

# East Lothian Council

**Report to Members and the Controller of Audit  
on the 2008/09 Audit**

**October 2009**



 **AUDIT SCOTLAND**



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# Key Messages

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

Our opinion draws attention to the failure of one significant trading operation (Sportplus, which manages the council's leisure services) to breakeven on a rolling three year basis. This significant trading operation has made a surplus in the current year but this is not sufficient to overcome the deficits from the previous two years. The council is intending to transfer its leisure services to a not for profit company during 2009/10.

The financial outturn for the council is broadly in line with financial reports made during the year. The council managed net expenditure of £207 million in 2008/09. Improved council tax receipts, budget savings and reduced treasury management costs more than compensated for small overspends on services. There was a deficit of £3.9 million on the Income and Expenditure Account, but, with statutory adjustments, this resulted in a contribution of £0.8 million to the General Fund. This was £4 million more than planned, a positive outcome.

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 aims to have its Asset Management Strategy in place by 2010.

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. During the year, the council introduced Modern Employment Policies for staff, which are more family friendly. The council is progressing a revised Employee Performance Review and Development Scheme that will link to the council's key priorities. The council have also implemented Single Status during the year, but no recent council wide staff surveys have taken place to assess staff morale or the impact on staff absences of the council's recent developments.

Risk Management is still not fully implemented or embedded in the Council. From 1st April 2009 responsibility for Risk Management rests with the Chief Executive's Office and new arrangements to support and implement a risk management framework are being established.

## Outlook

The council continues to face a significant challenge in matching expenditure commitments to available resources. Over the next three years expenditure commitments for the Housing Revenue Account and the General Fund are estimated to outstrip income by £10.4 million. Departmental efficiency savings of £3.5 million will also have to be met for 2009/10 on a recurring basis, increasing the pressure on services to deliver an efficient and effective service. In common with all councils in Scotland, the council also faces further potential constraints in Scottish Government funding in 2010/11 as the Scottish Block Grant has to absorb £500 million for national efficiency savings.

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 reports and accounts. From April 2011 a new and complex system for charging for carbon emissions will be introduced by the EU.

The Single Outcome Agreement allied to revised Community Planning structures will help change the way in which the council works with its partners. There will be more focus on outcomes, Community Planning Partner responsibilities and the council's performance management framework which has been aligned to measure performance.

The credit crunch has put council services in 2008/09 under significant budgetary pressures. In particular; Community Services had its budget strengthened by a £1.5 million transfer from reserves. Given the significant budgetary pressures the council is facing it is critical that the council continues to closely monitor all services to ensure that they are operating within budget.

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

**October 2009**



# Introduction

1. This report is the summary of our findings arising from the 2008/09 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. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
  - The impact of the race equality duty on council services
  - Improving energy efficiency
  - Asset management in councils
  - Overview of drug and alcohol services
  - Mental health overview
  - Civil contingencies planning
  - Strategic procurement.
3. We mention the key findings from these reports and the implications for East Lothian in the performance and use of resources' sections of this report. Full copies of the studies can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
4. 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 expect 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.
5. This report is addressed to members and the Controller of Audit. It will be published on our web-site after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and is also presented to the Local Government and Communities Committee of the Scottish Parliament.

# Financial statements

## Introduction

6. In this section we summarise key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

## Audit Opinion

7. We have given an unqualified opinion that the financial statements of East Lothian Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We have, however, drawn attention to one failure to comply with the Local Government in Scotland Act 2003. One significant trading operation (STO) has failed to breakeven, on a cumulative basis, over a three year period, but has made a surplus in the current year. Although this does not affect the overall opinion on the accounts it is a clear signal that the STO concerned, Sportplus, has had difficulties operating within budget. The council have now agreed to transfer the operation and management of the council's leisure services to a not for profit company, which occurred on the 1 October 2009.
9. We were broadly satisfied with disclosures made in the Statement on the System of Internal Financial Control (SSIFC) and the adequacy of the process put in place by the council to obtain assurances on systems of control. However, we have identified a number of areas that the council needs to consider to improve its SSIFC disclosures and the process for obtaining senior officer assurances on the system of control:
  - the 'Main Features of the System' paragraph should include details of the system in place
  - a 'Review of Effectiveness' should cover weaknesses identified, including those mentioned in Internal Audit's control assurance statement e.g. risk management and corporate asset management planning
  - a statement of positive assurance on systems of control to support associates (Joint Boards)
  - Senior Officers' Declarations of Assurance in support of the SSIFC should contain references to unusual financial events/issues (frauds) and the results of reports from Internal Audit.

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 2008/09 accounts have continued to show good improvement over the last couple of years, but there is still scope for further improvement in the quality of supporting information e.g. Fixed Assets. The designation of one officer to control the production of the accounts and deal with audit queries has also aided the audit process.
11. We are working in partnership with Finance and continuing to clarify our requirements and 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 2009/10.
12. The accounts were certified by the target date of 30 September 2009 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). No major changes were introduced by the 2008 SORP. We were satisfied that the council broadly prepared the accounts in accordance with the 2008 SORP.
14. 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

15. 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



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

- Council Tax
- Creditors
- Management of Commercial Properties
- Payroll multi-contracts.

## **Prevention and detection of fraud and irregularities**

17. 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**

18. 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 savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

19. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. There was a significant increase in the number of possible matches identified for the council. Resources have been targeted at cases where the match was classed as 'recommended' for further investigation or where there was a higher risk of fraud. 161 cases have been checked and 94 of these have been cleared. The remaining 67 are still being investigated.

## **Housing Benefit**

20. 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 implemented.

21. 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 have been hampered by an IT system that does not support the integration of functions such as its intervention programme. To improve the effectiveness and efficiency of the benefits service, the council implemented a new integrated benefits IT system in August 2009, which will go live in December that it considers will facilitate continuous improvement across all aspects of claims administration.
22. At the same time, the benefits service plans to take over the responsibility for recovering its housing benefit debt from the corporate debt section. This makes the change programme all the more challenging. The council has responded to the risks we identified in the Risk Assessment Report with an action plan. We believe the actions 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**

23. 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.

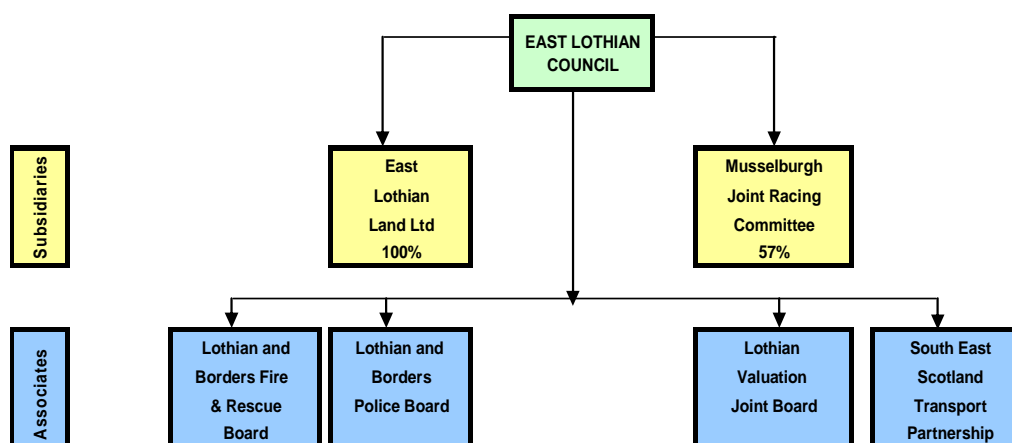
## **Joint ventures and companies**

24. 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.

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## Exhibit 1

### East Lothian Council Group Structure



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25. 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 in draft; the council's Head of Finance has provided us with assurances that the figures will not be subject to material change.
- 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 £94.7m, 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.

## **Trust funds**

26. 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.
27. During 2008/09 the trusts received income of £123,000 (2007/08: £245,000), principally dividends from external investments, interest earned on balances invested in the council's loans fund and rents and other income. The decline in income is largely due to the current economic climate. Disbursements of grants and to events totalled £65,000 (2007/08: £56,000). The net assets of the trusts at 31 March 2009 amounted to £2.8 million (2007/08: £3.3 million).

## **Common good fund**

28. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires 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.
29. 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 2008/09, the funds received income of £622,000 (2007/08: £420,000) whilst incurring expenditure of £179,000 (2007/08: £151,000). As at 31 March 2009 the funds had net assets of £5.8 million (2007/08: £5.8 million).

## **Pension fund – the Local Government Pension Scheme**

30. 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.
31. Employee contributions are being 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 are being increased to 22.5% for 2009/10 (2007/08: 19.0%), 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 has already been paid in 2009/10. The next formal valuation is due at 31 March 2011.

32. A full actuarial valuation of the pension fund for FRS 17 purposes for East Lothian Council was undertaken as at 31 March 2009 and the actuary's final report was presented in April 2009. The council's estimated pension liabilities at 31 March 2009 exceeded its share of the assets in the Lothian Pension Fund by £59.3 million, an increase of £36.6 million over the previous year. The change is mainly due to the fall in the value of assets.

## Legality

33. 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 council's 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

### IFRS adoption

34. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. Next year, councils will be expected to account for PFI projects on an IFRS basis, however, it is important that the council starts the transition period in 2009/10, when a comparative balance sheet as at 1 April 2009 and whole of government accounts will be required on an IFRS basis.

### Pension funds

35. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, something also supported by LASAAC. Although it is unlikely pension funds will be separate audit appointments (as they are not statutory bodies in their own right) it may be necessary for us to treat them separately. We will be discussing this with the CIPFA Directors of Finance Group.

### Carbon trading commitment

36. From April 2011 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. The details of how the Carbon Reduction Commitment scheme will apply to East Lothian Council are not yet known; the level of financial penalty (or gain) will depend on the position relative to other councils.

# Use of resources

## Financial results

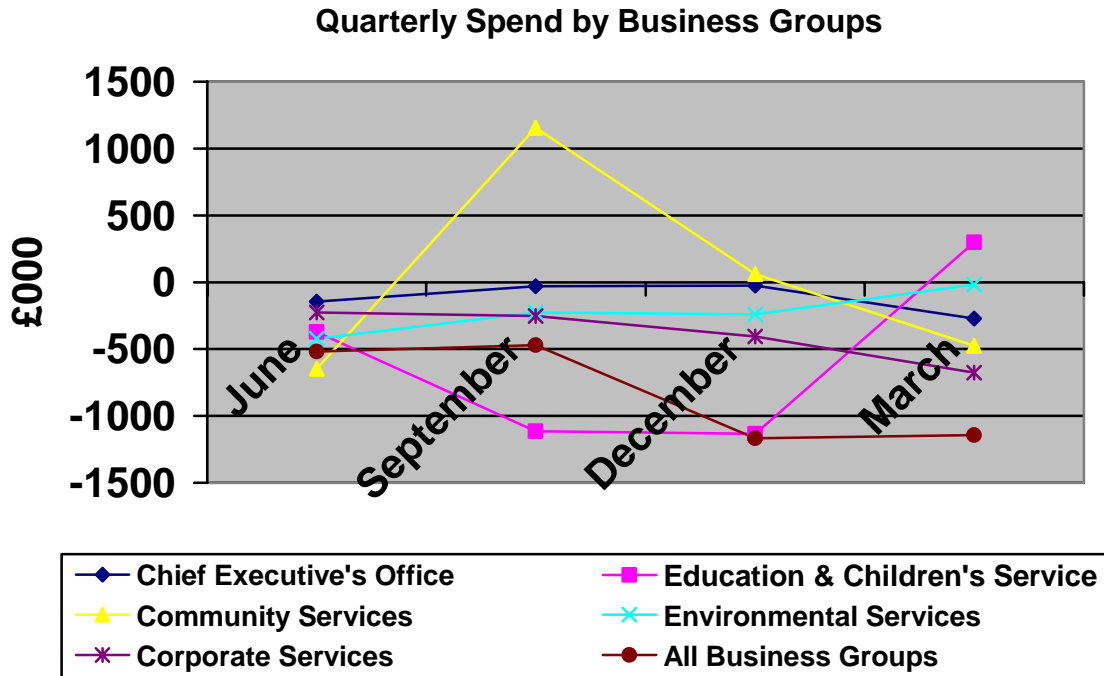
37. In 2008/09, East Lothian Council spent £340 million on the provision of public services. More than £291 million was spent on revenue services and the remainder was capital expenditure. The council's net operating expenditure in 2008/09 was £207 million. This was met by central government and local taxation of £203 million, resulting in a deficit of £3.9 million, 1.9% of the net expenditure for the year. The 2008/09 budget was based on a Band D council tax level of £1,118 with planned contributions of £3.2 million from the general fund.
38. After taking account of statutory adjustments of £4.67 million, an additional £0.8 million statutory surplus was added to reserves. This surplus was attributable to an under spend in single status costs, better than anticipated council tax receipts, savings on treasury management and income from interest receipts, as well as savings across service budgets.
39. Over the past year, the council has invested a lot of time in improving the quality and quantity of financial information so that budget holders and service heads are better informed to make decisions, and senior managers and elected members receive early warning of problem areas. The corporate management team kept budgets under close review during the year to improve the financial position and members received regular reports about income and expenditure compared to budgets. However, despite the improvement in the information provided, some overspends still occurred. This suggests that further action is required to ensure that no budgets are exceeded in future.

### Key Risk Area 1

40. Exhibit 2 below shows the departmental results reported on a regular basis to members and clearly highlights the spending patterns throughout the financial year. Community Services shows a significant over spend in quarter 2, which had arisen because of difficulties in managing Adult Social Care, Homelessness and Amenity Services budgets. A £1.5 million transfer from reserves was made to Adult Social Care to assist them in their efforts to deliver demand led services. At the year end only one business group was marginally overspent by 0.3% (Education and Children's Services) as a result of a failure to generate income from the sale of one place at the authority's residential unit.
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**Exhibit 2**

**Quarterly over/under spends by period 2008/09**



41. Overall the council has managed the immediate financial pressures in the current year with an overall statutory surplus of £0.8 million. However, further analysis of the financial results over the preceding three years suggests that the surplus at the end of each year is decreasing. This is an indication of greater pressures on budgets, evidenced by the number of business groups throughout the council who have had their financial risk assessment increased to medium or high. To manage increasing financial pressures in future, the council will need a more rigorous focus on core priorities and areas where demand will grow, in order to avoid unplanned deficits and drawing on unallocated reserves.
42. We have reviewed the budget for 2009/10 and are aware that the overall net increase in expenditure is around 5%, which broadly assumes service income at 2008/09 levels. Increases in grant funding and other revenue streams, and the drawing down of reserves will meet this increase in expenditure. Financial Review reports for 2009/10 to date are showing an overall surplus of £1.1 million.
43. Although the council is currently in surplus for 2009/10, it is aware of the need to take action to balance its budget, as some service areas of the council are not managing to match demand with available resources. In addition, departmental efficiency gains are not being universally achieved on an ongoing basis, which not only creates problems for the rest of 2009/10, but also for future financial years. This is a significant challenge for the council as it tries to ensure the delivery of council services at current levels.

44. As part of this process, the council has produced a 'Spending Choices' community consultation document for 2010/13 to establish what East Lothian's residents views are on council priorities. Exhibit 3 summarises the movements in budget between 2008/09 and 2009/10.

### Exhibit 3

#### Summary of budget movements

Service	2008/09 Budget	2009/10 Budget	Variance	
	£'000	£'000	£'000	%
Corporate Services Department	12,649	13,221	572	4.5
Education and Children's Services Department	91,289	95,505	4,216	4.6
Community Services Department	72,608	77,227	4,619	6.4
Environment Department	16,256	17,288	1,032	6.3
Corporate Commitment	12,118	12,253	135	1.1
<b>Total</b>	<b>204,920</b>	<b>215,494</b>	<b>10,574</b>	<b>5.2</b>

### Reserves and balances

45. Exhibit 4 shows the balance in the council's funds at 31 March 2009 compared to the previous year. Funds include a capital fund 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 2009, the council had total funds of £16.2 million, an increase of £2.1 million on the previous year.



## Exhibit 4

### Reserves

Description	31 March 2009 £ Million	31 March 2008 £ Million
General Fund	9.6	8.8
Housing Revenue Account	2.6	1.4
Capital Fund	2.9	2.9
Insurance Fund	1.1	1.0
	<b>16.2</b>	<b>14.1</b>

46. The general fund increased by £0.8 million during the year to a balance of £9.6 million which equates to 4.6% of the council's net annual expenditure. Of this balance £3.8 million has been earmarked for specific purposes: devolved school management balances held by individual schools; various departmental reserves; civil emergency and equal pay compensation. This leaves an unallocated balance of £5.8 million, and compares favourably to the council's reserves policy. This policy sets a minimum unallocated reserve level of £2 million (2007/08: £3.5 million) to guard against financial risk. This reduction in the minimum unallocated reserve level is just under 1% of current net expenditure and will increase the risk of not having enough cash reserves available to meet any unforeseen events.

### Group balances and going concern

47. 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 2009 due to the accrual of pension liabilities. In total these deficits amounted to £1,304 million (2007/08: £1,246 million), with the council's share being £104 million (2007/08: £101 million). 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.

## Capital performance 2008/09

48. The council's prudential indicators for 2008/09 were set in February 2008. Capital expenditure in 2008/09 totalled £49.6 million, an increase of £2.1 million from 2007/08 and £1.7 million more than budget. The main reasons for the overspend are increased expenditure in relation to housing stock improvements, roads and vehicles. This was partially offset by an underspend in Community Services' projects. Although the Community Services' underspend reduces the overall overspend for 2008/09, the projects involved remain likely to complete in future years and that is when the financial impact of the 2008/09 overspends will require close management.

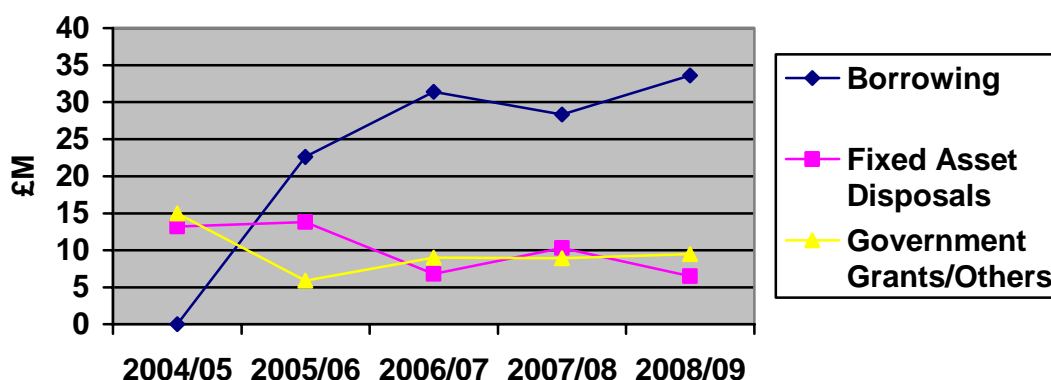
49. The trend in capital investment and sources of funds is reflected in exhibit 5.

### Exhibit 5

#### Sources of finance for capital expenditure 2008/09

	2004/05 Actual £M	2005/06 Actual £M	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M
<b>Borrowing/set aside from revenue/finance leases</b>	0	22.6	31.4	28.3	33.6
<b>Fixed Asset Disposal</b>	13.2	13.8	6.8	10.3	6.5
<b>Government Grants/Other</b>	15	5.9	9.0	8.9	9.5
<b>Total</b>	<b>28.2</b>	<b>42.3</b>	<b>47.2</b>	<b>47.5</b>	<b>49.6</b>

### Capital Expenditure Financing



50. The world's financial markets are experiencing unprecedented turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring, except moving from higher interest rate long term debt into lower interest rate shorter term debt. Moves in that direction have to be carefully managed as interest rates may change quickly as the economy picks up, quickly losing any cost advantage. The council is proceeding with capital expenditure plans of around £50 million a year for the next three years with a substantial proportion of that amount being met by borrowing. The council needs to be aware that it is also likely that capital receipts will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding and/or the impact on capital budgets.

## Treasury management

51. As at 31 March 2009, East Lothian Council held cash and temporary investments totalling £7.2 million. We received specific representation from the Head of Finance that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation and was on-lent in the interests of prudent cash management. In the Head of Finance's assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.
52. The current economic climate means that interest rates on investments are low – the council received £0.85m in investment income this year compared to £1.49m last year. Borrowing rates are also low, but the council has all of its debt at fixed rates and its average cost of borrowing over the year was 4.4%. The council has taken advantage of the drop in interest rates to reschedule and take on new short term debt of around £28 million. Capital repayment obligations are factored into the council's long term financial planning, consistent with the requirements of the Prudential Code.
53. The crisis in the banking sector and the collapse of Icelandic banks in particular, has prompted councils to review their treasury management practices. The council's treasury management practices have adhered to the 'Prudential Code' and CIPFA guidance. However, in the light of the credit crunch and the recession's impact on the UK economy the council has taken a more restrictive approach to the suitability of institutions and reliability of credit ratings. Consequently, the council has taken specific steps to reduce investment risk by only lending to the UK government and other public sector bodies.

## Financial planning

54. The council continues to face difficult financial pressures in 2009/10 and beyond where expenditure commitments for the HRA and the General Fund over the next three years are estimated to outstrip income by £10.4 million. Financial planning for 2009/10 includes identified departmental efficiency savings. 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.

### Key Risk Area 2

55. The council is party to the concordat with Scottish Government which means, amongst other things, that council tax will not be increased in the current year. Consequently the council has had to look at other sources of income and reductions in expenditure to balance its budget. In addition, the Scottish Government only announced a one year budget, but the council continues to plan for the medium term through its three year planning process.

56. 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. For 2009/10, there is £4.7 million of reserves available to support the General Services budget, while in the longer term the council will have to consider various options, either reducing its expenditure commitments or increasing its income, or some combination of both.

57. Council rents are to increase by 5.2% which would allow for additional housing to be built and would also 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 would also be used to part fund the purchase of new homes for rent.

58. The council has £3.5 million of departmental efficiency savings built into its 2009/10 budget. 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 2

59. 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 Financial Strategy.

### Key Risk Area 3

60. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. There will also be a reduction in the Scottish Block Grant in 2010/11 of £500 million for efficiency savings. This means that all councils need to plan now for a future where there is no real growth in funding. As a result, the council may have to cut services if it cannot achieve internal efficiency savings and generate other sources of income. By recognising and planning for these challenges, the council is better placed to be able to understand the impact of reduced funding and make effective savings. Savings take time to accrue and the council needs to continue to monitor and take action now to be sure of achieving savings in the future.

## **Key Risk Area 2**

### **Budgetary Control**

61. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the council set and managed its budgets. We found that the process for budget setting had elements of good practice but that there were deficiencies in the budget itself. Community Services has substantially overspent its budget for the past three years as the demand for services had been underestimated. Steps were taken in year to address this problem with a £1.5 million transfer from reserves for 2008/09. For 2009/10 to date there is a small overspend of around £43,000 which is much closer to the budgeted level for Adult Social Work, a demand led service (£77.2 million for 2009/10).
62. However, the Landscape and Countryside Division (part of Community Services) is heading for another overspend in 2009/10 in excess of £100,000 (against a budget of £6.3 million). This would be the fifth year in a row that Amenity Services has overspent its budget. Given the significant budgetary pressures the council is facing it is critical that all services are operating within budget. The council need to consider what action should be taken to re-evaluate the activities/budget of Amenity Services and to closely monitor the outcome.

### **Asset Management**

63. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Effective management benefits service delivery by making council buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council's carbon footprint.

64. In 2009, Audit Scotland published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. More than half of Scottish councils do not have an approved asset management strategy. East Lothian Council has a draft Asset Management Strategy which has yet to be approved. The council are in the process of developing a comprehensive Corporate Asset Management Plan for delivery in June 2010, which will build upon the work already done in relation to Property, Education, IT and Roads' assets. Development has been delayed because of a lack of dedicated resources.
65. 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. East Lothian Council's position in relation to properties in poor condition was significantly better than this but was in line with the national figures for suitability. The study recommended that councils should work together to implement a consistent methodology for measuring suitability, which is happening for schools; East Lothian Council has developed its own Suitability Questionnaire for other assets.
66. The current economic situation has implications for the management of the council's assets. As the council have yet to prepare a Corporate Asset Management Plan this impacts on the council's ability to fully demonstrate Best Value. The council has also identified surplus assets valued at £1million (2007/08: £1 million). There may also be currently unidentified surplus assets that are also potentially available for sale.

## Procurement

67. In 2009, we published a report on procurement across the public sector, *Improving Public Sector Purchasing*, which recommended that public bodies should institute procurement strategies and plans, comply with good practice set out by the centres of expertise, use Procurement Best Practice Indicators (BPIs) to assess performance, regularly report savings/benefits and work with the centres of expertise to improve collaboration.
68. Local authorities spend significant sums of money annually on purchasing goods and services and as part of the efficient government initiative, the Scottish Government anticipated that scope existed for significant financial savings through improved procurement procedures and practices. The McClelland report on procurement published in March 2006 confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.
69. In response to the McClelland report, the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In July 2009, Audit Scotland reported the extent to which the Programme had progressed nationally. This report concluded that while some significant steps had been made, more work was required before the Programme could achieve its full potential. The key findings of the report were that while the wider impact of the Programme appears positive:

- there was no systematic basis for reporting savings directly attributable to the Programme
- savings from collaborative contracts, a key feature of the Programme are being achieved more slowly than expected
- there are wide variations across public bodies in the quality of purchasing data, practice and skill levels.

70. East Lothian Council participates with the national centres of procurement expertise. In common with all councils across Scotland however, the majority of the local authority procurement is still arranged and processed within individual councils. In light of this, Audit Scotland recently surveyed Scottish local authorities to establish the nature of information held by councils on procurement processes. Questions also sought information on some key procurement statistics as well as establishing if individual councils had plans to implement the key recommendations from the McClelland report.

71. For East Lothian Council, the main points of interest were:

#### Areas of Strength

- the council have a plan in place to achieve superior procurement performance
- the council is part of Procurement Scotland (the national centre of expertise) and joined Scotland Excel (the local government centre of expertise) in April 2008 for an initial period of three years
- the council have a procurement strategy and contract register in place
- the council uses the Public Contracts Scotland Portal
- the council has about 7% of contracts in place with its suppliers, however, this small number of contracts account for about 27% of all procurement expenditure.

#### Areas for Concern

- the council were not able to provide data for 2008/09 which suggests that it is difficult for councils to identify issues, take proactive corrective action, and meet efficiency targets
- although they have made more progress than most councils, the council failed to meet the Scottish Government's targets for reporting Procurement Best Practice Indicators by being at least 9 months in arrears.

72. The council has worked hard over a number of years to modernise procurement practices by introducing procurement guidance and a centralised procurement team, establishing procurement officers throughout the council and increasing the use of IT in tendering, ordering and invoicing, and the use of purchase cards.
73. The council compiles an Annual Review of the Corporate Procurement Strategy and this is reported to senior management and members. This monitors progress against an action plan covering, for example, increased use of contracts, improved skills and competencies of procurement officers and the need to record performance and benchmark it against other bodies through the use of the BPIs.
74. However, the council would benefit from more:
- procurement expenditure being under contract
  - up to date information to monitor progress and monitor Best Practice Indicators in a timely fashion.

## Managing People

75. A number of key organisational development and change areas were identified following the initial 2008 'Challenge for Change' Business Managers' conference. Five working groups developed priority changes for leadership & management development, replacement Employee Development & Review scheme (EDR), new performance management framework, communications and employee engagement commitments and revised corporate plan. These are key areas that directly relate to delivery on the council's 'People Strategy' and Corporate Plan objectives.
76. A new behavioural quality framework, entitled 'The East Lothian Way' (ELW) was developed in order to define key qualities required 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. A series of 'Open Team Meetings' started in September 2009 and will carry on at least until 2010. These meetings were led by the Board of Directors and allowed employees from across the council to directly feedback their views to senior management.
77. The council has made good progress in developing Modern Employment Policies. These family friendly policies facilitate both increased flexibility in service delivery, and greater options as regards work organisation and methods, such as the scope for increasing home and mobile working.
78. The new Performance Review and Development (PRD) scheme is now being rolled out corporately in a phased approach. The scheme provides an individual performance link to key council objectives and outputs based on business plans, as well as identifying appropriate learning and development to support work objectives and personal development needs, all also linked to the ELW.



79. Commitment for undertaking a council-wide employee engagement survey was confirmed during October 2009 and a survey is planned to be initiated during 2010. An engagement survey approach has been agreed which will directly link back to evidencing key employee measures required for the new performance management framework 'How Good is our Council?' (HGIOC). The survey will also assist the council in assessing the impact of the implementation of single status, the restructuring of Corporate Departments and other matters relating to staff morale.
80. The council has 3,860 staff. In 2008/09 the council lost 33,806 days to sickness amongst non-teaching staff which equates to 12.3 days per employee and 7,963 days amongst teaching staff, 7.2 days per employee. The council's levels of sickness absence are generally lower than the national average for both local government staff and teachers.
81. The council continues to place a high emphasis on the proactive management of sickness absence. The policy has recently been revised in co-operation with Trades Union colleagues and is now the Managing Employee Attendance Policy. The council continues to operate local Occupational Health, Employee Physiotherapy and Employee Counselling services, to facilitate early intervention and rehabilitation to the workplace of long term absent employees. This is all supported by the Healthy Working Lives group, providing health and well-being information and opportunities for all employees, recognised by the award and annual retention of the national Healthy Working Lives Gold Award.
82. Single Status Implementation will conclude in November 2009 when the local appeals procedure completes, and appellants seeking to appeal the grading of their posts with effect from 01 June 2008 will have their appeal outcomes declared. Employment Tribunal activity arising from the implementation of Single Status remains active pending due Tribunal process. The value of the claims has yet to be finalised but is expected to be insignificant.
83. Investor in People (IiP) activity continues council-wide, with Education being the most recent service to achieve the IiP Award in September 2009. 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

84. The council makes good use of ICT to support and deliver services. It has a clear strategy for the future development of ICT that is clearly linked to the council's objectives and restructuring plans.
85. The council has worked closely with the Improvement Service in implementing a national voluntary entitlement card scheme. As part of a group of councils under the Modernising Government Agenda they developed a local smart card system to cover council services, such as library entitlement. This was then linked into various national schemes, such as free travel for the elderly and the disabled, and the Young Scot card. The migration of the local system on to the national system has worked

well. The elderly and young age groups have an almost 90% take up of the cards because of the national benefits.

## **Data handling and security**

86. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
87. The council has effective leadership from Corporate Services and is making steady progress in putting a framework of policies and standards in place. For example, they have recently published a new data handling policy and the revised acceptable use policy has been adopted at a corporate level. Furthermore, the council has made good progress in risk assessing its information sources and data transfers. A register of all information assets and data owners is being prepared 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. This will be reported in due course but in the meantime the council are taking action to raise staff awareness, improve governance and reduce risk.

## **Shared Services**

88. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. East Lothian Council have been in discussion with five other councils about a range of possible shared services for over two years. It is uncertain when this will proceed to implementation and we understand that the council will consider a report on the matter in December 2009. However, if council budgets become severely constrained there may be substantial impetus to speed up investigations into new ways of delivering services.

## **Outlook**

89. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and 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 reduction in resources.

90. An Efficiency Board was established in April 2009 to consider alternative business models for service delivery. The council has been proactive in reviewing procurement practices and will continue to consider shared services. The following issues are included in those that the council is considering:

- what services and functions potentially could be shared?
- what other councils could be likely partners for sharing services and what is their likely willingness to develop shared services with the council?
- are there other non-council public bodies where the council may be able to share services and what is their likely willingness to develop shared services with the council?

#### **Key Risk Area 4**

# Governance and accountability

## Introduction

91. 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.

## Structure and policies

92. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. 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.

93. The results of the council's review were sufficient to support disclosures made in the statement on the system of internal financial control included with the financial statements. In our report to those charged with governance issued in September 2009 we indicated that aspects of disclosures could be more transparent in referring to those areas where known weaknesses are being addressed. Overall we have concluded that there are no material weaknesses in the councils' internal control systems.

94. It is recognised that the council has strengthened its governance arrangements over the last two years although it has not assessed its own arrangements against the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government. This assessment entails consideration of all aspects of governance, not just internal financial controls arrangements. Such an assessment by the council would build upon the current statement on the system of internal financial control to provide an annual governance statement. This would enable readers of the financial statements to have a more

holistic picture of governance arrangements. In order to support such a statement in future years, all of the means by which governance is reviewed will need to be adapted to take account of the wider context of disclosure and these arrangements should be in place throughout the 2009/10 year if the council is to raise the standard of disclosures to meet best practice. We recommend that the council makes arrangements to move to a wider annual assessment of corporate governance with a view to producing an annual governance statement rather than a statement on internal financial control.

#### **Key risk area 5**

95. During our 2008/09 audit work we produced another two reports. The first, in June 2009, detailed our findings with respect to the 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. Our second report was issued in August 2009 and related to our review of governance arrangements and also contained a number of recommendations that will be followed up in due course.
96. 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 Audit Committee's remit 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. For example, the committee:
- is a formally constituted committee with clear terms of reference which reports directly to Council and meets in public
  - membership is in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council
  - considers internal and external audit plans and respective annual reports
  - conducted a timely review of the draft financial statements prior to their submission to the Controller of Audit
  - reviews the audit certificate and considers matters arising from the audit of the annual accounts
  - has received and considered periodic risk assessments on the impact of the economic recession in East Lothian.

## Roles and relationships

97. The Accounts Commission recommends that councils give priority to the continuous professional development of its 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. The council have also been involved in the 'Improvement Service' pilot on CPD for members. A small number of councils are piloting this approach in Scotland. More than 50% of all East Lothian council members are participating in the pilot and have completed the CPD review.
98. Whilst current arrangements are very positive in a number of respects there is scope for further improvement through the development of personal development plans for each member. Such plans would facilitate training that is more tailored to the individual needs of members and will also help to identify areas of strength, where the council can benefit from particular skill sets of individual councillors.
99. 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. Such a review will assist members in evaluating whether arrangements are working satisfactorily or whether modifications are required.

### Key Risk Area 6

## Partnership Working

100. The East Lothian Community Plan (2007-16) incorporates the 2020 Vision and adopts the council's Core Priorities.
101. 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.
102. 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'. This is where outcomes have been 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 2009/10 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.

103. 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 is the SOA and Community Planning. It also 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.
104. In August 2009, Audit Scotland published a study examining how public sector bodies were responding to the duties placed upon them by the Civil Contingencies Act 2004, *improving civil contingencies planning*. The study found that, overall, the Act has reinforced multi-agency working and organisations are generally co-operating well with each other. Progress is being made to meet the main duties under the Act, but further improvements could be made and the pace of change could be accelerated in certain areas. The Act requires a broader, more integrated approach to be taken to civil contingencies planning. The study found that traditional aspects, such as response arrangements for emergencies, still tend to dominate. Arrangements for recovery and the continued delivery of services are less well developed.
105. The arrangements for civil contingencies planning are increasingly complex and clarity is needed about leadership, some roles and responsibilities, and priorities. More needs to be done to engage elected members in relation to civil contingencies’ planning and to communicate effectively with the public.
106. There is now a business continuity management British Standard (BS25999). The study found that 14% of Category 1 responders (which includes local authorities), were planning to require evidence of compliance with this standard among their suppliers in future.
107. 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.
108. To gain a picture of the level of understanding of business continuity planning prior to circulating the guide, 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.

109. The survey of businesses will be repeated in 2009 by East Lothian Council to measure the impact of the guidance. This guidance has now been adopted by Highland Opportunity, Midlothian Council, North Ayrshire Council, Scottish Borders Council and South Lanarkshire Council.

110. 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**

111. 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.

112. East Lothian Community Planning Partnership's Community Engagement Strategy 2007-10 provides a framework to improve the way ELCPP works with people and communities. This strategy document is for organisations, departments and staff who provide services, and for Councillors 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**

113. The council produces an Annual Performance Report, the 2008/09 version of which was presented to Council in June 2009 and is available on the council's web-site. The council recognises its performance in relation to core priorities, identifying both successes and areas for improvement and associated target dates. 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 Committee and Policy and Performance Review Panels (PPRPs).

## **Outlook**

114. 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.



115. 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

116. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. 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.

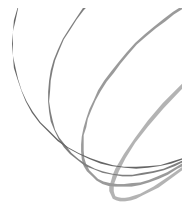
## Vision and Strategic Direction

117. 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'.

118. The council has a clear vision and strategic direction at the corporate level of the council. This vision and strategic direction needs to be more proactively promulgated throughout the council so that management at all levels, support staff, and front line service delivery staff are familiar with them. This could be achieved by cascading the vision and strategic direction through management to all staff. In addition, the strategic direction and vision should be embedded in service development or policy initiatives thus ensuring consistency.

## Performance management

119. Performance reports have previously been reported to PPRPs in the format of an Excel balanced scorecard. Both officers and members were critical of the spreadsheets used to report performance. As a consequence, the council purchased a new performance software solution, Aspireview, to monitor and manage performance.



120. Aspireview is being used throughout the council to monitor performance, which is reported to 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 panel meeting. As a result PPRPs are reported to by exception. This enables councillors and officers to focus their attention on areas where improved performance is required.
121. Any measure that shows red, amber or a downward trend is highlighted in a report to the Panel prior to the meeting. Aspireview is shown online at Panel meetings where performance can be examined in closer detail and the appropriate officers can be asked to give verbal explanations for performance.
122. The quarterly performance reports are submitted to the Corporate Management Team, Divisional Management teams and PPRPs for individual services. 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 2008/09**

123. 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 2008.
124. 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.
125. Information contained within the report has been drawn from the council's set of performance indicators that are regularly reported to the PPRPs, from audit and inspection reports, and from other reports to council bodies.

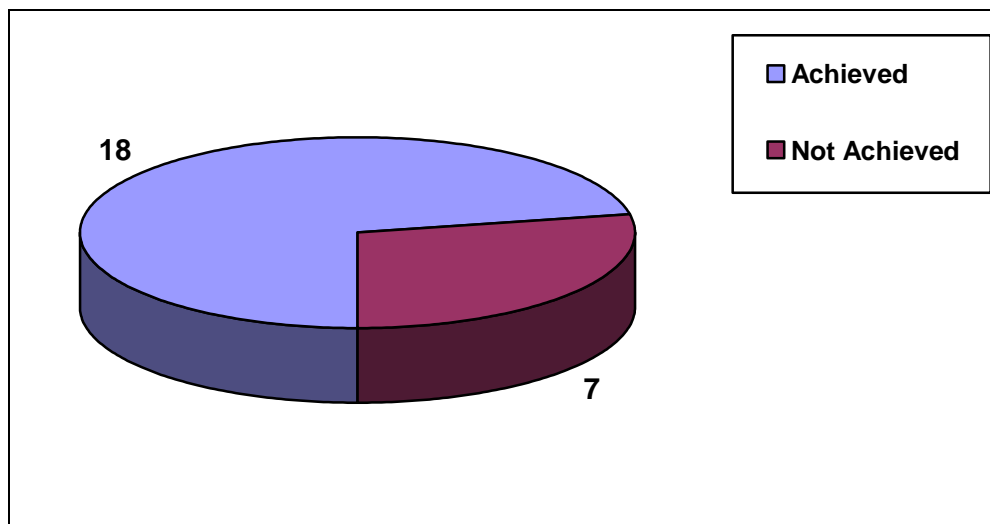


126. Exhibit 6 summarises progress in 2008/09 against the council's Core Priorities.

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### Exhibit 6

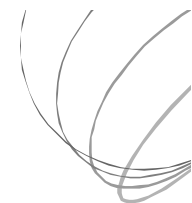
#### East Lothian Council's performance against Core Priorities in 2008/09



127. The Annual Performance Report recognises that improvement is required to increase the supply of affordable homes and encourage enterprise and skills.

### Statutory performance indicators

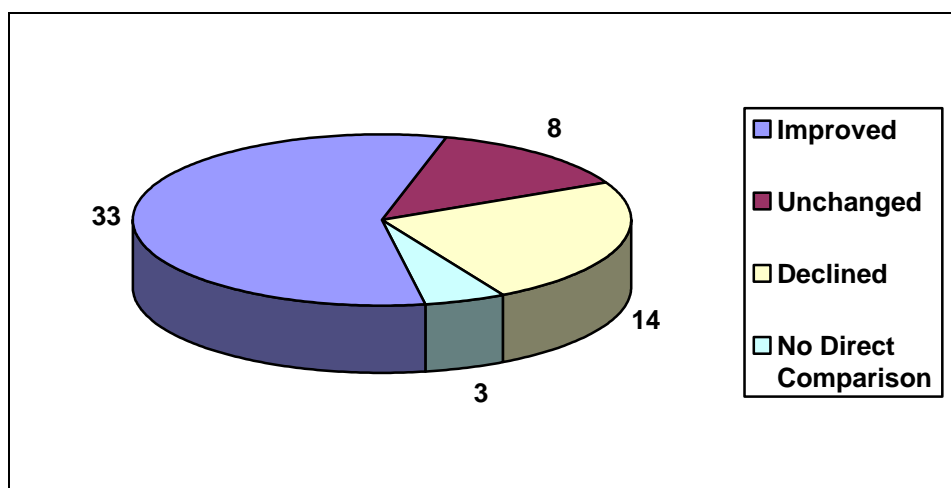
128. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Key SPIs are already included within the council's service scorecards. With regard to 2008/09, a total of **58 SPIs** were required. These were published by 30 September 2009 by the council, and will be submitted to the council's Corporate Management Policy and Performance Review Panel in due course. 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 improvement in a number of areas.



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## Exhibit 7

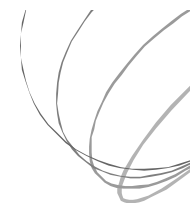
### Improvements demonstrated by SPIs (total 58 indicators)



129. Each year we review the reliability of the council's arrangements to prepare SPIs. The quality of working papers provided to support the SPIs was generally satisfactory but variable; the main shortcoming was the absence of any pertinent commentary as to how the indicator was performing, particularly when compared with the previous year. One indicator, housing quality was classified as unreliable (2007/08: nil). The council did not make a return for one indicator, community care services (2007/08: nil).

130. Fourteen SPIs have declined but only four of these show a significant fall in performance, as follows:

- Education and Children's Services – supervision. This has been attributed partly to the pressures of an increased workload and also difficulties in arranging supervisory visits.
- Education and Children's Services – respite care. The main element relates to daytime respite; the comparison between years for this is not wholly valid because it is significantly affected by when Easter falls.
- Waste Management – collection and disposal costs. The collection costs have increased due to more kerbside collection for recycling and green waste. Higher fuel costs have also had an impact.
- Waste Management – collection complaints. This has been attributed to severe winter weather and on-going problems of access in some streets due to parked cars.

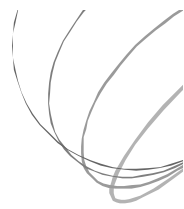


## Equality and Diversity

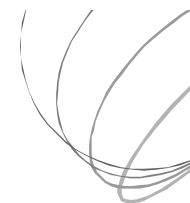
131. Equality and diversity are widely recognised as important factors in the sound management of a modern, effective organisation.
132. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. This study found that all councils have developed policies and processes on race equality. However, they now need to ensure that these have a positive impact on people from minority ethnic communities, through the design and delivery of services. The report concludes that councils need to build a better understanding of the needs of their minority ethnic communities, mainstream their approach to race equality and give more priority to race equality in delivering services. East Lothian Council was cited as an example of how to promote and share good practice through the establishment of a quarterly equalities newsletter for staff and by integrating the East Lothian Diversity Network (a partnership with individuals and community organisations and groups) into the process.
133. East Lothian Council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. The council currently has three equality schemes (race, disability and gender) and one overarching Equal Opportunities Statement. It is, however, developing a Single Equality Scheme to cover all equality strands and ensure compliance with all public sector duties. 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.
134. The council's Race Equality Scheme operated on a three year term ending this year. Initial activity built a knowledge base and developed appropriate processes to embed equality in key areas. Subsequently specific work was targeted on involvement in community planning, the needs of migrant workers and the service needs of East Lothian's black and minority ethnic population.

## Efficiency

135. The council has introduced 'How Good is Our Council' (HGIOC) as its preferred model of self-evaluation. HGIOC provides a framework to enable services to identify their strengths and areas requiring improvement. 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.



136. As part of this process, the council has 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?
137. As part of the council's efficiency drive, they have been involved in the Shared Service Diagnostic Project (SSDP), which is supported by the Improvement Service. The purpose of the SSDP is to produce a list of validated opportunities for efficiency and service improvements. The initial stage of the project was to gather and analyse organisational data across 30 common activity categories and the associated resource across the whole council. The findings of the SSDP project will result in the simplification and standardisation of processes across the council. In future, there may be the potential to share services with other councils.
138. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject: *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust strategies to improve energy efficiency and reduce carbon emissions and to encourage the necessary changes to culture and behaviour.
139. East Lothian Council have instituted a Carbon Management Plan with the aim of reducing carbon emissions by 25% in the next five years and has established a Carbon Management Team to review progress. Projects already 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.
140. 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. 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

141. 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 three progress updates have subsequently been presented to Council. The most recent report, in June 2009, indicated that 13 of the 17 improvement points were substantially complete and that the next progress report in November 2009 is likely to be the final report. Any outstanding items will be included as part of the forthcoming Corporate Improvement Programme, which is expected to be established at the beginning of 2010.
142. Good progress has been made against the majority of improvement points, although progress has been slower in the areas of Risk Management and in producing a Corporate Asset Management Plan.
142. Risk Management is still not fully implemented, see the section on Risk Management below.
143. There has been continued slippage in the development of a Corporate Asset Management Plan. Lack of dedicated staff resources has impacted upon this area of work. The target date for the preparation of a Corporate Asset Management Plan, building upon the work already done in relation to Property Assets, Education, IT and Roads, is June 2010.

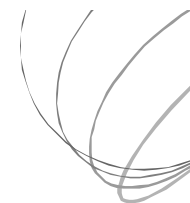
## Risk Management

144. 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.
145. Risk Management is still not fully implemented or embedded in the council. Further refinements to the roles and responsibilities of central support departments took effect from 01 April 2009 and responsibility for Risk Management now rests with the Chief Executive's Office. Following recently completed research of existing good practice by the council, new arrangements to support and implement a risk management framework are being established, including the appointment of a new Risk Officer in September 2009.

### Key Risk Area 7

146. The next stage is to implement a risk management strategy, currently in draft, and introduce formal monitoring of the risk management process. It is anticipated that a risk management strategy will be developed before the end of 2009. Although, it is recognised that effective implementation will take longer – typically up to two to three years.





147. There is not a Corporate Risk Register; the council cannot, therefore, demonstrate that that it is aware of all high-level risks to the achievement of its core priorities and how it intends to manage these risks. There are, however, risk registers in place for most services at the level of departments and business groups, although there are no regular, comprehensive scrutiny and monitoring procedures for these. It is anticipated that the new strategy & implementation plan will address these points.

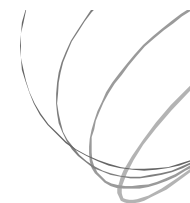
#### **Key Risk Area 7**

### **Outlook**

148. 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. For example, how can the council tell if its application of resources is making a difference? We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2009/10, we will pay attention to the systems the council have in place to monitor progress and take remedial action.

149. We are currently developing our approach to Best Value 2 by working with five pathfinder councils. Details of our new approach can be found at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). From April 2010, we shall be rolling out the new approach to all Scottish councils. The timing of the council's best value audit will be determined by a risk assessment. We will report the risk assessment in March 2010.

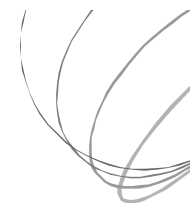
150. The risk assessment will be carried out in conjunction with other scrutiny bodies. That means that not only will it determine the timing and scope of the Best Value 2 audit of the council, but it will also identify the timing and scope of other scrutiny work. Along with the other bodies, we intend to publish an Assurance and Improvement Plan for each council covering all scrutiny activity over a three year period.



# Appendix A

## External audit reports and audit opinions issued for 2008/09

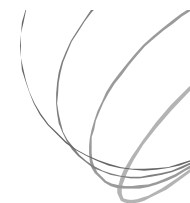
<b>Title of report or opinion</b>	<b>Date of issue</b>	<b>Date presented to Audit Committee</b>
Strategic Audit Risk Analysis	24/03/09	31/03/09
Application Systems Review of Great Plains – follow up report	20/10/09	To be presented
Review of data handling and security arrangements	In draft	To be presented
National Fraud Initiative, progress report	31/10/09	To be presented in Members' Report
Governance and Internal Control	01/06/09	11/6/09
	20/08/09	29/9/09
Education Maintenance Allowance	31/7/09	N/A
Statutory performance indicators	28/08/09	N/A
Criminal Justice claim certification	30/09/09	N/A
Report on financial statements to those charged with governance	14/9/09 in draft	29/9/09
Audit opinion on the 2008/09 financial statements	30/09/09	29/09/09 in draft



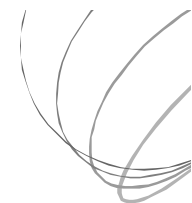
# Appendix B: Action Plan

## Key Risk Areas and Planned Management Action

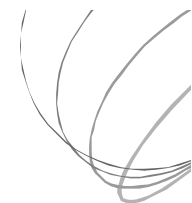
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	39	<p><b>Financial results</b></p> <p>Although there has been close monitoring of budgets by the Corporate Management Team repeated budget overspends still occur within certain services e.g. Adult Social Work and Amenity Services. This suggests that the budgets have not been adequately managed.</p> <p><b>Risk</b>  <i>With increasing financial pressures there is an increased risk of unplanned deficits requiring to be financed from unallocated reserves or resulting in service reduction.</i></p>	<p>Budgets are established based upon the best information available at the time and are regularly reviewed as part of the budgetary control process.</p> <p>As the financial environment becomes more difficult in coming years, it will be more difficult for the council to absorb the type of service overspending that has occurred in a minority of cases in the past.</p> <p>A new protocol will be introduced to control spending in excess of the authorised budget by the targeted removal of the ability to spend money.</p>	Head of Finance	April 2010
2.	54, 58 & 60	<p><b>Financial Planning</b></p> <p>The council estimates that expenditure commitments will outstrip income by £10.4 million. With pension fund deficits and potential 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><b>Risk</b>  <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>Given the scale of the financial challenge, the council has recognised that efficiency savings alone will not be sufficient.</p> <p>A public consultation process was launched at the meeting of Council on 27 October. The Spending Choices paper produced to support that consultation outlines the reasons for the approach now being adopted to meet the financial challenges we face. A fundamental review of services and service delivery is being considered as part of developing a new 3-year budget for 2010-2013.</p>	Head of Finance	April 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	59	<p><b>Financial Planning</b></p> <p>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. Funding the pensions deficit must become part of the council's Financial Strategy.</p> <p><b>Risk</b></p> <p><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>The council follows all recommendations made by the independent actuary of the local government pension fund.</p> <p>The next opportunity to review the funding of the pensions liability is in 2011 as part of the triennial review, unless the actuary believes it is necessary to undertake an intermediate review. There is no indication that the actuary intends such a review.</p>	Head of Finance	December 2011
4	90	<p><b>Shared Services</b></p> <p>Although there has been some exploration of potential shared services, it may be of benefit if the Efficiency Board examines shared services, as an alternative business model, to facilitate the identification of potential services that could be provided through shared services and to identify those other bodies that are willing to explore shared services.</p> <p><b>Risk</b></p> <p><b>There is a risk that all shared services opportunities are not being fully explored with other bodies.</b></p>	<p>The council participated fully in the IS SSD Diagnostic. Since then, in collaboration with members of Edinburgh, Lothians, Borders, Fife Chief Executive and Leaders (ELBF) the council has been exploring potential shared service options e.g. Procurement, Internal Audit, Payroll and Mobile Working.</p> <p>At East Lothian Council, this work will be overseen by the Efficiency Board who are currently commissioning further exploratory work. The Chief Executive will bring forward a progress report to the council in December 2009.</p>	Chief Executive	December 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	94	<p><b>Governance review</b></p> <p>In 2008/09 the council carried out an annual review of arrangements with respect to the statement of internal financial control. Best practice is for councils to review governance in its widest sense and produce an annual governance statement. Arrangements to support such disclosures will need to be revised to cover non-financial as well as financial components of governance.</p> <p><b>Risk</b></p> <p><i>There is a risk that the council is unable to demonstrate that it is complying with best practice regarding governance and that readers of the financial statements are only given information regarding financial governance matters.</i></p>	The council will consider introducing an annual governance statement taking into account the CIPFA Code of Good Governance.	Head of Governance & Performance Management/ Head of Finance	2009/10
6	103	<p><b>Multi member wards</b></p> <p>The council should review the effectiveness of new ways of working in order to ensure all members are fully aware of their respective responsibilities.</p> <p><b>Risk</b></p> <p><i>There is a risk that arrangements for multi-member wards are not ensuring that all members are aware of and meeting the expectations placed on them and are sharing information and citizen specific workloads efficiently.</i></p>	Council will review impact of multi-member ward working & report to Council.	Head of Governance & Performance Management	June 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	145 & 147	<p><b>Risk management</b> Risk management is not fully embedded in the council.</p> <p><b>Risk</b> <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>	Accepted but clear plans are now in place to establish and implement the new strategy by December 2009 & April 2012 respectively.	Head of Governance & Performance Management	Dec 2009  April 2012