current net expenditure and, therefore, there may be a risk of not having enough cash reserves available to meet any unforeseen events. The balances available in other reserves are seen by the council as providing sufficient safeguard against any foreseeable event but we have sought specific assurances from the Head of Finance as to the sustainability of the minimum unallocated reserve level.

Key Risk Area 3

Group balances and going concern

53. 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 £153 million, mainly because of the pension liabilities of joint boards. However, 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.
54. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue, and Lothian Valuation) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total, these deficits amounted to £2,041 million (2008/09: £1,304 million), with the council's share being £163 million (2008/09: £104 million).



Capital performance 2009/10

55. The council's prudential indicators for 2009/10 were set in February 2009. Capital expenditure in 2009/10 totalled £51.8 million, an increase of £2.2million from 2008/09 and £2.5 million less than budget. The main reasons for the significant underspend are delays in initiating some major projects for council housing, a primary school and a community cultural centre. This was partially offset by an overspend on an infants' school project.

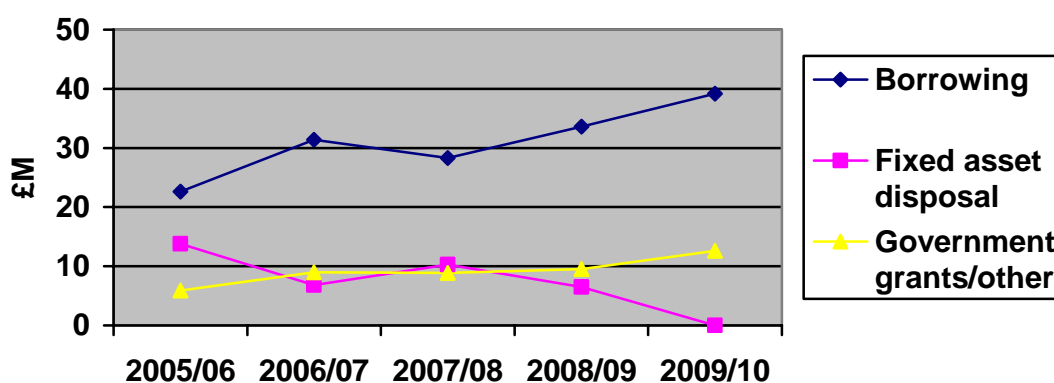
56. The trend in capital investment and sources of funds is reflected in exhibit 5. The 2009/10 position for fixed asset disposals appears anomalous but is explained by the establishment of a Capital Receipts Reserve for the first time this year to hold the £4.9 million of receipts generated this year for future use.

Exhibit 4

Sources of finance for capital expenditure 2009/10

	2005/06 Actual £M	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M
Borrowing/set aside from revenue/finance leases	22.6	31.4	28.3	33.6	39.2
Fixed asset disposal	13.8	6.8	10.3	6.5	-
Government grants/other	5.9	9.0	8.9	9.5	12.6
Total	42.3	47.2	47.5	49.6	51.8

Capital Expenditure Financing





57. The council is proceeding with increased capital expenditure plans over the next three years; the planned spend for each of the next two years is £89 million and then £75 million in the third year, with the main change being in HRA affordable housing. An increasing proportion of this will be financed from borrowing, with consequential increases in financing costs for interest and repayments; the council have assessed that financing costs are affordable within their overall budget plans. The consequential revenue and capital costs will be met from council house rents.
58. The council also monitor their position against prudential indicators and found it to be acceptable, the critical measure being that the net external borrowing is lower than the capital financing requirement. The cost of the current borrowing for social housing is being financed from revenue (council house rents) and the council where appropriate is utilising low long term fixed PWLB rates to remove uncertainty over potential high interest rate movements in the future.

Treasury management

59. The current economic climate means that interest rates on investments are low - the council received £0.23m in investment income this year compared to £0.85m in 2008/09 (2007/08: £1.49m). Borrowing rates are also low, but the council currently has all of its borrowing at fixed rates and its average cost of borrowing over the year was 3.8%.

Financial planning

60. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In common with other councils, East Lothian Council is basing its financial planning on current projections of a 14% real terms reduction in government funding over the 2010/11 to 2013/14 period, heavily weighted toward 2011/12. Expenditure commitments outstrip estimated income by over £33 million for those three years.
61. The announcement of the Comprehensive Spending Review by the UK Government is expected by the end of October 2010 and this will be a central factor in determining the funding available to the Scottish Government; the announcement of grant funding to local authorities is expected by the end of November/early December 2010. The settlement for local government is not expected to be finally known until January 2011.
62. Until this information is obtained, the Head of Finance's assessment of the council's financial prospects is based around well informed public commentary on the current financial position. There is a clear indication that the council will have significantly less income in 2011/12 and there is a high degree of risk that this will continue in future years. The best case appears to be that next year the council will have to adapt and operate with £7 million less than it has now, and then hold that position for the next



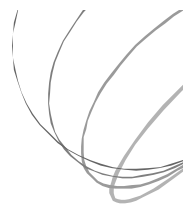
four years. The worst case is that income is going to fall by £23 million over the next five years, £13 million of which happens next year.

Key Risk Area 3

63. The council has shown a good understanding of the financial challenges it faces and has made some early progress in addressing these. In 2010/11 the council again froze the council tax in accordance with the concordat with Scottish Government. The net revenue budget identified in-year efficiency measures and savings of £4.2 million to meet known spending pressures and planned growth. The most recent corporate budgetary monitoring report anticipates the planned level of savings being delivered during the year, and a further reduction in spending of £1.1 million mainly due to lower debt charges. In the longer term, financial plans will need to address the mounting pension fund liability and take account of uncertain but certainly constrained levels of funding from the Scottish Government.
64. The council has had to look at other sources of income and reductions in expenditure to balance its budget. The 2010/11 General Services budget includes £4.2 million of efficiency measures, savings and increased income. The achievement of the savings has been inconsistent with one department producing savings on an on going basis, while another has made one off savings. Other departments still need to agree specific steps to achieve their targets.

Key Risk Area 4

65. The Scottish Government only announced a one year budget for 2010/11 but the council continues to plan for the medium term through its three year planning process.
66. The council is planning to use its reserves that do not need to be held as part of their financial strategy for the benefit of tax or rent payers. The council has met the immediate costs arising from the severe weather last winter but there was a significant amount of damage to the roads network and no budget provision currently exists for increased remedial work.
67. The council will supplement the roads budget by making additional funds available from reserves with up to £3 million capable of being released for additional roads works to be undertaken over 2010/11 and 2011/12. As the works will involve a mix of revenue and capital expenditure, the £3 million will likely be funded by using all the remaining unallocated general services reserves and part of the capital fund.
68. A range of priority minor works (e.g. roofs, windows, toilets, heating) have accumulated, especially in schools, which also require funding through a mix of revenue and capital expenditure. This will be addressed through a planned programme of minor works over the next four years that could be supported by the creation of a £2m Repairs & Renewals Fund.
69. Again, as the works will involve a mix of revenue and capital expenditure, the £2 million may be funded by using part of the general services reserves (£1 million) earmarked for civic emergency and part of



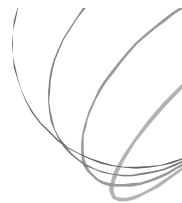
the capital fund (£1 million). Although this reduces the fund available specifically as a buffer against emergency expenditure, the wider reserves available should provide a sufficient safeguard against any foreseeable event.

70. Council rents have increased by 5.2% which will allow for additional housing to be built and provide the council with the means to modernise existing council properties to the Housing Quality Standard by 2015. Income generated from council tax for second homes will also be used to part fund the purchase of new homes for rent.
71. The council's pension deficit is being managed by payment of the minimum acceptable increase in employer contributions and these have been drafted into the budget. This minimum increase does not fund any of the deficit - it only phases in the increase necessary to pay the interest on the outstanding sum. The council is expected to fund more than the minimum sum advised by the actuary but it is recognised that this will be difficult and the actuary has left the council with flexibility as to how it funds the actual deficit. Funding the pensions deficit must become part of the council's long term Financial Strategy.

Key Risk Area 5

Budgetary Control

72. Although none of the council's services returned a deficit overall, there were minor overspends in some areas, for example:
- an overspend of £86,000 within the Culture & Community Group was due to charges for non domestic rates on a number of properties received back into the council as a result of the closure of East Lothian Community Development Trust.
 - an over spend of £197,000 for the Healthy Living Group relates mainly to the closure of East Lothian Community Development Trust and in particular the rates charges that became due for the sports centres in the six months up to the transfer to Enjoy.
 - an overspend of £158,000 within the Pupil Support Group resulted from payments to specialist schools not operated by the council. The management of this budget will continue to be a significant risk going into 2010/11 and future years as small changes in demand can lead to large changes in cost.
 - the Roads Services Trading Activity ended the year with a surplus of £1.2 million, primarily as a function of charging for extra work (gritting of roads) which was undertaken during the severe weather from December 2009 to March 2010. By contrast the Road Network budget was overspent by £1.4 million, mainly as a result of paying for the extra work undertaken.
 - an area of concern is the developing position on school budgets. At the end of March 2010 the DSM balances controlled by schools totalled £168,000. This is a reduction from the figure held by



schools at the end of 2008/09 (£391,000). Going into the 2009/10 financial year there were 10 schools with cumulative deficits of almost £91,000. By the end of the financial year this number had grown to 18 schools with a cumulative deficit of £173,000.

73. Overall we are content with the council's budget setting and monitoring processes.

Asset Management

74. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property and other assets. The current economic situation has implications for the management of the council's property assets. A large investment in new affordable housing is planned for 2010/11 and beyond, to be financed mainly through borrowing. The Capital Investment Plan for 2010/11 shows HRA expenditure of £49 million and income of only £6 million of which £1.8 million is capital receipts. General Services' capital expenditure of £37 million in 2010/11 is financed by only £11 million of income, of which £2.9 million comes from capital receipts. The funding gaps in both areas will be met by borrowing.

75. In 2009, Audit Scotland published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.

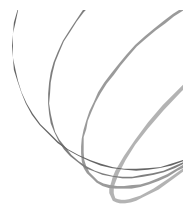
76. East Lothian Council is working on an Asset Management Strategy which has yet to be approved. The council already has in place a number of individual asset management plans for the school estate, roads and IT. A more general Property Asset Management Plan will be presented in draft to the Council meeting in October with the overarching strategy document expected before Council in December.

77. The current economic situation has implications for the management of the council's assets. As the council have yet to finalise a Corporate Asset Management Plan, this impacts on the council's ability to fully demonstrate Best Value. The council has identified surplus assets valued at £0.6 million (2008/09: £1.0 million). There may be other, currently unidentified surplus assets that are potentially available for sale.

Procurement

78. We reported last year that procurement is an area where there is scope for the council to realise savings and efficiencies.

79. In response to the McClelland report, the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In January 2009, the Scottish Government



promoted the use of a single Procurement Capability Assessment (PCA) to assess procurement performance in public sector bodies and as a basis for the sharing of best practice and continuous improvement across the public sector in Scotland. The assessments were coordinated and conducted by the relevant Centre of Expertise, which for local government is Scotland Excel.

80. Results are summarised as non-conformance, conformance, improved performance and superior performance. All councils have been assessed by Scotland Excel and most scored as non-conformant. This means that councils are not achieving best value across their procurement activities in the following areas:

- Procurement leadership and governance
- Procurement strategy and objectives
- Sourcing strategies and collaborative procurement
- Specification of goods and services
- Contract and supplier management
- Key purchasing processes and systems
- People
- Performance measurement

81. The PCA assessment for East Lothian Council was carried out in November 2009. The council was assessed as being mainly non-conformance in four out of eight categories, two split between non-conformance and conformist and two as conformist and above. The assessment suggests that the council was not achieving best value at the time of the assessment and 20 potential actions were identified to improve procurement performance e.g. better use of strategic procurement, in particular use of the SPD toolkit, incorporation of the BPIs into the corporate performance framework and reporting as part of the quarterly scorecard.

82. The council made scarce resources available to participate in the PCA but formulates its approach to improving procurement by implementing its procurement strategy, which is able to take into account more fully the actual position in East Lothian, improvements that have already been made that might not register in the PCA due to its methodology and the specific targets that East Lothian need to achieve. These targets must be tied into the wider improvement framework within council services and improving procurement as part of changing and improving service delivery has better chances of success than improving procurement in isolation. The existing strategy is due for replacement in 2010, at which point strengths and weaknesses in procurement improvement over 2007-10 will be assessed and used as the basis of a new strategy for change and improvement. This may lead to improvements in PCA results as a by-product, but PCA is not being used in East Lothian as the main driver of change.

Key Risk Area 6



Managing People

83. 2009/10 saw the implementation of a number of key organisational development and change management developments which were identified following the initial 2008 'Challenge for Change' Business Managers' Conference. The 'Innerwick Transformational Leadership Experience' has been implemented with the Corporate Management Team and nine cohorts of Business Managers (circa 120 Managers) having participated in the Experience. A mid-way external independent evaluation of the Experience confirms its positive impact on leadership practice council-wide.
84. The new Performance Review and Development Scheme (PRD) was launched during 2009/10, preparing for full year implementation in 2010/11. PRD links individual work and development plans and performance targets to Business Plan objectives, all of which are linked to The East Lothian Way (ELW) core behaviours. HR plan to evaluate the effectiveness of PRD during 2010/11.
85. The council's first-ever Employee Engagement Survey was held in February 2010 and the response rate of 55.2% (of all employees) is the highest known response rate within Scottish local government in recent years. The results demonstrate significant engagement responses e.g. 83% strongly agree/agree that "The people I work with are committed to doing their best" and 78.1% strongly agree/agree that "My team is passionate about delivering excellent customer service". The Survey also linked employee feedback directly to the employee measures required for the new corporate performance management framework 'How Good is our Council?' (HGIOC).
86. A new behavioural quality framework, entitled 'The East Lothian Way' (ELW) was internally developed in order to define key qualities required of all employees across the council. The ELW now defines this change of culture across the council and focuses on service delivery and the achievement of key corporate goals. The ELW is now embedded in corporate induction, recruitment and selection, learning and development, customer service, equalities in employment, leadership, health and wellbeing and performance management. The 4th Challenge for Change Conference for Business Managers takes place in November 2010 and a series of 'Open Door Meetings' which started in September 2009 continue and have become a routine part of employee engagement and a vehicle to enable 'two-way' communication and employee feedback directly with the council's Board of Directors.
87. The council has made good progress in developing Modern Employment Policies. These have increased flexibility in service delivery, options as regards work organisation and methods, and improved family friendly work options for employees. New 'Agile Working' policies are being developed to support the council's Change Programme and WorkSmart Project. The 'Star Awards' recognise employee long service and achievements and feature as an annual celebration of council employees' contribution to public services in East Lothian.
88. The council has developed and implemented a comprehensive employee benefits package covering childcare vouchers, employee benefits/discounts and a cycle scheme. The benefits package was



developed following a joint union/employee consultation and Project Team. There has been a significant uptake for childcare vouchers and the cyclescheme. The employee benefits scheme has also resulted in significant revenue generation for local retail suppliers through the cyclescheme and local retail discounts.

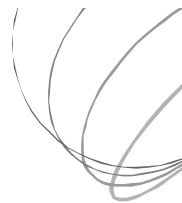
89. The Council has 3,295 FTE employees. In 2009/10 the council lost 32,917 days to sickness absence amongst non-teaching staff which equates to 12.1 days per employee and 6,831 days amongst teaching staff, 6.7 days per employee. The council's levels of sickness absence have reduced year on year and are generally lower than the national average for both local government staff and teachers.
90. Reducing absence and improving attendance through effective case management and operation of the Managing Attendance Policy, with rigorous Business Manager service targets for improvement, supported with detailed management information and Executive Director scrutiny, is a key business priority for 2009/10. This activity is supported in local collaborative working with employee wellbeing partners i.e. Occupational Health Service, Physiotherapy Service and Employee Assistance Programme.
91. The council has continued to develop support for business improvement through for example, the expansion of lean process improvement support and development opportunities which focus on customer led process improvements. This approach combines 'Lean Thinking' and the council's Nimbus Control Software to help improve delivery of services through a customer-led approach and can lead to significant cost/resource benefits over time.
92. Single Status implementation concluded in November 2009 with the completion of the local grading appeals. All of the 326 Trades Union supported Employment Tribunal cases arising from the implementation of Single Status by means of the statutory dismissal process have been strongly and successfully defended resulting in their withdrawal from Tribunal. A small number of equal pay tribunals remain active but sisted, pending due Tribunal process. The value of the 73 outstanding equal pay claims has yet to be finalised but is not expected to be significant. Post Single Status implementation, the council's absence statistics and employee engagement statistics evidence a positive transition from the implementation of Single Status to living within the new equality proofed pay terms and conditions of service for Local Government Employees.
93. In November 2009, the Corporate Management Team (CMT) launched its Efficient Workforce Management Plan (EWMP), to enable services to manage their current workforce resource and service delivery whilst generating efficiencies within approved staffing budgets. This saw the launch of monthly management information reports enabling detailed scrutiny of performance by BoD/CMT. The EWMP activity also enabled Heads of Service to consider options and hypothesise means of delivering services into future financial years with significant budget reductions expected.



94. Employee relations operate very effectively within the council. The 5th annual 'Working Together Forum' in March 2010 saw the Corporate Management Team, elected members and senior Trades Union officials meet to review the council's performance and joint priorities for the year ahead. The direct engagement with the Joint Trades Union by the Board of Directors over the council's Change Programme generates effective joint working and ownership of significant corporate change management projects.
95. The implementation of a new Safety Management System covering the operation and scrutiny of the health and safety function council-wide has led to heightened ownership of health and safety responsibilities amongst Business Managers, employees, 'Heads of Establishment' (i.e. the most senior employee in any work location), and the CMT/BoD and supports the council's developing Risk Management framework.
96. East Lothian Council launched the Customer Service Professional (CSP) programme in April 2009 with six participating candidates. CSP Qualifications assist the continuing professional development of council staff and ensure that customer service levels provided by Scottish local government meet and exceed requirements, in line with the goals of the national 'Customer First' programme. A second tranche was launched in October 2009 with nine candidates. Up to March 2010, seven candidates had graduated from the programme. Feedback from candidate managers was that a significant change in behaviour and approach to Customer Service was apparent.
97. Customer Service training for new entrants was launched as part of the Induction process in September 2009. The half day event covered Customer Service standards, skills and behaviour. Other bespoke customer service events were facilitated including assertiveness, handling aggression, handling conflict for janitors, keeping safe for Education and dealing with conflict assertively and building confidence.
98. Investor in People (IiP) activity continues council-wide, with Education and Economic Development being the most recent services to achieve the IiP Award in September and December 2009. Internal Audit continues to meet the IiP standard (a successful review was carried out in July 2010). Through the IiP process, employee surveys are conducted specific to that service, informing both the improvements to be made within that service and identifying issues common across services.

ICT

99. The council makes good use of ICT to support and deliver services. It has a clear strategy for the future development of ICT services that is clearly linked to the council's objectives and restructuring plans. However, a major challenge facing the council will arise over shared services where the need to achieve potential cost savings will create opportunities for shared IT developments. As part of the key work plan for shared services, a review has been undertaken to map existing IT systems within Corporate Resources, with a view to sharing resources where possible with Midlothian Council. An



example of this is a joint out of hours call centre service (hosted by East Lothian Council), which is now in place.

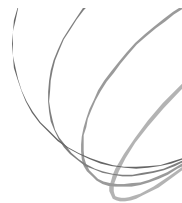
Data handling and security

100. 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, HM Revenue and Customs, 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. It should be noted that from April 2010, the Information Commissioner's Office has been able to fine organisations up to £500,000 for serious data protection breaches.
101. The council has introduced a number of measures over the last few years to minimise the risk to data, including the use of encrypted USB sticks. Staff have also been reminded of their responsibilities towards information security. The council has recently published a new data handling policy and has made good progress in risk assessing its information sources and data transfers. A revised acceptable use policy was issued to all staff and formal sign up requirements have been put in place. In addition, a Home Working/Mobile Working Policy was also approved.
102. The council also maintains a data sharing register detailing what information is shared and how, to ensure that it is done as securely as possible. A register of all information assets and data owners is being progressed and steps are being taken to provide staff with appropriate technical and physical security measures. The council recently participated in Your Business @ Risk Survey, which evaluated staff awareness and behavioural activity. The results demonstrated a good level of awareness and compared favourably with Scottish Public Sector benchmark data. However, there were a number of areas where the council needs to continue to develop and reinforce to improve overall staff awareness of information security.
103. The council has recently experienced a Data Protection breach in uploading confidential information relating to local taxi drivers on to their web site. The council made early contact and sought the advice of the UK Information Commissioner in support of their recovery arrangements. They are still in dialogue with the Commissioner and will work closely with him to identify any further improvement/remedial steps deemed necessary. The council acted quickly to limit access to this data; however, the breach may result in an enforcement notice.



Shared Services

104. The Accounts Commission welcomed the serious consideration of shared services by a number of councils in its *An Overview of local government in Scotland 2009*, although there remains scope for progress. In November 2009, Sir John Arbuthnott reported on his independent review of the potential for shared services across eight councils in the Clyde Valley area. His report includes proposals to merge health and social care services and calls for joint transport, waste management and property ownership to be introduced, and some education services to be provided across council boundaries.
105. East Lothian Council have been in discussion with five other councils about a range of possible shared services for over three years (Edinburgh, West Lothian, Midlothian, Scottish Borders and Fife Councils' Forum (ELBF Forum)). The Forum has identified significant potential from joint activities around payroll, purchasing, road maintenance and options for more flexible and mobile working.
106. The Council meeting in June 2010 noted the progress made with the Forum and the council's Community Planning Partners and also that positive and productive discussions continue on a regular basis with chief officials in Midlothian Council. The council authorised the Chief Executive and Executive Directors, together with their Management Teams, to continue to explore further options and opportunities to share more services, resources and posts with Midlothian Council.
107. Subsequently, the following progress has been made in shared services with Midlothian Council:
- establishment of a new Elected Members Joint Liaison Group and a Joint Shared Services Board
 - the appointment of a Joint Shared Services Officer to support the work of the above and to take this work forward
 - a 'Memorandum of Understanding' has also been agreed over proposals for shared arrangements in Education, involving the secondment of a senior Scottish Government official to assist with this project
 - work streams are being identified in Adult and Community Care for shared service work
 - the establishment of a joint Community Health Council Partnership, a key part of the long term vision
 - the development of a business case outlining service delivery models for Criminal Justice
 - mapping of existing IT systems within Corporate Resources with a view to sharing resources where possible
 - a joint Community Response and Out of Hours Service call centre (hosted by East Lothian Council) has been established.



Outlook

108. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a severe reduction in resources. The council needs to plan for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way.



Governance and accountability

Introduction

109. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its consideration of the council's strengths, weaknesses and challenges for the future.
110. 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, and used economically, efficiently and effectively. The council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
111. East Lothian Council's Annual Governance Statement highlights a number of areas of improvement in relation to the council's code of corporate governance. Overall we have concluded that there are no material weaknesses in the council's internal control systems.

Scrutiny

112. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The council have recently reviewed their Policy and Performance Review Panels (PPRPs) and Audit Committee to improve the effectiveness of the council's scrutiny and review functions. A large number of recommendations were made to strengthen their effectiveness, which included an expanded remit for the renamed Audit and Governance Committee, the reduction in the number of the PPRPs to one committee, concentrating knowledge and experience to conduct challenge and scrutiny.
113. In response to recommendations made, greater balance was achieved by only drawing members for these committees from non-Cabinet members of the council. The council have provided additional training for members on the role and function of audit, scrutiny, review of performance and policy review using Audit Scotland and the Improvement Service. The council have also finalised 'A Guide to Scrutiny and Review' to aid members and support the training they have received.



114. The remit of the Audit & Governance Committee (previously the Audit Committee) includes the promotion of policies on risk management, the review and monitoring of internal controls, the development of an anti-fraud culture and approval of the annual Internal Audit assurance report. The committee is well attended and in overall terms its remit and working practices are in accordance with the good practice principles.

115. However, the 2009/10 draft financial statements were not presented to the Audit & Governance Committee (Audit Committee) to enable a timely review prior to their submission to the Controller of Audit.

Key Risk Area 7

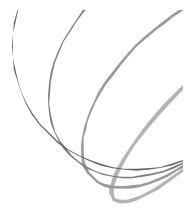
Governance and internal control

116. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. In June 2010, the council adopted a local code of Corporate Good Governance based on six key principles:

- focusing on the purpose of the authority, on outcomes for citizens and service users, and creating and implementing a vision for the area.
- members and officers working together to achieve a common purpose with clearly defined functions and roles.
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- developing the capacity and capabilities of members and officers to be effective.
- engaging with local people and other stakeholders to ensure robust public accountability.

117. A task group comprising the Head of Governance & Performance Management, Head of Finance, Chief Social Work Officer, Head of Law & Licensing and Internal Audit carried out a self-evaluation during 2009/10 to assess the extent to which the council meets the principles and requirements of the code. The evaluation covered the subsidiaries included in the Group Accounts but not the associates. The associates are covered by the Annual Governance Statement of the lead authority for the Joint Boards, which is the City of Edinburgh Council.

118. The evaluation by the task group found that the council generally has good governance and control arrangements in place across the six principles. There were however a number of areas where improvement is required and these were reported to the council's Corporate Governance Policy, Performance & Review Panel (PPRP) in June 2010 e.g.:



- a 'How Good is our Partnership' self-evaluation framework is to be developed to review the effectiveness of the council's partner relationships. This, in addition to a Partnership Finance Strategy that is being developed, will aim to ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.
- a comprehensive performance report, including reference to financial information and context is to be published on the council's website to communicate the authority's activities and achievements, its financial position and performance.
- the production of the Corporate Risk Register will help to ensure that risk management is embedded into the culture of the authority.

119. The council annually reviews the effectiveness of its system of internal financial control and this is informed by:

- the work of managers within the council
- an annual declaration from all Chief Officers
- the work of internal audit
- our reports
- reports from other review agencies and inspectorates.

120. Progress has been made towards achieving the improvements included in the Statement on the System of Internal Financial Control for 2008/09 and the need for improvement of management processes has been identified in 2009/10 for the following:

- budget monitoring processes are currently being reviewed following unanticipated under spends in some business groups
- a review of the controls surrounding payments to employees who are absent from work is required to ensure that all payments have a contractual basis
- adherence to procedures for year-end accruals and prepayments needs to be improved in some business groups
- a corporate strategy for Partnership Finance is being developed which should improve the controls surrounding grant funding.

121. During our 2009/10 audit work we issued a report on our Review of Governance Arrangements and Main Financial Systems. In that report we made a number of recommendations in the action plan and progress in implementing these will be followed up in due course.



Roles and relationships

122. The Accounts Commission recommends that councils give priority to the continuous professional development of their members. Council members have actively sought and received training from the Improvement Service of the Scottish Government and this has been important in providing a basic grounding for members in relation to their roles and responsibilities. 13 of the council's 23 members completed an online Personal Development Profile as part of an Improvement Service pilot CPD project for elected members in the spring of 2009.
123. East Lothian was one of six councils which took part in the pilot. The Personal Development Profile identified 14 skills and 80 behaviours which attempt to accurately reflect the skills and behaviours expected of elected members. In addition to assessing or 'scoring' themselves against these skills and behaviours, members also had the opportunity to undertake 360⁰ feedback, with a small number of fellow members and/or officials contributing their rating of the member's performance. 2 of the 13 members participating also undertook this 360⁰ feedback. Completed Development Profiles were submitted to the Improvement Service, with the results used to produce a Personal Profile Report for each of the members who took part.
124. In the late summer of 2009, all members who completed Development Profiles were invited to take part in the next stage of the CPD process – a Personal Development Planning meeting with relevant officials to review their Profile reports, to look at areas for personal development, and to agree a Personal Development Plan for the coming year. The format for the meeting was set by the Improvement Service using national guidelines and involved members assessing their strengths as well as discussing their training and development needs. Of the original 13 elected members who completed the Development Profile, 10 agreed to participate in this next stage. Personal Development Planning meetings were held during the autumn/winter of 2009/10. The level of engagement in the process varied, although most members found both the meeting, and the earlier profiling exercise, useful. A number of members were able to identify personal training and development needs and a few completed a Personal Development Plan for the year ahead.
125. Members have been advised of training opportunities offered by the council's own organisational development team and offered ongoing support and advice on personal development issues. A series of workshop sessions open to all Scottish councillors has subsequently been organised by the Improvement Service at various venues across Scotland, some of which have been attended by East Lothian Council members. In addition, 2 members participated in a pilot, online communications course also organised by the Improvement Service.



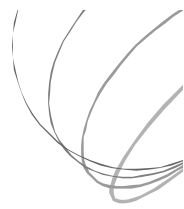
126. The Improvement Service has now completed a full evaluation of the CPD pilot project and is in the process of launching the full scheme across all Scottish councils. At this point, all of East Lothian Council's elected members will be given the opportunity to re-enter the scheme.
127. Audit Scotland's report 'Roles and working responsibilities: are you getting it right?' was presented to the Audit & Governance Committee in September 2010 and all members have a copy of this publication. The proposed scope of the review of multi-member ward working has been extended to consider the key questions posed in this report. It was also raised and discussed by Audit Scotland at the elected members training workshop on 'Scrutiny and Review' in early September.
128. The draft Guide to Scrutiny and Review will be reported to the Council meeting on 26 October 2010. The Guide informs all elected members as to how the scrutiny and review functions are carried out by the new Policy & Performance Review Committee and Audit & Governance Committee. The Guide will also assist the members of the Committees in carrying out their scrutiny and review roles.
129. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. It is important that the effectiveness of these new ways of working are assessed and reviewed with the results reported to Council. A review is currently underway and a report is intended to be presented to Council in December 2010. The review will be informed by Audit Scotland's report 'Roles and working responsibilities: are you getting it right?' which will assist members in evaluating whether arrangements are working satisfactorily or whether modifications are required.

Partnership Working

130. The East Lothian Community Plan (2007-16) incorporates the 2020 Vision and adopts the council's Core Priorities.
131. The February 2008 Budget made significant provision for resources to support a scheme of localised community planning groups to be rolled out across East Lothian, based on multi-member wards. A new framework for Community Planning was approved in January 2009 that was subsequently endorsed by the Community Planning Partnership.
132. The Community Planning Single Outcome Agreement (SOA) was agreed and signed by all Partners in May 2009. This was achieved by good stakeholder participation in the process, as well as the use of 'Logic Modelling', where outcomes are established and worked backwards to see what has to be done to deliver these outcomes. Revised Community Planning structures have also been developed to monitor the 2009 SOA. Alignment between SOA outcomes, Community Planning Partner responsibilities and the council's performance management framework were clarified during the preparation of the 2009 SOA.



133. The council have produced an East Lothian Single Outcome Agreement 2009 - A Snapshot, which explains the plan for the future of East Lothian. It describes what the SOA and Community Planning are and identifies the organisations that have signed up to the SOA. The snapshot covers the eight main themes and related outcomes, as well as 'why this is a priority'. This is an effective and simple document for introducing council staff, other organisations and the public to the rationale behind the SOA.
134. The Community Planning Board received quarterly monitoring reports on progress with the 2009 SOA. The council has now produced the East Lothian Single Outcome Agreement Annual Report 2009/10, highlighting the progress made by East Lothian Community Planning Partners (ELCPP) in delivering a broad range of initiatives, which lead to achieving local outcomes in the SOA 2009. The report identifies the achievements to date and the challenges ahead for the remainder of this SOA and for the next one that will cover the period 2011-14.
135. The report identifies that many of the indicators in the SOA are trying to measure longer term outcomes which cannot be measured in a single year, so data for a large number of indicators in the SOA are not available as yet. The report provides an indication of progress made and where further work needs to be done. The report also highlights substantial achievements, such as the development of joint arrangements to tackle issues around violence against women, alcohol and drugs, and child protection. The report highlights the impact of financial difficulties for ELCPP in the recession and sets out measures that strengthen the partnership with the voluntary sector including the development of a new community engagement strategy.
136. East Lothian Council developed a 'Guide to Business Continuity Planning' for businesses and voluntary organisations. The guide covers legislation and guidance, information on the type of incidents to plan for, a five step guide to business continuity planning, frequently asked questions and useful contacts. There is also a web-site based business continuity plan template that can be used by businesses and the voluntary sector. This guidance was also adopted by Highland Opportunity, Midlothian Council, North Ayrshire Council, Scottish Borders Council and South Lanarkshire Council.
137. To gain a picture of the level of understanding of business continuity planning prior to circulating the guide in 2008, a survey of businesses was conducted. It found that two-thirds of local businesses did not understand the term business continuity planning. The council also tried to raise awareness of the need for business continuity planning through articles in their quarterly 'Business Buzz' magazine. The guide was then sent to various council buildings (such as libraries and community centres) and 2,000 local businesses.
138. The survey of businesses was repeated in 2009 to measure the impact of the guidance. The responses to the question about business continuity planning showed that 41% of businesses that responded to that question, understand the term business continuity planning and 59% do not. 8% of respondents have a business continuity plan.



139. The council is aware that the current economic recession is significantly impacting on specific council budgets and that there are many ways in which the recession may have a wider social impact in East Lothian, which the council may have to respond to. New risks are also likely to arise in the future, in particular, the likelihood that increases in public expenditure will be limited over the medium term.

Community engagement

140. Community engagement features significantly in the work of the Community Planning Task Group. East Lothian Council are represented on the CoSLA Engagement Task Group. The council and the Community Health Partnership (CHP) also co-fund an engagement post under the auspices of the CPP.

141. East Lothian Community Planning Partnership's Community Engagement Strategy 2010-2013 provides a framework and action plan to improve the way ELCPP works with people and communities. This strategy document is for organisations, departments and staff who provide services, and for members who work with service providers and communities and have influence over the way services are provided. It is also aimed at community leaders and groups who are interested in influencing the way service providers work and the steps to be taken together.

Public performance reporting

142. The council produces an Annual Performance Report, the 2009/10 version of which was presented to Council in June 2010 and is available on the council's web-site. The report is a summary of the council's performance in relation to its commitments in the Corporate Plan, its Core Priorities and the Single Outcome Agreement. The council identifies both successes and areas for improvement and associated targets. Quarterly performance reports are also available on the council's web-site as are minutes and supporting documentation from meetings of the Council, Cabinet, Audit & Governance Committee and Policy and Performance Review Panels (superseded in August 2010 by the Policy and Performance Review Committee).

Outlook

143. The Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than the outcomes. The council has had a very positive approach in producing the SOA by involving partners in the detail and the use of logic modelling to establish outcomes and determine what is required to achieve the outcomes. In 2010/11, we expect that there will be further developments in clarifying accountability, governance and public performance reporting.

144. As the SOA demonstrates, partnership working is critical to the council's success. We are developing our approach to the audit of partnerships through the new approach to best value. In future, we shall



increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.



Performance management and improvement

Introduction

145. The council's performance management framework is comprehensive and integrated with service planning and delivery. Staff have a customer first culture. The council is able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements. The assurance and improvement plan concluded that the council did have some significant weaknesses in this area involving risk management. However, the council are continuing to develop and improve this area in stages by the production of a strategy, training and awareness, development of service risk groups and service risk registers and finally a corporate risk register early in 2011. This section provides a high level overview of performance management in East Lothian Council.

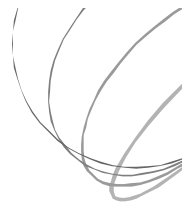
Vision and Strategic Direction

146. The council's vision and corporate objectives come from the Administration's 'Contract with the People' and the East Lothian Community Plan. The plan outlines the council's current priorities and identifies how it will work towards the '2020 Vision for East Lothian'.

147. The council has a clear vision and strategic direction at the corporate level of the council. This vision and strategic direction is being more actively promulgated throughout the council so that management at all levels, support staff, and front line service delivery staff are familiar with them. The council's 'How Good Is Our Council' approach is raising the profile of the council's vision and provides an indication of the extent to which it is recognised and being achieved. In addition, the council's strategic direction, vision, values and aims are widely recognised by staff and reinforced at events and activities. All levels of planning now address these issues, aiding the achievement of the council's vision in service development or policy initiatives. The council is also planning a review/refresh of the vision in conjunction with the reporting of progress against the Corporate Plan before the end of 2010.

Performance management

148. Aspireview is being used throughout the council to monitor performance, which is now reported to the PPRC (formerly the PPRPs) on a quarterly basis. The system is more visual than the previous reporting format and produces graphs and tables to highlight trends in performance. It would, however, entail printing a large amount of paper if each measure was represented in this way prior to a PPRC meeting. As a result the PPRC is reported to by exception. This enables members and



officers to focus their attention on areas where improved performance is required. From November 2010, following the introduction of the new Performance and Policy Review Committee, elected members will be given performance briefings in advance of the next scheduled committee meeting.

149. Any measure that shows red, amber or a downward trend is highlighted in a report to the PPRC prior to the meeting. Aspireview is shown online at PPRC meetings where performance can be examined in closer detail and the appropriate officers can be asked to give verbal explanations for performance.

150. The quarterly performance reports are submitted to the Corporate Management Team, Divisional Management teams and PPRC. They contain on average 20 to 40 indicators for each service business unit. The reports are also available for public viewing through the council's web-site.

Overview of performance in 2009/10

151. The council over a period of time has been developing its public reporting of performance and the new 'How Good Is Your Council' - Annual Performance Report 2009/10 will form the basis of a comprehensive public performance reporting mechanism that includes all Statutory Performance Indicators and SOA measures. This report will be published in late October and will contain a snapshot of how the council performed in 2009/10, with detailed descriptions on the performance indicators and an assessment of the performance measures.

152. The report will draw on over 450 performance indicators that the council uses to measure its performance in meeting the objectives it has set itself. It will also have links to related performance measures in the council's Performance Management Framework. It is expected that 'How Good is Your Council' will be issued in e-book format on the council's website.

153. The 'How Good Is Your Council' report is based on the Annual Performance Report to council in June, which gives a timely report on key activities and specific performance indicators to members and is publicly available. The Annual Performance Report is a summary of the council's performance in relation to its Core Priorities. The council affirmed its commitment to the existing six Core Priorities when adopting the 'East Lothian Council Corporate Plan 2008-2012' in January 2008. The Core Priorities are also reflected in the Single Outcome Agreement for 2009.

154. The council's Core Priorities are:

- keep our environment clean and green
- increase the supply of affordable housing
- help build safer communities
- raise educational attainment

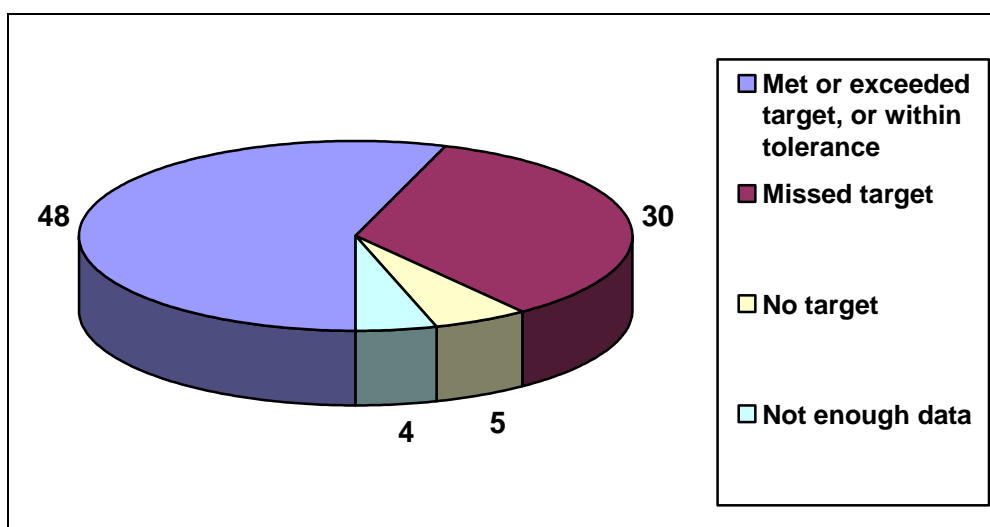


- encourage enterprise and skills
- promote healthy living and improve social care.

155. Information contained within the report has been drawn from the performance measures that have been regularly reported to the PPRPs (now superseded by the PPRC) and performance measures agreed for the Single Outcome Agreement.

156. Exhibit 6 summarises progress in 2009/10 against the council's Core Priorities. It must be noted that the performance indicators referred to in the report are only a selection and not all of the council's performance indicators.

Exhibit 6 Achievement of East Lothian Council's targets 2009/10



157. The Annual Performance Report 2009/10 is a summary of the council's performance in relation to its commitments in the Corporate Plan, its Core Priorities and the Single Outcome Agreement. It recognises progress towards targets, covering both achievements and challenges. The council's achievements include:

- implementation of an accelerated programme for refurbishing existing council housing stock
- a significant reduction in the average waiting time for Community Care assessments from 131 days to 34 days
- a 2009 HM Inspectorate of Education (HMIe) -validated self evaluation report showed that overall, a good quality of education is provided by individual services and establishments, with major strengths in some areas



- the council has adopted a Carbon Management Plan (2009-14) that sets out how the council will reduce its own carbon emissions by 25% by 2014
- 'East Lothian Performs' - web pages which provide information on East Lothian Community Planning Partnership's (ELCPP) performance - went live in February 2010.

158. Challenges facing the council include:

- a rapidly growing population places increased demands on infrastructure and services e.g. scarcity of affordable housing is one of the most significant problems threatening sustainable growth in East Lothian
- the 2009 Scottish Index of Multiple Deprivation shows that East Lothian has two data zones in the Prestonpans and Tranent areas which moved into the 15% most deprived for the first time
- addressing carbon management issues and sustainability, which is the responsibility of not just the council, but every citizen
- the impact of the economic downturn on the council's ability to consistently improve the health and well-being of its residents, as well as the local economy, whilst balancing limited public finances.

Statutory performance indicators

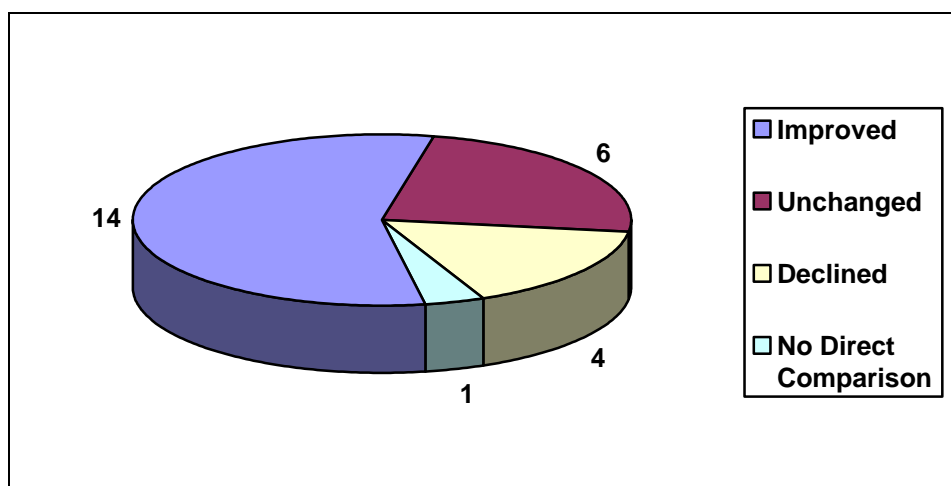
159. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements involving the Single Outcome Agreement and Best Value audit regime. One of the ways of measuring council performance is through the statutory performance indicators (SPIs) which the council reports on its website under 'Your Council Performs – Key Performance Indicators'. Key SPIs are already included within the council's service scorecards.

160. With regard to 2009/10, a total of **25 SPIs** were required. These were published by 30 September 2010 by the council. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms, Exhibit 7 confirms that the council has made improvements in a number of areas.



Exhibit 7

Improvements demonstrated by SPIs (total 25 indicators)



161. The main shortcoming of reporting the SPI's on the council's website is the absence in many of them of any pertinent commentary as to how the indicator was performing, particularly when compared with the previous year.

162. Four SPIs have declined but only two of these show a significant fall in performance, as follows:

- the collection cost of council tax per dwelling has increased from £13.71 last year to £15.34, an increase of nearly 12%. The increase relates to the procurement and implementation of a new revenues system during the financial year 2009/10. The additional cost of the new software is accounted for in the increased cost of council tax collection for this year.
- rent arrears for tenants and former tenants have shown a 25% and 3% increase respectively, which is a reflection of the difficult economic times the council is facing.

Equality and Diversity

163. Equality and diversity are widely recognised as important factors in the sound management of a modern, effective organisation.

164. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. East Lothian Council was cited as an example of how to promote and share good practice. The council is developing a Single Equality Scheme to cover all equality strands and ensure compliance with all public sector duties. There is a quarterly equalities newsletter for staff and the council is integrating the East Lothian Diversity Network into the process. The Diversity Network has recently been short listed for the national Awards for Bridging Cultures 2010.



165. Staff have access to the equalities area of the council's intranet where a range of policies, resources, monitoring and other information is held. This includes an Equality Impact Assessment Toolkit to review policies and procedures and a Guide to Monitoring Equalities in Council Services for fair and equal service delivery. In addition, the council's People Strategy sets the framework for supporting employees.

Efficiency

166. The council has made significant progress in developing a new performance management self-evaluation framework: 'How Good Is Our Council?' (HGIOC). This provides a framework to enable services to identify their strengths and areas requiring improvement. HGIOC was selected after a review by a project team to look at various quality management frameworks being used within the public sector in Scotland.

167. During 2009/10, services across the council have conducted their initial self-evaluation exercise, following support from both HR and Chief Executive's Office. The objective of these self-evaluation reviews is for individual services to use a robust, evidence-based approach to assessing performance and to focus on key improvement objectives, which then link directly into a cycle of Business Planning/Service Improvement objectives and onwards into individual employee PRD objectives.

168. The system has been designed to ensure that it adopts a user-friendly approach whilst linking clearly with other evaluation approaches such as Investors in People. The system is also intended to fulfil the requirements of external audit and inspection bodies.

169. The council also produced a 'Spending Choices' community consultation document for 2010/13 to establish what East Lothian's residents views are on council priorities, as efficiency savings may not be enough to avoid the need to cut either services or staff. The paper identifies spending choices which are difficult and asks the question; which do you feel/think, are the least unacceptable?

170. As part of the council's efficiency drive, the council's Efficiency Board has examined service delivery work themes and approaches of other public authorities to radical change e.g. shared services and workforce planning. The Efficiency Board has been a driver for change, which has the support of both senior management and members. The Improvement Service has also supported the council in its journey and approach to change including the Shared Service Diagnostic Project (SSDP). The SSDP project results indicate where simplification and standardisation of processes across the council can be achieved. From these influences the council have developed a Change Programme to transform the way the council works based on the Workforce Management Plan, the WorkSmart Project, the PrintSmart Project and new ways of delivering services to cut costs, share services and increase income. See also, the Shared Services section.



171. The council have instituted a Carbon Management Plan with the aim of reducing carbon emissions by 25% by 2014 and have established a Carbon Management Team to review progress. To date the council have made good progress and have achieved 34% of the 25% target in the first two years of the five year plan. The council, as measured against the Carbon Trust's progress evaluation self assessment matrix, is also making good progress across a range of corporate and operational carbon management indicators. The evaluation also indicates that policy alignment with carbon management needs to be further improved and the council should use the opportunity of implementing the Public Sector Duties of the Climate Change (Scotland) Act 2009, to further embed carbon management and wider climate change/sustainability issues across the council.

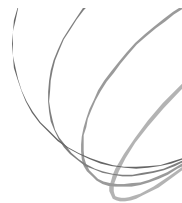
172. Projects already underway include 'WorkSmart' and 'PrintSmart' programmes. Other projects identified include boiler replacement, building rationalisation, improved controls and automatic meter reading packages, and general measures for insulation, draft proofing and lighting. Current initiatives to raise awareness include the Conservation of Resources at Work Group, the eco-schools programme and working with outside consultants such as the Energy Saving Trust. Benchmarking is undertaken through the Scottish Energy Officers Network. The council is looking at the list of assets and the carbon they produce before drawing up a carbon reduction plan

173. Under the Climate Change Act, the council has a duty to introduce a scheme that provides Council Tax rebates of at least £50 to owners that make energy efficiency improvements to their homes. Working with CoSLA, the council has identified a way to introduce a scheme for 2010/11 by working in partnership with British Gas.

174. Accountability for these initiatives at executive and operational level has been established but there is no overall energy strategy and action plan in place which sets objectives and targets. There is not a specific internal budget for investment in energy efficiency measures but it is recognised that the council will have to make more substantive investment in the council estate to achieve the 25% carbon reduction target by 2014. Consequently performance management operates at the departmental level and reporting to the Board of Directors has been ad hoc to date.

Progress on delivery of the council's best value improvement plan

175. A full review of best value and community planning was published in October 2007 and highlighted 17 specific improvement points for the council to address. A Best Value Improvement Plan was agreed with the Accounts Commission in February 2008 and four progress reports have subsequently been presented to Council. The final progress report, in December 2009, indicated that all of the improvement points were complete or substantially complete. Outstanding items have been included in the Corporate Improvement Programme, agreed by Council in April 2010.

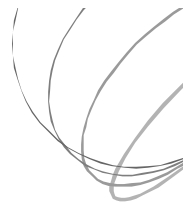


176. Good progress has been made against the majority of improvement points, although progress has been slower in the areas of Risk Management and the production of a Corporate Asset Management Plan. Risk Management is still not fully implemented, see the section on Risk Management below.
177. There has been continued slippage in the development of a Corporate Asset Management Plan. However, the Property Asset Management Plan 2010-2104 will be presented to Council in October 2010 and this plan provides the basis of the council's approach to Corporate Asset Management. See the Asset Management section for further details.

Risk Management

178. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
179. Further refinements to the roles and responsibilities of central support departments took effect from 1 April 2009 and responsibility for risk management now rests with the Chief Executive's Office. Following research of existing good practice by the council, arrangements to support and implement a Risk Management Framework were established.
180. A Risk Management Strategy was approved by Council in December 2009. Local Risk Working Groups have been set up council wide and they are working towards completing Service Risk Registers prior to the end of this year. Council also agreed to support the establishment of a Corporate Risk Management Group that includes representatives from all service departments within the council. The Group (chaired by the Emergency Planning & Risk Manager (appointed in March 2010)) is the lead group overseeing the development, implementation and maintenance of risk management across all services.
181. An initial meeting of the Group has been arranged for January 2011 to produce the first draft of the Corporate Risk Register, taking details from the various Service Risk Registers. It is intended to have an agreed Corporate Risk Register by March 2011. As there is no Corporate Risk Register in place, the council cannot currently demonstrate that it is aware of all high-level risks to the achievement of its core priorities and how it intends to manage these risks. It is recognised that effective implementation of the Risk Management Framework will take up to two to three years and as such, although significant progress has been made, risk management is still not fully implemented or embedded in the council.

Key Risk Area 8



Outlook

182. We have already mentioned the importance of developing the governance aspects of the SOA; the performance management aspects are also important. The long term and complex nature of many of the outcome targets pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems that the council has in place to monitor progress and take remedial action.

183. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk. It is proposed that East Lothian Council's audit of best value and community planning will take place in 2011/12.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit & Governance Committee
Shared Risk Assessment and Assurance and Improvement Plan	30 June 2010	15 June 2010
Application Services Review - Replacement Revenues IT Systems (Capita)	16 September 2010	28 September 2010
Computer Services Review (Client Questionnaire) - Progress Report	15 February 2010	30 March 2010
National Fraud Initiative in Scotland	20 May 2010	28 September 2010
Governance and Internal Control	3 June 2010	15 June 2010
Education Maintenance Allowance	21 May 2010	N/A
Criminal Justice Claim certification	15 October 2010	N/A
Report on financial statements to those charged with governance	30 September 2010	28 September 2010
Audit opinion on the 2009/10 financial statements	30 September 2010	28 September 2010



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p>IFRS preparedness</p> <p>Local government will move from UK Generally Accepted Accounting Principles to IFRS with effect from 2010/11. A restated balance sheet as at 01 April 2009 and shadow accounts for 2009/10 will be required, and the process is likely to be resource intensive.</p> <p><i>Risk</i> <i>The necessary management information processes may not be in place to generate IFRS compliant financial statements in 2010/11.</i></p>	<p>We are aware and will comply in all material respects. Initial review indicates no significant impact on council funds, but significant change in the presentation of final accounts. This means implementation is required by June 2011 rather than April 2010.</p>	Head of Finance	June 2011
2	28	<p>Group Accounts</p> <p>The failure to have finalised financial statements for Musselburgh Joint Racing Committee with an appended audit certificate for final accounts purposes needs to be reviewed and a Group reporting timetable needs to be established.</p> <p><i>Risk</i> <i>The failure to adhere to reporting deadlines and supply appropriate audit certificates may impact on the financial statements opinion.</i></p>	<p>We succeeded this year in having audited final accounts available in early October. Bringing that forward in 2011 is not expected to be a problem provided no further significant changes are made to MJRC financial arrangements.</p>	Head of Finance	June 2011
3	52 & 62	<p>Financial Planning</p> <p>There is a clear indication that the council will have significantly less income in 2011/12 and there is a high degree of risk that this will continue in future years. The best case appears to be that</p>	<p>The Council is currently undecided about what to do about impending financial challenges.</p> <p>The Head of Finance is the Section 95 Officer and is</p>	Head of Finance	March 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>next year the council will have to adapt and operate with £7 million less than it has now, and then hold that position for the next 4 years. The worst case is that income is going to fall by £23 million over the next 5 years, £13 million of which happens next year.</p> <p>Risk <i>There is a risk that the council will not have sufficient resources to maintain service delivery.</i></p>	<p>responsible for the administration of the council's financial affairs. He will continue to advise the council on this matter and will ensure that the council complies with all statutory and regulatory requirements in setting the budget in 2011.</p>		
4	64	<p>Financial Planning With the reductions in Scottish Government Grant there will be increased pressures on budgets. Within the council budget is the need to achieve recurring efficiency savings of £3.5 million. Efficiency savings are not being achieved across all services.</p> <p>Risk <i>Failure to achieve efficiency savings in the current financial year may impact on the maintenance of front line services in future.</i></p>	<p>It is unlikely that the capacity for efficiency savings would ever be even across all council services. Where savings have been targeted in the past, evidence shows they have been met or replaced with another action of equivalent value.</p> <p>Should grant be reduced significantly, although efficiency savings would be sought, it would be misleading to suggest that the grant loss could be replaced with efficiency savings.</p>	<p>No specific action planned. Financial planning including efficiency savings will continue to be addressed through the budget process.</p>	
5	71	<p>Financial Planning Currently, the council's pension deficit is being managed by payment of the minimum acceptable increase in employer contributions. This minimum increase does not fund any of the deficit. The council needs to anticipate increased contributions arising from the triennial actuarial valuation if a net pension liability persists. Funding the pensions' deficit must become part of the council's</p>	<p>Not agreed.</p> <p>The council believes that expert external advice on the management of the pension fund should continue to be sought from an independent actuary and then acted upon. The council has and will continue to comply with the recommendations of the actuary.</p> <p>As recent national changes to pension arrangements have</p>	<p>No change in current policy & practice planned.</p>	



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>long term Financial Strategy.</p> <p>Risk <i>There is a risk that the pensions' deficit is not managed and the burden is transferred to taxpayers in the future.</i></p>	<p>shown, decisions on managing the pension fund deficit are not solely or perhaps even mainly for the council to make. Therefore following expert independent advice is most likely to be the best value route to ensuring pensions are fully funded in the long-term.</p>		
6	82	<p>Procurement</p> <p>The council are taking steps to develop and improve the council's procurement activities in line with best practice.</p> <p>Risk <i>Delays in improving the procurement system/activities are likely to result in Best value not being fully achieved.</i></p>	<p>Improvement will be an integral part of the new procurement strategy due for 2011 onwards.</p>	Head of Finance	April 2011
7	115	<p>Financial Statements</p> <p>The Audit and Governance Committee should have the opportunity to review the council's financial statements before the completion of the audit as well as the opportunity to discuss these matters with the Section 95 Officer. The committee's remit identifies the need for draft financial statements to be presented to them for a timely review of the financial position of the council before submission for audit.</p> <p>Risk <i>The Audit and Governance Committee do not have the opportunity to comment or undertake a meaningful review prior to the draft financial statements being submitted for audit. Thus failing to adhere to their remit.</i></p>	<p>Significant changes to accounting standards and resource constraints made this impossible in 2010, although it was achieved in 2009.</p> <p>Further extensive changes in accounting standards for 2011 combined with the likely severe financial pressure on all council services mean that the risk of a repeat of 2010 is highly probable without appropriate resource being invested.</p> <p>Should it prove impossible to report to A&G Committee on the draft financial statements in June, further efforts will be made to report specifically to members of that Committee following completion of the statements by the statutory date of 30th June and prior to finalisation of the audit.</p>	Head of Finance/Head of Governance & Performance Management	July/August 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	181	<p>Risk management</p> <p>Risk management is still being embedded in the council. As there is no Corporate Risk Register in place, the council cannot currently demonstrate that it is aware of all high-level risks to the achievement of its core priorities and how it intends to manage these risks.</p> <p>Risk</p> <p><i>There is a risk that service delivery and development may be carried out without fully identifying management risks that may arise or that known risks are not brought to the attention of all relevant staff.</i></p> <p><i>There is also the potential risk that the Board of Directors do not have an overarching view of the risks facing the council.</i></p>	<p>Significant progress has been made following approval of the new Risk Management Strategy in December 2009. Key elements of the agreed implementation plan have been delivered on schedule with real progress on Service Risk Registers.</p> <p>Work on establishing the Corporate Risk Register will shortly commence with a register in place by March 2011.</p>	Head of Governance & Performance Management	March 2011