MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 20 JUNE 2017
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:
Councillor J Henderson (Convener)
Councillor F Dugdale
Councillor J Findlay
Councillor K Mackie
Councillor B Small

Council Officials Present:
Mrs A Leitch, Chief Executive
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr D Proudfoot, Head of Development
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy
Mr J Cunningham, Service Manager - Benefits
Ms S Fortune, Service Manager – Business Finance
Ms L Shaw, Corporate Finance Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor

Other Councillors Present:
Councillor J Goodfellow (Items 3 - 5)

Clerk:
Ms F Currie

Visitors Present:
Ms E Scoburgh, Audit Scotland
Ms C Foster, Audit Scotland

Apologies:
None

Declarations of Interest:
None

Due to the late arrival of one of the Councillors and the need for a quorum of five committee members, the meeting commenced half an hour later than the scheduled time.

1. ELECTION OF DEPUTE CONVENER

Councillor Small was proposed as Depute Convener by Councillor Findlay, and seconded by Councillor Mackie. The Committee agreed that Councillor Small should be appointed Depute Convener of the Audit & Governance Committee.

2. GUIDE TO SCRUTINY AND REVIEW

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to provide the Committee with the opportunity to review the Guide to Scrutiny and Review.

Paolo Vestri, Service Manager - Corporate Policy and Improvement, spoke to the report in detail. He recommended that Members utilised the Guide as it laid out how scrutiny could operate. He highlighted the three Scrutiny Committees in East Lothian Council's structure and the four principles of scrutiny outlined within the report.

Mr Vestri provided detail on how a work plan operated and he talked briefly about the sections on policy reviews, questioning styles and performance data. He also advised Members that a workshop would be scheduled in the autumn to look at the work of scrutiny Committees in more detail.

In response to a question from Councillor Small, Mala Garden, Internal Audit Manager, advised that the work to be undertaken by Internal Audit during each year was outlined in the Audit Plan. Part of the Committee's remit was to approve and monitor Internal Audit's progress with the Plan. She explained that the audit reports would be presented to the Committee for consideration and a work plan would be prepared outlining the reports that would be submitted to each Committee, usually 4 or 5 reports would be presented to each meeting. She further stated that the main systems audits would be presented to the final meeting as the sample for testing was selected from each quarter to ensure that the controls were operating throughout the year.

Decision

The Committee agreed to note the content of the Guide to Scrutiny and Review and use it to guide its future work.

3. EAST LOTHIAN COUNCIL INTERIM AUDIT REPORT 2016/17

Audit Scotland presented their Interim Audit Report 2016/17 which contained a summary of the key issues identified during the interim audit work carried out within East Lothian Council.

Esther Scoburgh, Audit Scotland, introduced to the report. She drew Members' attention to the new report format and said she would welcome any feedback.

Carol Foster, Audit Scotland, outlined the content of the report focusing on the testing of key internal controls. Referring to the main findings and action plan she indicated that while no areas of significant concern had been noted, some weaknesses had been identified and an appropriate action plan agreed with Management. She added that the audit of the final accounts for 2016/17 would start shortly and that the report set out the proposed audit plan approach.

Ms Scoburgh and Ms Foster responded to questions from Members on risk ratings, follow up work to monitor progress and annual sample testing to ensure that controls continue to work effectively.

Decision

The Committee agreed to note the contents of the Interim Audit Report 2016/17.

4. ANNUAL TREASURY MANAGEMENT REVIEW 2016/17

A report was submitted by the Depute Chief Executive (Resources and People Services) to update the Committee on Treasury Management activity during 2016/17.

Liz Shaw, Corporate Finance Manager, presented the report. She outlined the purpose of the Treasury Management function within the Council and explained that the report fulfilled obligations under both the Local Government (Scotland) Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) accounting code of practice.

Ms Shaw summarised the contents of the report. She advised Members that the Council continued to postpone some of its borrowing requirement by calling upon cash reserves and when necessary, taking advantage of cheaper short term borrowing to manage cash flows. In doing so, the Council had used £43M of reserves and working capital instead of borrowing and had only increased its overall net borrowing position from last year by £7M. She added that, should market conditions change, the Council was well placed with appropriate guidance to support any borrowing or investment activity that may arise.

Ms Shaw also reported that the Council currently had no internally managed investment funds but did maintain a number of loans to third parties that fell within the scope of “permitted investments”.

In response to questions from Members, Ms Shaw provided further information on the Council’s short term borrowing strategy, it’s monitoring of interest rates, limits on maturities and broader guidance from treasury management advisers.

Decision

The Committee agreed to note the report.

5. 2017 CORPORATE GOVERNANCE SELF-EVALUATION AND ANNUAL GOVERNANCE STATEMENT

A report was submitted by the Chief Executive to advise the Committee of the outcome of the 2017 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

Mr Vestri presented the report referring to the Code of Corporate Good Governance and the six principles of good governance which formed the framework for the self-evaluation exercise. He also drew Members' attention to the results of recent assessments by Investors in People and Quality Scotland and advised that the improvement actions identified by these assessments had been reflected in the self-evaluation and the Corporate Governance Statement.

Councillor Small observed that as the Council Plan was going forward to the Council meeting in June, it would be important to share it with all members of staff and for Councillors to take the lead in demonstrating their commitment to the Plan.

Angela Leitch, Chief Executive, commented that over the past few months time had been spent investing in staff an understanding of the key themes of the Plan. She also acknowledged that Members had an important role to play in reinforcing the implementation of the Plan.

Decision

The Committee agreed to:

(i) Note that the Council had been confirmed as an 'established Investor in People organisation', and had received a Committed to Excellence award by Quality Scotland and to extend its congratulations and thanks to all Council staff for achieving these awards

(ii) Approve the Corporate Governance Self-evaluation

(iii) Approve the Annual Governance Statement inclusion in the Council's 2016/17 Annual Accounts.

Sederunt: Councillor Goodfellow left the meeting.

6. LOCAL GOVERNMENT IN SCOTLAND: PERFORMANCE AND CHALLENGES 2017 (ACCOUNTS COMMISSION, MARCH 2017)

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to review East Lothian Council's position in relation to the findings of the Accounts Commission report, '*Local Government in Scotland: Performance and Challenges 2017*'.

Mr Vestri presented the report. He outlined the findings of the review and the work being undertaken by East Lothian Council in relation to key areas such as funding, demographic changes, legislative changes and workforce planning. He indicated that all of the recommendations contained in the Audit Scotland report were being addressed and this was reflected in the Corporate Governance Statement. He invited Members to agree the recommendations contained in the report and, in particular, to review the self-assessment tool.

In response to questions from Councillor Dugdale, Mr Vestri advised that local authorities such as Perth and Kinross and West Lothian were facing similarly high growth in both the older and younger populations and there would be opportunities to learn from their experiences. He also provided examples of work undertaken as part of the Council's transformational change programme as well as projects being considered to help increase the pace of change.

Mrs Leitch added that while it was essential to have a programme in place to facilitate these projects, it was also important to promote cultural change by encouraging staff to take a more proactive role in relation to transformation and change.

Councillor Small welcomed the reminder that there would be a substantial increase in the young population in the coming years which would impact on all service areas. He said that the focus was often on the older population and that it was important not to lose sight of the fact that young people also needed to be supported.

Decision

The Committee agreed to:

(i) Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, Local Government in Scotland: Performance and Challenges 2017

(ii) Use the recommendations in the Accounts Commission report and the self-assessment tool that accompanies the report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

7. HOW COUNCILS WORK: ROLES AND WORKING RELATIONSHIPS IN COUNCILS – ARE YOU STILL GETTING IT RIGHT? (ACCOUNTS COMMISSION, NOVEMBER 2016)

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to review East Lothian Council's position in relation to the Accounts Commission report, '*How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right?*'.

Mr Vestri presented the report. He advised that this was the latest in a series of reports looking at key areas of good governance. He drew Members' attention to the messages highlighted in the report and the work being undertaken by East Lothian Council in each of these areas, in particular, the role of councillors.

Mr Vestri observed that many of these issues also related to the previous report and he invited Members to agree the recommendations contained in the report.

The Chair expressed her thanks to Council officers for the excellent induction programme provided for new and returning councillors which she hoped would lead to a productive five years.

Councillor Small asked if the minority Administration had created additional challenges for the Council.

Mrs Leitch said that this was a new arrangement for everyone and, as time progressed and issues were worked through, officers would consider whether changes were required to Standing Orders and other governance arrangements. She added that the induction programme had helped to set the scene and to build good relationships which, along with the Council Plan, should stand them in good stead for the next five years.

Decision

The Committee agreed to:

(i) Note the position of East Lothian Council in regard to the issues raised in the Accounts Commission report, 'How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right?'

(ii) Use the Summary Checklist that accompanies the report to identify any areas where further information or guidance is required for elected members

(iii) Note that a training needs survey of elected members will be carried out in the autumn to help inform the development of an ongoing training and development programme for councillors.

8. INTERNAL AUDIT REPORT – WORKFORCE PLANNING (SECONDMENTS AND HIGHER DUTIES)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Workforce Planning (Secondments and Higher Duties).

Stuart Allan, Senior Auditor, presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

Responding to questions from Members, Ms Garden explained that this review had been undertaken as part of the annual Audit Plan and was the latest in a series of reviews looking at different aspects of the payroll service. Mr Allan confirmed that the policy covered both internal and external secondments and that one external secondment had been reviewed as part of the audit sample.

The Convener queried the degree of formality in the policy and whether this might restrict the operation of the Council. Mrs Leitch indicated that the levels of openness and transparency contained within the policies safeguarded both the Council and its staff. However, they also allowed staff to apply for posts at a higher grade and gain useful experience which would contribute to the Council's broader succession planning. Mrs Leitch added that external secondments provided staff with a wider perspective which they could then bring back to their work within the Council.

Jim Lamond, Head of Council Resources, said that he was not aware of the formality of the process standing in the way of any member of staff gaining a secondment and that he supported the use of the policy across the Council.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

9. INTERNAL AUDIT REPORT – INFORMATION SECURITY

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Information Security.

Mala Garden, Internal Audit Manager, presented the report. She outlined the report findings and referred Members to the recommendations contained in the Action Plan which had been agreed by Management.

In response to questions from Members, Ms Garden advised that the purpose of the audit was to ensure that adequate controls were in place and to ensure that access to systems was only granted to those individuals who required it as part of their duties. She said that where controls were not working effectively these were highlighted in the areas identified with scope for improvement.

In relation to completion dates on the Action Plan, Ms Garden explained that these were set by Management, however where the potential risk was assessed as ‘high’ there was an expectation that the agreed date of completion would be within three months.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

10. INTERNAL AUDIT REPORT – CAPITAL PROJECTS (PAYMENT CERTIFICATES)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Capital Projects (Payment Certificates).

Mr Allan presented the report outlining the findings and recommendations contained in the Action Plan which had been accepted by Management.

Mr Allan responded to questions regarding the size of the audit sample and advised that, of those tested, only one case had involved a certificate which had been prepared, checked and authorised by the same member of staff. Ms Garden added that segregation of duties was very important in relation to internal controls and one person doing both the processing and authorisation increased the risk of irregularities. In this case the payment certificate was for a substantial amount and this was why the case had been highlighted.

Councillor Small asked whether the external auditors would also pick up on this issue. Ms Scoburgh advised that they would only do so if they were conducting a targeted review. However, they would see a number of certificates, particularly those for high value payments, as part of their routine testing and anything significant would be highlighted in their year end report.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

11. INTERNAL AUDIT REPORT – HOUSING REVENUE ACCOUNT

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on the Housing Revenue Account.

Ms Garden presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

In response to questions from Councillor Small and Councillor Findlay Ms Garden explained that at present housing information was held both manually in the Moores Books and on the electronic Orchard system; however the service area were looking to archive the manual records.

Sarah Fortune, Service Manager – Business Finance, replied to questions from the Convener regarding the timescales for completion of the final recommendation contained in the Action Plan. She advised that guidance had been issued by the Scottish Government previously to improve understanding and transparency for tenants associations, etc. and she confirmed that a review of the written methodology was underway. In the meantime, other work was ongoing which would address some of the issues raised in the audit report.

Both Ms Fortune and Mrs Leitch offered to provide additional information to the Convener on the management of the Housing Revenue Account (HRA).

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

12. ANNUAL INTERNAL AUDIT REPORT 2016/17

A report was submitted by the Internal Audit Manager to provide the Committee with a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2016/17 and to support both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement.

Ms Garden presented the report advising Members that the Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement. She summarised the contents of the report including the audit work undertaken in 2016/17, the reports currently outstanding and the total number and grading of recommendations made as a result of the completed audits.

The Convener thanked Ms Garden for her report and for the invaluable work of the Internal Audit Team.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report 2016/17.

13. CONTROLS ASSURANCE STATEMENT 2016/17

A report was submitted by the Internal Audit Manager informing the Committee of her responsibility to independently review the internal control systems within East Lothian Council; make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Ms Garden presented the report summarising the background and basis for her opinion; referring to the assessment of controls and governance; and highlighting that the majority of Internal Audit recommendations made in 2016/17 were categorised as medium risk. She advised that the implementation by Management of agreed actions to address these weaknesses should provide assurance that the system of internal controls is operating effectively.

Ms Garden concluded that in her opinion, subject to the weaknesses outlined in the report, reasonable assurance could be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year 2016/17.

In response to a question from Councillor Small, Ms Garden confirmed that follow up work would be undertaken on all of the audits carried out in 2016/17 to ensure that the recommendations contained in each Action Plan had been implemented.

Decision

The Committee agreed to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, for the year ended 31 March 2017.

14. INTERNAL AUDIT PROGRESS REPORT 2016/17

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of Internal Audit's progress against the annual audit plan for 2016/17.

Ms Garden presented the report which had been prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2016/17.

Signed ....

Councillor Jane Henderson
Convener of the Audit and Governance Committee

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102 West Port
Edinburgh EH3 9DN

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AUDIT SCOTLAND

Jim Lamond
Chief Finance Officer
East Lothian Council
c/o Resources & People Services
John Muir House
Haddington
EH41 3HA

26 September 2017

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East Lothian Council
2016/17 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft Annual Audit Report on the 2016/17 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached Annual Audit Report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.

2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 29 September 2017 (the proposed report is attached at **Appendix A**). There are no anticipated modifications to the audit report.

3. In presenting this report to the Audit and Governance Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.

5. As part of the completion of our audit we seek written assurances from the Proper Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at **Appendix B**. This should be signed and returned by the S.95 Officer with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of East Lothian Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of East Lothian Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Account, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-Domestic Rate Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council’s Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor’s report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.
In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Assistant Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DH

29 September 2017

APPENDIX B: Letter of Representation (ISA 580)
Please reproduce on ELC headed paper and return a signed version with the audited, signed accounts

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

Dear Gillian DATE

EAST LOTHIAN COUNCIL
Annual Accounts 2016/17

1. This representation letter is provided in connection with your audit of the financial statements of East Lothian Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of East Lothian Council, as at 31 March 2017 and its comprehensive net expenditure for the year then ended.

2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Audit and Governance Committee, the following representations given to you in connection with your audit of East Lothian Council for the year ended 31 March 2017.

General

3. I acknowledge my responsibility and that of East Lothian Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by East Lothian Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

4. The information given in the Management Commentary to the financial statements, including the Annual Governance Statement and Remuneration Report, presents a balanced picture of East Lothian Council and is consistent with the financial statements.

5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA 260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom, and in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in (Scotland) Act 2003 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of East Lothian Council and its group for the year ended 31 March 2017.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the General Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. I have assessed East Lothian Council's ability to carry on as a going concern and have concluded that it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

Events Subsequent to the Date of the Statement of Financial Position

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as the Proper Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2017, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who

have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2017 were owned by East Lothian Council, other than assets which have been purchased under finance leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2017 and of which East Lothian Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2017.

Annual Leave Accrual

21. The holiday pay accrual included in the financial statements excludes any flexi time balance due at the year end as this is not considered material.

Integration Joint Board

22. East Lothian Integration Joint Board has been consolidated within the East Lothian Council financial statements for 2016/17 in accordance with IAS 27 (Consolidated and Separate Financial Statements) and the Health Board Accounts Manual 2016/17. The Integration Joint Board figures used in the consolidation process were based on the unaudited accounts for East Lothian Integration Joint Board. The East Lothian Integration Joint Board accounts are now audited and there are no changes to the draft figures used in the consolidation.

Yours sincerely

Proper Officer

East Lothian Council

2016/17 Annual Audit Report

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AUDIT SCOTLAND

To Members of East Lothian Council and the Accounts Commission

26 September 2017

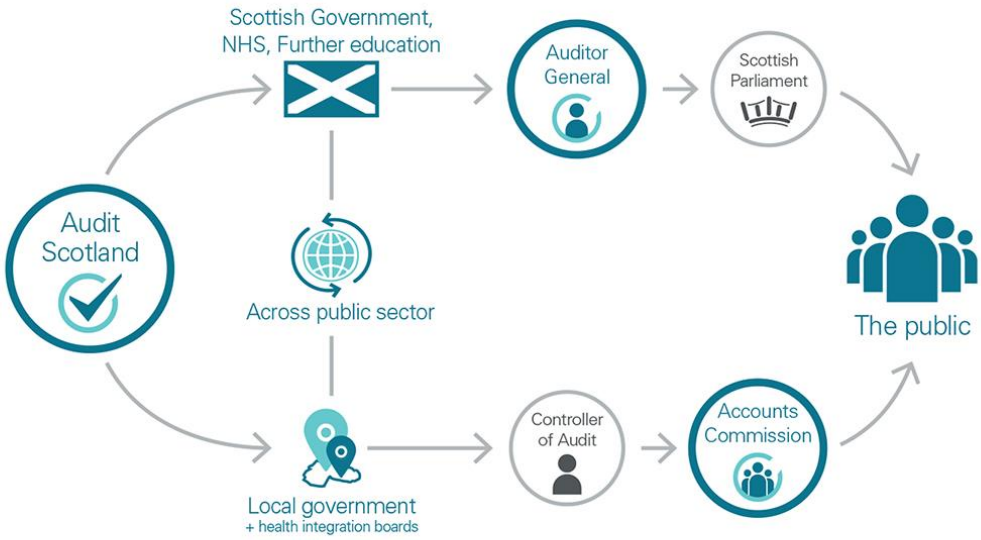
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 annual accounts

1 **Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.**

2 **Unqualified opinions were issued for the Dr Bruce Trust administered by the Council.**

Financial management

3 **Financial management is effective with a budget process focussed on the Council's priorities.**

4 **The Council has a good track record of delivering services within its budgets and over the last two years has consistently contained its expenditure within annual budgets.**

5 **The Council has appropriate internal controls in place and overall these were found to be operating effectively.**

Financial sustainability

6 **The Council has financial strategies and plans over the short and medium term and these are robust with linkages to wider Council initiatives however there is no long term (five to ten years) financial plan in place to demonstrate the feasibility of significant longer term projects.**

7 **The Council recognises the need to develop a sustainable budget and has developed a three year financial plan aligned to its priorities that seeks to deliver a balanced budget avoiding the use of reserves by 2019/20, and sets out how it will address future budget challenges.**

8 **The Council has supported its annual budgets through the use of reserves in recent financial years. This position is not sustainable in the longer term with decreasing levels of available reserves.**

Governance and transparency

9 **A comprehensive programme of member induction was provided following the Council elections in May 2017 to support new members in discharging their governance and scrutiny role.**

10 **The effectiveness of scrutiny has diminished with one political party not participating in scrutiny committees. This arrangement has not been codified so as to assist the committees to be quorate. The result is less effective scrutiny overall.**

11 **The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Committee minutes, agendas and papers are readily available on the Council's website.**

Value for money

12 **Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial and service planning and financial governance and resource management.**

13 **The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.**

14 **It is important that there is alignment of objectives between the Council and Group components and that corrective action is taken on a timely basis where a divergence becomes apparent.**

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of East Lothian Council (the Council).

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit and Governance Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 1.

Exhibit 1
Audit dimensions

Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to financial governance and resource management and, financial planning
- an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. East Lothian Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts

(Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the *Code of Audit Practice 2016* guided by the auditing profession's ethical guidance.

6. As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within East Lothian Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.

9. Our annual audit report contains an action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts

Main judgements

We have issued unqualified audit opinions on the Council's annual report and accounts. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

We have issued an unqualified audit opinion on the Dr Bruce Fund administered by the Council.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Audit and Governance Committee on 26 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The Council's annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit of the charitable trust administered by East Lothian Council

15. Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of East Lothian Council are sole trustees, irrespective of the size of the charity.

16. Our duties as auditors of the charitable trusts administered by East Lothian Council are to:

- express an opinion on whether the charity's financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

17. We received the unaudited trust's accounts on 2 August. Some presentational adjustments were required to align the disclosures in the accounts to the new FRS 102 based SORP. There were no adjusted or unadjusted audit differences raised however we did note the following:

- the trust's accounts were not advertised in line with the requirements under Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 issued under section 105 of the 1973 Act,
- the unaudited accounts were not signed on behalf of the trustees, and
- the Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. One of the risks identified for managing this is the financial demands placed on those funds. In 2016/17 there was a net movement in funds of £6,800, of which £3,291 was income received. In the same period £50 was disbursed. There is a need for the trustees to review whether an appropriate balance has been struck in managing the risk and fulfilling the charitable objective.

Recommendation 1 (Appendix 1, action plan point 1)

The unaudited accounts should be advertised in line with the Regulations.

The unaudited accounts should be signed on behalf of the trustees prior to submitting for audit.

Recommendation 2 (Appendix 1, action plan point 2)

The Council should review the method(s) used to promote this (and other) charitable trusts to ensure that the potential availability of these funds are known to the wider community.

18. After completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of the Dr Bruce Fund.

Trust funds

19. East Lothian Council acts as a Trustee for 46 trusts, bequests and other funds, which are administered in accordance with the terms of each trust. During 2016/17, the trusts funds operated at a surplus of £141,000, an increase of £15,000 on the surplus from 2015/16. The overall asset book value increased during 2016/17 from £4.66 million to £5.28 million by 31 March 2017. Total Usable Reserves were £2.52 million.

20. Of the 46 trusts being administered by the Council, only 16 were actively used, i.e. incurred expenditure or earned income, in 2016/17. A total of £17k was disbursed in 2016/17, with £49k being received in income. The remainder of the trusts, accounting for £1.83 million of total usable reserves of £2.52 million, were not actively used in 2016/17. Many of the trusts are also very small as measured by the size of their usable reserves. There appears to be a lack of promotion of the availability of the trusts and a risk that some could become dormant.

Recommendation 3 (Appendix 1, action plan point 3)

The Council should ensure that the trusts it administers are promoted more widely amongst the public, and the trust objectives clarified legally to facilitate their use. An exercise should also be undertaken by the Council to consider whether any trusts could be consolidated.

Submission of the Council's annual report and accounts for audit

21. We received the unaudited annual report and accounts on 27 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of East Lothian Integration Joint Board (the IJB).

22. We have completed the audit of the IJB and have reported our findings separately to the IJB Audit and Risk Committee on 12 September 2017 where the accounts were approved. We are satisfied that the Council had good arrangements in place to agree year end balances between itself and its partners. Our audit testing also confirmed that the council properly identifies transactions that relate to work commissioned by the IJB.

23. The Council's working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

Risk of material misstatement

24. Appendix 2 provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are the wider audit dimension risks, how we addressed these and conclusions.

Materiality

25. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

26. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in Exhibit 2. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

27. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£3.4 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£1.7 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£34,000

Source: Audit Scotland Annual Audit Plan 2016/17

How we evaluate misstatements

28. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements. There were no unadjusted errors above the reporting threshold which impact the Council's primary financial statements.

29. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to increase the Council and group in-year deficit on provision of services by £2 million, the Council total net comprehensive expenditure by £5.3 million and the group total net comprehensive expenditure by £4.5 million. Net assets as recorded in the Council balance sheet have decreased by £5.3 and group net assets have decreased by £4.5 million.

Significant findings

30. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in Exhibit 3 (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included).

Exhibit 3

Significant findings from the 2016/17 audit of East Lothian Council

Issue	Resolution
1. Non-current asset valuations Our audit identified a number of assets in the asset register that were not included in the external valuer's report. Investigation by officers revealed that 32 assets were required to have valuations undertaken during 2016/17 and corresponding updates to the asset register.	Officers arranged for the required valuations to be completed by 31 August 2017. Adjustments were made to reflect the updated asset valuations in the asset register and the accounts. Officers have also reviewed the Council's procedures for arranging valuations and updated these accordingly. The adjustment resulted in an increase of £0.7 million to the Council's net assets, an increase of £0.8 million to the Common Good net assets and an increase of £1.5 million to the group net assets. The revaluations also resulted in an increase to the deficit on provision of services of £1.2 million for both the Council and the group, a decrease in total net comprehensive expenditure of £0.7 million in the Council accounts, an increase in total net comprehensive income of £0.8 million in the Common Good account and a decrease in total net comprehensive expenditure in the group accounts of £1.5 million.
2. Duplicate assets in asset register During investigation of the above issue, Council officers also identified a number of assets with duplicate entries in the asset register. This issue arose as a result of additional accounts being set up to record enhancement expenditure. When the assets were subsequently revalued, the	Adjustments were made to remove the duplicate assets in the asset register and the accounts. Officers have reviewed the Council's procedures and controls for accounting for enhancement expenditure to prevent duplicate accounts from being created. Correction of the error resulted in a decrease in net

Issue	Resolution
original asset values were adjusted to reflect the enhancement values however the enhancement expenditure was not removed, leading to duplication in the asset register and the accounts.	assets of £5.9 million, an increase in the deficit on provision of services of £0.7 million and an increase in total net comprehensive expenditure of £5.2 million in both the Council and group accounts.
3. Asset categorisation During investigation of an audit query regarding community assets, Council officers identified that a number of assets had incorrectly been categorised as community assets instead of other land and buildings.	Officers reviewed the assets to determine the correct classification. Adjustments have been made to transfer the assets identified from community assets to other land and buildings in the asset register and the accounts. The reclassification resulted in a decrease to community assets in the balance sheet of £1.5 million with a corresponding increase to the other land and buildings category. This was a classification error and consequently, no monetary impact on the accounts.
4. Housing Rent Income Our audit identified that a number of former Council properties which had been sold continued to be designated as rental properties within the Housing Rents system. This led to the accumulation of rent debtor balances for these properties. This issue arose because the costs of communal upgrade works were correctly allocated to these properties however this triggered to system to flag the properties as rental properties in error.	Officers have corrected the status of these properties within the Housing Rents system in 2016/17. Officers have agreed to review procedures for allocating this type of expenditure to prevent this error from recurring. Adjustments have been made to remove the related income and reduce the debtor in the accounts.
5. Integration Joint Board The Council's Comprehensive Income and Expenditure Statement in the unaudited accounts did not include the Council's contribution of £44 million to the East Lothian IJB as required by the Integrated Resource Advisory Group (IRAG) guidance. Inclusion of these amounts has the effect of increasing both the Council's income and expenditure by the same amount. The overall impact is nil.	Officers have updated the Council's accounts and included the contribution to the East Lothian IJB in the Comprehensive Income and Expenditure Statement. Officers will liaise with the IRAG group to ensure presentational requirements like this are included in the future.
6. Bad Debt Provision The Council have had to increase their provision for doubtful debts since the introduction of Universal Credit and therefore there is an increased likelihood of non-recovery of income.	There is a Rent Scrutiny Board in place and the S.95 Officer attends these meetings. The Rent Scrutiny Board monitors the levels of outstanding debt continuously. Universal Credit and the bad debt provision were subject to extensive discussions at Audit and Governance Committee meetings during 2016/17.

Source: Audit of the 2016/17 accounts

Going concern

31. The financial statements of the Council, its group and the associated charitable trust (Dr Bruce Fund) have been prepared on the going concern basis.

Other findings

32. In addition to the issues described in detail above, our also audit identified a number of minor presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Objections

33. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations and there were no objections as far as we are aware.

Whole of Government Accounts

34. For 2016/17, the Council will exceed the £350 million threshold set for the requirement for an audit of the whole of government accounts. The Council submitted the stage one consolidation pack for the whole of government accounts to the Scottish Government on 21 July in line with the requirements. We anticipate that the stage two consolidation pack will be submitted to external audit on 25 September 2017. We expect to complete our audit of the Council's whole of government accounts by the deadline of 30 September 2017.

Part 2
Financial management

Main judgements

Financial management is effective with a budget setting process focused on the Council's priorities.

The Council has a good track record of delivering services within its budgets and over the last two years has consistently contained its expenditure within annual budgets.

The Council has appropriate internal controls in place and overall these were found to be operating effectively.

Financial performance in 2016/17

35. In February 2016 the Council approved a general services budget of £227 million for 2016/17. The budget was aligned to the Council's plans and strategies that contribute to commitments made in both the Single Outcome Agreement and the Council Plan. The 2016/17 Financial Review reported to Council in June 2017 reported an underspend of £1.1 million against budget. This included planned transfers of £3 million from the general reserve and £0.7 million from earmarked reserves.

36. The Council has a good track record in delivering services within budget over the current and previous financial years. While the Council's spending has remained in line with its overall budget, there are variations in how different services have performed. The more significant over and underspends are summarised in Exhibit 4.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 4
Summary of significant over and under spends against budget

Area	Under/over spend (£m)	Reason(s) for variance
Underspends		
Resources and People Directorate	£0.913	Various underspends in pre-school, Additional Support for Learning, primary, secondary and school support budgets. Includes underspend on PPP/PFI budget due to vacancies in the team and lower than anticipated insurance premiums.

Area	Under/over spend (£m)	Reason(s) for variance
Partnership & Community Directorate – excluding HRA	£1.260	Includes staffing underspends across most sub-service areas. Planning fee income exceeded budget expectations.
Overspends		
Health & Social Care Partnership	£0.444	Increase in the number of children placed in external fostering placements and secure accommodation. Non-delivery of planned efficiency programme for Adult Wellbeing service.

Source: 2016/17 End of Year Financial Review

37. The Council has recognised the need to develop a sustainable General Services budget and its three year Financial Strategy to 2018/19 aims to avoid the use of reserves in 2018/19. Recent spending plans and strategies allow for the use of reserves in years one and two however to demonstrate resilience and financial sustainability, the use of reserves in year three of the Financial Strategy is discouraged with the goal being to lessen the future dependency on reserves.

38. The Council is making progress to reduce its reliance on the use of reserves as outlined in the Financial Strategy however there continues to be uncertainty around future funding levels beyond 2017/18. The identification and deliverability of recurring savings remains critical to the delivery of the three year balanced budget.

39. In July 2017, the Edinburgh and South East Scotland City Region Deal (the City Deal) Heads of Terms was agreed by the UK and Scottish Government resulting in a commitment to invest over £600 million over the next 15 years in East Lothian and the five other local authorities in the region. Challenges and opportunities from this significant milestone will require financial plans and strategies to be revisited and this is recognised in the most recent paper presented to Members in August 2017. The Council has been proactive in informing Members of progress towards this goal with routine updates provided to Council including impact, uncertainties and proposal for going forward.

40. Overall, the Council's budget setting, monitoring and reporting arrangements are effective. Members are routinely informed and kept up-to-date with developments. Reports presented to the various committees are easy to follow and understand and contain sufficient information for the reader.

Housing Revenue Account

41. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget setting process for the year.

42. The 2016/17 Financial Review reported to Council in June 2017 reported an underspend of £2.2 million against the HRA budget. This included planned transfers of £3.2 million from the general reserve and £1.495 million from other reserves. The operational underspend can be attributed but not limited to increases in rental income with the introduction of new council housing stock, a reduction in debt charges following a review of the loans fund and a lower than planned increase to the bad debt provision as a result of the impact of Universal Credit.

43. The Council's Financial Strategy Statement (2017/18 – 2019/20) states that the HRA reserve should not fall below £1 million. This is to allow for a contingency against unexpected increases in costs, loss of income and to protect against risks associated with UK welfare reform proposals.

44. The Council has utilised HRA balances in line with its Financial Strategy. Revised guidance was issued by the Scottish Government in 2014 and sets out the parameters for wider use of the HRA. The Council reviews its rent levels annually and makes any necessary adjustments, the outcome of which has resulted in rent increases over a number of years. The income generated from the increases is used to reinvest into housing and to defray the cost of borrowing. As outlined in the Financial Strategy, 2017/18 is the final year where there will be a transfer to the HRA.

45. The biggest impact on the HRA for 2016/17 is the depreciation, impairment and revaluation losses increase to £20.961 million (2015/16: £9.723 million). This is largely due to two items:

- The completion of 109 new council homes in 2016/17. The difference between accounting and funding basis means that an adjustment is required to reduce the value of the council dwellings on the basis of existing use for social housing (c.£11 million).

- A significant amount of enhancement work as part of the ongoing modernisation programme was carried out (c.£11 million).

46. Overall, the HRA records a deficit of £9.5 million in 2016/17 (2015/16: £2.2 million) resulting in an HRA balance of £5.0 million.

47. Effective processes are in place to oversee the management of the HRA. This includes routine reporting of the HRA to Members and an HRA Programme Board who meet regularly and oversee the operational delivery and strategic direction of the HRA capital programme.

Efficiency savings

48. With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

49. The Council is required to make an annual return to COSLA in respect of recurring efficiency savings. The Cabinet receives regular budget monitoring reports including savings plans which have been risk assessed.

50. The 2016/17 annual return to COSLA submitted by the Council indicated that £2.9 million of savings were planned. The Council achieved actual savings of £5.0 million. Some of the planned savings in relation to Adult Wellbeing and Property Maintenance were not delivered in-year however this was offset by efficiencies and underspends in other areas including staffing and supplies and services.

Borrowing in 2016/17

51. The Council's outstanding loans at 31st March 2017 were £347 million, an increase of £7 million on the previous year. £13.2 million of loan repayments were made and there were £20.2 million of new loans taken out.

52. The Council has maintained its borrowed position in accordance with its financial strategy, which is to minimise the impact of any borrowing on the Council's Loans Fund Balance. This strategy includes temporary borrowing at lower rates than PWLB new loan rates, and was reviewed when considering the Treasury Management Strategy for 2017/18. Debt charges in-year totalled £27.6 million (£9.1 million of which related to HRA).

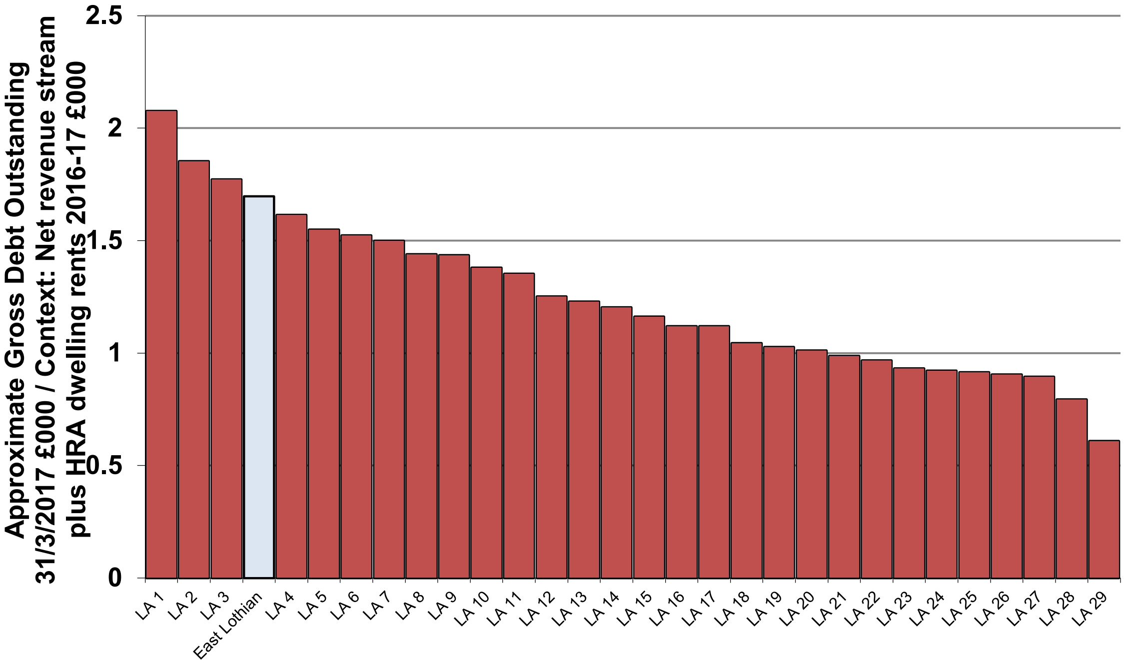
53. The capital balance outstanding on PFI/PPP contracts at 31 March 2017 was £41 million, a balance which is virtually unchanged from the previous year.

54. Total external debt was within the authorised limit and operational boundary set within the Council's treasury management strategy. When compared to other Scottish councils in Exhibit 5, the Council's overall borrowing position remains at the upper end. The Council's Treasury Management Strategy highlights that it will continue to consider the affordability of future borrowing.

55. The composite interest rate for East Lothian Council for all debt (including its PFI/PPP finance lease liability) was 4.1% in 2016/17. Overall the average interest rate on external debt for Scottish councils was between 4% and 8% in 2016/17, therefore East Lothian Council is at the lower end of the average interest rate paid for debt outstanding. The Council should continue to ensure that it is obtaining best value in this area.

Exhibit 5

Overall indebtedness as a percentage of annual income in 2016/17



Source: East Lothian Council Unaudited Accounts 2016/17

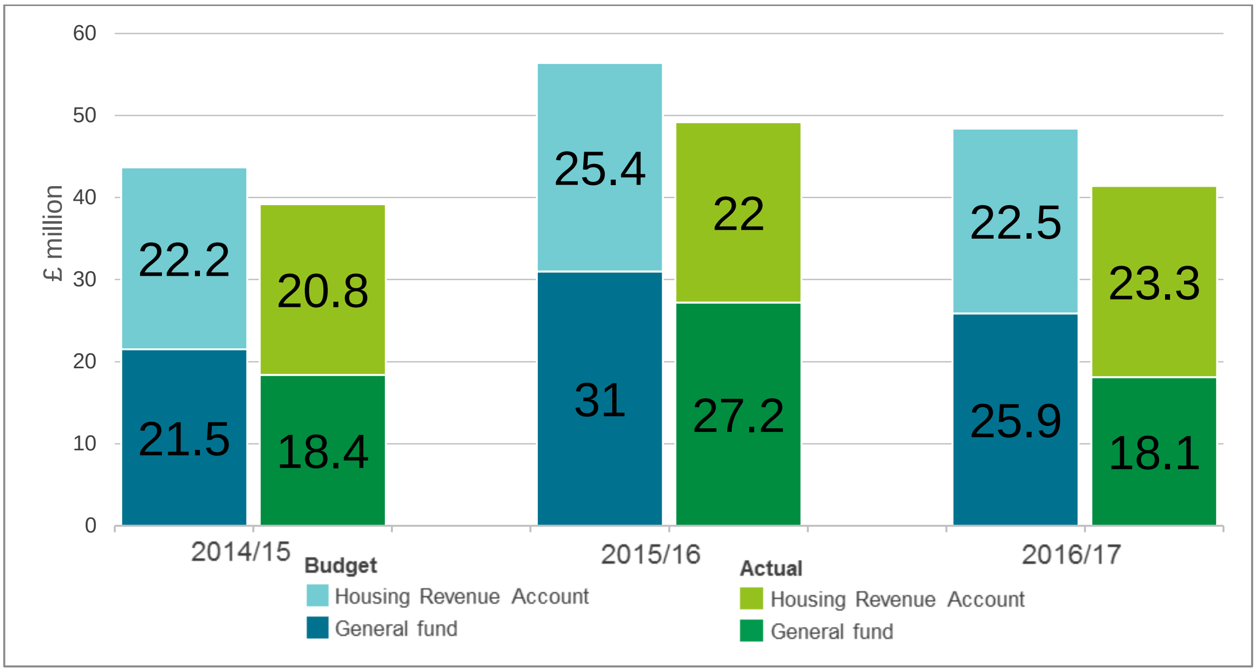
Capital programme 2016/17

56. Total capital expenditure in 2016/17 was £18.1 million for General Services and £23.3 million for the Housing Revenue Account. Of the total capital budget £25.9 million related to general services and £22.5 million to the HRA.

57. Capital spend was £7.9 million below budget, comprising an underspend of £7.8 million on the General Services capital programme, partly offset by an overspend of £0.8 million on the HRA. The Council has a history of slippage in its capital programme as outlined in Exhibit 6.

Exhibit 6

Capital slippage compared to budget (General Fund and HRA)



Source: End of Year Financial Reviews (2014/15, 2015/16, 2016/17)

58. The majority of the capital underspend for General Services relates to slippage and will be carried forward to the 2017/18 capital programme. Slippage was primarily due to delays in commencement of projects including delays to the design programmes for several projects. Some of these projects have now begun however others have not yet commenced. Significant projects include Law Primary School (£2.2 million underspent) and Cemeteries extensions (£0.9 million underspent). The main contract works are now ongoing for Law Primary however we note that there was no movement since 31 March 2016 on the Cemeteries extensions and that no land has been identified or agreements concluded in relation to this project.

59. The HRA capital programme had a total overspend of £0.8 million. Within HRA, £11.2 million was spent on modernisation with an overspend of £0.3 million. Spending of new affordable homes was £11.8 million, which was £0.9 million above the approved budget. Two mortgage to rent applications were processed during the year, resulting in an underspend against the approved budget of £0.5 million. The net overspend of £0.8 million was offset during the year by increased grants of £0.9 million.

60. Whilst management has an understanding of capital slippage and does not consider this to be problematic in 2016/17, there is a risk that ongoing delays in capital projects such as the cemeteries extensions could impact on service plans going forward.

Budgetary monitoring and control

61. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.

62. Each year as part of its budgeting process, East Lothian Council prepares a Financial Strategy Statement covering a three year period including the forthcoming and subsequent two financial years. The Financial Strategy Statement outlines the main opportunities, risks and constraints that the Council has identified it will face over the next three years. The Financial Strategy Statement is used as the basis for preparing the Council's budgets for the same three year periods. As both the Financial Strategy Statement and three year budgets are updated on an annual basis, they are amended to reflect changes to financial forecasts or assumptions.

63. We noted that the Council's budget and savings plan is aligned to the Council priorities as set out in the Council Plan. This is consistent with good practice.

64. Within the Council, the detailed scrutiny of financial performance is delegated to the Cabinet committee which receives quarterly revenue and capital monitoring reports. From our review of these reports and attendance at committee we concluded that they provided a sound overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the Council's finances.

Financial capacity within the Council

65. The Section 95 officer is the Head of Council Resources with responsibility for a wide range of services including finance, human resources and information technology. He is a member of the corporate management team and has direct access to the chief executive and Council Members. We concluded that the Section 95 officer has appropriate status within the Council.

66. The finance team includes a sufficient number of qualified and experienced staff who receive sufficient and appropriate training.

67. Following Council elections in May 2017, 11 new Members were elected. The Council provided all new and continuing Members with an 'Elected Member Induction Programme' during May and June immediately following the elections. This helped provide a smooth transition and helped ensure committee and Council business continued as normal. The induction is extensive and covers a wide range of areas on how the Council works and the programme specifies what sessions are compulsory for new Members. External audit were invited to present at the induction session on 'Local Government Finance and Audit' where both internal and external audit presented a summary. Overall, this induction programme will assist Members in exercising their scrutiny responsibilities effectively. A significant amount of support was and continues to be provided to Members by the Council.

68. We reviewed the induction training and materials provided to Members and concluded that it was thorough and fit for purpose.

Internal controls

69. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

70. Our findings were included in our interim audit report that was presented to the Audit and Governance Committee on 20 June 2017. We concluded that overall the key controls were operating effectively. We did, however, identify several control weaknesses where additional work was undertaken to gain assurance for our audit of the 2016/17 financial statements. An action plan has been put in place by management to address the issues identified.

Prevention and detection of fraud

71. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected Members, whistleblowing, fraud prevention and fraud response plans.

72. Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud. There were no frauds reported in 2016/17.

National Fraud Initiative

73. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

74. The latest position on NFI investigations by the Council is summarised in Exhibit 7.

Exhibit 7

National Fraud Initiative 2016/17

Total number of matches

3,430

Number recommended for investigation

577

Completed/closed investigations

110

Source: NFI website

75. Progress is slowly being made on NFI matches. This is particularly important for time sensitive matches such as housing benefit and student loans. At the time of writing this report, the summary sheet prepared by Internal Audit records:

- 110 investigations have been processed and cleared
- 242 investigations are in progress
- 225 have yet to be reviewed.

76. A report on the NFI work is scheduled to be presented to the Audit and Governance Committee in February 2018 by the Head of Internal Audit. The Head of Internal Audit is confident that they will have completed all the NFI work prior to this date. We are content with the processes used by the Council in undertaking NFI work.

Part 3

Financial sustainability

Main judgements

We noted that the Council has financial strategies and plans over the short and medium term and these are robust with linkages to wider Council initiatives however there is no long term (five to ten years) financial plan in place to demonstrate the feasibility of significant longer term projects.

The Council recognises the need to develop a sustainable budget and has developed a three year financial plan aligned to its priorities that seeks to deliver a balanced budget avoiding the use of reserves by 2019/20, and sets out how it will address future budget challenges.

The Council has supported its annual budgets through the use of reserves in recent financial years. This position is not sustainable in the longer term with decreasing levels of available reserves.

Financial planning

77. It is important that long-term financial strategies are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

78. We considered whether the Council's Financial Strategy meets the requirements set out in *Scotland's public finances – a follow-up audit: Progress in meeting the challenges* (June 2014). We noted that the Council has financial strategies and plans over the short (one year) and medium (two to five years) term and these are robust with linkages to wider Council initiatives, the Local Development Plans, Community Partnerships and the newly approved Edinburgh and South East City Region Deal.

79. The Council approved a three year Financial Strategy in February 2017 covering the period from 2017/18 to 2019/20 together with indicative spending plans for the same period. The Strategy is thorough and provides readers with the background on how the budget was drafted, financial prospects, how the budget will be managed during the year and the monthly and quarterly performance reports issued to managers with budget responsibility. The Financial Strategy also outlines the main opportunities, risks and barriers the Council faces over the next three years in delivering its objectives. There is currently no long term (five to ten years) financial plan in place.

80. Long-term financial strategies covering a five to ten-year period help set the context for annual budgets. They also help clarify the financial sustainability of an organisation over an extended period and can help identify problems with affordability at an early stage. Although funding allocations from the Scottish Government typically cover one to three-year spending review periods, this should not prevent public bodies assessing their spending needs and options over a longer period.

81. Given the significant investments and work planned in East Lothian as outlined in the Council Plan 2017-20, including the building of 10,050 new homes by 2024 and other associated infrastructure costs, there is a need for longer term planning (five to ten years) to ensure the sustainability, feasibility and practicalities of spending plans. The risk is there are insufficient funds to achieve the Council's strategic plans.

Recommendation 4 (Appendix 1, action plan point 4)

The Council should prepare a longer term (five to ten year) financial plan to ensure the sustainability, feasibility and practicalities of current spending plans. There is a risk that there are insufficient funds to achieve the Council's strategic plans.

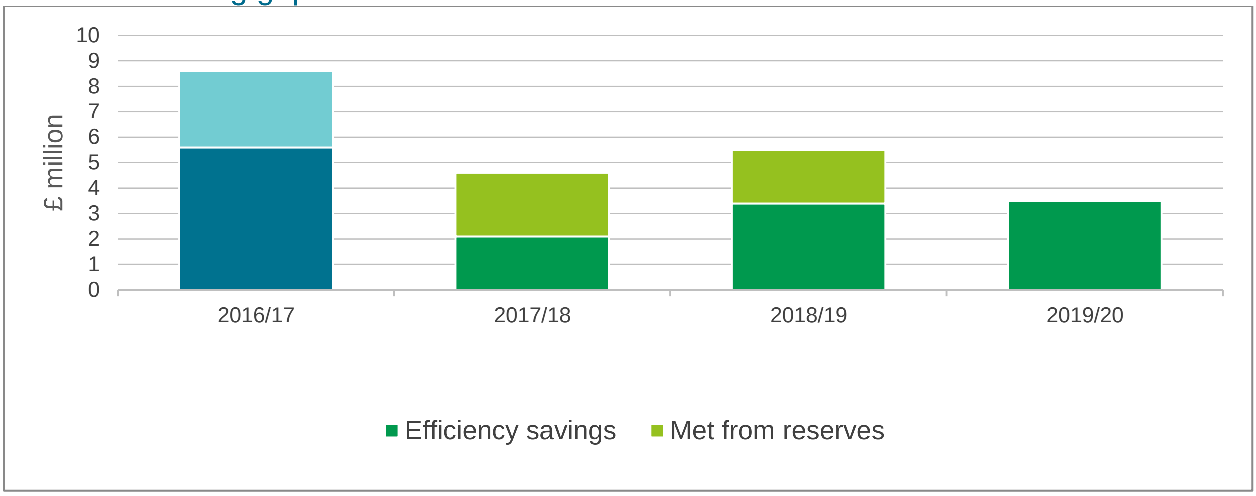
Funding position

82. The Council approved its 2017/18 budget in February 2017. The budget was set at £208.2 million which includes a transfer of £2.5 million from reserves and £1.4 million of efficiency savings / increased income to address the identified funding gap.

83. The Council faces a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in overall central government funding.

84. Looking at the Council's budget information and financial projections for 2017/18 to 2019/20, it is forecasting funding gaps of £4.6 million (2017/18) £5.5 million (2018/19) and £3.5 million (2019/20). The Council plans to bridge these gaps mostly through the use of efficiency savings and the transfer of reserves from the general fund in 2017/18 and 2018/19 as illustrated in Exhibit 8.

Exhibit 8
Identified funding gaps 2017/18 – 2019/20



Source: Administration Budget Proposals 2016/17 – 2018/19 and 2017/18 – 2019/20

Savings plans

85. As outlined in paragraphs 47 to 49, the Council achieved its efficiency savings target in 2016/17 although it did not achieve its planned savings in some areas.

86. The Council has identified that it needs to make savings of £2.1 million for 2017/18, £3.4 million for 2018/19 and £3.5 million for 2019/20 as part of its plans to maintain financial balance. To manage this effectively the Council needs to regularly review its medium term financial plans and rigorously monitor the actual level of savings achieved in comparison to its plans.

Reserves

87. One of the key measures of the financial health of a local authority is the level of reserves held.

88. The general fund reserve is the Council's largest useable reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

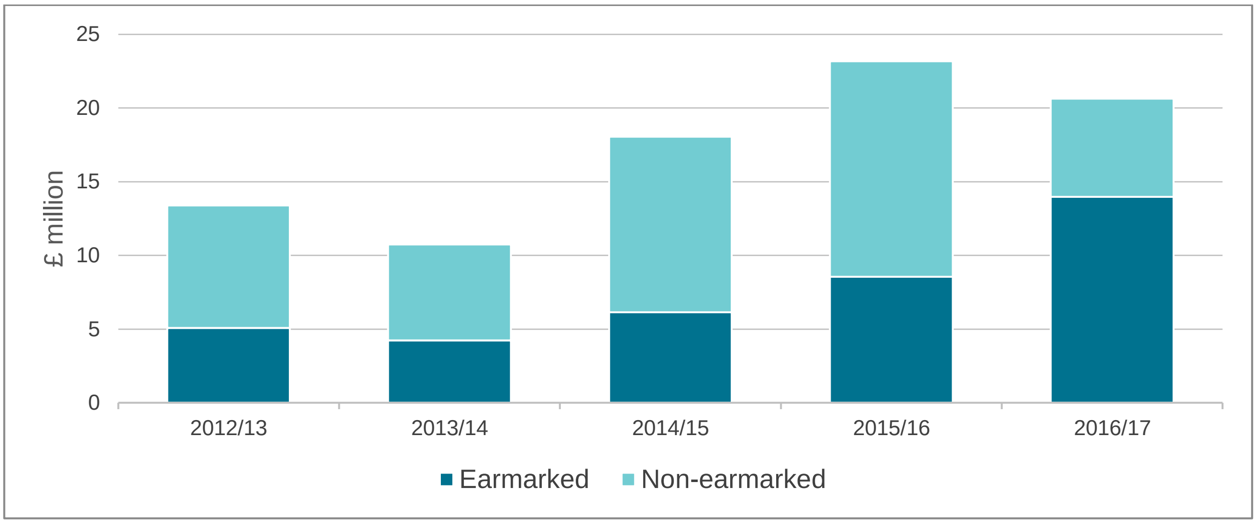
89. The Council reviews the level of its general reserve when setting its budget each year. The Council's approved Financial Strategy does not specify a required level of reserves as a percentage of revenue however it specifies that the Council must take a view on the likely level of reserves at the start of the financial year, any plans that have already been made to use reserves and how much should be held to meet any risks that might materialise over the next three year period when setting its annual budget. Any reserves that do not need to be held as part of this strategy should be used for the benefit of or directly returned to tax or rent payers. The Council has made a number of contractual commitments and these are earmarked against the general reserves each year. The level of non-earmarked general fund reserves as at 31 March 2017 was £5.8 million.

90. Exhibit 9 provides an analysis of the general fund reserve over the last five years split between earmarked and non-earmarked reserves. This shows a notable fall in non-earmarked reserves in recent years as reserves have been specifically earmarked to support future budgets to maintain financial balance. The Council recognises that it is not sustainable to support its budgets through use of reserves in the longer term and has developed its Financial Strategy and three-year budget for the period 2017/18 to 2019/20 so that no use of reserves will be required by 2019/20. The use of reserves in year three of the Financial Strategy is discouraged with the goal being to lessen the future dependency on reserves.

91. All of the Council's reserves have commitments against them but some of the commitments can be changed for example, commitments for future use against the capital programme for those projects which have not yet commenced.

Exhibit 9

Analysis of general fund over last five years



Source: End of year Financial Reviews (2013/14, 2014/15 and 2015/16) end of year reserves forecast 2016/17

Treasury management

92. At 31 March 2017, the Council's long term borrowing stood at £337 million, an increase of £12 million on the March 2016 level of £325 million. During the same period, short term borrowing decreased from £15 million to £10 million.

93. In line with the Council's Treasury Management Strategy for 2016/17, there was a limited degree of borrowing undertaken during the year (£20m) to minimise the risk associated with holding higher levels of investments. Interest payable and similar charges stayed virtually static in comparison to 2015/16 levels at £16 million in 2016/17. The Council borrowed £6.5 million less than planned in the year due to slippage on the capital programme.

94. Total external debt (which includes the Council's long term liabilities) was within the authorised limit and operational boundary set by the Council's treasury management strategy. The current borrowing position is within the Council's prudential indicators and the Council will continue to consider the affordability of future borrowing. Routine position updates are provided to management and Members.

Part 4

Governance and transparency

Main Judgements

A comprehensive programme of member induction was provided following the Council elections in May 2017 to support new members in discharging their governance and scrutiny role.

The effectiveness of scrutiny has diminished with one political party not participating in scrutiny committees. This arrangement has not been codified so as to assist the committees to be quorate. The result is less effective scrutiny overall.

The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Committee minutes, agendas and papers are readily available on the Council's website.

Governance arrangements

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

95. We reviewed the Council's governance and accountability arrangements in 2016/17 as part of the follow up of the Role of Boards report which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective – we found these arrangements to be satisfactory.
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body – we found sound processes in place surrounding decision making and effective scrutiny and challenge by Members during 2016/17.
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management – we observed through committee attendance effective scrutiny and challenge.
- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions – we found that decision makers were given appropriate information to make decisions.
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions – we found that documentation over decisions and rationale was clear and available.

96. We have noted that since the year end and following the election there has been a deterioration of effectiveness of scrutiny with certain committee seats not taken up by one political party.

Elected Member changes

97. The Council saw significant changes in its elected members following the local government elections in May 2017, with 11 of its 22 members being elected for the first time. The Council recognises that this brings opportunities with new ideas and approaches from the Members but it also provides challenges for the Council in ensuring the Members have the right skills to be effective in their role.

Elected Member induction programme

98. The Council provided all new and continuing Members with an 'Elected Member Induction Programme' during May and June immediately following the elections. This helped provide a smooth transition and helped ensure committee and Council business continued as normal.

99. The induction is extensive and covers a wide range of areas on how the Council works and the programme specifies what sessions are compulsory for new Members. External audit were invited to present at the induction session on 'Local Government Finance and Audit' where both internal and external audit presented a summary. Overall, this induction programme will assist Members in exercising their scrutiny responsibilities effectively. A significant amount of support was and continues to be provided to Members by Council officers however if the learning is not applied in a timely fashion, the benefit of having attended these training sessions will be lost.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

100. We reviewed the induction training and materials provided to Members and concluded that it was thorough and fit for purpose. We also observed support being offered to Member throughout the year.

Appointments to committees

101. The Council is now led by a minority Labour administration whereas previously it was a Labour/Conservative coalition. The Conservative Party now forms the official opposition; previously this was the Scottish National Party (SNP).

102. At the Council meeting on 23 May 2017, the Council approved appointments to its various committees however the SNP indicated that they would like more time to consider their nominations for the following groups:

- Audit and Governance Committee (3 SNP) – scrutiny committee
- Policy and Performance Review Committee (3 SNP) – scrutiny committee
- Licensing Sub Committee (2 SNP)
- Joint Consultative Committee (1 SNP)
- Resilient People Partnerships (1 SNP)
- Safe and Vibrant Communities Partnership (1 SNP)
- Sustainable Economies Partnership (1 SNP).

103. A paper was presented at the 27 June 2017 Council meeting to approve the above appointments however the SNP confirmed that they would not be making any nominations at the meeting. As stated in the Standing Orders, the Council has a commitment to ensuring there is political balance on the above two scrutiny committees. The absence of nominations from the SNP means that this has not yet been achieved.

104. The effectiveness of scrutiny has diminished with one political party not participating in scrutiny committees. This arrangement has not been codified so as to assist the committees to be quorate. Given that the duty of Best Value is a responsibility of the Council as a whole, administration and opposition alike, we are likely to focus on how the Council has addressed this situation as part of our Best Value audit scheduled for 2017/18.

105. Per the Council's Scheme of Administration, membership for both scrutiny committees is eight with quorum being half the membership plus one (i.e. 5 members in total). As the Council had not achieved full membership as set out in the Scheme of Administration during the period since the May local elections it faced a risk that the scrutiny committees would not be quorate with the potential impact being delays to future meetings, inability to demonstrate political balance regarding scrutiny and failure to provide effective scrutiny over key Council items.

106. The Council recognised the above risk and presented a paper to amend the Scheme of Administration changing the quorum from five members to four members at a special Council meeting on 12 September 2017 however this does not address the issue regarding effectiveness of the scrutiny committees.

Recommendation 5 (Appendix 1, action plan point 5)

The Council should review its Scheme of Administration for the two scrutiny committees to ensure they are fit for purpose. There is a risk that the scrutiny committees may not operate as intended by the Council due to the lack of political balance as members from one of the opposition parties are no longer represented. The result is less effective scrutiny overall.

Management commentary, annual governance statement and remuneration report

107. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

108. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements and accurately reflect the position of the Council.

Internal audit

109. Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

110. The internal audit function is carried out by an East Lothian Council Internal Audit section overseen by the Head of Internal Audit.

111. We carried out a review of the adequacy of the internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

112. To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. We considered internal audit report findings as part of our wider dimension work.

Risk management

113. We reviewed the Council's Risk Management Strategy which sets out its risk management arrangements. The policy is reviewed on a three yearly cycle and was last reviewed in January 2015.

114. We found the strategy to be clear and comprehensive covering all the expected elements, including identification, quantification and actions to mitigate risks, and clear allocation of responsibility for ownership of risks.

115. Regular risk management reports are provided to the Council Management Team and elected members. We also reviewed the Council's risk register as part of our planning work and concluded that it was satisfactory. The most recent report on the corporate risk register was considered by Members at the Cabinet meeting in September 2017.

116. Overall we concluded that risk management processes in the Council are satisfactory and operating effectively.

Transparency

117. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

118. There is evidence from a number of sources which demonstrates the Council's commitment to transparency. Members of the public can attend meetings of the full Council, Cabinet and other committees. Minutes of these meetings and supporting papers are readily available on the Council's website.

119. The Council's website allows the public to access a wide range of information including the register of Members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the East Lothian Citizen's panel and how to participate. The panel provides information and feedback on services as well as information on the needs of local communities.

120. The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.

121. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Lender Option Borrower Option

122. During the year we received correspondence on a number of local authorities using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

123. East Lothian Council has six of these standard LOBOs within its market debt portfolio, totalling £34 million. The Council does not hold any inverse LOBOs, where the interest rate paid varies in relation to a specified market rate.

124. We have held discussions with senior council officers and reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest, and the council's treasury management policies and controls.

125. Based on our work we can conclude that:

- the use of LOBOs has been undertaken in line with the Council's treasury management policy, which is reviewed and approved annually by members
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the Council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

126. There are no further issues we wish to raise in this report.

Integration of health and social care

127. Legislation to implement health and social care integration was passed by the Scottish Parliament in February 2014. This brings together NHS and local council care services under one partnership arrangement for each area.

128. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is seen as a means of achieving this.

129. The East Lothian Integration Joint Board (IJB) is provided in partnership with NHS Lothian and was established on 27 July 2015. It assumed responsibility for the delegated health and social care services set out in its Integration Scheme from 1 April 2016. The financial transactions of the East Lothian IJB have been consolidated into the Council's group accounts and we have audited these with satisfactory results.

130. Whilst 2016/17 was the first full year of operation of the Integration Joint Board, there are some examples of new ways of working including:

- the joint health and social care daily "huddle" focusing on hospital admissions and delayed discharges,
- the transfer of services from the old age psychiatry day hospital into joint community supports,
- the moves towards a local recovery focus in drugs and alcohol services,
- the development of a local "crisis" services for those in emotional or social distress.

131. These are early examples and the Council and its partners should look to demonstrate significant further examples of new ways of working arising from integration and the impact or improvements to services in future years. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. The report is due for publication in Spring 2018.

132. It is still too early for the Council or its partners to demonstrate any significant examples the impact or improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. The report is due for publication in Spring 2018.

Local scrutiny plan

133. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to the Council on 1 May 2017. It was also presented to the full Council meeting on 27 June 2017.

134. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activities as set out in the LSP.

Equalities

135. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

136. We reviewed the current (2015 - 2017) equalities report and concluded that the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

137. We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

Equal pay

138. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory.

139. East Lothian Council implemented single status in 2008 and reports that between 2004/05 and 2015/16 it has spent £5.9 million compensating workers who had been unfairly paid and settling equal pay claims.

140. Almost 27,000 equal pay claims across Scotland remain live. Currently East Lothian Council has no live claims. Workers could potentially still make new claims against councils. This means that councils needs to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

Part 5

Value for money

Main judgements

Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial and service planning and financial governance and resource management.

The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

It is important that there is alignment of objectives between the Council and Group components and that corrective action is taken on a timely basis where a divergence becomes apparent.

Value for money is concerned with using resources effectively and continually improving services.

Best Value

141. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period.

142. The BVAR report for East Lothian Council is planned for publication in late autumn 2018.

143. Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial and service planning and, financial governance and resource management. We concluded that the Council has effective arrangements in place regarding these areas. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Following the public pound

144. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

145. The Council has identified and regards Enjoy East Lothian Ltd. as an Arm’s Length External Organisation (ALEO) in line with the guidance. In Council papers and for the remainder of this report, it is referred to as enjoyleisure.

146. The Council’s Financial Regulations contain a section on arrangements for funding external bodies. These emphasise that the Section 95 Officer is responsible for promoting and maintaining the same high standards of conduct with regard to financial administration in partnerships that also apply throughout the Council. The Section 95 Officer must also ensure that accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. Services must adhere to the Council’s guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's-length bodies such as companies, trusts and voluntary organisations.

147. Internal audit considers funding provided to external organisations annually*. A Review of Payments to Third Sector Organisations by Children's Services* was undertaken as part of the Internal Audit Plan for 2016/17 and was presented to the November 2016 Audit and Governance Committee. The review identified a number of areas with scope for improvement and management have accepted these.

148. In November 2015 the Council presented a paper to the Policy and Performance Review Committee, *Council Arrangements with enjoyleisure ALEO*, setting out the governance arrangements with the ALEO, its contribution to wider council objectives and three areas for action in 2016/17:

- Enjoyleisure will work with the council to develop the Physical Activity Implementation Plan as part of SOA Outcome 6.
- The Council will work with enjoyleisure to agree a set of key performance measures that will be used as a performance scorecard and monitored accordingly by partners.
- Enjoyleisure will report annually to the council's audit and governance committee.

149. There have been no reports presented to the enjoyleisure or the other significant ALEO, the Musselburgh Joint Racing Committee (MJRC) Audit and Governance Committee during 2016/17 regarding and we cannot find evidence of any routine performance monitoring / reporting to Council committees in this area.

Recommendation 6 (Appendix 1, action plan ref. 6)

Formal reporting and monitoring arrangements should be put in place for significant group components (e.g. enjoyleisure and MJRC) to ensure the Council is complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound.

150. Audit Scotland is currently carrying out a performance audit of Scottish councils' use of ALEOs. The project scope for this exercise can be found on our website. The report's aim is to support councils by identifying good practice, lessons learned and, give assurance to the public over this means of service delivery.

Governance arrangements for subsidiaries included in Group Accounts

151. In line with the Code of Practice on Local Authority Accounting, the following organisations are defined as subsidiaries within East Lothian Council for the purposes of preparing group accounts:

- Musselburgh Joint Racing Committee (MJRC) whose purpose is to organise and develop horse racing at Musselburgh Links.
- East Lothian Land Ltd. – set up to manage land to support economic development in East Lothian.
- Common Good Funds – used to further the common good of the residents of the areas of the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick
- 46 Trust funds with various purposes and objectives.

152. We found the Council's annual Group Boundary assessment to be satisfactory and that the above bodies met the definition of a subsidiary and have been appropriately included in the group accounts. In the case of the MJRC the Minute of Agreement (signed in 2015) was an important element of that assessment.

153. During the course of 2016/17 issues relating to the governance of the MJRC were brought to our attention. The membership of the MJRC comprises seven board members made up of four Councillors and three representatives from the Lothian Racing Syndicate (LRS).

154. In July 2017, the racecourse was granted an extended temporary license to 31 December 2017 by the British Horseracing Authority (BHA). The BHA stipulated that the temporary license was subject to an independent review of the governance of MJRC conducted by a person/firm with no pre-existing connections to the Council, MJRC or the BHA. The review is to be conducted with recommendations implemented within nine months (i.e. April 2018) with the BHA taking into account any progress made in the intervening period. The BHA Board will then consider the status of the license in April 2018.

155. The governance review is therfore a matter for the Council and the LRS to take forward. The review will also cover the operational matters that are the remit of the MJRC.

156. We noted the following at the time of writing our report:

- There were a number of inquorate meetings in 2016/17. There is a risk that the MJRC are not carrying out their governance duties as required and failing to provide good governance.

- The scoping document for the governance review was issued in September 2017. A firm/person will be appointed by the end of September to carry out the governance review. The review is scheduled to be completed by 31 October at which point findings will be agreed and implemented subject to the satisfaction of the BHA. There remains a risk that the license will not be extended beyond December 2017 and this would have significant economic consequences for the local community.

- The 2016/17 audit opinion on the MJRC accounts will not be available by 30 September 2017. We would expect all subsidiaries to have their accounts audited and signed off by 30 September prior to our signing off of the Council's Group accounts.

Performance management

157. We considered the Council's performance management arrangements in the course of our audit.

158. The performance management framework uses *How Good is Our Council*, and this is now in established use across all services. This provides a means of evaluating the performance of the Council's services against a set of criteria, against which each Service conducts a self-evaluation on an annual basis. The Council provides corporate support, including facilitated events for all services, to maintain consistent standards in the process.

159. We reviewed the range of non-financial performance information available on the council's website and found it to be comprehensive. Green, Amber and Red ratings are used to flag whether performance is better, slightly worse or much worse than expected.

160. Non-financial performance information is also prepared and reported on a quarterly basis to the Policy & Performance Review committee. We found that reporting of performance was timely, up to date and comprehensive, with performance for the 4th quarter of the 2016/17 financial year being reported to committee in June 2017.

161. Financial performance is intended to be reported to the Cabinet committee on a quarterly basis with a year-end report presented to the full Council. We highlighted in our Audit Plan that there was scope for improvement in the timeliness of reporting of financial performance. We reviewed the timeliness of financial reporting during 2016/17 and for the 2017/18 financial year to date. We noted an improvement to the timeliness of reporting with the financial monitoring report for the first quarter of 2017/18 submitted to the Member's Library in August 2017 following the full Council meeting. The report is submitted to the Members' Library due to the summer recess.

162. Notwithstanding issues around the timeliness of reporting, we found that the financial reports clearly outlined details of the specific areas within each service where any budget pressures were occurring and provide information regarding the measures being taken to address these. We have seen evidence that Finance work with the service where budget pressures have been identified in order to assess options for delivering their planned efficiencies during the year.

Overview of performance targets

163. The Council participates in the *Local Government Benchmarking Framework* (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

164. The most recent National Benchmarking Overview Report 2015/16 by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. This report was submitted to the Policy and Performance Review Committee in March 2017. This found that, overall, the Council performed well in comparison to other councils and that its performance had improved since the previous year. Overall 64.4% of the Council's performance indicators were ranked within the first two quartiles. When compared to the previous year, 14 indicators improved their quartile position, 37 remained the same and 8 worsened during 2015/16.

165. Additionally, the Performance and Review Committee receives regular performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities. Based on the most recent report submitted to the committee in June 2017, covering the period, a number of positives were highlighted including::

- Delayed discharge patients waiting over 2 weeks fell from 22 in quarter 3 to 11 in quarter 4.

- The number of attendances at indoor sports and leisure facilities has increased from 169,879 to 221,812 during quarter 4. The number of attendances at pools has also increased, from 94,791 to 125,316.

- During the year, 236 new business start-ups were recorded. The annual target of 200 was achieved.

166. At the same time the Council recognises that it has to improve performance in a number of key areas such as homelessness and tenant rent arrears. The Performance and Review Committee has requested further reports on both these areas and these have been added to the committee's 2017/18 Annual Work Programme for monitoring and review to assess progress.

Statutory performance indicators (SPIs)

167. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

168. For 2016/17 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

169. Internal Audit review the Council's arrangements for the preparation and reporting of Performance Indicators on an annual basis. As part of the 2016/17 internal audit plan, a review was undertaken of the arrangements in place for 2015/16.

170. The review concluded that the internal controls and procedures established by management were operating satisfactorily in some areas however there was scope for improvement around the arrangements in respect of specific indicators, including the calculation approach adopted and the retention of supporting documentation. An action plan to address the internal audit recommendations was agreed with management and implementation will be followed up by Internal Audit.

National performance audit reports

171. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in Appendix 3.

172. National reports, together with management recommendations to address areas for improvement locally, are considered by the Audit and Governance Committee. The Council are pro-active in this area ensuring national reports presented to the Committee are accompanied by a covering paper summarising the report's key points, impact on the Council and areas for action.

Good practice points

173. In 2016/17 a number of national reports were presented to the Audit and Risk Committee and we noted good discussion and scrutiny of the various reports. We noted the actions the Council put in place in response to the reports including actions and recommendations. For example, the *Maintaining Scotland's Roads: Follow up report* covering paper (prepared by the Council) cites the original national report (2004) and the subsequent follow up reports (2011, 2013 and 2016) thus ensuring the issue remains current and Members are aware of the changes since the original report and the journey the Council have made. Members appeared engaged and informed about the subject.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Para no.	Issue/risk	Recommendation	Agreed management action/timing
17	**1. Dr Bruce Fund** The trust's accounts were not advertised in line with the requirements under Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 issued under section 105 of the 1973 Act. The unaudited accounts were not signed on behalf of the trustees. **Risk:** There is a risk of non-compliance with statute/legislation.	The unaudited accounts should be advertised in line with the Regulations. The unaudited accounts should be signed on behalf of the trustees prior to submitting for audit.	Agreed - actions will be put in place to ensure both advertisement and signing of draft accounts for 2017/18. Service Manager- Business Finance / Service Manager – Corporate Finance June 2018
17	**2. Dr Bruce Fund** The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. One of the risks identified for managing this is the financial demands placed on those funds. In 2016/17 there was a net movement in funds of £6,800, of which £3,291 was income received. In the same period only £50 was disbursed. **Risk:** The fund may not be operating the way in which it was intended i.e. providing relief for the poor of Musselburgh.	The Council should review the method(s) used to promote this (and other) charitable trusts to ensure that the potential availability of these funds are known to the wider community.	Agreed – officers will explore options to more actively promote the use of Dr Bruce Trust fund more effectively. Service Manager- Business Finance / Service Manager – Corporate Finance March 2018
19	**3. Trust Funds** Of the 46 trusts being administered by the Council, only 16 were actively used, i.e. incurred expenditure or	The Council should ensure that the trusts it administers are promoted more widely amongst the public, and the trust objectives clarified legally to help facilitate their	Agreed – officers will explore options to more actively promote the use of the Trust funds. In addition further work will be undertaken to explore the feasibility of any

Para no.	Issue/risk	Recommendation	Agreed management action/timing
	earned income, in 2016/17. **Risk:** There is a risk that trust funds held could become dormant due to lack of use and lack of wider knowledge in the community as to their existence.	use. An exercise should also be undertaken by the Council to consider whether any trusts could be consolidated.	consolidation of Trust Funds Service Manager- Business Finance / Service Manager – Corporate Finance March 2018
79	**4. Long term financial plans** Long-term financial strategies covering a five to ten-year period help set the context for annual budgets, help clarify the financial sustainability of an organisation over an extended period and, can help identify problems with affordability at an early stage. Given the significant investments and work planned in East Lothian as outlined in the Council Plan 2017/20, including the building of 10,050 new homes by 2024 and other associated infrastructure costs, there is a need for longer term planning. **Risk:** There is a risk that there are insufficient funds in the future to achieve the Council's strategic plans.	The Council should prepare a long term (five to ten year) financial plan to ensure the sustainability, feasibility and practicalities of current spending plans.	Work is already on-going to review the current financial plans and their sustainability for both revenue and capital budgets. The ability to prepare a longer term financial plan will be considered within the context of the budgetary planning cycle. Head of Council Resources / Service Manager - Business Finance / Service Manager – Corporate Finance February 2018
101	**5. Scrutiny committee appointments** The Council have a commitment to ensuring there is political balance on their two scrutiny committees. The lack of nominations from the SNP means this has not yet been achieved and as a result the Scheme of Administration has been amended. **Risk:** There is a risk that the scrutiny committees may not operate as intended by the Council due to the lack of political balance as members	The Council should review their Scheme of Administration for the two scrutiny committees to ensure they are fit for purpose.	Agreed to review the current Scheme of Administration. Service Manager – Licensing, Administration and Democratic Services February 2018

Para no.	Issue/risk	Recommendation	Agreed management action/timing
	from one of the opposition parties are no longer represented. The Council should review its Scheme of Administration for the two scrutiny committees to ensure they are fit for purpose. There is a risk that the scrutiny committees may not operate as intended by the Council due to the lack of political balance as members from one of the opposition parties are no longer represented. The result is less effective scrutiny overall.		
148	**6. Following the Public Pound** There have been no reports presented to the Audit and Governance Committee during 2016/17 regarding enjoyleisure or the other significant ALEO/Group components (e.g. the Musselburgh Joint Racing Committee) and we cannot find evidence of any routine performance monitoring / reporting to Council committees in this area.	Formal reporting and monitoring arrangements should be put in place for significant group components (e.g. enjoyleisure and the Musselburgh Joint Racing Committee) to ensure the Council is complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound.	Agreed - arrangements are already in place for EnjoyLeisure to report to future Audit and Governance Committees. Service Manager – Business Finance January 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk		Assurance procedure	Results and conclusions
Financial statement issues and risks			
1	**Risk of management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of significant management estimates and evaluation of the impact of any variability in key assumptions. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any instances of management override of controls.
2	**Risk of fraud over income** East Lothian Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.	We performed detailed analytical procedures on income streams and undertook detailed testing of revenue transactions. We did not identify any instances of fraud.
3	**Risk of fraud over expenditure** The Financial Reporting Council's Practice Note 10 (revised) requires consideration of the risk of fraud over expenditure. The extent and nature of expenditure, for example, welfare benefits, social care payments and grants means that there is an inherent risk of fraud.	Audit work on the National Fraud Initiative matches. Assessing the high level key controls in areas of significant expenditure. Focused substantive testing of expenditure and housing benefit transactions.	We reviewed the Council's progress in investigating NFI matches and this is reported in paragraph 73. We assessed the high level key controls in areas of significant expenditure and overall these were found to be operating satisfactorily. We undertook detailed testing of expenditure transactions including housing benefit transactions. We did not identify any instances of fraud.
4	**Estimation and judgements** There is a significant degree of	Review and comment on the appropriateness of the Council's policy with regard to	We reviewed the council's policy and undertook focussed

Audit risk		Assurance procedure	Results and conclusions
	subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	useful lives. Completion of 'review of the work of an expert' in accordance with ISA500 for the professional valuer. Focused substantive testing of asset valuations and asset useful lives. Focused substantive testing of provisions	substantive testing of asset lives. We also reviewed the standing of the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. We identified an error in the financial statements relating to asset valuation which has been corrected by officers.
5	**Group accounts** East Lothian Council has a range of interests in other entities which require consolidation in the group accounts. For 2016/17 this includes the East Lothian Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.	Review of the group boundary assessment undertaken by the council. Component audit questionnaires and, where appropriate, meetings with the auditors of material components in accordance with ISA 600. Review and testing of the consolidation process.	We reviewed the Council's group boundary assessment and consolidation process and undertook detailed testing of consolidation workings. We reviewed the component audit questionnaires completed by component auditors. The East Lothian IJB has been consolidated as a joint venture in the group accounts. We did not identify any material misstatements.
6	**Universal credit** The Council has reported a significant increase in the level of rent arrears since the introduction of Universal Credit in East Lothian from March 2016 (£157k or 12% increase). There is a risk that assets could be overstated if the provision for doubtful debts is not revised in light of rising rent arrears. There is also an increased risk to the overall delivery of services in line with the Council's strategic objectives.	Monitor rent arrears levels and provision for doubtful debts.	We monitored the rent arrears levels and related provision for doubtful debts. We found that rent arrears have increased by approximately £300k however there has also been a corresponding increase in the provision. We concluded that, as 2016/17 was the first full year of universal credit and there were some "teething troubles" with its introduction, the position should be reviewed again in 2017/18, after a further year of universal credit to enable better quantification of its impact.
7	**Developer contributions** Internal Audit carried out a review of developer contributions during 2016/17 and identified a number of risks which were fundamental to the system and required immediate action. Due to the significant level of development taking place in East Lothian, there is an increased risk of misstatement	Review of Developer Contributions framework. Focussed substantive testing of income and associated accounting treatment from developer contributions.	We undertook focussed substantive testing of a sample of developer contributions and found that they were accounted for appropriately.

Audit risk		Assurance procedure	Results and conclusions
	or incorrect accounting treatment in the financial statements due to the infrequency of these transactions.		
Wider dimension risks			
8	**Financial sustainability** ELC's Council Plan recognises that it faces a challenge to achieve financial sustainability, due to factors including reducing income levels and increased demand for services. In the past, funding gaps have been filled by the use of reserves however the council recognises the need to develop a more sustainable budget in the medium term.	Undertake specific audit work on financial planning. This will include assessing the robustness of the council's financial plans.	Our review and consideration of the Council's financial plans is reported in paragraph 77 of this report.
9	**Financial management** The Quarter 2 financial report for 2016/17 identifies two services (Adult Wellbeing and Children's Wellbeing) as high risk of not operating within approved budgets. Members were asked to approve a £1million non-recurring budget virement from Corporate Management budgets to support Adult Wellbeing pressures and delivery of efficiencies. There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.	Review of financial monitoring reports and the council's financial position. Undertake specific audit work on financial governance and resource management.	Our review and consideration of the Council's financial monitoring and financial governance is reported in paragraph 64 of this report.
10	**Timeliness of financial reporting** The previous external auditor raised a recommendation in the 2015/16 annual audit report that there was scope for improvement in the timeliness of financial reporting (specifically the quarter 4 report and subsequent timing of the following quarter 1 report to Cabinet.) There is a risk that the budget monitoring process may not be operating due to information	Monitor the council's progress towards implementing timelier financial reporting.	Our review and consideration of the timeliness of the Council's financial reporting is reported in paragraph 161 of this report. We reviewed and concluded that the timeliness of reporting had improved.

	Audit risk	Assurance procedure	Results and conclusions
	not being made available in a timely manner to make decisions.		
11	**Capital slippage** The 2016/17 quarter 1 and 2 financial reports highlight significant capital underspends of £13.8m (HRA) and £17.3m (general services) however there is a lack of actions noted to address this. There is a risk that available capital funding may not be utilised efficiently and that plans may not reflect actual practice (e.g. borrowing is based on unrealistic or unachievable capital plans).	Monitor capital slippage and assess any actions taken to reduce slippage. Focussed substantive testing of capital expenditure.	Our review and consideration of the timeliness of the Council's capital slippage is reported in paragraph 57 of this report. We undertook focussed substantive testing of a sample of capital expenditure transactions and
12	**IT Strategy** The Council's current IT strategy covers the period 2011- 2014. It is due to be replaced by a new Digital Strategy which is to be considered at the Cabinet meeting in March 2017. The Council's IT strategy is outdated and there is a risk that this could impact on the delivery of services or on corporate initiatives, such as savings plans, which depend on ICT improvements.	Monitor progress in preparation and approval of the new IT strategy. Review the new strategy when available and comment on its appropriateness.	The Council's new Digital Strategy was approved by the Cabinet in March 2017. We reviewed the strategy and concluded that it is appropriate and linked to the Council's priorities.
13	**Business Continuity** The council recognises a Medium level risk in respect of Business Continuity in its risk register. During Audit & Governance committee discussions, members were informed that the disaster recovery testing plan is not up and running yet nor has it been tested. There is a significant risk that business continuity arrangements may not be sufficiently robust if they have not been properly tested.	Monitor progress in preparation and approval of the business continuity testing arrangements. Check results of disaster recovery testing/BCP testing to ensure it is fit for purpose. Review the testing arrangements when available.	In addition to the IT Business Continuity Plan (BCP) that is refreshed each year under the guidance of the Emergency Planning and Risk Manager, an IT disaster recovery plan has been prepared, with specific recovery plans for each of the top priority systems and facilities. As part of the annual BCP process, the Council look to provide evidence of having undertaken a recovery of the Council email system and of the social care system. These recovery events can take place following a failure or as part of a planned test. We plan to look at this area during our planning for 2017/18.

Audit risk	Assurance procedure	Results and conclusions
14 **Highways network asset (HNA)** HNA are to be recognised for the first time in councils' 2017/18 financial statements. While this is not a risk to the 2016/17 financial statements, it is a new and complex area and if sound arrangements are not put in place there is a risk of misstatement in the 2017/18 financial statements.	Assess the arrangements in place to implement the new requirements. Review and assess the valuation methodology for HNA.	In light of the indefinite postponement of the introduction of the new Highways Network Assets accounting requirements, the Council has reassessed its priorities and paused its prepatory work in this area. We will continue to consider this as part of our audit risk assessment for 2017/18 and future audit years.

Appendix 3

Summary of national performance reports 2016/17

2016/17 Reports

Month	Reports		
Apr			
May	Common Agricultural Policy Futures programme: an update		
Jun	South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland	
Jul	Audit of higher education in Scottish universities	Supporting Scotland's economic growth	
Aug	Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update	Scotland's colleges 2016
Sept	Social work in Scotland	Scotland's new financial powers	
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016	
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16	
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	Scotland's NHS workforce		
Mar	Local government in Scotland: Performance and challenges 2017	i6: a review	Managing new financial powers: an update

Local government relevant reports

The National Fraud Initiative in Scotland – June 2016

Maintaining Scotland's roads – a follow up report – August 2016

Social work in Scotland – September 2016

Local government in Scotland: Financial overview 2015/16 – November 2016

Local government in Scotland: Performance and Challenges 2017 – March 2017

East Lothian Council

2016/17 Annual Audit Report

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REPORT TO: Audit and Governance Committee

MEETING DATE: 26 September 2017

BY: Depute Chief Executive (Resources & People Services)

4

SUBJECT: East Lothian Council Annual Accounts 2016/17

---

1 PURPOSE

1.1 To provide the Committee with an update on the main changes arising during the audit of the draft financial statements 2016/17, and to ask the Committee to approve the accounts for 2016/17.

2 RECOMMENDATIONS

2.1 The Committee is asked to:

(i) Note the main changes arising during the course of the audit; and

(ii) Approve the audited accounts for 2016/17.

3 BACKGROUND

3.1 The Council's draft financial accounts for 2016/17 were considered by Council on 27 June, and formally submitted to Audit Scotland prior to the statutory deadline of 30 June 2017. The audit commenced early July 2017 and was completed mid-September.

3.2 In accordance with statutory requirements, the draft accounts were made available for public inspection for a 3 week period commencing 1 July 2017. No objections were received during this period.

3.3 As stated in the June Council report, the Audit & Governance Committee is asked to formally approve the audited accounts. The accounts include an independent audit opinion on the financial statements, and as highlighted in the draft annual audit report, I am pleased to report that an unqualified audit opinion has been presented signalling that the financial statements presented represent:

- A true and fair view of the affairs of the Council and the wider Group;
- Have been properly prepared in accordance with respective accounting standards.

Main changes to Unaudited Financial Position

3.4 During the course of the audit there were a number of audit changes to be made to the account, none of which remain outstanding. A number of accounting changes were required to address historical property valuations, the impact of which resulted in amendments to the main financial statements within the accounts, and a reduction in the net book value of the Council's Property, Plant & Equipment (PPE) assets amounting to £5.2 million. The impact of these changes was largely reflected through the accounting (unusable) reserves with a balance as at 31 March 2017 of £280.841 million.

3.5 In addition, there were a number of further audit adjustments which have impacted on the unaudited usable reserves position which was presented to Council in June. The impact of these changes are set out below:

- Total General Service usable reserves (inclusive of Insurance Fund) reduced by £105k, with total General reserves amounting to £20.534 million, largely to do with an accrual adjustment.
- Total HRA usable reserves have reduced by £31k to £5.020 million largely relating to incorrect balances identified as rental income.
- Common Good Fund balances have reduced by £160k largely relating to the treatment of historic finance leases, with total Common Good balances as at 31 March 2017 amounting to £5.789 million.

3.6 In line with statutory guidance, following approval of the annual accounts by those charged with governance, the 2016/17 accounts will be formally signed by the Council (Chief Executive, Depute Council Leader and Chief Finance Officer) as well as Audit Scotland prior to the statutory deadline of 30 September 2017.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with this report.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel **-** none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 27 June 2017 – Item 4 – 2016/17 End of Year Financial Review

Author's Name	Jim Lamond
DESIGNATION	Head of Council Resources
CONTACT INFO	jlamond@eastlothian.gov.uk
DATE	14 September 2017

East Lothian Council

Annual Accounts
2016/17

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Independent auditor's report to the members of East Lothian Council and the Accounts Commission for Scotland

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

I certify that I have audited the financial statements in the annual accounts of East Lothian Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Account, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-Domestic Rate Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

Report on the audit of the financial statements

Opinion on financial statements

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the council and its group as at 31 March 2017 and of the surplus (or deficit) on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.
In my] opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or

- we have not received all the information and explanations we require for our audit; or

- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Assistant Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DH

29 September 2017

Foreword by the Head of Council Resources

Welcome to the Annual Accounts for East Lothian Council for the year ended 31 March 2017. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance for the Council in the financial year 2016-17.

The management commentary accompanying the Annual Accounts outlines:

- Who we are;
- How we are organised to deliver priorities;
- What our strategy and priorities are;
- Our financial position for 2016-17;
- Key aspects of our performance during 2016-17;
- Our plans for the future.

Highlights of 2016-17

Against a continuing challenging financial environment, the Council has achieved a great deal during 2016-17 including:

- Delivered an increase to reserves relative to planned budget levels of over £3 million;
- Delivered capital investment of over £41m to support increased investment in schools, roads and wider assets to support the communities we live;
- Delivery of an additional £3.9 million recurring efficiencies, a cumulative total of just under £24 million since 2012;
- Supported the first full year of the Integration of Health & Social Care Services.

Despite a positive financial performance during 2016-17, the Council continues to face significant financial challenges, and there will be a need for us to continue to find ways to explore how we can maintain high quality service provision through an enhanced approach to transformation designed to deliver service improvements and savings that will help make the Council and its services sustainable within the reducing resource environment facing the Public Sector.

Acknowledgements

I would like to thank all officers involved across the Council for their continued hard work during the year to ensure the continued sound management of the Council's finances and the production of the statutory accounts.

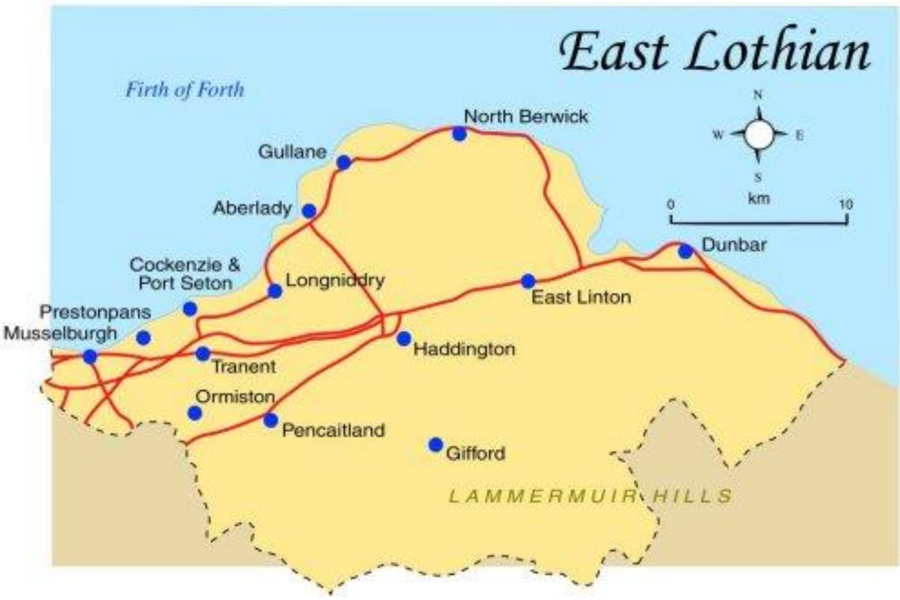
Head of Council Resources (CFO)

East Lothian Council

Management Commentary

Who are we and what do we do?

With a population of just over 100,000, East Lothian covers some 270 square miles and includes some 43 miles of coastline. It extends from Musselburgh, its largest town, eastwards to Dunbar and beyond to its boundary with Scottish Borders. Other principal towns in East Lothian are Haddington, Tranent, North Berwick and Prestonpans.



In 2016-17, East Lothian Council was made up of 23 elected members who were elected in May 2012. The political make-up of the Council was: 10 Labour, 8 SNP, 3 Conservative, 1 Independent, 1 Independent Nationalist, with the Council Administration a Coalition of Labour, Conservatives and Independent members.

The Council's Management Team comprises of 11 senior officers and is led by the Chief Executive, structured to cover 3 Directorates:

- Resources and People covering Education and Council Resources
- Partnership & Communities covering Infrastructure, Development and wider Communities
- Health & Social Care Partnership covering Children and Adult Services

These Directorates are led by a Deputy Chief Executive / Director and includes a number of Heads of Services.

Decision Making in the Council

The Scheme of Administration sets out the Council's governance arrangements. These include:

- Full Council meetings, which involve all 23 elected members, take place every 2 months and are the focus for local democracy and carrying out the Council's statutory requirements.
- Cabinet meets every month and makes decisions on areas such as; policy, strategy, financial reporting and partnership working.
- Two other service committees remain within the Council – Education and Planning Committee.

Scrutiny of performance, decisions and plans of the Council is carried out by elected members who are not part of the Cabinet through the Council's Audit & Governance Committee and Policy and Performance Review Committee. In addition, the Council has a Police, Fire & Rescue and Community Safety Scrutiny Committee which scrutinises the performance of Police Scotland and the Scottish Fire & Rescue Service in East Lothian.

The East Lothian Integration Joint Board (IJB) was formally established on 1 July 2015. This is a partnership between East Lothian Council and NHS Lothian which has been established to integrate how health and social care services are planned, commissioned and delivered from 1 April 2016.

Furthermore, scrutiny and inspection is carried out by external bodies including the Council's External Auditors, Audit Scotland and national inspection agencies such as Education Scotland, the Scottish Housing Regulator, and the Care Inspectorate.

The Council has adopted a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model outlined in the CIPFA/ SOLACE *Guidance on Delivering Good Governance in Local Government.* The results of the annual Corporate Governance self-evaluation are reported to the Audit & Governance Committee and form the basis of the Annual Governance Statement.

Strategy & Priorities

Our Vision

Our primary focus is to respond to these challenges to enable East Lothian to continue to move towards achieving the ambition as set out in the 2020 Vision and the Single Outcome Agreement.

The current vision for East Lothian sets out:

In 2020 East Lothian will have an established reputation as having the highest quality of life in the UK and the quality of our environment will be recognised as amongst the best in Europe.

Our Priorities

The East Lothian Council Plan 2012-2017 is an ambitious and aspirational statement setting out what the Council wants to achieve over that period.

The Plan has been influenced by the 2020 Vision for East Lothian, the Single Outcome Agreement 2013-23 (East Lothian Community Planning Partnership's plan for the future of East Lothian), and the Council Administration's manifestos, adopted as Council policy in May 2012. It puts these aspirations and commitments into one strategic document that sets the framework and priorities through which the Council will work towards achieving its ambition for East Lothian.

East Lothian is currently thriving with high levels of public satisfaction, both with our natural environment and with the way in which Council Services are being delivered. Our rapidly growing population provides great opportunity but also poses significant challenge. Having endured a period of prolonged austerity that will most likely continue for the foreseeable future, the Council will continue to work hard to satisfy increased public expectations and meet the growing demand for services that will flow from the rising population.

East Lothian Council is committed to supporting the East Lothian Partnership's Single Outcome Agreement 2013-23.

The Council's aim is to create a prosperous, safe and sustainable East Lothian that will allow our people and communities to flourish. To achieve this, our Council Plan has four objectives:

- *Growing our Economy – to increase sustainable economic growth as the basis for a more prosperous East Lothian*
- *Growing our Communities – to give people a real say in the decisions that matter most and provide communities with the housing, transport links, community facilities and environment that will allow them to flourish*
- *Growing our People – to give our children the best start in life and protect vulnerable and older people*
- *Growing the capacity of our Council – to deliver excellent services as effectively and efficiently as possible within our limited resources.*

The Council Plan provides clear direction for Council services and staff to allow the delivery of these key priorities. The detail about what our services are doing, or plan to do, to support the strategic aims and priorities of the Council Plan and the Single Outcome Agreement outcomes is set out in Service Plans and other strategic documents such as the Integrated Children's Services Plan and the Local Housing Strategy.

A review of the Council Plan was carried out in February 2017. This found that all the commitments made in the 2012-2017 Plan have either been delivered or are at advanced stages of being delivered. Several actions are categorised as being delivered as they relate to delivering long term plans such as the 10-year Economic Development Strategy. Only three actions were categorised as only partly delivered.

The review highlighted the following achievements from the previous year:

Growing our Economy

- The Construction and Technology Academy was established in Musselburgh with capacity for 160 places for pupils from East Lothian schools
- The Council supported the creation of the East Lothian Food and Drink Business Improvement District (BID)

Growing our People

- The Council invested over £1.4m in providing a new communications provision for children with additional support needs at Knox Academy

Growing our Communities

- Tendering exercises for supported bus services resulted in improved services with better and more frequent service in key routes
- The new waste collection service which has made a major contribution to increasing East Lothian's waste recycling rate from just under 43% to over 52%
- The Council adopted a proposed Local Development Plan which identifies preferred sites for over 10,000 new homes and business growth

Growing the Capacity of our Council

- The Council has established a council wide approach to transformation by appointing a dedicated Programme Manager and Project Managers.

Financial Strategy

The Council's Financial Strategy forms the basis of the Council's stewardship over tax payer's funds. The Strategy covers both the General Services and Housing Revenue Account (HRA) revenue and capital budgets over a rolling 3 year period and is updated and approved each year by Council as part of the annual budget setting process. The most recent strategy covers the period of 2017-18 to 2019-20 approved by Council on 21 February 2017. The Strategy is developed taking into consideration the main opportunities, risks and constraints facing the Council over the medium to longer term and seeks to enable the Council to deliver a sustainable level of service provision within a structured budgetary framework. The strategy aims to reduce any future reliance on reserves, and takes into consideration forecasts around the financial environment which the Council is currently, and is likely to be, operating within over the medium to longer term. The approved financial strategy focuses on:

- Delivering an enhanced Change Programme that will achieve significant efficiency savings across all areas and all inputs such as staffing and supplies;

- Constraining cost growth – through a preventative approach and effective management, good financial control by managers and by effective negotiation with suppliers;

- Generating additional income and ensuring that, where the Council has decided to charge, there is full cost recovery;

- Progressing partnership working where there are proven efficiency and or service gains;

- Continuing to manage the General Services Loans Fund balance ensuring affordability across the three years of the Strategy, and sustainability in the longer term. It is important to recognise that capital investment decisions taken now have long term borrowing and revenue implications which have the potential to place undue burden on future tax payers.

Financial Plans

Alongside the Financial Strategy the Council annually considers and approves the General Services and HRA spending plans for the forthcoming year, and following years. The 2016-17 spending plans approved by Council included:

- General services net revenue expenditure of £227.033 million
- Assumed levels of Scottish Government general revenue grant of £169.058 million.
- Planned use of General Services reserves of £3 million
- The requirement to deliver £5.6 million of recurring efficiencies across Business Groups.
- Approved General Services capital spending plans of £24.6 million
- Housing capital spending plans of £22.5 million

The key financial results for the financial year ending 31 March 2017 are set out below:

- Overall the Council's useable reserves (including General Services and HRA) have decreased by £4.873 million (General Services - £2.640 million, and HRA - £2.233 million), which was less than planned budget assumptions. Taking into consideration the planned use of reserves, General Services have delivered an operational underspend against approved budget of £1.017 million and HRA have delivered an operational underspend of £1.985 million.

- Capital spending totalled £41.492 million (£18.149 million relating to General Services and £23.343 million relating to HRA).

- The Council benefited from additional profit of £3.460 million from the sale of assets, most of which relates to the end of the Right to Buy Council House Sales in HRA.

- The Council accounts for its pension fund liabilities in accordance with IAS 19, which means that it accounts for the costs of retirement benefits when entitlement to those benefits has been earned, rather than when they are actually paid to employees, which may be many years into the future. These future liabilities are to be met by fund assets which are acquired from employer and employee contributions and subsequently invested for a return. As at 31st March 2017, fund liabilities exceeded fund assets by £178 million, an increase of £63 million from 2015-16. This leaves a funding gap which has to be made good over time from a combination of improved investment performance, increases in employee and employer contributions and/or changes to scheme benefits. A triennial actuarial review assesses key assumptions and agrees any changes, including any increase to employer contributions, for a subsequent three year period with the aim of having a fully funded scheme over the longer term.

- All of the Council's Trading Operations (Roads, Property Maintenance and Facility Services) have delivered an in-year surplus, and have met the statutory requirement to deliver a break even position over a rolling 3 year period.

Changes adopted during 2016-17 Annual Accounts

There are a number of significant changes which have been adopted during 2016-17. These relate to the introduction of the Expenditure and Funding Analysis statement, changes to the accounting treatment of Housing Capital Expenditure, as well as the introduction of the Integrated Joint Board through the Council's Group Accounts.

- **Expenditure and Funding Analysis**
    - The Expenditure and Funding Analysis is a new statement during 2016-17 and shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by Authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Prior year figures for 2015/16 have been provided for comparison purposes.

- **Housing Capital Expenditure**
    - The accounting treatment of recognising Housing Capital expenditure incurred during the year has been reviewed. This has resulted in impairment losses of £10.335 million during 2016-17 relating to a combination of non-value adding enhancements of HRA assets and new build properties which have been adopted in the year and have been reduced in line with Beacon values from the last valuation. The next full Housing stock valuation is due to be carried out as at 31 December 2018, and the Council will carry out a cycle of on-going valuations as new properties are brought onto the Council's balance sheet.

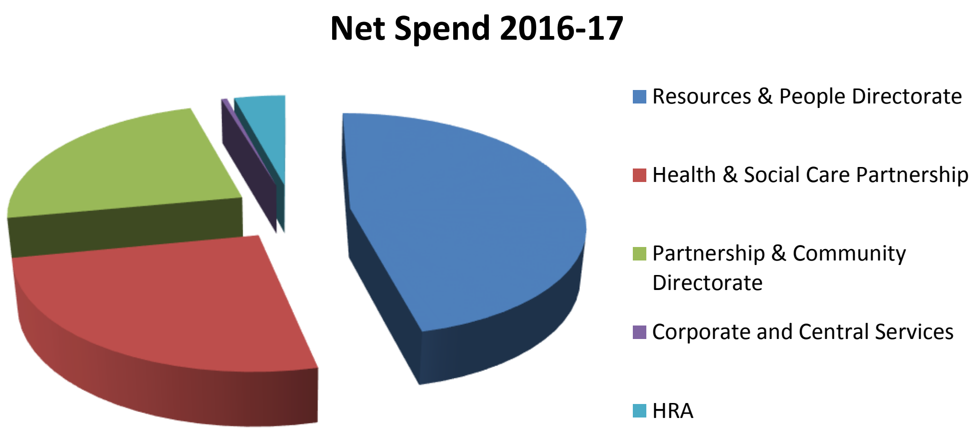
- **Integrated Joint Board (IJB)**
    - The East Lothian IJB was formally established in July 2015, with the adoption of the strategic plan and the associated budgets relating to delegated functions effective from 1 April 2016. Separate financial accounts are prepared for the IJB for the financial year ending March 2017, however the IJB has been formally recognised as a Joint Venture between East Lothian Council and NHS Lothian, and as such is treated within the wider Group accounts. The contributions to and from the IJB has been reflected in the CIES.

Comprehensive Income and Expenditure Analysis

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services rather than the amount to be funded from taxation.

An accounting deficit of £21.345 million has been reported as at March 2017 (£20.052 million in 2015-16). This takes into account the cost of providing services of £233.196 million (£235.944 million in 2015-16) alongside the financing and investing income and expenditure.

The chart below breaks down the net spend in directorate service areas for 2016-17.



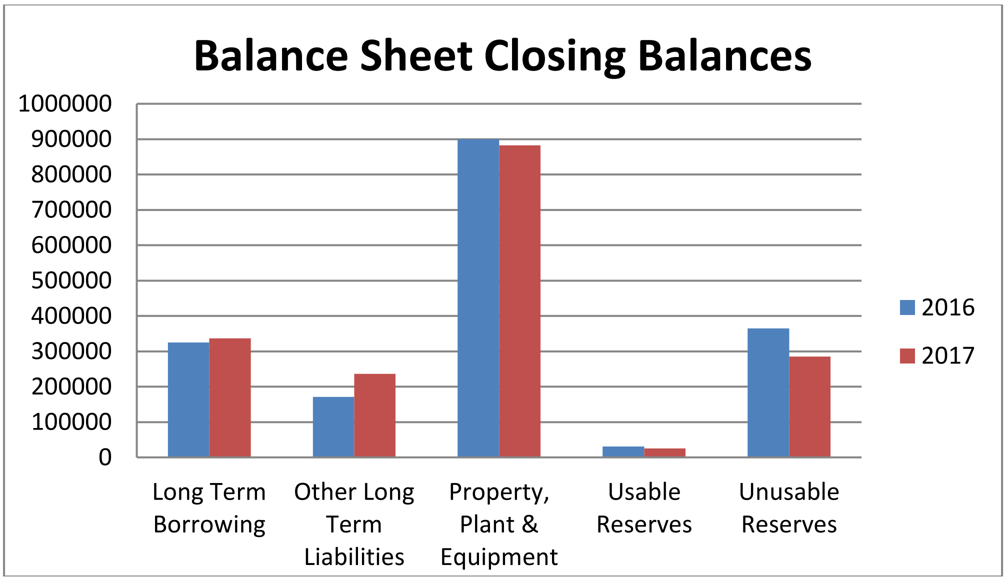
The Housing Revenue Account is showing a net expenditure of £9.533 million as opposed to a surplus position of £0.133 million in 2015-16. This is due to the Council recognising impairment losses of £10.335 million relating to non-value adding enhancements of HRA assets.

As part of the financing and investment income and expenditure analysis, there has been a large increase in the gains on disposal of assets. In 2016-17 the profit is £3.460 million and the comparative figure for 2015-16 was £0.547 million. This is largely due to the end of the Right to Buy scheme for Council House owners in July 2016 which saw an increased demand in people applying to buy their home.

The taxation and non-specific grant income (as detailed in Note 7) has reduced by £8.504 million from £236.907 million in 2015-16 to £228.403 million in 2016-17. The Revenue Support Grant has decreased by £3.250 million during 2016-17, with the actual grant received in year lower than planned budget largely due to lower than anticipated grant relating to Teachers Induction scheme funding. The Council received specific grant funding relating to the Social Care Fund of £4.370 million in 2016-17 which has been shown as part of the Health and Social Care Partnership gross income and is therefore included in the Cost of Services. Despite an increase in Council Tax yield during 2016-17, the actual yield is lower than planned largely due to less than expected property completions. The Non Domestic Rates contribution from the national pool is reduced this year by £1.709 million in line with the financial settlement.

Balance Sheet

The net assets of the Council have decreased by over £89 million from £395.565 million at 31st March 2016 to £306.395 million at 31st March 2017. The main balance sheet variations are shown in the graph below:



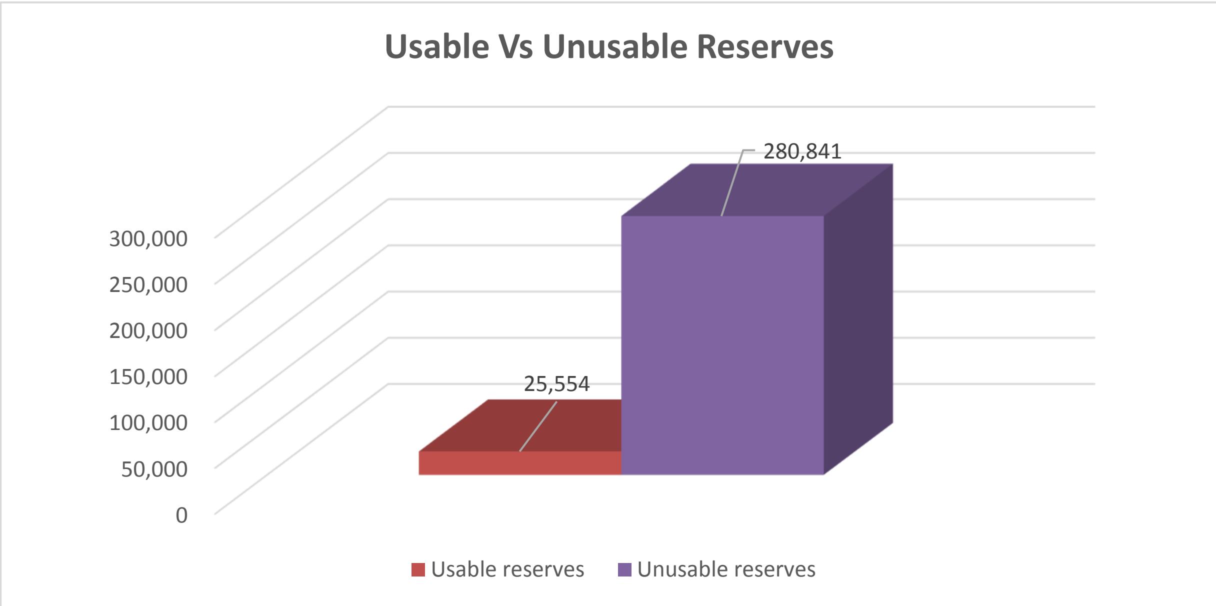
The increase in Long Term Borrowing of £12.024 million is largely due to increases in capital borrowing requirements.

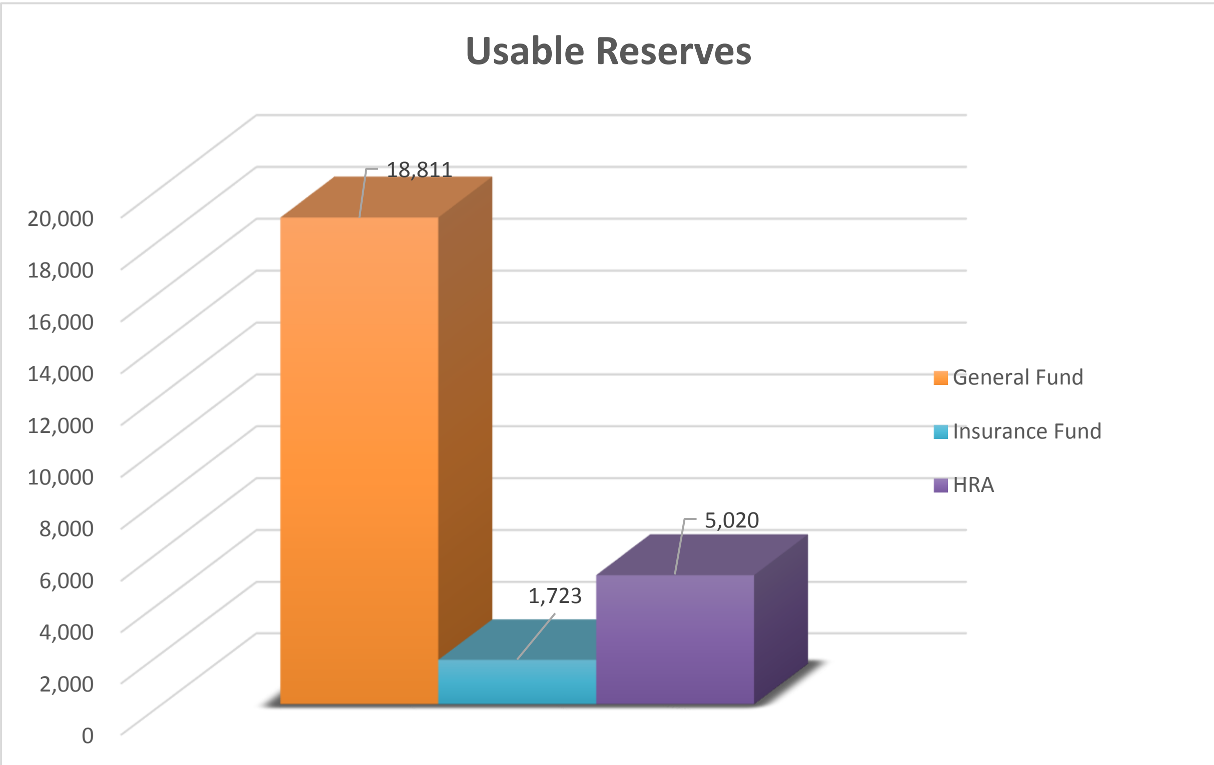
The increase to Other Long Term Liabilities is mostly due to the net Pensions liability increasing by £63.243 million. This liability reflects the underlying commitment that the Council has to pay towards retirement benefits which will be recovered from the Council in future years.

Property Plant & Equipment has decreased by £20.807 million. No major revaluations our asset base was carried out in 2016-17, with the main movements relating to depreciation charges, impairments, additions and disposals.

The Useable Reserves including the General Fund and the HRA Fund of the Council reduced by £4.873 million, which was £3.001 million lower than anticipated. The General Fund balance reduced by £2.640 million, meaning that the General Fund had performed £1.017 million better than expected. Included within the approved budget was a planned use of £3 million of reserves, as well as an additional £0.675 million earmarked reserves. The HRA reserves reduced by £2.233 million during 2016-17. As part of the approved HRA budget, it had been anticipated that the HRA would deliver a small surplus during the year, with a planned transfer of reserves to both the General Services, as well as utilising £3.2 million of reserves to defray the cost of borrowing. Operationally during the year, the HRA delivered an increase to planned reserves of £1.985 million.

The overall reserves of the Council are shown in the following chart.





Capital Infrastructure

Key to delivering our outcomes for our communities and supporting the wider economy is the investment which the Council makes in capital infrastructure including our school estate and wider asset base, as well as our housing stock. The budgeted capital programme against the actual expenditure incurred is set out in the table below:

Capital Expenditure – Budget v Actual

	Budget	**Actual**	**Variance**
	£'m	**£'m**	**£'m**
General Services	25.938	18.149	(7.789)
HRA	22.509	23.343	0.834
TOTAL	**48.447**	**41.492**	**(6.955)**

The financing of both programmes is set out in the table below:

	HRA **£'m**	**General Services** **£'m**
Grants	2.856	10.616
Asset Sales	6.497	0.410
Other	3.200	2.394
Borrowing	10.790	4.729
TOTAL	**23.343**	**18.149**

In relation to the General Services most of the reported under spend relates to slippage and will be carried forward to the next financial year. A significant number of projects were delayed due to additional work being carried out prior to project commencement to ensure that individual projects are aligned with the overall asset / service strategy.

The HRA capital programme delivered an overspend against planned budget during 2016-17, the cost of which was offset by increased grants of £869k as well as significant receipts from 89 properties amounting to £6.5 million relating to the end of the Right to Buy scheme for Council House owners in July 2016.

During the year, as a result of the continued review of the Council's Loans Fund and treasury management investment decisions, the actual General Services debt charges were £0.170 million lower than budgeted, and HRA £0.636 million lower than planned. In total the debt charges for 2016-17 were £27.6 million, (£18.5 million General Fund, and £9.1 million HRA). The recurring impact of these savings has already been reflected in future year budget implications. The difference between capital spending and borrowing has been funded from capital grants, receipts and external contributions from the Council's cash balances.

Performance

From Improvement to Excellence is the Improvement Framework through which East Lothian Council will continue to strive for best value and move from being an improving Council to an excellent Council.

One of the four focus areas in the Council Plan is *Growing the Capacity of our Council* to ensure it delivers excellent, effective and efficient services. The Council has put delivery of excellent services to the people and communities of East Lothian at the heart of what we do. We recognise that there is always more we could do to improve services, make them more effective and deliver them more efficiently – balancing quality of service with value for money. We are on a journey from delivering improving services to delivering real excellence.

The Council's commitment to continuous improvement and its Improvement Framework are centred on the belief that we have to be self-aware of our strengths and weaknesses, we need to be more proactive about identifying improvement opportunities and managing our performance and be critically honest in our evaluation of our own performance. Inspections, audits and accreditation support the process by providing independent and external assessment of how we are doing and what can be improved.

The Improvement Framework consists of five inter-related elements by which the Council will move from Improvement to Excellence:

- Setting clear outcomes and priorities – what we need to do to achieve our vision and ambitions
- Self-evaluation – measuring how are we doing and what do we need to improve
- Service and improvement planning and management – setting out how are we going deliver and manage services and improvement

- Performance management, monitoring and reporting – monitoring how we are doing
- External assessment and accreditation – how others see us and gaining external validation.

In practice, delivering the Improvement Framework involves four areas of activity: planning, delivering, monitoring and reviewing.

Activity	Council wide	Service/ Business Unit
Planning what we need to do	Council Plan Single Outcome Agreement (SOA) Council Improvement Plan	Service Plans Unit/ Business Plans
Delivering what we have planned	Delivering services	Delivering services
Monitoring or checking how we are delivering	Performance reports: • East Lothian Performs • Your Council Performs • SOA Annual Report	Performance reports, including: • Quarterly Performance Reports • Services Plan Monitoring Reports
Reviewing what we do to make it more successful	Annual review of Council Plan Monitoring of SOA and How Good is Our Partnership? Corporate Governance self-evaluation	How Good is Our Council? Performance improvement tools; for example, Lean Thinking

Employee engagement is a vitally important aspect of the Council's approach to improvement, in particular in relation to the Review element of the improvement framework.

The Council's 2017 Employee Engagement Survey (carried out in February 2017) achieved a 58% response rate across all services. The survey showed an overall positive engagement (Strongly Agree and Agree responses across all 21 questions) of 78.4%, a slight increasse on the 76.4% achieved in 2016. The survey results continue to provide evidence that East Lothian Council has a committed workforce. Highlights from this year's survey include:

- 92% of the workforce stated their work is interesting and uses their skills and capabilities
- 91% know how their job/ individual objectives contribute to the Council's objectives
- 89% feel trusted to make decisions in their role.

Council staff at all levels are involved in the annual Self-Evaluation for Improvement to Excellence exercise undertaken using the How Good is our Council framework.

The Council publishes an Annual Performance Report in September of each year outlining its performance for the previous financial year. The Council also publishes up-to-date performance results via its performance website, which draws performance information directly from Aspireview (the Council's management information system).

The following are some of the key performance indicators that show the Council's performance in relation to financial and environmental matters.

- The percentage of income due from Council Tax that was received by the end of the year rose from 96.6% in 2015-16 to 97.51% in 2016-17.
- The in-year Non Domestic Rates collection rate fell from 99% in 2015-16 to 97.8%.
- The percentage of invoices paid within 30 calendar days of receipt fell slightly to 89.5% in 2016-17 from 90% in the previous year.
- The percentage of household waste that is recycled increased slightly from 51.4% in 2015-16 to 51.8% in 2016-17.

Risks

In keeping with the Council's Risk Management Strategy, the Corporate Risk Register is reviewed annually and reported to the Cabinet.

The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place
- Medium risk is tolerable with control measures that are cost effective
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

In accordance with the Risk Management Strategy 'Very High' and 'High Risks' identified in the Corporate Risk Register will be subject to closer scrutiny by the Council Management Team, the Cabinet and the Audit and Governance Committee.

The 2016 Corporate Risk Register includes one Very High risk, 10 High risks and five Medium risks.

The Very High Risk relates to the 'Financial Pressure' and financial operating environment, as significant uncertainty in the longer term financial projections remain. The current financial strategy covers the medium term planning period of the next three financial years. However this is likely to be extended to ensure that the Council is well placed to meet the future challenges if current forecasts emerge.

The Council is managing this risk through well-developed short to medium term financial planning arrangements, including:

- three year General Services revenue budgets
- five year Housing Revenue Account revenue and capital budgets
- longer General Services capital plan budgets

In addition, it has cost control and financial management arrangements for managing in year budget performance; both of which provide mitigating controls in terms of the immediate financial risk and pressures the Council is faced with.

The Council Management Team and senior managers continue to follow the financial strategy i.e. cost control/ cost minimisation to ensure delivery of agreed savings. This is also being monitored closely through the continued operation of the Chief Executive's Budget Review Group.

The Workforce Development Plan is a key part of the Council's response to increasing financial pressures. It aims to support transformational change, build and sustain leadership and management capacity, sustain a skilled, flexible and motivated workforce and develop the workforce for the future.

The 10 High Risks identified in the Corporate Risk Register are:

- Welfare Reform
- Information security and data protection
- Flooding and coastal erosion
- Public sector reform
- Local Development Plan
- Failure to maintain a highly skilled workforce
- Duty of care to public and public protection
- Duty of care to Council staff
- Corporate events management
- Contest (delivering the Government's anti-terrorism strategy)

Each of these high risks is managed through existing mitigating actions and planned additional control measures aimed at mitigating and reducing the risk.

Key Developments for the Next Year

As is highlighted in the Council's Financial Strategy 2017-18 to 2019-20, the Council will need to continue its programme of focussed work to maximise the efficiency and effectiveness of services provided to the public within the financial constraints faced by the Council. In order to ensure that progress is made in the key elements of the drive for further improvement and Best Value a defined Transformation Programme has been put in place with appropriate resources, including a Programme Manager and Project Managers to ensure the capacity to achieve the programme.

The Council adopted a Draft Council Plan in February 2017 which will form the basis of a new Council Plan that is to be adopted following the May 2017 Council Elections. The draft Plan affirmed the Council vision of: 'An even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy, that enables our people and communities to flourish."

The new plan will build upon the new administration manifesto commitments and will continue the journey towards realising the East Lothian vision by building on the ambition and achievements of the previous Council Plan, taking account of the challenges and new opportunities faced by the Council.

The Plan outlines the strategy the Council will follow and sets out the objectives and strategic goals it sets itself over the next five years to strive to meet the vision. It then lists the key actions it plans to undertake to achieve these objectives and goals.
The themes set out in the 2012-2017 Council Plan continue to be relevant and will continue to be the themes and objectives of Council Plan 2017-2022:

- Growing our Economy
- Growing our People
- Growing our Communities
- Growing our Capacity

The overarching objective of 'reducing inequalities within and across our communities' that was adopted in 2014 remains the overarching objective of the new Council Plan.

The Plan sets out the following strategic goals which will make the biggest impact in delivering these key themes and objectives.

- Reduce unemployment and improve the employability of East Lothian's workforce.
- Reduce the attainment gap and raise the attainment and achievement of our children and young people.
- Improve the life chances of the most vulnerable people in our society.
- Extend community engagement and decision making and increase community and individual resilience.
- Deliver transformational change and harness the opportunities technology offers in the provision of services.

This Council Plan 2017-2022 is both ambitious and aspirational. It is set within the context of the continuing financial, demographic and policy challenges faced by the Council and the county. It aims to maximise the benefits from the opportunities presented by the positive platform created by previous Council Plans and more recent developments such as the City Region Deal.

The Council is committed to maintaining high quality public services that are used and valued by all residents such as schools, services for vulnerable children, adults and older people, maintaining roads and pavements, street lighting and refuse collection services.

However, the Plan reflects the need to invest in, or re-direct resources to, new priorities through a preventative model of service delivery; investing in prevention and early intervention to avoid more costly crisis intervention. Crucially, the Council will prioritise measures that contribute to inclusive and sustainable growth that reduces inequality and helps to break the cycle of poverty.

This Plan is based on the understanding that East Lothian Council cannot address the diverse needs of our population on its own. At the heart of the Plan is the concept that the Council and the people and communities of East Lothian can best deliver these solutions in partnership – 'working together for a better East Lothian'. Therefore, the Council will increasingly become:

- an enabling and empowering authority that works with its citizens and communities, the business and third sectors and other public sector partners to deliver the solutions that work best for East Lothian.
- a more entrepreneurial authority, developing new ways of ensuring services are provided in the most effective and efficient way possible;
- a 'digital' authority, fully embracing and exploiting opportunities to use technology to deliver services.

Summary

Overall 2016-17 has been an important year for the Council, with the continued application of a financial strategy which has focussed on cost reduction and cost avoidance ensuring that services continue to be delivered in the most efficient way possible. Despite the ever tightening financial environment within which we operate, the Council is in a relatively good position to address the many challenges we face. Strong financial results during the year have helped provide an increase in reserves relative to planned performance, however the financial strategy is designed to ensure the future financial sustainability of the Council whilst reducing the on-going reliance of reserves, and the future use of which must be wisely managed.

Given the future financial prospects with falling levels of expected Government Grant, the Financial Strategy must ensure the delivery and long term sustainability of services by securing further reductions in the base operating costs. This will include reviewing the way in which we transform and deliver services, including the delivery of planned efficiencies which will continue to be a critical focus of our attention.

Angela Leitch	Norman Hampshire	Jim Lamond (CPFA)
Chief Executive	Depute Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

Statement of Responsibilities for the Statement of Accounts

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Council Resources, who is the designated Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts and lay the audited accounts to a meeting of the Council within two months of receipt of the audit certificate.

The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the Code of Practice.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Finance Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
September 2017

Norman Hampshire
Depute Council Leader
September 2017

Annual Governance Statement

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition there is a duty on the Council to conduct, at least annually, a review of the effectiveness of the system of internal controls.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

East Lothian Council carries out these duties in a number of ways as set out below.

Annual self-evaluation of Corporate Governance

In 2016-17 the whole Council Management Team has undertaken an annual self-evaluation of corporate governance.

The team considers the extent to which the Council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the Council in May 2010, by reviewing the documentary evidence and practice of each of the supporting principals and requirements of the corporate governance code. The findings of the 2016-17 review were reported to the Council's Audit & Governance Committee in June 2017.

The group reviewed progress made against the improvement points identified in the 2016 self-evaluation and considered documentary evidence and practice around each of the supporting principles and code requirements as detailed in the local code.

The 2017 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six corporate good practice principles.

It should be noted that the Council was confirmed as an 'Established Investor in People' organisation in March 2017 and in April 2017 undertook an assessment which resulted in being awarded a Committed to Excellence Award by Quality Scotland.

The Council's governance self-evaluation and external assessments of governance, performance by Audit Scotland, Investors in People and Quality Scotland have identified several areas for further development and improvement. These actions build on existing good practice and improvement action already being implemented in order to ensure the Council's progress from continuous improvement through to excellence. These improvement actions are:

- Adopt a 2017-2022 Council Plan
- Support the East Lothian Partnership to prepare and adopt a new East Lothian Plan (meeting its statutory duty to prepare a Local Outcome Improvement Plan) and review the East Lothian Partnership governance structure
- Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'
- Prepare and adopt a Workforce Plan, incorporating a Workforce Development Plan
- Develop a regulatory services charter covering all services that provide regulatory services to business
- Review elected members' development needs and provide an ongoing training and development programme
- Review the Council's key performance indicators and targets
- Further develop staff communications and engagement building on positive programmes such as One Council Workshops

Declaration of Assurance

All Chief Officers are asked to sign a Declaration of Assurance which either confirms that internal financial controls are operating satisfactorily in their service or provides details of issues which they wish to highlight.

The results of these assurances were that;

All Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily, although some have raised some areas where controls could be improved and these are currently being explored.

Internal Audit Review

ELC's Internal Audit team carries out reviews of service areas throughout the year and report its findings to the Council's Audit and Governance Committee. The agenda and minutes of this meeting can be accessed on the Council's website at;

http://www.eastlothian.gov.uk/meetings/committee/98/audit_and_governance_committee

All internal audit reports into service areas include recommendations, agreed actions and an implementation date.

The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council. This was reported to the June 2017 meeting of the Audit & Governance Committee. For 2016-17, the Internal Audit Manager concluded that subject to a number of weaknesses which have been outlined during the course of the audit, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2017.

Those areas which have been identified with scope for improvement included the following:

- Adherence to Council policies, procedures and guidance.
- Compliance with the Council's Corporate Procurement procedures.
- Internal financial controls including segregation of duties, reconciliations, audit trail, supporting documentation, monitoring and checking arrangements.
- The arrangements in place for the administration, management and monitoring of both Section 75 payments and the PPP contract.
- The approach adopted for the allocation of work to external contractors and the informal arrangements in place for agreeing rates.
- The review and updating of creditor accounts to ensure that duplicate accounts are not held.

Plans are currently being developed to review these areas and consider appropriate actions for improvement during 2017-18.

Statement on the role of the Chief Finance Officer

In 2010 the Chartered Institute of Public Finance & Accountancy (CIPFA) issued a statement on the role of the Chief Finance Officer (CFO) in public service organisations. The statement sets out the principles that define the core activities and behaviours that are key to the role of the CFO in public sector organisations. For each principle the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Council is able to confirm that, in all major regards, it conforms with the governance arrangements of the CIPFA statement.

Results

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2016/17.

Angela Leitch	Norman Hampshire	Jim Lamond (CPFA)
Chief Executive	Depute Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

Remuneration Report

Introduction

The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. These regulations require Local Authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. The following information in this Remuneration Report has been audited by Audit Scotland.

- Senior Councillor Remuneration at Page 22
- Senior Officer Remuneration at Page 23
- Pay Bandings information on Page 23
- Pension Benefits information for Senior Councillors and Officers on Pages 24 to 26

The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they were consistent with the financial statements.

Remuneration of Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183 and SSI No. 2016/06).

The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors.

The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17 the salary for the Leader of East Lothian Council is £28,157. The Regulations also permit the Council to remunerate one Civic Head or Provost. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have.

The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors (excluding the Leader and Civic Head/Provost) shall not exceed £171,048.

The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council's policy is to set these within the national maximum limits as set out above.

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become members.

In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Convenor or a Vice-Convenor of a Joint Board such as a Police Joint Board. The Regulations require the remuneration to be paid by the Council of which the convenor or vice-convenor (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the convenor or vice-convenor being a member of the Local Government Pension Scheme.

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a convenor or vice convenor of a Joint Board.

Senior Councillor's Remuneration

Office Held as at 31st March 2017		Salary, fees and Allowances 2015/16 (£)	Taxable Expenses 2015/16 (£)	Total 2015/16 (£)	Annualised Salary 2015/16 (£)	Salary, fees and Allowances 2016/17 (£)	Taxable Expenses 2016/17 (£)	Total 2016/17 (£)	Annualised Salary 2016/17 (£)
Willie Innes	Leader of the Council and Cabinet Spokesperson for Community Planning	27,878	1,116	28,994	27,878	28,157	-	28,157	28,157
Ludovic Broun-Lindsay	Provost	20,909	1,045	21,954	20,909	21,118	750	21,868	21,118
Jim Gillies	Depute Provost	20,909	1,719	22,628	20,909	21,118	1,424	22,542	21,118
Michael Veitch	Depute Leader and Cabinet Spokesman Transport and Roads	20,909	613	21,522	20,909	21,118	534	21,652	21,118
Shamin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	20,909	735	21,644	20,909	21,118	-	21,118	21,118
Tim Day	Cabinet Spokesman for Community Wellbeing	20,909	1,905	22,814	20,909	21,118	1,615	22,733	21,118
Donald Grant	Cabinet Spokesman for Health and Social Care	20,909	286	21,195	20,909	21,118	340	21,458	21,118
Norman Hampshire	Cabinet Spokesman for Housing & Environment	21,909	-	21,909	20,909	22,118	-	22,118	21,118
John McMillan	Cabinet Spokesman for Economic Development and Tourism	20,909	-	20,909	20,909	21,118	-	21,118	21,118
Stuart Currie	Leader of the Opposition	20,909	3,352	24,261	20,909	21,118	2,254	23,372	21,118
		217,059	10,771	227,830	216,059	219,219	6,917	226,136	218,219

Total Councillor's Remuneration

Type of Remuneration	2015/16 (£)	2016/17 (£)
Salaries	433,497	437,828
Allowances	1,000	1,000
Expenses	34,185	30,750
Total	468,682	469,578

An allowance of £1,000 was paid to Norman Hampshire in his capacity as APSE Regional Advisory Group Chair.

The annual return of Councillors salaries and expenses for 2016/17 is available to view on the Council's website at:
http://www.eastlothian.gov.uk/downloads/file/12406/01_april_2016-31_march_2017

Senior Officer Remuneration

The Regulations require disclosure of remuneration information for 'relevant' persons. These include senior officers i.e. those senior employees who meet one or more of the following criteria;

- Has responsibility for the management of the local authority to the extent that the person has power to direct or control the major activities of the authority whether solely or collectively with other persons.
- Holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989.
- Annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.

A formal review of the Chief Officer structure was last carried out in February 2012, although there have been minor variations approved since then.

During 2016/17 the Council paid the following amounts to senior employees

Name	Post Title	Salary, fees and allowances 2015/16 (£)	Taxable expenses 2015/16 (£)	Total 2015/16 (£)	Salary, fees and allowances 2016/17 (£)	Taxable expenses 2016/17 (£)	Total 2016/17 (£)
Angela Leitch	Chief Executive	115,728	438	116,166	119,721	285	120,006
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	97,962	339	98,301	99,254	284	99,538
Alex McCrorie	Depute Chief Executive-Resources & People Services	97,962	566	98,528	98,959	710	99,669
Jim Lamond	Head of Council Resources	87,552	-	87,552	90,689	-	90,689
Douglas Proudfoot	Head of Development (Acting Head from 21st July 2014 to 21st June 2015)	85,502	77	85,579	86,669	734	87,403
Raymond Montgomery	Head of Infrastructure	85,502	-	85,502	86,669	-	86,669
Thomas Shearer	Head of Communities & Partnerships	85,502	818	86,320	86,669	560	87,229
Sharon Saunders	Head of Children & Adult Services	85,502	1,028	86,530	86,669	246	86,915
Darrin Nightingale	Head of Education (until 1st November 2015)	48,944	484	49,428	-	-	-
		790,156	3,750	793,906	755,299	2,819	758,118

The salary, fees and allowances for senior officers includes any payments made in respect of election roles. During 2016/17 the Heads of Service were all paid £86,079 (full time equivalent).

At its meeting of 25th June 2013, the Council agreed to pay a share of the Director of East Lothian Health and Social Care Partnership post from August 2013. The costs are shared on a 50/50 basis with NHS Lothian. All payroll and pension arrangements for this post are administered by NHS Lothian. During 2016/17 the Council paid £63,056 as a shared cost of this post. Furthermore Alison MacDonald is the Head of Access and Older People, and whilst the post is part of the Council's Corporate Management Team, this post is fully funded by NHS Lothian.

Fiona Robertson was appointed Head of Education on 29th March 2016 on a 1 year secondment from Education Scotland. During 2016/17 the Council paid secondment costs of £118,824 for this post. Fiona was formally appointed to the Head of Education post with effect from 3rd April 2017.

The Council's employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were paid the following amounts.

	2015/16	2016/17
£50,000 - £54,999	42	50
£55,000 - £59,999	30	26
£60,000 - £64,999	3	7
£65,000 - £69,999	3	2
£70,000 - £74,999	4	5
£75,000 - £79,999	1	1
£80,000 - £84,999	1	-
£85,000 - £89,999	5	4
£90,000 - £94,999	-	1
£95,000 - £99,999	2	2
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
	92	99

Subsidiary Bodies

Separate disclosure of the remuneration and pension benefits of senior posts held in the Council subsidiary companies, where appropriate is outlined in the table below. The remuneration arrangements for these respective subsidiaries are determined solely by the subsidiary bodies.

The General Manager of Musselburgh Racecourse is not a member of the Council's defined benefit pension scheme although he receives employer's pension contributions equivalent to 10% of pensionable salary on an annual basis. For 16/17 this totalled £9,245 (15/16 - £9,272).

No Councillor receives remuneration from any of the Council's subsidiary bodies.

Name	Post Title	Salary 2015/16	Bonuses 2015/16	Expenses & Allowances 2015/16	Total 2015/16	Salary 2016/17	Bonuses 2016/17	Expenses & Allowances 2016/17	Total 2016/17
		(£)	(£)	(£)	(£)	(£)	(£)	(£)	(£)
William Farnsworth	General Manager Musselburgh Racecourse	92,723	200	14,000	106,923	93,688	-	14,000	107,688

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the change in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends.

The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

From 1 April 2015 the LGPS for local government employees transferred to a career average scheme. This means that pension benefits are built up each year based on your pensionable pay for that year. This is then added to your pension account. At the end of each year the amount in your pension account will be adjusted in line with the cost of living - currently the rate of the Consumer Price Index - to ensure it keeps its value.

The scheme's normal retirement age for both councillors and employees is State Pension Age.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This was intended to strengthen the relationship between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

Whole Time Pay	Range 2015/16	Rate 2015/16	Range 2016/17	Rate 2016/17
On earnings up to and including	£21,102	5.50%	£21,102	5.50%
On earnings above	£21,103 and up to £25,330	5.60%-5.80%	£21,103 and up to £25,330	5.60%-5.80%
On earnings above	£25,331 and up to £34,415	5.90%-6.50%	£25,331 and up to £34,415	5.90%-6.50%
On earnings above	£34,416 and up to £46,456	6.60%-7.30%	£34,416 and up to £46,456	6.60%-7.30%
On earnings above	£46,457	7.40%-11.20%	£46,457	7.40%-11.20%

If a person works part-time their contribution rate is based on actual pensionable pay.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2009. Between 1 April 2009 and 31 March 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to this the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80ths of final pensionable salary and years of pensionable service. From 1 April 2015 the accrual rate is 1/49th of pensionable pay in each year.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The estimated pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment. These are based on information available to the Council. The Lothian Pension Fund administers these pensions and holds information that is not available to the Council at the date of this statement. Should this information become available to the Council, updated figures will be published.

Pension Benefits -Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council during the year.

		Pension Contributions		**Accrued Pension Benefits**			
	Office Held as at 31st March 2017	**For Year to 31st March 2016**	**For Year to 31st March 2017**	**As at 31st March 2017**		**Difference from 31st March 2016**	
				Pension	**Lump Sum**	**Pension**	**Lump Sum**
		(£)	**(£)**	**£000's**	**£000's**	**£000's**	**£000's**
Willie Innes	Leader of the Council and Cabinet Spokesperson for Community Planning	5,938	5,997	4	2	-	-
Ludovic Broun-Lindsay	Provost	4,454	4,498	3	1	-	-
Jim Gillies (*)	Depute Provost	4,454	4,498	3	1	-	(1)
Michael Veitch	Depute Leader and Cabinet Spokesman Transport and Roads	4,454	4,498	2	-	1	-
John McMillan	Cabinet Spokesman for Economic Development and Tourism	4,454	4,498	2	-	1	-
Shamin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	4,454	4,498	2	-	1	-
Norman Hampshire	Cabinet Spokesman for Housing & Environment	4,667	4,711	3	1	-	-
Donald Grant (*)	Cabinet Spokesman for Health and Social Care	4,454	4,498	3	1	-	(1)
Total		37,329	37,696	22	6	3	(2)

(*) The accrued lump sum pension benefits for both councillors were overstated by £1k as at 31/3/16.

Pension Benefits -Senior Employees

The estimated pension entitlements for senior employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council during the year.

Office Held as at 31st March 2017		Pension Contributions: For Year to 31st March 2016 (£)	Pension Contributions: For Year to 31st March 2017 (£)	Accrued Pension Benefits: As at 31st March 2017 Pension £000's	Accrued Pension Benefits: As at 31st March 2017 Lump Sum £000's	Accrued Pension Benefits: Difference from 31st March 2016 Pension £000's	Accrued Pension Benefits: Difference from 31st March 2016 Lump Sum £000's
Angela Leitch	Chief Executive	23,990	24,230	51	106	3	1
Angela Leitch	Returning Officer	660	699	-	-	-	-
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	20,807	21,015	47	98	3	1
Sharon Saunders	Head of Children & Adult Services	18,153	18,335	31	57	2	-
Darrin Nightingale	Head of Education (until 1/11/15)	10,589	-	-	-	-	-
Douglas Proudfoot	Head of Development (Acting head from 21/7/14 to 21/6/15)	18,153	18,335	31	71	2	1
Ray Montgomery	Head of Infrastructure	18,153	18,335	37	73	3	-
Thomas Shearer	Head of Communities & Partnerships	18,153	18,335	45	98	2	1
Jim Lamond	Head of Council Resources	18,153	18,335	35	70	2	1
Total		146,811	137,619	277	573	17	5

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below for 2016/17, with comparative figures for 2015/16.

Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000's
£0 - £20,000	4	2	6	48
Total	4	2	6	48

Exit Packages 2016/17

Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000's
£0 - £20,000	5	1	6	27
Total	5	1	6	27

Angela Leitch	Norman Hampshire	Jim Lamond (CPFA)
Chief Executive	Depute Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed between usable reserves i.e. those that can be applied to fund expenditure or reduce local taxation and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown on the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

For the year ended 31 March 2015	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Balance at 31 March 2015 carried forward	**(16,653)**	**-**	**(1,395)**	**(4,041)**	**(2,589)**	**(24,678)**	**(205,913)**	**(230,591)**
Movement in reserves during 2015/16								
Deficit on provision of services	17,798	-	-	2,254	-	**20,052**	-	20,052
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	(185,026)	(185,026)
Total Comprehensive Expenditure and Income	**17,798**	**-**	**-**	**2,254**	**-**	**20,052**	**(185,026)**	**(164,974)**
Adjustments between accounting basis & funding basis under regulations (Note 6)	(21,929)	-	-	(3,872)	-	(25,801)	25,801	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(4,131)**	**-**	**-**	**(1,618)**	**-**	**(5,749)**	**(159,225)**	**(164,974)**
Transfers to/from Earmarked Reserves	(667)	-	(328)	995	-	-	-	-
Housing Revenue Account	(995)	-	-	995	-	-	-	-
Insurance Fund	328	-	(328)	-	-	-	-	-
(Increase)/Decrease in Year	**(4,798)**	**-**	**(328)**	**(623)**	**-**	**(5,749)**	**(159,225)**	**(164,974)**
Balance at 31 March 2016 carried forward	**(21,451)**	**-**	**(1,723)**	**(4,664)**	**(2,589)**	**(30,427)**	**(365,138)**	**(395,565)**

For the year ended 31 March 2017	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Balance at 31 March 2016 carried forward	**(21,451)**	**-**	**(1,723)**	**(4,664)**	**(2,589)**	**(30,427)**	**(365,138)**	**(395,565)**
Movement in reserves during 2016/17								
Deficit on provision of services	11,792	-	-	9,553	-	**21,345**	-	21,345
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	67,825	67,825
Total Comprehensive Expenditure and Income	**11,792**	**-**	**-**	**9,553**	**-**	**21,345**	**67,825**	**89,170**
Adjustments between accounting basis & funding basis under regulations (Note 6)	(7,657)	-	-	(11,404)	2,589	(16,472)	16,472	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**4,135**	**-**	**-**	**(1,851)**	**2,589**	**4,873**	**84,297**	**89,170**
Transfers to/from Earmarked Reserves	(1,495)	-	-	1,495	-	-	-	-
Housing Revenue Account	(1,495)	-	-	1,495	-	-	-	-
(Increase)/Decrease in Year	**2,640**	**-**	**-**	**(356)**	**2,589**	**4,873**	**84,297**	**89,170**
Balance at 31 March 2017 carried forward	**(18,811)**	**-**	**(1,723)**	**(5,020)**	**-**	**(25,554)**	**(280,841)**	**306,395**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statute and regulations. This may be different from accounting cost. The taxation position is shown in the Movement in Reserves Statement. The Health & Social Care Partnership includes contribution to/from IJB in line with guidance.

2015/16				2016/17		
Gross Spend £000's	Gross Income £000's	Net Spend £000's		Gross Spend £000's	Gross Income £000's	Net Spend £000's
111,963	(4,628)	107,335	Resources & People Directorate	112,264	(4,801)	107,463
79,293	(10,010)	69,283	Health & Social Care Partnership	117,436	(58,160)	59,276
71,914	(13,198)	58,716	Partnership & Community Directorate	69,735	(13,875)	55,860
27,352	(26,609)	743	Corporate and Central Services	24,522	(23,458)	1,064
25,461	(25,594)	(133)	HRA	36,242	(26,709)	9,533
315,983	**(80,039)**	**235,944**	**Cost of Services**	**360,199**	**(127,003)**	**233,196**
		(547)	Gains on the Disposal of Non Current Assets			(3,460)
		16,487	Interest Payable and Similar charges			16,477
		(507)	Interest Receivable and Similar Income			(531)
		5,582	Interest Expense on Pension Defined Benefit			4,066
		(236,907)	Taxation and Non Specific Grant Income (note 7)			(228,403)
		20,052	**Deficit on Provision of Services**			**21,345**
		(116,543)	(Surplus) or Deficit on Revaluation of Non-Current Assets			11,043
		(1,005)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments			146
		(67,478)	Actuarial (Gain) or Loss on Pension Assets/Liabilities			56,636
		(185,026)	**Other Comprehensive Income and Expenditure**			**67,825**
		(164,974)	**Total Comprehensive Income and Expenditure**			**89,170**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second categories of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold. It also includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2016 £000's		Note	31 March 2017 £000's
899,749	Property, Plant & Equipment	12	878,942
801	Heritage Assets	14	1,052
3,770	Long Term Investments	20	3,625
11,454	Long Term Debtors	21	11,224
915,774	**Long Term Assets**		**894,843**
2	Short Term Investments		20
898	Assets Held for Sale	15	770
622	Inventories		897
27,434	Short Term Debtors	22	25,201
(12,026)	Bad & Doubtful Debt Provision	22	(11,608)
5,881	Cash and Cash Equivalents		12,175
22,811	**Current Assets**		**27,455**
(14,658)	Short Term Borrowing	23	(9,734)
(28,200)	Short Term Creditors	24	(28,297)
(42,858)	**Current Liabilities**		**(38,031)**
-	Long Term Creditors	-	-
(4,306)	Provisions	25	(4,726)
(325,119)	Long Term Borrowing	23	(337,143)
(170,657)	Other Long Term Liabilities	26	(235,855)
(80)	Capital Grants Receipts in Advance	32	(148)
(500,162)	**Long Term Liabilities**		**(577,872)**
395,565	**Net Assets**		**306,395**
(30,427)	Usable Reserves	28	(25,554)
(365,138)	Unusable Reserves	29	(280,841)
(395,565)	**Total Reserves**		**(306,395)**

The unaudited accounts were issued on 30th June 2017 and were authorised for issue on September 2017.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
September 2017

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

2015/16 £000's		2016/17 £000's
20,052	Net deficit on the provision of services	21,345
(63,129)	Adjustments to net deficit on the provison of services for non-cash movements (Note 33)	(61,583)
24,539	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities (Note 34)	23,104
(18,538)	Net Cash flow from Operating Activities	(17,134)
	Investing Activities	
50,486	Purchase of property, plant and equipment	41,905
(439)	Proceeds from short term investments	(472)
(26,912)	Other receipts from investing activities	(17,806)
(3,682)	Proceeds from the sale of property, plant and equipment	(6,906)
19,453	Net cash flows from investing activities	16,721
	Financing Activities	
(21,916)	Cash receipts of short and long term borrowing	(20,244)
1,060	Cash payments for the reduction of the outstanding liability relating to finance lease and on-Balance Sheet PFI contracts	1,187
19,310	Repayments of short and long term borrowing	13,158
3,400	New loans made	18
1,854	Net cash flow from financing activities	(5,881)
2,769	Net decrease or (increase) in cash and cash equivalents	(6,294)
(8,650)	Cash and cash equivalents at the beginning of the reporting period	(5,881)
(5,881)	Cash and cash equivalents at the end of the reporting period	(12,175)

Notes to the Accounts

Note 1 General Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

In particular:

- Revenues from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenues from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefit or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

iv. Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance or the Statutory Repayment of Loans Fund Advances (Scotland). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

v. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service segment at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA).
- The Local Government Pensions Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Resources & People Directorate line in the Comprehensive Income and Expenditure Account is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lothian Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings of current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6%
- The assets of the Lothian Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value :

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price
- Property - market value.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - Past service cost – the increase in liabilities is a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in Comprehensive Income and Expenditure Statement as part of Corporate and Central Services
  - Net Interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments
- Remeasurements comprising:
  - The return on plan assets – excluding amounts included in the net interest on the net defined liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant Accounting Standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vi. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) ; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

vii. Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets -assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to either the relevant service for receivables specific to that service or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original interest rate.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial Instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income e.g. dividends is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

The inputs to the measurements techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-For-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available For Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment amortisation).

Any gains and losses that arise on derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available For Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

viii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is a reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out in the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Authority. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

ix. Interests in Companies and Other Entities

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

x. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO/weight average costing formula.

xi. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

xii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception or the present value of the minimum lease payments if lower. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement In Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant and equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

The Authority as lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xiii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the Authority's arrangements for accountability and financial performance.

Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Cost of Services.

xiv. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure of over £6,000 on the acquisition, creation or enhancement of any Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets and community assets – depreciated historical cost.
- Council Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Other Land & Buildings – current value, determined as the amount that would be paid for the asset in existing use (Existing Use Value – EUV)
- Vehicles, Plant, Furniture and Equipment – depreciated historical cost.

- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets, that have short useful lives or low values (or both), depreciated historical cost basis is used a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from the current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gains

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gain.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed it is credited to the relevant service line in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by systematic allocation of depreciable amount over their useful lives. An exception is made for assets without a determinable finite useful life (Land and certain Community Assets) and assets that are not yet available for use (Assets under Construction).

Deprecation is calculated on the following bases:

- Dwellings and Other Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight-line allocation over the life of the asset as advised by a suitably qualified officer
- Infrastructure – straight-line allocation
- Community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.

The estimated useful lives are as follows.

Council Dwellings	25-26 years
Council Garages	12 years
Other Land and Buildings	10-60 years
Vehicles, Plant, Furniture & Equipment	1-25 years
Infrastructure	1-25 years
Community Assets	12-50 years

Where an item of Property, Plant and Equipment asset has major components, whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets held for Sale

When it becomes probable that the carrying value of an asset will be recovered principally through a sale transaction rather than its continuing use, it is reclassified as an asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

All capital receipts are credited to the Capital Receipts Reserve. They can then be used for new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xv. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the non-current assets needed to provide the services passes to the Private Finance Initiative (PFI) contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the non-current assets will pass to the Council at the end of the contract for no additional charge, the Council carries the non-current assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value based on the cost to purchase the property, plant and equipment was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability to the PFI operator.
- Lifecycle replacement costs – a proportion of the amount payable to the PFI operator is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xvi. Provisions

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

xvii. Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non –current assets and retirement benefits and they do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

xviii. VAT

VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

xix. Heritage Assets

The aim of the Council’s museums service is to preserve and present the Council’s Cultural & Heritage assets and to enable communities and individuals to engage with these assets as a resource for enjoyment, education and information. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Council’s collection of oil paintings is reported in the Balance Sheet at insurance valuation which is based on market values. Valuations are obtained every five years. The paintings are deemed to have indeterminate lives and a high residual value: hence the Council does not considerate appropriate to charge depreciation. The remainder of the Council’s collection relates to generic social history, which is not believed to be of any material value. All of the collections are relatively static and acquisitions are rare. Where they do occur they are initially recognised at cost.

In 2016/17 the Council’s heritage assets were revalued by Lyon & Turnbull.

xx. Fair Value Measurement

The authority measures some of its non financial assets such as surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability, or;
b) In the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant’s ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority’s financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

2 Accounting Standards Not Yet Adopted

The following IFRSs have been issued but have not yet been applied in these Financial Statements. Their adoption is not expected to have a material effect on the Financial Statements unless otherwise indicated:

- IFRS 9 – Financial Instruments. This standard has been issued by the IASB with an effective date of 1st January 2018. It is therefore currently anticipated to be adopted in the 2018/19 code subject to EU adoption of the Standard by the effective date for that Code. This Standard is unlikely to have a financial impact on the Council as we do not hold investments which would fall within the available-for-sale class of financial assets.
- IFRS 15 – Revenue from Contracts with Customers. This Standard is effective from 1st January 2018 and is therefore expected to apply to Local Authorities from 2018/19 (subject to EU adoption in time for the 2018/19 Code). This Standard is unlikely to have a financial impact on the Council as for many contracts the accounting for revenue will remain unchanged. IFRS 15 will however introduce substantial new disclosure requirements for material transactions.
- IFRS 16 – Leases. This standard has an effective date of 1st January 2019 which means that, subject to CIPFA/LASAAC's considerations of the applicability to local authorities (and EU adoption), it will be adopted in the Code in the 2019/20 financial year. The Standard establishes a new accounting model for lessees in which all leases for substantial assets for more than 12 months will be accounted for by recognising a "right to use" asset on the Balance Sheet, together with a liability for the present value of the unavoidable lease payments. In overall terms, this means that leases currently accounted for as operating leases would be treated similarly to finance leases, but recognising only a proportion of the asset's overall value.
- The decision was taken on the 8th of March 2017 that the introduction of the Highways Network Asset Code into the Financial Reporting requirements for Local Authorities would not be proceeding. It was noted that further consideration will be given to the implementation of the Code if clear evidence that the benefits outweigh the costs for Local Authorities can be determined.

Note 3 Critical Judgements Applied

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The inclusion of the PFI contract for the refurbishment and facilities management of the six secondary schools as a finance lease within the Council's accounts. The accounting policies for PFI schemes have been applied to the arrangement and the asset and liability associated with this have been recognised on the Council's Balance Sheet as the Council considers that it has the majority of the risks and rewards of ownership.

- There is a degree of uncertainty about future levels of funding for local government in Scotland. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The implementation of the Expenditure and Funding Analysis has required the Comprehensive Income and Expenditure Statement to be based on the Council's organisational structure. The previous year's Comprehensive Income and Expenditure Statement has been restated for comparator purposes. This change has not been deemed as a prior year adjustment as there is no impact on the amount reported last year.

Note 4 Future Assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming year are as follows;

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate chosen, the rate of salary increase, changes in retirement ages and mortality rates and expected returns on pension fund assets. The actual figure has proved to be variable over time and more detail regarding this has been referred to in Note 27.	If actual results are different from assumptions there is the potential for a significant change – either increasing or decreasing the potential liability.
Property, Plant and Equipment	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuers. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.
Debtors	At 31 March 2017 the Council had balances of £8.5 million relating to Council Tax debt and £2.9 million relating to Council House rent debt. The Council believes it has provided for the potential of doubtful debts. However, it is possible that future economic conditions could have a detrimental impact on collection rates.	If collection rates were to deteriorate then there would be deterioration in cash inflows and the potential that income would not be realisable.
Fair Value Measurements	When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (e.g. valuers). Further information on fair value measurement is disclosed in Note 1.	The authority uses quoted prices for similar assets or liabilities in active markets to measure the fair value of some of its non-financial assets. If the authority had to refer to unobservable inputs to measure fair value, any significant changes to these unobservable inputs would result in a significantly lower or higher fair value measurement.

Note 5 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by Authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council’s directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis is a new requirement for 2016/17 due to a change in accounting policy and a restatement of 2015/16 figures has been provided below.

2015-16	Expenditure chargeable to Usable Reserves		Adjustments between Funding & Accounting Basis		Net Expenditure in the CIES		Expenditure chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis	Net Expenditure in the CIES
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	GF	HRA	GF	HRA	GF	HRA	GF and HRA combined		
Resources & People Directorate	89,594	-	17,741	-	107,335	-	-	-	-
Health & Social Care Partnership	60,134	-	9,149	-	69,283	-	-	-	-
Partnership & Community Directorate	41,041	-	17,675	-	58,716	-	-	-	-
Corporate and Central Services	11,321	-	(10,578)	-	743	-	-	-	-
HRA	-	(7,331)	-	7,198	-	(133)	-	-	-
Net Cost of Service	**202,090**	**(7,331)**	**33,987**	**7,198**	**236,077**	**(133)**	194,759	41,185	235,944
Other Income & Expenditure	(206,221)	5,713	(12,058)	(3,326)	(218,279)	2,387	(200,508)	(15,384)	(215,892)
Surplus/Deficit on Provision of Services	**(4,131)**	**(1,618)**	**21,929**	**3,872**	**17,798**	**2,254**	(5,749)	25,801	20,052
Opening General Fund and HRA Balance at 1 April 2015	(16,653)	(6,630)					(23,283)		
Transfer to/from reserves	(667)	995					328		
In year use of reserves	(4,131)	(1,618)					(5,749)		
Closing General Fund and HRA Balance at 31 March 2016	**(21,451)**	**(7,253)**					(28,704)		

2016-17	Expenditure chargeable to Usable Reserves		Adjustments between Funding & Accounting Basis		Net Expenditure in the CIES		Expenditure chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis	Net Expenditure in the CIES
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	GF	HRA	GF	HRA	GF	HRA	GF and HRA combined		
Resources & People Directorate	94,562	-	12,901	-	107,463	-	-	-	-
Health & Social Care Partnership	57,989	-	1,287	-	59,276	-	-	-	-
Partnership & Community Directorate	42,000	-	13,860	-	55,860	-	-	-	-
Corporate and Central Services	12,297	-	(11,233)	-	1,064	-	-	-	-
HRA	-	(5,243)	-	14,776		9,533	-	-	-
Net Cost of Service	**206,848**	**(5,243)**	**16,815**	**14,776**	**223,663**	**9,533**	201,605	31,591	233,196
Other Income & Expenditure	(202,713)	5,981	(9,158)	(5,961)	(211,871)	20	(196,732)	(15,119)	(211,851)
Deficit on Provision of Services	**4,135**	**738**	**7,657**	**8,815**	**11,792**	**9,553**	4,873	16,472	21,345
Opening General Fund and HRA Balance at 1 April 2016	(21,451)	(7,253)					(28,704)		
Transfer to/from reserves	(1,495)	1,495					-		
In year use of reserves	4,135	738					4,873		
Closing General Fund and HRA Balance at 31 March 2017	**(18,811)**	**(5,020)**					(23,831)		

Notes to the Expenditure and Funding Analysis

2015-16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	Adjustments between accounting basis and funding basis			
	Adjustment for capital purposes	Net change for pension adjustment	Other differences	Total Adjustments
	£000's	£000's	£000's	£000's
Resources & People Directorate	16,622	1,248	(129)	17,741
Health & Social Care Partnership	7,961	1,188	-	9,149
Partnership & Community Directorate	15,395	2,280	-	17,675
Corporate and Central Services	(10,584)	6	-	(10,578)
HRA	7,057	141	-	7,198
Net Cost of Service	36,451	4,863	(129)	41,185
Other Income & Expenditure from the Expenditure and Funding Analysis	(20,966)	5,582	-	(15,384)
Difference between general fund surplus/deficit and Comprehensive Income and Exenditure Statement surplus/deficit	15,485	10,445	(129)	25,801

2016-17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	Adjustments between accounting basis and funding basis			
	Adjustment for capital purposes	Net change for pension adjustment	Other differences	Total Adjustments
	£000's	£000's	£000's	£000's
Resources & People Directorate	12,293	667	(59)	12,901
Health & Social Care Partnership	667	620	-	1,287
Partnership & Community Directorate	12,690	1,170	-	13,860
Corporate and Central Services	(11,239)	6	-	(11,233)
HRA	14,698	78	-	14,776
Net Cost of Service	29,109	2,541	(59)	31,591
Other Income & Expenditure from the Expenditure and Funding Analysis	(19,185)	4,066	-	(15,119)
Difference between general fund surplus/deficit and Comprehensive Income and Exenditure Statement surplus/deficit	9,924	6,607	(59)	16,472

Note 6 Adjustments between Accounting and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being made available to the Council to meet future capital and revenue expenditure.

2015/16	General Fund Balance £000's	Housing Revenue Account £000's	Capital Receipts Reserve £000's	Insurance Fund £000's	Capital Fund £000's	**Movement in Usable Reserves £000's**
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(22,388)	(9,723)	-	-	-	**(32,111)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(18,137)	-	-	-	-	**(18,137)**
Capital grant and contributions applied	16,658	3,760	-	-	-	**20,418**
Differences re finance leases,stepped loans, premiums and discounts	309	-	-	-	-	**309**
Profit on sale of non-current assets	821	(274)	-	-	-	**547**
Statutory Provision relating to PPP	457	-	-	-	-	**457**
Net retirement benefits per IAS19	(23,811)	(770)	-	-	-	**(24,581)**
Employee - Statutory Adjustments	129	-	-	-	-	**129**
Loans Fund principal repayments and statutory premia	10,276	2,666	-	-	-	**12,942**
Employer's contributions payable to the Lothian Pension Fund	13,667	469	-	-	-	**14,136**
Capital expenditure charged against the General Fund and HRA balances	90	-	-	-	-	**90**
Total Adjustments	(21,929)	(3,872)	-	-	-	**(25,801)**

2016/17	General Fund Balance £000's	Housing Revenue Account £000's	Capital Receipts Reserve £000's	Insurance Fund £000's	Capital Fund £000's	**Movement in Usable Reserves £000's**
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(25,013)	(10,626)	-	-	-	**(35,639)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(2,124)	(10,335)	-	-	-	**(12,459)**
Capital grant and contributions applied	12,870	2,856	-	-	-	**15,726**
Differences re finance leases,stepped loans, premiums and discounts	319	-	-	-	-	**319**
Profit on sale of non-current assets	211	3,249	-	-	-	**3,460**
Statutory Provision relating to PPP	1,398	-	-	-	-	**1,398**
Net retirement benefits per IAS19	(20,337)	(732)	-	-	-	**(21,069)**
Employee - Statutory Adjustments	59	-	-	-	-	**59**
Loans Fund principal repayments and statutory premia	11,008	3,063	-	-	-	**14,071**
Employer's contributions payable to the Lothian Pension Fund	13,952	510	-	-	-	**14,462**
Capital expenditure charged against the General Fund and HRA balances	-	3,200	-	-	-	**3,200**
Total Adjustments	(7,657)	(8,815)	-	-	-	**(16,472)**

Note 7 Taxation and Non-Specific Grant Income

Grant Income can take many forms paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to East Lothian Council when there is an assurance that the council will comply with the necessary conditions attached to these payments. East Lothian Council credited the following grants, contributions and taxation income to the Comprehensive Income & Expenditure Statement:-

2015/16 £000's		2016/17 £000's
(42,790)	Council Tax	(43,937)
(26,079)	Non domestic rates	(24,370)
(147,620)	Non ringfenced government grants	(144,370)
(20,418)	Capital grants and contributions	(15,726)
(236,907)	Total	(228,403)

Note 8 Trading Operations

Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a surplus of £0.906 million.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	8,480	8,749	9,057
Surplus	360	127	419
3-year Cumulative Surplus			**906**

Property Maintenance

Property Maintenance provides property maintenance services. The majority of work is undertaken on the Council's housing stock – including an increasing amount of work on housing improvements. The cumulative position over the last three years is now a surplus of £1.253 million.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	10,068	10,614	10,880
Surplus	650	116	487
3-year Cumulative Surplus			**1,253**

Roads Services

Roads Services carries out a repair and maintenance service to enable the Council to fulfil its statutory obligations. The extent of its work includes roads network repair and maintenance. This includes routine and cyclical maintenance as well as some capital work. Over the three-year period the service has a cumulative surplus of £1.923 million and has met the statutory target.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	6,786	7,221	6,131
Surplus	731	529	631
3-year Cumulative Surplus			**1,891**

Note 9 Agency Income and Expenditure

The Council provides an agency service to Scottish Water. Associated income and expenditure is not included within the Council Comprehensive Income and Expenditure Statement. In 2016/17 £17m (2015/16: £16.9m) was paid over to Scottish Water.

The Council shares services with other authorities (e.g. special education and social work facilities). The expenditure on these services is incurred so that the Council can perform its duties rather than the duties of another organisation.

Note 10 Related Parties

The Authority is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions helps assessment of the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government – which includes the UK and Scottish governments - has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in the Remuneration Report.

East Lothian Council approved Community Partnership Funding for 2016/17 of £2,195,556 and Area Partnership funding of £950,000. Adult Wellbeing payments to Voluntary Organisations of £659,798 were also approved. Of these amounts Partnership funding of £1,204,000 and £257,000 of Adult Wellbeing payments were awarded to organisations in which Members have representation.

Further grants of £20,000 were awarded to organisations in which Members have representation.

In all instances the grants were made with proper consideration of declarations of interest. A register of Members' interests is available on the Council's website. Details of all grants and awards to organisations in which Members have representation are listed below:

Name of Organisation	Partnership Funding £000's	Adult Wellbeing £000's	Other Grants £000's	Total Amount Awarded £000's
Anti-bullying East Lothian	79	-	-	79
Coastal Communities Museum Trust	8	-	-	8
Dunbar & District Twinning Association	-	-	1	1
Dunbar Community Development Company	58	-	-	58
Dunbar Day Centre	1	52	-	53
East Lothian Advice Consortium (note 1)	527	-	-	527
East Lothian Voluntary Organisation Network (now STRiVE) (note 2)	14	28	-	42
First Step	226	-	-	226
Fisherrow Trust	30	-	-	30
Haddington Garden Trust	10	-	-	10
Harlawhill Day Centre	-	106	-	106
Haddington Twinning Association	-	-	1	1
Hollies Day Centre	-	71	-	71
Lamp of Lothian Trust	20	-	14	34
Lothian Miners Convalescent Home	7	-	-	7
Musselburgh Twinning Association	-	-	2	2
Pennypit Trust	168	-	-	168
The Bridge Centre	56	-	-	56
Tranent Family Fireworks	-	-	2	2
	1,204	257	20	1,481

Note 1 - Haddington Citizens Advice Bureau and MussIbrugh Citizens Advice Bureau were previously listed seperately, these now come under East Lothian Advice Consortium.

Note 2 - East Lothian Voluntary Organisation Network changed its name to STRiVE and no longer requires elected member representation, this organisation will not be included for 2017-18.

Joint Ventures and Entities Controlled or Significantly Influenced by the Council

Entity	Nature of Related Party Relationship	Payments in the year 2015/16	Payments in the year 2016/17	Nature of transactions	Position at year-end 2015/16 Debtor Balances	Position at year-end 2015/16 Creditor Balances	Position at year-end 2016/17 Debtor Balances	Position at year-end 2016/17 Creditor Balances
		£000's	£000's		£000's	£000's	£000's	£000's
Enjoy East Lothian Limited	Charitable organisation registered with Office of Scottish Charity Regulators	2420	2320	Payment for provision of leisure services	63	-	48	-
East Lothian Land	Company set up for the purpose of managing land to support economic development in Esat Lothian	-	-	Loan from the company	-	-	-	(144)
East Lothian Investments	Company set up under the Companies Act 2006 with aim of encouraging enterprise and commercial activity	-	-	Loans provided to company	4	-	-	-
Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators	455	455	Payment for provision of arts/cultural services	-	(295)	-	(399)
Common Goods	Council manages assets of historic burghs in line with statute	-	-	Cash balances relating to normal operations	-	(2,410)	-	(2,811)
Musselburgh Joint Racing Committee	Unincorporated organisation which organises racing on Musselburgh Links under Minute of Agreement with Council.	-	-	Cash balances relating to normal operations	317	-	309	-
Trust Funds	Approximately 48 Trust Funds which are managed by the Council in line with the respective trust deeds	-	-	Cash balances relating to normal operations	-	(1,245)	-	(1,355)
Joint Boards	Statutory bodies set up by Scottish Ministers	669	669	Payments to run valuation services	-	-	-	-
East Lothian Integrated Joint Board	Statutory body formed during 2015/16 under the terms of The Public Bodies (Joint Working) (Scotland) Act 2014	-	44,286	Payments to run Health & Social Care Services	-	-	-	-

Note 11 Audit Costs

Audit Scotland has been appointed as the Council's external auditor by the Accounts Commission.

Audit Fee	2015/16	2016/17
	£000's	£000's
Statutory Audit Fee	245	236
ELC contribution towards IJB Audit Fee	-	9

Note 12 Property Plant and Equipment Movements

Movements in 2015/16

	Council Dwellings £000's	Other land and buildings £000's	Vehicles, Plant, Furniture & Equipment £000's	Infra-structure Assets £000's	Comm-unity Assets £000's	Surplus Assets £000's	Assets Under Con-struction £000's	Total Property, Plant and Equipment £000's	PFI Assets Included in PPE £000's
Cost or Valuation									
At 1 April 2015	340,527	417,363	39,103	81,352	18,260	47	3,105	**899,757**	95,871
Additions	19,612	16,566	3,773	7,010	370	-	2,408	**49,739**	478
Acc Dep & Imp WO to GCA	-	(53,950)	-	-	(106)	-	-	**(54,056)**	(14,775)
Revaluation increases recognised in the Revaluation Reserve	106	116,031	-	-	114	125	-	**116,376**	44,701
Revaluation decreases recognised in the Surplus on the Provision of Services	-	(16,259)	-	-	-	-	(1,377)	**(17,636)**	(4,505)
Derecognition - Disposals	(2,460)	-	(92)	-	-	(37)	-	**(2,589)**	-
Asset reclassified (to) Held for Sale	-	(112)	-	-	-	1,220	-	**1,108**	-
Other Movements in cost or valuation	(512)	926	-	-	(1,301)	887	-	-	-
At 31 March 2016	**357,273**	**480,565**	**42,784**	**88,362**	**17,337**	**2,242**	**4,136**	**992,699**	**121,770**
Accumulated Depreciation and Impairment									
At 1 April 2015	(9,770)	(48,080)	(30,741)	(22,879)	(2,858)	-	(6)	**(114,334)**	(11,750)
Depreciation Charge	(9,723)	(14,822)	(3,434)	(3,845)	(287)	-	-	**(32,111)**	(3,025)
Acc Dep & Imp WO to GCA	-	53,949	-	-	106	-	-	**54,055**	14,775
Impairment (reversals) recognised in the Revaluation Reserve	(6)	(186)	-	-	-	-	-	**(192)**	-
Depreciation written out to the Surplus on the provision of services	(22)	-	-	-	-	-	-	**(22)**	-
Impairment (reversals) recognised in the Deficit on the Provision of Services	-	(500)	-	-	-	-	-	**(500)**	-
Derecognition - Disposals	49	-	82	-	-	-	1	**132**	-
Impairments	-	-	-	-	-	-	-	**-**	-
Asset reclassified (to) Held for Sale	-	22						**22**	-
Other movements in depreciation or impairment	(5)	(151)	-	-	151	-	5	**-**	-
At 31 March 2016	**(19,477)**	**(9,768)**	**(34,093)**	**(26,724)**	**(2,888)**	**-**	**-**	**(92,950)**	**-**
Net Book Value									
At 31 March 2016	337,796	470,797	8,691	61,638	14,449	2,242	4,136	**899,749**	121,770
At 1 April 2015	330,757	369,283	8,362	58,473	15,402	47	3,099	**785,423**	84,121

Movements in 2016/17

	Council Dwellings £000's	Other land and buildings £000's	Vehicles, Plant, Furniture & Equipment £000's	Infra-structure Assets £000's	Comm-unity Assets £000's	Surplus Assets £000's	Assets Under Con-struction £000's	Total Property, Plant and Equipment £000's	PFI Assets Included in PPE £000's
Cost or Valuation									
At 1 April 2016	357,273	480,565	42,784	88,362	17,337	2,242	4,136	**992,699**	121,770
Additions	22,716	13,373	3,647	102	676	-	1,391	**41,905**	1,546
Acc Dep & Imp WO to GCA	-	(4,474)	-	-	-	-	-	**(4,474)**	-
Revaluation increases recognised in the Revaluation Reserve	-	(3,302)	-	-	-	1,280	-	**(2,022)**	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	(2,099)	-	-	-	-	-	**(2,099)**	-
Derecognition - Disposals	(3,616)	(876)	(120)	-	-	-	-	**(4,612)**	-
Asset reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	-
Other Movements in cost or valuation	2,741	6,017	-	-	(6,017)	-	(2,741)	**-**	-
At 31 March 2017	**379,114**	**489,204**	**46,311**	**88,464**	**11,996**	**3,522**	**2,786**	**1,021,397**	**123,316**
Accumulated Depreciation and Impairment									
At 1 April 2016	(19,477)	(9,768)	(34,093)	(26,724)	(2,888)	-	-	**(92,950)**	-
Depreciation Charge	(10,626)	(17,335)	(3,473)	(4,110)	(95)	-	-	**(35,639)**	(5,268)
Acc Dep & Imp WO to GCA	-	3,018	-	-	-	-	-	**3,018**	-
Accumulated Impairment WO to GCA	-	1,456	-	-	-	-	-	**1,456**	-
Impairment (reversals) recognised in the Revaluation Reserve	(9,108)	-	-	-	-	-	-	**(9,108)**	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	-	-	-	-	-	-	**-**	-
Impairment (reversals) recognised in the Surplus on the Provision of Services	(10,504)	-	-	-	-	-	-	**(10,504)**	-
Derecognition - Disposals	322	851	99	-	-	-	-	**1,272**	-
Impairments	-	-	-	-	-	-	-	**-**	-
Asset reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	
Other movements in depreciation or impairment	-	(869)	-	-	869	-	-	**-**	-
At 31 March 2017	**(49,393)**	**(22,647)**	**(37,467)**	**(30,834)**	**(2,114)**	**-**	**-**	**(142,455)**	**(5,268)**
Net Book Value									
At 31 March 2017	329,721	466,557	8,844	57,630	9,882	3,522	2,786	**878,942**	118,048
At 1 April 2016	337,796	470,797	8,691	61,638	14,449	2,242	4,136	**899,749**	121,770

Note 13 Property Plant and Equipment

Depreciation

Property, Plant and Equipment is depreciated over their estimated useful lives. The straight-line method has been used over the following periods:

Council Dwellings	25-26 years
Council Garages	12 years
Other Land and Buildings	10-60 years
Vehicles, Plant, Furniture & Equipment	1-25 years
Infrastructure	1-25 years
Community Assets	12-50 years

Assets under Construction are not depreciated.

Capital Commitments

As at 31 March 2017 the Council entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to a value of £23.7m. Similar commitments in 2016/17 were £11.7 million. The gross commitments for the Council's major projects are:

	2016/17
	£000's
Red School	656
Russell Walk Housing - HRA	2,560
Ormiston Pavilion	679
TOTAL	**3,895**

Revaluations

The Authority carries out a rolling programme to ensure that Council Dwellings and Other Land and Building assets, which required to be measured at current value, are revalued every five years.

Details of previous and future valuation dates are provided below:

	Council Dwellings Council Houses & Garages	Other Land & Buildings Non Operational Industrial Lets etc	Other Land & Buildings Operational Portfolio of schools, community centres etc
Date of last valuation	31/03/2014	31/03/2015	31/03/2016
Date of next valuation	31/12/2018	31/12/2019	31/12/2020

Valuations are carried out by professional firms of chartered surveyors and by Council Estates staff. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

The significant assumptions applied in estimating the current values for buildings are that;

- East Lothian Council has good and clear title to all the subjects under valuation;
- The appropriate planning consents are in place for the subjects to be used for their existing use;
- The subjects under valuation are in a state of repair and condition commensurate with their age;
- Mining operations nor any other environmental matters do not have a material impact on the valuations noted;
- No high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated;
- The properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good titles can be shown;
- The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal;
- The inspection of those parts which have not been assessed would not cause an alteration in value;
- The land and properties are not contaminated nor adversely affected by radon.

Note 14 Heritage Assets

	2015/16 Art Collection £000's	2016/17 Art Collection £000's
Cost or Valuation		
Net carrying amount at the start of the year	605	801
Additions	196	164
Revaluation increases recognised in the Revaluation Reserve	-	87
Net carrying amount at end of year	**801**	**1,052**

Note 15 Assets Held for Sale

	2015/16 £000's	2016/17 £000's
Balance outstanding at start of year	**2,269**	**898**
Assets newly classified as held for sale	89	71
Assets declassified as held for sale	(1,220)	-
Assets sold	(240)	(199)
Balance outstanding at end of the year	**898**	**770**

Note 16 Assets Held Under Lease

Council as Lessee

Operating leases

The Council uses certain items of plant and equipment financed under the terms of operating leases.
The amount paid under these arrangements in 2016/17 was £0.18m (2015/16: £0.40m).

The future minimum lease payments due under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	358	253
Later than one year and not later than five years	800	133
	1,158	386

Finance Leases

The Council has acquired a number of buildings, street lights and vehicles under finance leases.

The assets acquired under these leases are included within Property, Plant and Equipment at the following net amounts:

	31 March 2016 £000's	31 March 2017 £000's
Other Land and Buildings	14,007	13,533
Vehicles, Plant, Furniture and Equipment	204	185
	14,211	13,718

The Council is committed to making minimum lease payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2016 £000's	31 March 2017 £000's
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	55	57
Non-Current	1,108	1,014
Finance costs payable in future years	5,925	5,697
Minimum Lease Payments	7,088	6,768

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	283	283	55	57
Later than one year and not later than five years	1,132	1,132	236	243
Later than five years	5,879	5,353	835	772
	7,294	6,768	1,126	1,072

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 £14,700 in contingent rents were payable by the Council.

Council as Lessor

Operating Leases

The Council leases out property under operating leases for the following purposes;

- For the provision of community services such as community centres and sports facilities;
- For economic development purposes to provide suitable affordable accommodation for business.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	1,785	1,808
Later than one year and not later than five years	2,676	2,602
Later than five years	23,609	24,631
	28,070	29,041

Note 17 Private Finance Initiatives and Similar Contracts

During 2002/03 the Council entered into a thirty year partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities, a new community centre and swimming pool and the associated facility management of the various sites.

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

The Council makes an agreed payment each year which is increased annually in line with inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but is otherwise fixed. The PPP contract runs until 2035 at which time the facilities and all operational services revert to full Council management. At this time responsibility for facilities management, maintenance, insurance etc. will all be transferred back to the Council.

Under the terms of the contract all facilities should be handed back to the Council in the same condition as at the Service Availability Date i.e. the date the facilities were completed. To achieve this, there will be an increased lifecycle spend over the last five years of the contract ensuring the facilities are handed back in the appropriate condition. Innovate East Lothian Limited has no right of renewal of the contract.

Payments remaining to be made under the PFI contract at 31 March 2017 are as follows:

	Payment for Services £000's	Reimbursement of Capital Expenditure £000's	Interest £000's	Total £000's
Payable in 2017/18	3,239	1,538	2,654	7,431
Payable within 2-5 years	14,356	5,705	9,662	29,723
Payable within 6-10 years	18,989	8,284	9,881	37,154
Payable within 11-15 years	17,141	13,346	6,666	37,153
Payable within 16-20 years	8,774	11,374	1,511	21,659
Total	62,499	40,247	30,374	133,120

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The outstanding liability to the contractor for capital expenditure is as follows:

	31 March 2016 £000's	31 March 2017 £000's
Balance at start of year	42,402	41,379
Payments	(1,023)	(1,132)
Balance outstanding at year-end	41,379	40,247

Note 18 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	31 March 2016 £000's	Re-stated 31 March 2016 £000's	31 March 2017 £000's
Opening Capital Financing Requirement	**411,761**	**411,761**	**427,566**
Capital Investment			
Property , Plant and Equipment	49,738	49,738	41,903
Loans to Housing Associations	3,550	3,550	-
Sources of finance			
Capital receipts	(3,605)	(3,614)	(7,047)
Government grants	(16,801)	(16,801)	(13,472)
Other Contributions	(4,196)	(4,215)	(2,253)
Direct Revenue Contributions	(90)	(90)	(3,466)
Loans Fund	(14,017)	(12,763)	(15,258)
Closing Capital Financing Requirement	426,340	427,566	427,973

Note 19 Impairment Losses

During 2016/17 the Council recognised impairment losses totalling £12.459 million, the majority of which relates to non value adding enhancement of HRA assets. These impairment losses have been charged as appropriate within the Comprehensive Income and Expenditure Statement.

During 2015/16 the Council recognised impairment losses totalling £18.137 million. The majority of this related to updated building valuations.

Note 20 Long Term Investments

	31 March 2016 £000's	31 March 2017 £000's	Details
Lothian Buses plc	2,965	2,820	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital. A dividend is received each year.
East Lothian Investments Limited	204	204	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	601	601	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
Total	3,770	3,625	

Long -term investments are held at fair value, which the Council considers to equal the net assets of the related companies.

Note 21 Long Term Debtors

In addition to short-term debt, the Council is owed money by a small number of people and organisations that will be repaid over a period greater than 1 year.

	31 March 2016 £000's	31 March 2017 £000's	Purpose
Public Private Partnerships - Prepaid lifecycle replacement costs	772	691	Prepaid lifecycle replacement costs - over 30 years
Private property owners - common repairs	852	867	Repairs to private property funded by secured ELC loans
Employees - car/other loans	11	1	Loans to employees repaid over 3-5 years
North Berwick Trust	-	-	Loan secured on land/Repaid 2015/16
East Lothian Investments	4	-	Loan to be repaid over 3 years
East Lothian Housing Association	9,801	9,651	Loan secured on land and houses
Other	14	14	Loans secured on houses
Total	11,454	11,224	

Note 22 Short Term Debtors

Thousands of people and organisations owe the Council money that is due for payment within a year. In summary, the money owed to the Council on 31 March was:

	31 March 2016 £000's	31 March 2017 £000's
Central Government Bodies	6,269	3,970
Other local authorities	765	1,030
NHS bodies	354	412
Public corporations and trading funds	-	6
Other entities and individuals	20,046	19,783
Total	27,434	25,201

Based on past experience and our assessment of collection risks, we have made the following provision against non-payment of these debts:

	31 March 2016 £000's	31 March 2017 £000's
Taxpayers - Council Tax	(6,359)	(5,829)
Customers - Goods & Services	(3,025)	(3,142)
Tenants - Council House Rents	(2,642)	(2,637)
Total	(12,026)	(11,608)

Note 23 Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments;

	Long-Term		Short Term	
	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's
Borrowings				
Financial liabilities (principal amount)	(324,005)	(336,036)	(13,158)	(8,211)
Accrued Interest	-	-	(1,500)	(1,523)
EIR	(1,114)	(1,107)	-	-
Total included in borrowings	**(325,119)**	**(337,143)**	**(14,658)**	**(9,734)**
Other Liabilities				
PFI and finance lease liabilities	(41,319)	(39,724)	(1,186)	(1,595)
Total other long term liabilities	**(41,319)**	**(39,724)**	**(1,186)**	**(1,595)**
Creditors				
Financial liabilities carried at contract amount	-	-	(28,200)	(28,297)
Total creditors	**-**	**-**	**(28,200)**	**(28,237)**
Investments				
Available-for-sale financial assets	3,771	3,625	-	-
Total investments	**3,771**	**3,625**	**-**	**-**
Debtors				
Loans and receivables	-	-	2	20
Financial assets carried at contract amounts	11,454	11,224	27,434	25,201
Total debtors	**11,454**	**11,224**	**27,436**	**25,575**

The Council did not reclassify any financial assets or liabilities between categories during the year.

Financial Instruments Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Financial Instruments Gains and Losses 2015/16

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost £000's	**Loans and receivables £000's**	**Available-for-sale assets £000's**	**Total £000's**
Interest expense	2,797	13,690	-	**16,487**
Fee expense	-	4	-	**4**
Total expense in Surplus or Deficit on the Provision of Services	**2,797**	**13,694**	**-**	**16,491**
				-
Interest income	-	(507)	-	**(507)**
Total income in Surplus or Deficit on the Provision of Services	**-**	**(507)**	**-**	**(507)**
				-
Net Gains on revaluation	-	-	(1,005)	**(1,005)**
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	(1,005)	(1,005)
				-
Net (gain)/loss for the year	**2,797**	**13,187**	**(1,005)**	**14,979**

Financial Instruments Gains and Losses 2016/17

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost £000's	**Loans and receivables £000's**	**Available-for-sale assets £000's**	**Total £000's**
Interest expense	2,729	13,748	-	**16,477**
Fee expense	-	7	-	**7**
Total expense in Surplus or Deficit on the Provision of Services	**2,729**	**13,755**	**-**	**16,484**
Interest income	-	(531)	-	**(531)**
Total income in Surplus or Deficit on the Provision of Services	**-**	**(531)**	**-**	**(531)**
				-
Net losses on revaluation	-	-	146	**146**
Losses arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**	**-**	**146**	**146**
Net loss for the year	**2,729**	**13,224**	**146**	**16,099**

Financial Liabilities and Financial Assets – Fair Value

As at 31st March 2017 the Council held £40.424m financial assets and £416.494m financial liabilities. The financial liabilities are held with PWLB, PFI and Market lenders. All of these borrowings were not quoted on an active market and a market valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in todays terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values calculated are as follows:

Financial Liabilities	31 March 2016		31 March 2017	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
PWLB debt	293,952	345,629	305,882	375,910
Non-PWLB debt	40,823	51,528	40,993	61,434
Short term Borrowing	5,000	5,001	-	-
Short term creditors	28,200	28,200	28,297	28,297
Short term finance lease liability	1,186	1,186	1,595	1,595
Long term finance lease liability	41,319	41,319	39,727	39,727
Total Liabilities	**410,480**	**472,863**	**416,494**	**506,963**

Financial Assets	31 March 2016		31 March 2017	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
Short term investments	2	2	20	20
Long term investments	3,771	3,771	3,625	3,625
Fair Value through the I&E	(1,005)	(1,005)	-	-
Short term debtors	27,434	27,434	25,555	25,555
Long term debtors	11,454	11,454	11,224	11,224
Total Assets	**41,656**	**41,656**	**40,424**	**40,424**

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £375.91m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Key risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk -** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash).

Credit risk

The Council does not generally allow credit for its customers, such that £4.934m of the £20.137m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2016 £000's	31 March 2017 £000's
Less Than Three Months (90 days)	1,563	1,713
Three To Six Months (91 - 182 days)	351	177
Six Months To One Year (183 - 365 days)	315	113
Greater Than One Year (greater than 365 days)	2,506	2,931
Total	**4,735**	**4,934**

The Council considers that its maximum exposure to credit risk relating to debtors is reflected in the accounts by the provisions made for potential bad debts.

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2017 was £758k.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing (£25.555m) are due to be paid in less than one year.

Refinancing and Maturity risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved Council in the Treasury Management Strategy, section 3.4):

	Approved minimum limits	Approved maximum limits	Approved maximum limits 2017 £000s	Actual 31 March 2016 £000s	Actual 31 March 2017 £000s
Less than 1 year	0%	20%	70,430	13,158	8,211
Between 1 and 2 years	0%	30%	103,306	8,180	17,573
Between 2 and 5 years	0%	40%	137,742	52,409	55,644
Between 5 and 10 years	0%	40%	137,742	54,443	44,352
More than 10 years	0%	75%	258,266	208,971	218,467
Total				**337,161**	**344,247**

Market risk

Interest Rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2017, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	March 2017
	£000s
Increase in interest payable on variable rate borrowings	132
Impact on Surplus or Deficit on the Provision of Services	**132**
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**48,076**

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost

Price risk

The Council does not generally invest in equity shares or marketable bonds.

However, it does have shareholdings to the value of £3.625m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the price of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Available for Sale Reserve.

On behalf of the Trusts and Common Good Funds, the Council does invest in equities and bonds via a professional investment management company. The investment managers seek to secure and grow the capital value of the funds whilst generating a return on those assets that the Trusts and Common Goods can use. The choice of investments is at the discretion of the investment managers guided by the underlying objective of securing the current and longer-term capital value of the funds.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 24 Short Term Creditors

At any financial year-end we owe money to thousands of people and organisations due for payment within a year. In summary, the money the Council owed on 31 March was:

	31 March 2016 £000's	31 March 2017 £000's
Central government bodies	(6,126)	(7,712)
Other local authorities	(2,595)	(2,414)
NHS bodies	(293)	(147)
Public corporations	(2)	(7)
Other entities and individuals	(19,184)	(18,017)
Total	(28,200)	(28,297)

Note 25 Provisions

Included within gross expenditure are the following provisions against known future costs.

	Affordable Homes Development Fund £000's	Accumulated Absences Fund £000's	Municipal Mutual Fund £000's	Other Provision £000's	Total £000's
Balance at 1 April 2015	(248)	(3,523)	(186)	-	(3,957)
Provisions made in 2015/16	(390)	(3,394)	-	(484)	(4,268)
Amounts used in 2015/16	319	3,523	77	-	3,919
Balance at 31 March 2016	(319)	(3,394)	(109)	(484)	(4,306)
Balance at 1 April 2016	(319)	(3,394)	(109)	(484)	(4,306)
Provisions made in 2016/17	(412)	(3,335)	-	(67)	(3,814)
Amounts used in 2016/17	-	3,394	-	-	3,394
Balance at 31 March 2017	(731)	(3,335)	(109)	(551)	(4,726)

Affordable Homes Development Fund

Prior to October 2008, any funds raised by reducing the second home or empty property Council Tax discount had been allocated to Registered Social Landlords (RSLs) for the development of affordable housing. Under Scottish Government direction, Local Authorities can now use this income themselves, disburse these funds to other organisations and individuals, as well as RSLs. Funds not yet allocated are held in this provision.

Accumulated Absences Fund

The Accumulated Absences Fund relates to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. The cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. At the end of each financial year the Council accrues for any annual leave and other benefits earned but not taken at 31st March each year. It is expected that these benefits will be used over the coming year.

Municipal Mutual Fund

During the early 1990s, Municipal Mutual Insurance Limited (MMI), which was the main insurer of local authorities across the country, ran into financial difficulties. The MMI business was subsequently acquired by another insurance company with the plan to wind up its activities. Until this year, the expectation was that there would be a solvent run–down of the business and that there would be sufficient funds to meet all the current and future insurance claims. During 2012/13 however, East Lothian Council as one of the company's creditors, was informed that a solvent run-down is now unlikely and a prearranged Scheme of Arrangement would be triggered. Under the Scheme the creditors are required to pay a levy designed to meet the deficit between assets and liabilities.

Other Provision

A case has been lodged against the Authority. A provision of £551,000 has been made for the possible settlement that the Authority will have to pay.

Note 26 Long Term Liabilities

At 31 March the Council held some funds that are linked to agreements that will be implemented in the future.

	31 March 2016 £000's	31 March 2017 £000's	Details
Deferred Liabilities - Developers' Contributions	(13,281)	(15,229)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed
Deferred Liabilities - Rental Income in advance	(450)	(416)	Income to be released over the lease period
Other	(612)	(711)	
PPP and Finance Lease Liabilities	(41,319)	(41,261)	This amount represents the outstanding obligations the Council has to make payments under finance and PFI leases. More details are provided at Note 16 and Note 17.
Net Pensions Liability	(114,995)	(178,238)	The underlying commitment that the Council has to pay retirement benefits. Recovered from the Council over future years. More details are provided at Note 27
Total Long term liabilities	(170,657)	(235,855)	

Note 27 Defined Benefit Pension Schemes

Participation in Pensions schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by the City of Edinburgh Council as the Lothian Pension Fund. This is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Arrangements for the award of discretionary post retirement benefits upon early retirement is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. No investment assets are built up to meet these pension liabilities and cash has to be generated to meet actual payments as they fall due.

The Lothian Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of City of Edinburgh Council. Policy is determined in accordance with the pension fund regulations.

The principle risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the policies note.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no assets built up to meet these pension liabilities.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the reported cost of *services* when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

	2015/16 £000's	2016/17 £000's
Comprehensive Income and Expenditure Statement		
Cost of Services comprising:		
Current service cost	18,993	16,997
Past service costs (including Curtailments)	6	6
Financing and Investment Income and Expenditure		
Net interest expense	5,582	4,066
Total Post Employment Benefit Charged to the Deficit on the Provision of Services	24,581	21,069
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	7,474	86,283
Actuarial (gains) and losses arising on changes in financial assumptions	53,573	(143,719)
Other remeasurement experience	6,431	800
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	67,478	(56,636)
Movement in Reserves Statement		
Reversal of net charges made to the Deficit on the Provision of Services for post employment benefits in accordance with the Code.	10,445	6,607
Actual amount charged against the General Fund Balance for pensions in the year		
Employers Contributions Payable	13,667	13,952

Pension assets and liabilities recognised in the Balance Sheet

A reconciliation of present value of the scheme assets and liabilities can be presented as follows:

	2015/16 £000's	2016/17 £000's
Pensions Assets and Liabilities Recognised in the Balance Sheet		
Present value of the defined benefit obligation	(566,444)	(732,394)
Fair value of plan assets	451,449	554,156
Net liability arising from defined benefit obligation	(114,995)	(178,238)

The Reconciliation of the Movements in the Fair Value of the scheme assets is as follows:

	31 March 2016 £000's	31 March 2017 £000's
Opening Fair Value of scheme assets	430,631	451,449
Interest Income	13,773	15,801
Remeasurement gain:		
Return on plan assets, excluding the amount included in the net interest expense	7,474	86,283
Contributions from employer	14,136	14,462
Contributions from employees into the scheme	3,705	3,827
Benefits paid	(18,270)	(17,666)
Closing Fair Value of Scheme Assets	451,449	554,156

The reconciliation of the present value of the scheme liabilities is as follows:

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	**31 March 2016 £000's**	**31 March 2017 £000's**
Opening Balance at 1 April	(602,659)	(566,444)
Current Service Cost	(18,993)	(16,997)
Interest Cost	(19,355)	(19,867)
Contributions from Scheme participants	(3,705)	(3,827)
Remeasurement (gains) and losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	53,573	(143,719)
Other	6,431	800
Past Service Cost	(6)	(6)
Benefits Paid	18,270	17,666
Closing Balance at 31 March	(566,444)	(732,394)

Scheme History

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £178.238 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as the deficit will result in increased contributions in future years, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £13.251 million

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson, an independent firm of actuaries. The liabilities for the Lothian Pension Fund at 31st March 2017 have been assessed by rolling forward the value of the liability calculated at the latest formal valuation date (31st March 2014), allowing for the different financial assumptions required under the Accounting Standard at the reporting date.

The main financial assumptions in the actuaries' calculations were:

	2015/16	**2016/17**
Mortality assumptions		
Longevity at 65 for current pensioners		
Male	22.1	22.1
Female	23.7	23.7
Longevity at 65 for future pensioners		
Male	24.2	24.2
Female	26.3	26.3
Rate of inflation		
Rate of increase in salaries	4.2%	4.4%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	2.6%

The following sensitivity analysis demonstrates the potential effect on the defined obligation in the scheme as a result of changes in the underlying assumptions:

Impact on the Defined Benefit Obligation in the Actuarial Assumptions Sensitivity Analysis	Approximate % increase to Defined Benefit Obligation	Approximate Monetary Amount (£000)
0.5% decrease in Real Discount Rate	11%	78,213
0.5% increase in Salary increase rate	4%	26,347
0.5% increase in Pension increase rate	7%	49,505

Lothian Government Pension Scheme Assets comprised:

	31 March 2016 £000's	%	31 March 2017 £000's	%
Local Government Pension Scheme Assets comprised:				
Cash and Cash Equivalents	27,899	6%	25,703	5%
Private Equity	19,743	4%	79,367	14%
Derivatives	(26)	0%	-	0%
Equity Securities:				
Consumer	68,753	15%	83,195	15%
Manufacturing	53,245	12%	84,008	15%
Energy and Utilities	35,860	8%	41,120	7%
Financial Institutions	38,237	8%	38,695	7%
Health and Care	30,010	7%	32,483	6%
Information Technology	27,048	6%	27,426	5%
Other	25,840	6%	39,109	7%
Sub-total Equity Securities	278,993	62%	346,036	62%
Debt Securities:				
UK Government	29,052	6%	1,151	0%
Other	11,420	3%	56,269	10%
Sub-total Debt Securities	40,472	9%	57,420	10%
Real Estate:				
UK Property	38,617	9%	33,900	6%
Sub-total Real Estate	38,617	9%	33,900	6%
Investment Funds and Unit Trusts:				
Equities	-	0%	7,494	1%
Bonds	3,658	1%	1,239	0%
Commodities	1,251	0%	1,625	0%
Infrastructure	30,026	7%	-	0%
Other	10,816	2%	1,372	2%
Sub-total Investment Funds and Unit Trusts	45,751	10%	11,730	3%
Total Assets	451,449	100%	554,156	100%

	31 March 2016	31 March 2017
Scheme Assets Fair Value		
Quoted Prices in Active Markets	357,380	443,087
Quoted Prices not in Active Markets	94,069	111,069
Total	451,449	554,156

Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency (SPPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2016/17, the Council paid £6.28m (2015/16: £5.92m) to the Scottish Teachers Superannuation Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (2015/16: 14.9% from 1 April 2015 increasing to 17.2% from 1 September 2015).

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means it is not possible to identify the extent to which a surplus or deficit in the scheme may affect the amount of future contributions. For the purposes of the Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2016/17, the Council paid £0.654m (2015/16: £0.628m) to Teachers' Pensions in respect of these retirement benefits.

Ex-Gratia Scheme

Under Regulation 45 of The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, the Council awarded an Ex-Gratia discretionary allowance to retiring employees in respect of service for which they were ineligible to join the pension fund prior to 1986.

In 2016/17, the Council paid £0.06m (2015/16: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.632m.

Note 28 Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement within the Core Financial Statements.

General Fund Balance

The General Fund is the statutory fund into which all of the receipts of an Authority are required to be received and which all of the liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year.

Housing Revenue Account balance

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function.

Note 29 Unusable Reserves

	31 March 2016 £000's	31 March 2017 £000's
Revaluation Reserve	(249,337)	(227,705)
Available-for-sale Financial Instruments Reserve	(2,771)	(2,625)
Pensions Reserve	114,995	178,238
Capital Adjustment Account	(235,347)	(235,748)
Financial Instruments Adjustment Account	3,928	3,664
Employee Statutory Adjustment Account	3,394	3,335
Total	**(365,138)**	**(280,841)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are;

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2016 £000's		31 March 2017 £000's
(138,504)	**Balance at 1 April**	**(249,337)**
(121,184)	Upward revaluation of assets	(3,860)
4,641	Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	14,903
(116,543)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	11,043
5,457	Difference between fair value depreciation and historical cost depreciation	9,938
253	Accumulated gains on assets sold or scrapped	651
(249,337)	**Balance at 31 March**	**(227,705)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are;

- Revalued downwards or impaired and the gains are lost; or
- Disposed of and the gains are realised.

31 March 2016 £000's		31 March 2017 £000's
(1,766)	**Balance at 1 April**	**(2,771)**
(1,005)	Upward revaluation of investments	-
-	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	146
(1,005)		146
(2,771)	**Balance at 31 March**	**(2,625)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2016 £000's		31 March 2017 £000's
172,028	**Balance at 1 April**	**114,995**
(67,478)	Actuarial gains or losses on pensions assets and liabilities	56,636
24,581	Reversal of items relating to retirement benefits debited or credited to the Defict on the Provision of Services in the Comprehensive Income and Expenditure Statement	21,069
(14,136)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,462)
114,995	**Balance at 31 March**	**178,238**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

31 March 2016 £000's		31 March 2017 £000's
(245,394)	**Balance at 1 April**	**(235,347)**
32,111	Charges for depreciation of non-current assets	35,639
18,137	Revaluation and impairment losses on Property, Plant and Equipment	12,459
(800)	Assets written off on disposal or sale	(4,111)
49,448		43,987
(5,457)	Adjusting amounts written out of the Revaluation Reserve	(9,938)
43,991	Net amounts written out of the cost of non-current assets consumed in the year	34,049
	Capital Financing applied in the year	
-	Use of the Capital Receipts Reserve to finance new capital expenditure	-
(20,418)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,726)
(13,436)	Statutory provison for the financing of capital investment charged against the General Fund and HRA balances	(15,524)
(90)	Capital expenditure charged against the General Fund and HRA balances	(3,200)
(33,944)		**(34,450)**
(235,347)	**Balance at 31 March**	**(235,748)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed.

31 March 2016 £000's		31 March 2017 £000's
4,200	**Balance at 1 April**	**3,928**
(16)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(8)
(256)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	(256)
(272)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory provisions	(264)
3,928	**Balance at 31 March**	**3,664**

Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlements carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer from the Account.

31 March 2016 £000's		31 March 2017 £000's
3,523	**Balance at 1 April**	**3,394**
(3,523)	Settlement or cancellation of accrual made at the end of the preceding year	(3,394)
3,394	Amount accrued at the end of the current year	3,335
(129)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(59)
3,394	**Balance at 31 March**	**3,335**

Note 30 Transfer to and from Earmarked Reserves

	Mid and East Lothian Drugs & Alchohol Project £000's	Other Balances £000's	Devolved School Management Balances £000's	Cost Reduction Fund £000's	TOTAL £000's
Balance at 1 April 2015	**363**	**181**	**262**	**3,082**	**3,888**
Transfers Out during 2015/16	-	(56)	(42)	(85)	(183)
Transfers In during 2015/16	92	150	-	-	242
Balance at 31 March 2016	**455**	**275**	**220**	**2,997**	**3,947**
Transfers Out during 2016/17	(152)	(275)	-	(230)	(657)
Transfers In during 2016/17	-	431	38	-	469
Balance at 31 March 2017	**303**	**431**	**258**	**2,767**	**3,759**

Note 31 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2015/16 £000's	2016/17 £000's
Credited to Taxation & Non-Specific Grant Income		
General Capital Grant	(11,484)	(8,886)
Contributions from developers	(3,498)	(2,206)
Mortgage to Rent scheme/Housing Grants	(3,760)	(2,856)
Other Grants & Contributions	(1,676)	(1,778)
Total	**(20,418)**	**(15,726)**
Credited to Services		
Housing Benefit Subsidy/Admin Grant & Housing Payments/Department for Work & Pensions	(25,783)	(22,888)
Resource Transfer Funds/NHS Integration	(3,226)	(7,596)
Criminal Justice Grant/Criminal Justice Authority	(1,213)	(1,301)
Leader Programme/ European Union	(160)	-
Change Funds	(723)	(150)
Private Sector Housing Grant/Scottish Government	(628)	(628)
Funding for Drugs & Alcohol Teams/NHS	(818)	(601)
HEEPS	(978)	(978)
Educational Maintenance Allowance Funding/Scottish Government	(335)	(350)
Active Schools/Sports Scotland	(233)	(233)
Developing Youth Scotland	(460)	(383)
Youth Music Initiative	(339)	(146)
Total	**(34,896)**	**(35,254)**

Note 32 Capital Grant Receipts in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows.

	2015/16 £000's	2016/17 £000's
Capital Grants & Contributions Receipts in Advance		
Scottish Government - Housing Projects	-	(68)
National Health Service	(80)	(80)
Total	**(80)**	**(148)**

Note 33 Cash Flow Statement - Adjustments to net deficit on the provision of services for non-cash movements

	2015/16 £000's	2016/7 £000's
Depreciation	(32,111)	(35,639)
Impairments and downward valuations	(18,137)	(12,459)
Carrying amount of non-current assets held for sale, sold or derecognised	(2,904)	(3,447)
Net charges made for retirement benefits in accordance with IAS 19	(24,581)	(21,069)
Employer's contributions payable to the Lothian Pension Fund	14,136	14,462
Increase in revenue long term-debtors & liabilities	(296)	(230)
Increase in provisions	(960)	(2)
Increase in inventories	108	273
(Increase)/Decrease in revenue creditors	1,039	(1,239)
Increase/(Decrease) in revenue debtors	577	(2,233)
Total	**(63,129)**	**(61,583)**

Note 34 Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	2015/16 £000's	2016/17 £000's
Proceeds from capital grants	20,418	15,726
Proceeds from short-term investments	439	472
Proceeds from sale of PPE, Assets Held for Sale and other non-current assets	3,682	6,906
Total	**24,539**	**23,104**

Note 35 Material Items of Income and Expense

Where items are not disclosed on the face of the Comprehensive Income and Expenditure Statement (CI&ES), the Council is required to disclose the nature and amount of material items. Material items of expenditure charged to services in the year are shown in the table below.

	2015/16 £000's	2016/17 £000's
Depreciation charged on assets	32,111	35,639
Impairments and downward valuations	18,137	12,459
Housing Benefit Paid	25,634	23,284
Unitary Charge/PPP payments to contractor	9,079	8,918

Material items of income credited to service revenue accounts within the CI&ES largely relate to grants and contributions and these are disclosed in Note 31. Subsidy income in relation to the payments of Housing Benefit (included in the table above) is also disclosed at Note 31.

Note 36 Fair Value Hierarchy

Details of the authority's surplus assets and information about the fair value hierarchy as at 31st March 2017 are as follows:

2015/16	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs(Level 3)**	**Fair value as at 31 March 2017**
Recurring fair value measurements using:	**£000's**	**£000's**	**£000's**	**£000's**
Non-Financial Assets		2,242		
Total		2,242		

2016/17	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs(Level 3)**	**Fair value as at 31 March 2017**
Recurring fair value measurements using:	**£000's**	**£000's**	**£000's**	**£000's**
Non-Financial Assets		3,522		
Total		3,522		

Valuation Techniques used to Determine Level 2 Fair Values for Non Financial Assets

Significant Observable Inputs – Level 2

The fair value for the properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Housing Revenue Account, Council Tax and Non Domestic Rate Income Account.

Housing Revenue Account

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. The following statement shows how much the Council spent in fulfilling its statutory responsibility to provide, improve and manage its Housing Stock.

The HRA Income and Expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2015/16 £000's		2016/17 £000's
	Income	
(24,569)	Dwelling rents	(25,512)
(428)	Non-dwelling rents	(479)
(435)	Service charges	(481)
(108)	Other income	(176)
(25,540)	**Total Income**	(26,648)
	Expenditure	
7,447	Repairs and Maintenance	7,167
5,786	Supervision and Management	5,833
9,723	Depreciation, impairment and revaluation losses of Non-Current Assets	20,961
512	Impairment of Debtors	142
1,791	Other expenditure	1,920
25,259	**Total Expenditure**	36,023
(281)	**Net Expenditure/Income of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**	9,375
148	HRA services share of Corporate and Democratic Core	158
-	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	-
(133)	**Net Income/Expenditure of HRA Services**	9,533
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	
274	(Gains)/Losses on sale of HRA Non-Current assets	(3,249)
5,739	Interest Payable and Similar Charges	6,003
(25)	HRA Interest and Investment income	(22)
160	Pensions Interest Cost and Expected Return on Pensions Assets	144
(3,761)	Capital Grants and Contributions receivable	(2,856)
2,254	**Deficit for the year on HRA services**	9,553

Movement on the HRA Statement

2015/16 £000's		2016/17 £000's
(4,041)	Balance on the HRA at the end of the previous period	(4,664)
2,254	Deficit for the year on the HRA Income and Expenditure Statement	9,553
(3,872)	Adjustments between Accounting Basis and Funding Basis under Legislative Framework	(8,815)
(1,618)	Net (Increase)/Decrease in the Balance before Transfer to or from Reserves	738
995	HRA Balance Transferred to General Services	1,495
-	Transfers into HRA from Capital Fund	(2,589)
(623)	Increase in year on the HRA	(356)
(4,664)	**Balance on the HRA at the end of the current period**	(5,020)

Note to the Movement of the HRA Statement

2015/16 £000's		2016/17 £000's
	Adjustments between Accounting Basis and Funding Basis under Regulations	
(9,723)	Depreciation and impairment of fixed assets	(20,961)
3,760	Capital grant and contributions applied	2,856
(274)	Gain or (loss) on sale of HRA Non-Current assets	3,249
(160)	Net charges made for retirement benefits in accordance with IAS 19	(144)
(6,397)		(15,000)
	Items not included in the HRA Account but included in the movement on HRA Balance for the year	
(141)	Employer's contributions payable to the Lothian Pension Fund	(78)
2,666	Loans fund principal	3,063
-	Capital expenditure funded by the HRA	3,200
2,525		6,185
(3,872)	**Net additional amount required by statute to be debited/credited to the HRA Balance for the year**	(8,815)

	2 Apt	3 Apt	4 Apt	5 Apt	8 Apt	Total
Number of Houses as at 31 March 2016	1,781	4,426	2,198	224	0	8,629
Number of Houses as at 31 March 2017	1,803	4,437	2,188	220	1	8,649
Increase/(Decrease) in year	22	11	(10)	(4)	1	20

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from the Council taxes levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

The tax level depends on the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers e.g. single occupants. A Council Tax reduction scheme is available to assist taxpayers on a low income.

2015/16 £000's		2016/17 £000's
(53,112)	**Gross Council Tax Levied and Contributions in Lieu**	(53,717)
	Adjusted For:	
5,156	Council Tax Reduction Scheme	4,810
4,333	Other Discounts and Reductions	4,371
772	Provision for Non Collection	532
(42,851)		(44,004)
61	Adjustments to Previous Years' Council Tax	67
(42,790)	Transfer to General Fund	(43,937)

The Council Tax base is calculated as follows;

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Charge for Each Band (£)	**745.08**	**869.26**	**993.44**	**1117.62**	**1365.98**	**1614.34**	**1862.70**	**2235.24**	
Effective Properties	938	7,747	13,077	5,288	5,415	4,487	3,599	609	41,160
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	625	6,025	11,624	5,288	6,618	6,481	5,998	1,218	43,877
Provision for non-payment (2%)									(878)
Council Tax Base									**42,999**

Council Tax Base

Dwellings are valued by the Assessor and placed in a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. The value is then decreased or increased dependent upon the band of the dwelling.

A full council tax charge assumes there are two or more adults, aged 18 or over, living in a property as their main home. If only one adult lives in a house and it is their sole or main residence, the charge may be reduced by 25%.

Charges for water and sewerage are the responsibility of Scottish Water. East Lothian Council collects total monies and makes a payment to Scottish Water on the basis of collection levels based on a pre-determined formula.

Non Domestic Rate Income Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2015/16 £000's		2016/17 £000's
(33,325)	Gross Rates Levied & Contributions in Lieu	(34,580)
9,361	Reliefs and Other Deductions	9,243
5	Write Offs of Un-collectable Debts & Allowance for Impairment	7
(23,959)	**Net Non-Domestic Rate Income**	(25,330)
1,410	Adjustments to Previous Year National Non-Domestic Rates	(29)
(22,549)	**Total Non-Domestic Rate Income (before authority retentions)**	(25,359)
(22,549)	**Contribution to the National Non-domestic Rate Pool**	(25,359)
(26,079)	**Contribution from the National Non-domestic Rate Pool**	(24,370)

Business Rate Incentivisation Scheme (BRIS)

The Business Rate Incentivisation Scheme permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. This scheme has been revised and the Authority has had no financial benefit from this scheme in 2016/17.

Rateable Values

An analysis of the rateable values at the end of the financial year is detailed below.

	Number	Rateable Value £000's
Shops, Offices and other Commercial Subjects	1,724	32,374
Industrial and Freight Transport	875	12,666
Miscellaneous (Schools etc)	891	30,105
	3,490	75,145

Rate Level

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was 51p (2015/16: 49.1p) per pound for properties with rateable value of £35,000 or more and 48.4p (2015/16: 48p) for those with a rateable value of less than £35,000.

From 1 April 2011 levels of rates relief under the Small Business Bonus Scheme have been set at 100% for eligible properties with a combined Rateable Value (RV) of up to £10,000, 50% for those with a combined RV between £10,001 and £12,000 and 25% for those with a combined RV between £12,001 and £18,000. Additionally, businesses with multiple properties whose cumulative RV is £35,000 or less will be eligible for relief of 25% for each property with a rateable value less than £18,000.

Common Good Account

There are 4 separate Common Good Funds that were inherited from the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick which are used to further the common good of the residents of these areas. Although the Common Good Funds are part of the Council and follow Council accounting policies, the finances of the Common Good must be kept separate from Council funds.

Movements in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Common Good, analysed between usable reserves i.e. those that can be applied to fund expenditure and other reserves.

	Total Usable Reserves £000's	**Unusable Reserves £000's**	Financial Instruments Adjustment £000's	Revaluation Reserve £000's	Capital Adjustment Account £000's	**Total Authority Reserves £000's**
Balance at 31 March 2016 brought forward	**(5,526)**	**(4,166)**	(463)	(929)	(2,774)	**(9,692)**
Movement in reserves during 2016/17						
Surplus on provision of services	**(141)**	**-**	-	-	-	**(141)**
Other Comprehensive Expenditure and Income	**-**	**(1,322)**	(493)	(829)	-	**(1,322)**
Total Comprehensive Expenditure and Income	**(141)**	**(1,322)**	(493)	(829)	-	**(1,463)**
Adjustments between accounting basis & funding basis under regulations	**(122)**	**122**	-	19	103	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(263)**	**(1,200)**	(493)	(810)	103	**(1,463)**
Increase/Decrease in Year	**(263)**	**(1,200)**	(493)	(810)	103	**(1,463)**
Balance at 31 March 2017 carried forward	**(5,789)**	**(5,366)**	(956)	(1,739)	(2,671)	**(11,155)**

The Common Good Funds once again operated at a surplus for the year, generating income from letting properties. Some of that income was used to maintain the assets and support events in their local communities.

Comprehensive Income and Expenditure Statement

2015/16 £000's		2016/17 £000's
	Income	
(821)	Rents and other income	(348)
(821)	**Total Income**	**(348)**
	Expenditure	
2	Employees	2
62	Premises-related expenditure	84
62	Supplies and services	54
205	Third party payments	68
91	Depreciation	127
422	**Total Expenditure**	**335**
(399)	**Net Income**	**(13)**
17	Gains/Losses on the disposal of non current assets	(36)
(92)	Financing and investment income and expenditure	(92)
(474)	Surplus on Provision of Services	(141)
(63)	Surplus or deficit on revaluation of Property, Plant and Equipment	(829)
23	Surplus or deficit on revaluation of available for sale financial instruments	(493)
(40)	Other Comprehensive Income and Expenditure	(1,322)
(514)	**Total Comprehensive Income and Expenditure**	**(1,463)**

Balance Sheet

2015/16 £000's		2016/17 £000's
3,295	Property, Plant & Equipment	4,072
2,806	Long Term Investments	3,340
1,113	Long Term Debtors	908
7,214	**Long Term Assets**	**8,320**
71	Sundry debtors	53
2,410	Short-term loans	2,810
2,481	**Current Assets**	**2,863**
(3)	Short-term creditors	(28)
(3)	**Current Liabilities**	**(28)**
9,692	**Net Assets**	**11,155**
(463)	Financial Instruments Adjustment Reserve	(956)
(929)	Revaluation Reserve	(1,739)
(2,774)	Capital Adjustment Account	(2,671)
(5,526)	Common Good Fund	(5,789)
(9,692)	**Total Reserves**	**(11,155)**

Non-current Assets

The value of assets changed in the following way:

	£000's
Net book value of assets at 31 March 2016	3,295
Movement in 2016/17	-
Additions	-
Disposals	-
Revaluations	904
Depreciation	(127)
Impairments	-
Internal Transfers	-
Net book value of assets at 31 March 2017	**4,072**

Finance Lease

Details of Common Good Finance Leases

The Proceeds from the finance lease are collected over the term of the lease, which creates a long-term debtor. The income receivable on this debt is:

	£000's
Income receivable in 2017/18	243
Income receivable between 2018/19 and 2021/22	972
Income receivable after 2021/22	5,153
	6,368

Fund Analysis

The four separate funds are valued at 31 March 2017 as:

	Dunbar £000's	Haddington £000's	Musselburgh £000's	North Berwick £000's	Total £000's
Balance brought Forward on 1 April 2016	(94)	(539)	(4,582)	(311)	**(5,526)**
(Surplus) / deficit in the year	49	7	(275)	(44)	**(263)**
Fund Balance as at 31 March 2017	(45)	(532)	(4,857)	(355)	**(5,789)**
Net assets	976	618	8,722	839	**11,155**

Trust Funds Account

The Council acts as a majority or sale Trustee for 46 trusts, bequests and other funds, which are administered in accordance with the individual terms.

Movement in Reserves Statement

	Accumulated Funds £000's	Total Usable Reserves £000's	Unusable Reserves £000's	Total Fund Reserves £000's
Balance at 31 March 2016 carried forward	**(2,364)**	**(2,364)**	**(2,298)**	**(4,662)**
Movement in reserves during 2016/17				
Surplus on provision of services	(141)	**(141)**	-	**(141)**
Other Comprehensive Expenditure and Income	-	-	(480)	**(480)**
Total Comprehensive Expenditure and Income	**(141)**	**(141)**	**(480)**	(621)
Adjustments between accounting basis & funding basis under regulations	(12)	(12)	12	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(153)**	**(153)**	**(468)**	**(621)**
Transfers to/from Earmarked Reserves	-	-	-	-
Increase/Decrease in Year	**(153)**	**(153)**	**(468)**	**(621)**
Balance at 31 March 2017 carried forward	**(2,517)**	**(2,517)**	**(2,766)**	**(5,283)**

Comprehensive Income and Expenditure Statement

2015/16 £000's		2016/17 £000's
	Income	
(48)	Rents and Other Income	(49)
(48)	**Total Income**	**(49)**
	Expenditure	
1	Premises-related expenditure	1
21	Supplies and Services	21
18	Third Party Grants and Payments	17
2	Depreciation	12
42	**Total Expenditure**	**51**
(6)	**Net (Income)/Expenditure**	**2**
(33)	Gains on the disposal of non-current assets	(46)
(87)	Financing and investment income and expenditure	(97)
(126)	**Surplus on Provision of Services**	**(141)**
11	(Surplus) or Deficit on Revaluation of Property,Plant & Equipmer	(32)
197	(Surplus) or Deficit on Revaluation of Available for Sale	(448)
208	**Other Comprehensive Income and Expenditure**	**(480)**
82	**Total Comprehensive Income and Expenditure**	**(621)**

Balance Sheet

31 March 2016 £000's		31 March 2017 £000's
737	Property Plant & Equipment	757
2,807	Long Term Investments	3,289
96	Long Term Debtors	92
3,640	**Long Term Assets**	**4,138**
1,245	Short Term Investments	1,355
1,245	**Current Assets**	**1,355**
(1)	Short Term Creditors	(1)
(1)	**Current Liabilities**	**(1)**
(222)	Other Long Term Liabilities	(209)
(222)	**Long Term Liabilities**	**(209)**
4,662	**Net Assets**	**5,283**
(1,649)	Financial Instruments Adjustment Reserve	(2,097)
(649)	Property Revaluation Reserve	(671)
-	Capital Adjustment Account	2
(2,364)	Usable Reserves	(2,517)
(4,662)	**Total Reserves**	**(5,283)**

Financial Performance

During the year 2016/17, the Trust Funds operated at a surplus of £141,000 (2015/16: surplus of £126,000). The overall asset book value increased from £4.66 million to £5.28 million by 31 March 2017.

Property Asset Valuation

For most Trust property assets, an independent valuer assesses the value of land and buildings every five years based on the open market value for existing use.

Market Investment Valuation

Investments are valued each year by the Trusts' investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2017 were:

2015/16 £000's	Investment	2016/17 £000's
111	UBS Global Assets Mgt US Equity	159
98	Vanguard Inv Serv 500 Ucits	129
85	Shell Ord Shares Euro 0.07	92
66	Mercantile Investment Ord 0.25	91
87	JP Morgan IT Ordinary	90
57	Findlay Park Fds American USD	74
34	National Grid 1.25%	74
59	HSBC Holdings Ord USD	72
2,210	Other stocks, shares and cash	2,508
2,807		3,289

Group Accounts

Group Movement in Reserves Statement

This statement presents the movement in the year in the different reserves held by the combined Group i.e. the Council, its associate companies, subsidiaries and joint venture.

For the year ended 31 March 2017

	Authority's Own Usable Reserves Page 12	Authority's Share of Usable Reserves of Subsidiaries, Associates and Joint Venture	Total Usable Reserves	Total Unusable Reserves	Authority's Own Unusable Reserves Note 29	Authority's Share of Unusable Reserves of Subsidiaries, Associates and Joint Venture	Total Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31 March 2016	**(30,427)**	**(9,550)**	**(39,977)**	**(371,867)**	**(365,138)**	**(6,729)**	**(411,844)**
Movement in reserves during 2016/17							
(Surplus) or deficit on provision of services	21,345	(214)	**21,131**	-	-	-	**21,131**
Other Comprehensive Expenditure and Income	-	-	**-**	67,473	67,825	(352)	**67,473**
Total Comprehensive Expenditure and Income	**21,345**	**(214)**	**21,131**	**67,473**	**67,825**	**(352)**	**88,604**
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-	-	**-**
Net Increase/Decrease before Transfers	**21,345**	**(214)**	**21,131**	**67,473**	**67,825**	**(352)**	**88,604**
Adjustment for Opening Balances	**-**	**(220)**	(220)	226	**-**	**226**	6
Adjustments between accounting basis & funding basis under regulations	(16,472)	(367)	(16,839)	16,839	16,472	367	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	**4,873**	**(801)**	**4,072**	**84,538**	**84,297**	**241**	**88,451**
(Increase)/Decrease in Year	**4,873**	**(801)**	**4,072**	**84,538**	**84,297**	**241**	**88,451**
Balance at 31 March 2017 carried forward	**(25,554)**	**(10,351)**	**(35,905)**	**(287,329)**	**(280,841)**	**(6,488)**	**(323,234)**

Group Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement shows how resources have been generated and consumed in the year in providing services across the East Lothian Group. The Group includes the Council, its associates, subsidiaries and joint venture.

Net Expend-iture		Gross Expend-iture	Gross Income	Net Expend-iture
£000's		£000's	£000's	£000's
107,339	Resources & People Directorate	112,315	(4,850)	107,465
69,283	Health & Social Care Partnership	117,436	(58,160)	59,276
58,352	Partnership & Community Directorate	71,910	(16,083)	55,827
743	Corporate and Central Services	24,522	(23,458)	1,064
(133)	HRA	36,242	(26,709)	9,533
235,584	**Cost of Services**	**362,425**	**(129,260)**	**233,165**
(563)	Losses on the disposal of non current assets			(3,542)
21,382	Financing and investment income and expenditure			19,822
(236,907)	Taxation and non specific grant income			(228,403)
19,496	**Deficit on Provision of Services**			21,042
229	Share of the deficit on the provision of services by Associates and Joint Venture			89
19,725	**Group Deficit**			**21,131**
(116,606)	(Surplus) or deficit on revaluation of Property, Plant and			10,182
(785)	Surplus on revaluation of available for sale financial			(795)
(67,478)	Actuarial losses on pension assets/liabilities			56,636
(1,654)	Share of other comprehensive income and expenditure of Associates and Joint Venture			1,450
(186,523)	**Other Comprehensive Income and Expenditure**			**67,473**
(166,798)	**Total Comprehensive Income and Expenditure**			**88,604**

Reconciliation of the Council Surplus / Deficit to the Group Surplus / Deficit

This statement shows how the deficit on the Council's single entity Comprehensive Income and Expenditure Account reconciles to the deficit for the year on the Group Accounts.

2015/16		2016/17
£000's		£000's
20,052	Deficit for the year on the Authority Comprehensive Income & Expenditure Account	21,345
229	Associates and Joint Venture	89
(556)	Subsidiaries	(303)
19,725	**(Surplus) / Deficit for the year on the Group Income & Expenditure Account**	**21,131**

Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the East Lothian Group.

31 March 2016 £000's		31 March 2017 £000's
903,797	Property Plant & Equipment	883,770
801	Heritage Assets	1,052
8,799	Long Term Investments	9,653
1,897	Investments in Associates and Joint Venture	339
12,663	Long Term Debtors	12,225
927,957	**Long Term Assets**	907,038
2	Short Term Investments	20
898	Assets Held for Sale	770
622	Inventories	897
28,033	Short Term Debtors	25,884
(12,026)	Bad & Doubtful Debt Provision	(11,608)
6,670	Cash and Cash Equivalents	12,694
24,199	**Current Assets**	28,657
(11,108)	Short Term Borrowing	(5,646)
(28,820)	Short Term Creditors	(28,878)
(39,928)	**Current Liabilities**	(34,524)
-	Long Term Creditors	-
(4,306)	Provisions	(4,726)
(325,119)	Long Term Borrowing	(336,999)
(170,879)	Other Long Term Liabilities	(236,064)
(80)	Capital Grants Receipts in Advance	(148)
(500,384)	**Long Term Liabilities**	(577,937)
411,844	**Net Assets**	**323,234**
(39,977)	Usable Reserves	(35,905)
(371,867)	Unusable Reserves	(287,329)
(411,844)	**Total Reserves**	**(323,234)**

Group Cash Flow Statement

The Group Cash Flow includes the cash flows of the Council and its subsidiary companies which include East Lothian Land, the Common Goods, Trust Funds and Musselburgh Joint Racing Committee.

2015/16 £000's		2016/17 £000's
19,496	Net deficit on the provision of services	21,042
(63,368)	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 5)	(61,758)
24,539	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23,104
(19,333)	Net Cash flow from Operating Activities	(17,612)
	Investing Activities	
50,880	Purchase of property, plant and equipment	41,905
17	Purchase of investments	-
-	Dividends from joint ventures and associates	-
(487)	Proceeds from short term investments	(472)
(26,913)	Other Receipts from investing activities	(17,806)
(3,682)	Proceeds from the sale of property, plant and equipment	(6,906)
19,815	Net cash flow from investing activity	16,721
	Financing Activities	
(22,021)	Cash received from short and long term borrowing	(20,244)
1,060	Capital element of finance leases and PFI Contracts	1,187
19,319	Repayments of short and long term borrowing	13,464
3,760	New loans made	460
2,118	Net cash flow from financing activity	(5,133)
2,600	Net increase or decrease in cash and cash equivalents	(6,024)
(9,270)	Cash and cash equivalents at the beginning of the reporting period	(6,670)
(6,670)	Cash and cash equivalents at the end of the reporting period	(12,694)

Notes to the Group Financial Statements

1. Combining Entities

Alongside its investments, East Lothian Council has an interest in a number of associate and subsidiary companies and a joint venture. For the purposes of consolidation and incorporation within the Group Accounts recognition of these interests has been made as follows.

2. Associates

The under noted entities along with the relative share have been treated as associate companies within the terms of the Code of Practice on Local Authority Accounting.

The Council has less than 20% of the voting or potential voting power in the Lothian Valuation Joint Board but has assessed that it has significant influence of this organisation requiring inclusion in the Council's Group Accounts. This is on the basis of representation on the Joint Board by East Lothian councillors and material transactions between East Lothian Council and the Joint Board.

These associate companies have been incorporated in line with the draft financial statements made available to East Lothian Council.

	Percentage Share 2015/16	Percentage Share 2016/17	Carrying Value at 31 March 2017 £000's	Share of (Surplus) or Deficit on Provision of Services for 2016/17 £000's	Other CI&ES items for 2016/17 £000's
East Lothian Investments	40.00%	40.00%	204	0	-
Enjoy East Lothian Limited	33.33%	33.33%	1,388	99	726
Brunton Theatre Trust	28.57%	28.57%	115	(28)	-
Lothian Valuation Joint Board	12.50%	12.50%	(1,368)	18	723
Total			**339**	**89**	**1,449**

The summarised financial information of the various associates for the financial year 2016/17 has been presented below;

	Assets at the end of the year £000's	Liabilities at the end of the year £000's	Net Assets at the end of the year £000's	Revenues during year £000's	(Surplus) or Deficit for the year £000's
East Lothian Investments	514	(4)	510	(4)	1
Enjoy East Lothian Limited	8,332	(4,169)	4,163	(6,661)	297
Brunton Theatre Trust	530	(126)	404	(1,377)	(98)
Lothian Valuation Joint	2,409	(13,349)	(10,940)	(8,276)	145

Although disclosed as an associate company Enjoy East Lothian is limited in its ability to transfer financial benefits to East Lothian Council. Enjoy East Lothian Limited is a registered charity and the Memorandum of Association states that no portion of the income or assets shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit to the members of the company.

Likewise, the Articles of Association relating to East Lothian Investments, restrict the payment or transference of income, either directly or indirectly, by way of dividend, bonus or otherwise, to members of the company.

3. Subsidiaries

The under noted entities are regarded as group subsidiary companies in line with the Code of Practice on Local Authority Accounting. For the purposes of the Group Accounts this means that the income, expenditure and annual surpluses or deficits of subsidiaries are combined within income, expenditure and annual surpluses or deficits relating to main council services.

No subsidiaries have been excluded.

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2017 show net current assets of £601,000 (2016: £602,000), and a loss before taxation of £2,000 (31 March 2016: Loss of £2,000). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

The annual accounts for the Common Good Funds and Trusts are included at pages 77-81.

The net value of the Trusts included within the Group Accounts is £5.21 million. The nature of the assets is explained in a note to the Supplementary Financial Statements attached. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 2015 East Lothian Council, along with the Lothian's Racing Syndicate Limited, agreed a revised Minute of Agreement relating to the operation of the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996.

A financial interest exists since the Council may be required to bear any financial losses of the Committee. As no consideration was given for this interest, there is no goodwill arising from this interest. No dividends will be received. This subsidiary has been incorporated in line with the financial statements made available to East Lothian Council.

The individual accounts relating to East Lothian Land and the Musselburgh Joint Racing Committee are available from the Head of Council Resources, East Lothian Council, John Muir House, Haddington, EH41 3HA.

4. Joint Venture

The East Lothian Integration Joint Board (IJB) was formed under the terms of The Public Bodies (Joint Working) (Scotland) Act 2014. This is a Joint Venture between East Lothian Council and NHS Lothian.

The IJB is governed by The Local Government (Scotland) Act 1973 along with the 2014 regulations and is required to prepare financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The IJB received financial allocations for the first time in 2016/17 from both partners to the Joint Venture (East Lothian Council and NHS Lothian). Expenditure was incurred by both partners to the Joint Venture by way of directions from the IJB.

During 2016/17 East Lothian Council contributed £44.0 million to the annual running costs. No assets or liabilities were held at 31 March 2017 meaning no change to the Council's Group Balance Sheet as a result of the Joint Venture.

5. Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies and the joint venture on the Group Balance Sheet is to increase Net Assets and Reserves by £16.8 million. This is largely due to the value of Common Good and Trust Funds property and investment values.

6. Group Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements

2015/16 £000's		2016/17 £000's
(32,214)	Depreciation	(35,639)
(18,137)	Impairments and downward revaluations	(12,459)
(2,904)	Net gains on sale of fixed assets	(3,447)
(24,581)	Net charges made for retirement benefits in accordance with IAS 19	(21,069)
14,136	Employer's contributions payable to the Lothian Pension Fund	14,462
(341)	(Increase)/decrease in revenue long term-debtors & liabilities	(230)
(960)	Change in Provisions	(2)
108	Change in stock	273
1,200	Change in revenue debtors	(1,527)
325	Change in revenue creditors	(2,120)
(63,368)	**Total**	**(61,758)**

Glossary of Terms

While much of the terminology used in this document is intended to be self explanatory, the following additional definitions and interpretation of terms may be of assistance to the reader.

1. Accounting Period - The period of time covered by the Accounts - this is a period of 12 months commencing on the 1st of April.

2. Accruals – The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

3. Actuarial Gains and Losses (Pensions) - Changes in actuarial deficits or surpluses that arise because events have not coincided with previous actuarial assumptions or actuarial assumptions have changed.

4. Asset - An asset is categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year. A non-current asset will provide benefit to the Council and to the services it provides for a period of more than one year.

5. Associate - An entity, which is not a subsidiary or joint-venture, in which the council has a participating interest, or over whose operating and financial policies the Council is able to exercise significant influence.

6. Capital Adjustment Account - This reserve account relates to amounts set aside from capital resources to meet past expenditure.

7. Capital Expenditure - Expenditure on the acquisition of a non-current asset which will be used in providing services beyond the current accounting period, or expenditure which adds to the value of an existing non-current asset.

8. Capital Financing - The various methods used to finance capital expenditure. This includes borrowing, leasing, capital receipts, capital grants and use of revenue funding.

9. Capital Grants Unapplied - This account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

10. Capital Receipt - Proceeds from the sale of land, buildings or other non-current assets.

11. Capital Receipts Reserve - This reserve represents the proceeds from non-current asset disposals not yet used and which are available to meet future capital investment.

12. The Code of Practice on Local Authority Accounting – The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

13. Creditor - Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

14. Current Service Costs (Pensions) - The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

15. Debtor - Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

16. Defined Benefit Pension Scheme - Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

17. Depreciation – A charge measuring the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non-current assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

18. Discretionary Benefits (Pensions) - Retirement awards, which the employer has no legal, contractual or constructive obligation to award and are awarded under the council's discretionary powers.

19. Employee Statutory Adjustment Account - This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

20. Fair Value - The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less any grants receivable towards the purchase of use of the asset.

21. Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

22. Financial Instruments Adjustment Account - This is a balancing Account to allow for differences in statutory requirements and proper accounting practices for lending and borrowing by the Council.

23. Government Grants - Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be for a specific scheme or may support the revenue or capital spend of the Council in general.

24. Heritage Asset - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

25. Impairment - A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

26. Insurance Fund - This covers the main classes of insurance and is earmarked for insurance purposes.

27. Interest Cost (Pensions) - For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

28. Inventories - Items of raw materials and stock the Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

29. Liability - A liability is where the Council owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A long-term liability is an amount which, by arrangement, is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

30. National Non-Domestic Rates Pool - All rates paid by businesses based on the rateable value of the premises they occupy collected by local authorities are remitted to the national pool and thereafter distributed to Councils by the Scottish Government.

31. Net Book Value - The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

32. Non-Current Assets - These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.

33. Operating Lease - A lease where the ownership of a non-current asset remains with the lessor.

34. Past Service Cost (Pensions) - For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

35. Pension Reserve - The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Lothian Pension Fund and the change in the Councils share of the Pension Fund net liability chargeable to the Comprehensive Income and Expenditure Statement.

36. Pension Scheme Liabilities - The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. The scheme liabilities, measured using the "project unit method", reflect the benefits that the employer is committed to provide for service up to the valuation date.

37. Post Employment Benefits - All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment (e.g. pensions in retirement).

38. Provision - An amount put aside in the accounts for future liabilities or losses which are certain, or very likely to occur, but the amounts or dates of when they will arise are uncertain.

39. Public Works Loan Board (PWLB) - A Central Government Agency, which provides loans for one year and above to Councils at interest rates only based on those at which the Government can borrow itself.

40. Rateable Value - The annual assumed rental of a non-housing property, which is used for national Non Domestic Rates purposes.

41. Related Parties - Entities or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

42. Remuneration - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the monetary value of any other benefits received other than cash.

43. Reserves - The accumulation of surpluses, deficits and appropriation over the past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves, such as the Revaluation Reserve, cannot be used to meet current expenditure.

44. Revaluation Reserve - The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sale.

45. Revenue Expenditure - The day-to-day running costs associated with the provision of services within one financial year.

46. Subsidiary - An entity over which the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Chief Executive
SUBJECT:	Corporate Risk Register

5

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1 PURPOSE

1.1 To present to the Audit and Governance Committee the Corporate Risk Register (Appendix 1) for discussion, comment and noting.

The Corporate Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document which is reviewed and refreshed on a regular basis, led by the Corporate Risk Working Group (RWG).

2 RECOMMENDATIONS

2.1 It is recommended that the Audit and Governance Committee notes the Corporate Risk Register and in doing so, is asked to note that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- the total profile of the Corporate risk can be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Corporate and are likely to be a feature of the risk register over a number of years.
- note that the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

3 BACKGROUND

3.1 The Risk Register has been compiled by the Corporate RWG on behalf of and in consultation with Council Management Team. All risks have been evaluated using the standard (5x5) risk matrix which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Corporate Risk Register includes 1 Very High Risk, 9 High risks, 7 Medium risks and 1 Low Risks.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - It is the consideration of the Corporate RWG that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Corporate Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning and Risk Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	14 September 2017

East Lothian Council Corporate Risk Register (V23: 31st August 2017)

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 1	**Welfare Reform** The rollout of Universal Credit, (UC) in East Lothian started in April 2015. Whilst initially involving only a small number of cases the subsequent rollout by JCP/DWP of the Universal Credit Full (Digital) Service in East Lothian on 23rd March 2016 has seen a significant number of households migrate from legacy benefits to UC. This phase is called "Natural Migration". It will be followed by a "Managed Migration" phase during which all remaining working age HB cases will migrate to UC Housing. In spite of a reducing HB caseload, there has been a significant increase in workload as a result. The main risks/issues associated with the UC rollout include: • A wider range of people in scope for claiming UC & higher volume of cases as a consequence • Additional demand for (SWF) Crisis Grants. (Risk of overspend) • % increase in current tenant rent arrears • An increased risk of lowered take up of Council Tax Reduction and increased arrears • Increased risk of DWP Admin Subsidy reduction • Temporary Accommodation management charges not being covered by UC Housing Costs. • Increased demand for Discretionary Housing Payments, (DHP) risk of funding gap. A reduction in DWP (UC related) funding which has been supporting, the Welfare Development Officer and additional Benefit Officer posts along with Personal Budgeting Support and Digital Assistance for UC claimants could jeopardise these elements of service delivery.	The Council has established a Welfare Reform Task Group to plan for the changes to the welfare system. The Benefit Service is continuing to make full use of additional Discretionary Housing Payment, (DHP). Council has actively lobbied in various relevant arenas – UK and Scottish Governments both directly and via COSLA which has included the Council Leader writing to both the DWP Secretary of State and Scottish Government ministers highlighting the impacts of the UCFS rollout of EL residents and Council Services. The Benefit Service continues to liaise with the DWP Housing Delivery Performance Team The Benefit Service continues to monitor its SWF & DHP expenditure. Revenues & Benefits Services engage with colleagues in other LAs/RSLs, CoSLA and DWP UC/Job Centre Plus officers to ensure a managed transition to Universal Credit is achieved. Castle Rock HA providing personal budgeting support for East Lothian UC claimants. Additional resource facilitated the purchase of software deployed to assist the Rent Income team to help manage the impact of UC on rent collection. Promotion of ELC 'Right Benefit Campaign'. DWP funding has been utilised to appoint a Welfare Development Officer and an additional Benefit Officer to assist in responding to UC pressures. Both posts are temporary for 1 year. Council Officers continue to engage with Scottish Government, MSPs/Members of the Scottish Parliament's Social Security Committee in relation to development of devolved welfare administration. Additional £100k was allocated in the Administration budget 2017/18 to help mitigate the impact of UC on rent arrears.	5	4	20	Council officers to deliver Welfare Reform briefing to newly elected Members. Council services will continue to work with the UC Project Team and continue lobbying of UC. The Benefits Service and Homelessness Team have agreed a methodology to disburse additional Scottish Government funding provided for DHP mitigation of Temp' Accommodation management fees and for the prevention of homelessness. Council services will continue to take an active role in discussions with the Scottish Government in the development of the Scottish Social Security Agency. ELC Management & staff will continue to engage with other LAs, JCP/DWP, CoSLA and Scottish Government at a range of levels.	4	4	16	Depute Chief Executive – Resources and People Services Depute Chief Executive – Partnerships and Community Services Welfare Reform Task Group	October 2017 Scottish Social Security Bill approval date May 2018. DHP & Homelessness Prevention budget review 4 October 2017 All other measures involve meetings over the next 9 months with Scottish Government and other groups as mentioned within the measures.	Risk refreshed by Service Managers – Benefits & Financial Assessments and Revenues & Welfare Support July 2017 with no change to assessment of current scores. Risk refreshed by Service Manager – Benefits, November 2016 with Current Risk Score increased from 16 to 20 due to the introduction of the Universal Credit "Full Service" since March 2016 with its inherent, underdeveloped processes etc along with other reforms coming on line, (such as Benefit Cap etc) all bringing a greater likelihood of detriment occurring, (should mitigating actions not be possible or fail to mitigate). Risk refreshed by Service Managers – Revenues & Benefits March 2016 with both current and planned scored increased to 16 due to current uncertainty.
ELC CR 2	**Financial Pressures** If the council's financial pressures were not to be successfully planned for and managed effectively over the medium to longer term (i.e. the next 3 and possibly up to 7 years), there would be a serious risk of unplanned/ reactive budget realignments with significant adverse impact on availability and quality of both front-line services and required investment in the Council's infrastructure and asset base. Over the medium term it is highly likely that the Council's income will, at best, remain static and may	The Council has well developed short to medium term financial planning arrangements. These include: • Three year General Services revenue budgets; • Six year General Services capital plan budgets; • Ten year Housing Revenue Account revenue and capital budgets. In addition, it has cost control and financial management arrangements for managing in year budget performance. Both of which provide mitigating	4	4	16	CMT/Managers continue to follow the financial strategy i.e. cost control/ cost minimisation to ensure delivery of agreed savings. This is also being monitored closely through the continued operation of the Chief Executive's Budget Review Group. Through the Corporate Asset Group and the newly formed Corporate Investment and Asset Management Group the Council will implement the approved Asset Management	3	4	12	Chief Executive Depute Chief Executive – Resources and People Services Depute Chief Executive – Partnerships and	Action ongoing and continuous review. Monitoring arrangements will continue to be applied.	Risk reviewed by Head of Council Resources and Service Managers - Finance May 2017 with Current Score reduced from 20 to 16. Risk reviewed by Head of Council Resources and Service Manager

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
	even reduce. At the same time it will have specific cost and demand pressures to deal with. These include: (1) demographic change and social-economic pressures - increasing pupil and elderly numbers; (2) general inflationary pressures and contractual commitments including pay and pensions; (3) specific cost pressures such as the affordability of the increasing number of high-cost individual care packages; and (4) potential financial costs associated with legislative changes such as a number of environmental issues, delivery of increased childcare commitments and Free School Meals for all P1-P3 school children.	controls in terms of the immediate financial risk and pressures the Council is faced with. There continues to remain significant uncertainty in terms of the longer term financial projections for the public sector with the expectation that the current austerity measures will remain in place until at least 2019/20. The current financial strategy covers the medium term planning period of the next 3 financial years however this is likely to be extended to ensure that the Council is placed to meet the future challenges if current forecasts emerge. Partnership working with Midlothian Council and other partners is being developed to increase capacity to provide services within existing resources. The Council has also made significant progress towards implementation of the new Integrated Health and Social Care Partnership with effective shadow arrangements put in place prior to 1 April 2016 and the statutory Integration Scheme is finalised. Continue to closely monitor information arising from both UK and Scottish Financial settlements through intelligence gathered from COSLA, professional bodies such as CIPFA Directors of Finance and also professional commentators.				Strategy and related action plan. CMT will continue to monitor the impact of council restructuring and service re-design that flows from Efficient Workforce Management Planning. Further consideration will be given to increasing income where possible. The Workforce Development Plan is a key part of the Council's response to increasing financial pressures. It aims to support transformational change, build and sustain leadership and management capacity, sustain a skilled, flexible and motivated workforce and develop the workforce for the future. The Chief Executive has established a sub-group to the CMT that will oversee delivery of a programme of strategic change projects that will help improve services and secure planned efficiencies.				Community Services Head of Council Resources Council Management Team		Business Finance May 2016 with no change to assessment of current scores. Risk reviewed by CMT in May 2014 and current score increased from 15 to 20.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 3	**Information Security and Data Protection** Failure to have comprehensive council wide Information Security Management (ISM) measures in place will put at risk the availability, integrity and confidentiality of the councils information and may cause a Council wide failure of central I.T. systems (incl. Telephony) caused by a malicious attack by hackers, virus, trojan, disclosure of information or Fire/Flood event. Attacks via spam emails containing infected ransomware attachments are on the increase amongst local authorities and should these emails manage to break through Firewalls and Intrusion Detection Systems there is a high possibility of file encryption at both a local and network wide levels. The Cabinet Office has introduced zero tolerance for all LA's connected to the Public Sector Network (PSN). All Scottish LA's use the PSN to register Births, Marriages & Deaths and connection to DWP for benefit provision. We have to re-accredit to this network every year and must meet stringent requirements. Failure to do so would mean disconnection from the PSN. Breach of the Data Protection Act, other confidentiality requirements, any relevant laws or duty of care through the loss or wrongful transmission of information (including information stored electronically) could result in - harm to individuals; - legal action; - fines of up to £500,000. - requirement to pay compensation; - adverse publicity; - damage to reputation.	The Council uses the international standard ISO 27001:2014 as the framework for its ISM system. This includes objectives, policy framework, internal audit, management support and treatment, training and awareness, risk assessment, measurement of effectiveness, management review, non-conformity management and continual improvement. As part of the security controls required by the standard to mitigate risks, several control areas are set out : IS policy; Information security organisation; Human resources security; Asset management; Access controls and managing user access; Physical & Environmental security of all sites/equipment, Secure communications, Data handling and Data Protection (including paper documents etc); Secure acquisition, development, and support of information systems; Security for suppliers and third parties; Information Security Incident management; Business continuity/disaster recovery (to the extent that it affects information security); Compliance - ELC takes measures to avoid breaches of law, statutory, regulatory or contractual obligations (incl. DP Act and Public Records Act). There is a Council Information Security (IS) Forum hosted by the IT Security Officer. IS, DP and Records Management Awareness training now forms part of our induction process for new employees. Data Protection and IS awareness training is mandatory for all employees and must be renewed every two years. IT health checks on the existing infrastructure are carried out annually. New systems being introduced to our infrastructure are risk assessed and security checked before introduction to ensure they meet criteria. The Information Compliance Officer carries out a series of "health checks"/audits in various Council departments to ensure compliance and to improve practice. Compulsory Online Data Protection Training rolled out to all employees and repeated every 2 years. The Council's Records Management Plan covers how the Council manages its records and includes links to our information security and data protection policies.	4	4	16	Annual approval of Progress of Records Management Plan by The Keeper is sought. Upgrade of external facing systems taking place in 2017/18 to increase security of our internet facing gateways. Acceptable use policy for all ELC employees is to be refreshed during 2016 and all employees will be expected to sign.	3	4	12	Depute Chief Executive – Resources and People Services Head of Council Resources Depute Chief Executive – Partnerships and Community Services	August 2017 March 2018 December 2017	Risk further reviewed and updated March 2017 with no change to assessment of current scores. Risk further reviewed and updated May 2016 with no change to assessment of current scores. Risk reviewed March/April 2015 with new measures now in place although risk score remains at 16 due to the increase of attacks via spam emails containing infected ransomware attachments amongst local authorities.

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			L	I	L x I		L	I	L x I			
ELC CR 4	**Public Sector Reform** Major elements of public sector reform have been or are being implemented including: • Integration of Health and Social Care and creation of a new H&SC Partnership; • Implementation of the Community Empowerment (Scotland) Act 2015; • New legislative duties in relation to procurement, regulation, and children and young people. However, the Scottish Government and the Accounts Commission have reflected that the pace of public sector reform across the Scottish public sector is slower than they had expected. Following the Scotland Act 2016 there is continuing uncertainty about the future governance of Scotland, the future structure and governance of local government and the public sector and continuing pressure on public finances. The Scottish Government's legislative programme includes further proposals that, if implemented, could further centralise control over, and reduce the powers of, local government. Such proposals include moving responsibilities and funding for education and schools from Councils to Head Teachers; creating new 'educational regions'; decentralising local authority functions and budgets; setting arbitrary targets for devolving funding; and, further review and reform of community planning. The cost of implementing changes arising from legislation is not always fully reflected in Scottish Government funding. In addition, the Scottish Government's commitment to protect and increase funding in priorities such as health and education run the risk of further eroding Scottish Government funding for other local government services. The local authority is responsible for the implementation and delivery of the Scottish Government's commitment to expand the provision of funded early learning and childcare from 600 hours to 1140 hours by 2020. The expansion and implementation of the 1140 hours early learning and childcare provision will require a transformational change in how early learning and childcare is delivered and has implications for the future funding arrangements for ELC. The expansion to 1140 hours ELC will create additional workload, a requirement to invest in infrastructure to create new and expand existing early learning and childcare settings, develop new service delivery models, develop new accountability and quality assurance arrangements in line with the Scottish Government's Quality Action Plan, and create and plan for a more flexible and diverse workforce to meet the Scottish Government's principles of flexibility, quality, affordability and accessibility.	Effective working relations with key partners including Police Scotland, Scottish Fire and Rescue Service, NHS Lothian and the voluntary sector are being further developed through East Lothian Partnership and bi-lateral meetings and arrangements to prepare for public sector reform. The Council Management Team and Council or Cabinet receive reports on the implications of the reform proposals and on the Council's preparations, which are led by the Chief Executive and other senior officers. Responses to the Scottish Government on consultations around public sector reform are prepared and submitted as required. Financial and resource scoping is carried out as required. The Integration Joint Board has been established along with appropriate governance and scrutiny arrangements. The Community Planning Partnership structure provides a more strategic focus for the East Lothian Partnership including early intervention, tackling inequalities, joint resourcing, and joint asset management. This was tested by a Self-Assessment carried out with the support of the Improvement Service which resulted in an Improvement Plan. East Lothian Partnership is developing a new East Lothian Plan that will meet the requirements set out in the Community Empowerment (Scotland) Act 2015 to have a Local Outcome Improvement Plan. CMT and elected members work together to ensure that the Council is prepared for future public sector reform and differing scenarios for future governance, financial, operational and performance management arrangements are explored in order to minimise risk. Area Partnerships now established and will be supported to enhance local service delivery. The Council is developing processes to deal with its new duties and responsibilities arising from the Community Empowerment (Scotland) Act 2015 such as responding to Participation Requests. The Council's Transformation Programme will provide resilience to assist to respond to public sector reform. East Lothian Council has established an ELC 1140 hours Project Board to oversee the delivery of the expansion to 1140 hours by 2020. The Early Years Service, assisted by the Transformation Team is working collaboratively with a range of relevant partners to take forward key aspects of the implementation and expansion plan. The Early Years Service are members of the South East Inter Authority Alliance Early Learning and Childcare Group working collaboratively to support the delivery of the 1140 hours implementation and expansion programme.	4	4	16	Continue to monitor developments in the Public Sector Reform agenda and Scottish Government's legislative programme and develop responses to exploit potential benefits from, or mitigate potential negative impacts of, different future scenarios. Maintain regular communication with employees to manage any uncertainty in times of change.	4	3	12	Chief Executive	March 2018 March 2018	Risk further reviewed and updated April and August 2017 with no change to assessment of current scores. Risk reviewed and refreshed May 2016 with Current Risk Score increased from 9 to 16.

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			L	I	L x I		L	I	L x I			
	Existing public sector reforms and new reforms expected in the lifetime of the next term of SG create uncertainty, additional workload, a requirement to restructure services and create new accountability, governance, scrutiny and partnership arrangements. The Scottish Government's proposal to hold a second Independence referendum causes further uncertainty in the public sector landscape.	Senior leaders from across Council Services are represented on key National groups to inform and shape aspects such as revised national guidance and funding arrangements.										
ELC CR 5	**Limitation (Childhood Abuse) (Scotland) Bill** On 16 November 2016 Scottish Government introduced the Limitation (Childhood Abuse) (Scotland) Bill to remove the three year limitation period for civil actions arising out of childhood abuse (defined to include sexual abuse, physical abuse, and emotional abuse) relating to children who have been in the care system. This means that survivors will no longer have to persuade a court to exercise its power to allow an action to proceed notwithstanding the three year limitation period. In conjunction with the Scottish Child Abuse Inquiry which started on 1 October 2015 there is an increased likelihood of claimants coming forward. This could potentially result in severe financial implications if historic allegations of child abuse are made and upheld against East Lothian Council. There is no way of knowing how many claims may be made nation-wide (i.e. all 'living' potential claimants), however, if there are any local claims to East Lothian it has been established that it is unlikely the Council will have an insurance policy to cover any claims. Any compensation payments would therefore normally be met by the Council unless other national funding is made available through the Scottish Government.	SCAI Oversight Group – East Lothian co-ordination of responses, reported strategically, managed flow and collaboration. Close monitoring of the work of the Scottish CAI itself and review of any published materials. Records Management Expertise allows us to respond effectively to information requests / provide evidence. Cross Lothian collaboration on Lothian Region period 1975 to 1996 (and predecessor authorities) re records management etc. Accurate records post 1996 relating to East Lothian Council clients. Scotland-wide networking and information sharing on SCAI between authorities. Council Financial Reserve – may reduce the impact to service provision if claims extend beyond budget. Continue current working practices with care experienced young people in accord with national legislation and care standards, reducing likelihood of any 'new' claims arising.	4	4	16	SCAIOG report to CMT – to sustain level of awareness of risk. Establish ELC as 'Risk Owner' to reflect the organisation risk faced by ELC. Lobby COSLA and Scottish Government re provision of a Financial support/national settlement fund. Angela - Legal challenge through COSLA?? Explore and lobby Scottish Government to consider the powers of the Apology Act to provide a 'non-financial' outcome to the accusation process – if handled appropriately. Establish ELC liability insurance cover arrangements, including historic Municipal Mutual funds availability. Review case law nationally to establish 'who' is liable i.e. the Placing Authority or Placement Operator.	3	3	9	East Lothian Council	Quarterly Report to CMT	New risk created March 2017.
ELC CR 6	**Flooding and Coastal Erosion** As the incidence of flooding and coastal erosion increases as an impact of Climate Change, there is an increased risk of disruption to road and path networks, impact on public safety, damage to roads, property, harbours and natural heritage sites and an associated increase in claims against the Council.	Flooding and drainage issues are considered when processing planning applications. Inspection regimes and good housekeeping measures in place. The Severe Weather Response Plan has been developed and ensures a co-ordinated and consistent multi-agency response across the county. Emergency surface water, coastal and river flood procedures in place and have proven effective. Shoreline Management Plan has been produced and Flood Risk Management Strategy and Plans have been published to meet the requirements of the Flood Risk Management (Scotland) Act 2009. Flooding advice is on the Council website and directs people to the relevant pages on the SEPA website. The Council is working with various organisations to promote and progress "Resilient Communities" as per the Scottish Government initiative "Ready Scotland". Communication with vulnerable groups regarding access and assistance during severe weather events.	4	4	16	ELC have commissioned Flood Studies for Haddington and Musselburgh and are progressing a Flood Protection Scheme on the River Esk through Musselburgh. Flood Protection Schemes for Musselburgh and Haddington have been included in the List of Prioritised Actions in SEPA's Flood Risk Management Strategy and the Local Flood Risk Management Plan for the Forth Estuary Local Plan District. The implementation of Flood Protection Works is reliant on funding availability. Currently, these two schemes will be funded in the 2016-2022 planning cycle.	3	3	9	Depute Chief Executive – Partnerships and Community Services Depute Chief Executive – Resources and People Services	2024 2016-2022	Risk further reviewed and updated March 2017 with no change to assessment of current scores.

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			L	I	L x I		L	I	L x I			
ELC CR 7	**Failure to maintain a Highly Skilled Workforce** While private sector wages are beginning to increase the public sector pay rates remain at a lower level with little chance of comparable rises. The Council's salary and grading structure may not be competitive against other local authorities and the private sector making it more difficult to recruit qualifies staff to certain posts. The high number of specialist roles/skills within the Council means that service reviews, budget restrictions, long-term absence, cessation of contract etc. could compromise service delivery. Reduction in skilled, qualified and experienced workforce would result in an inability to provide good quality services, increased pressure on existing staff and increased likelihood of poor operational performance. The age profile of the Council staff is a concern as a large proportion of the workforce is aged over 55 years and many staff with significant knowledge and experience could leave the Council leaving the Council at risk in key areas. There is a risk that the Council will not be able to provide the significant investment in time and resources required to ensure staff maintain their professional and continuing personal development requirements in regulated services such as education and social work, but also to ensure that staff across all services are up-skilled and supported to develop their careers within the Council.	The Council's People Strategy and Workforce Development Plan provide the basis for addressing workforce capacity; these are informed by the Employee Engagement Survey, Investors in People Assessment, Age Profiling and Labour Turnover Data. Service Reviews take account of requirement for skilled workforce to deliver services. Key employment policies are monitored to ensure maximum effectiveness to meet operational needs: Recruitment & Selection, Pay & Grading, Managing Attendance and Performance Review & Development. Development programmes to ensure effective management and development of the workforce e.g. Management training (Chartered Management Institute level 3 and 5), Graduate Programme, Internship Programme, Modern Apprenticeship Programme, School/Work Placements Programme, Skills Academies. 'Specialist' work and contingency measures such as cross-training, shadowing, alternative 'backup' provision and support arrangements made available to 'grow' capacity. Staff encouraged and supported to work collaboratively where appropriate to share skills, experience and knowledge. Employee Wellbeing Programmes in place to support staff and provide a range of employment opportunities including New Ways of Working, Worksmart Policy, Flexible Working Policy, Healthy Working Lives and Employee Benefits such as car leasing scheme, bike buying scheme, and childcare vouchers. Employees have access to the relevant pension scheme, either Lothian Pension Fund or Scottish Teaching Pension Scheme. Investors in People and Investors in Young People aide workforce retention and attraction, and positively influence the workforce age profile. Extensive workforce development and e-learning opportunities are available; with greater use of social media as the prime means of employee communications outwith team briefing and individual supervision opportunities available to all staff. EL Works working in partnership with schools and Edinburgh College to ensure skills supply keeps pace with demand and there are improved opportunities to support people into employment. EL Works supporting increasing numbers of paid work experience, Modern Apprenticeships, Foundation Apprenticeships, Graduate Apprenticeships and work placements. Investors in Young People accolade ensures the council is recognised as a great place for young people to work. EL Works supporting young people in the council to champion the process.	4	3	12	Review the Council People Strategy and develop a Workforce Plan, which will incorporate the Workforce Development Plan, and employee benefits. Provide series of recruitment selection policy training and practical skills workshops sessions for managers to maintain rigour and robustness of the recruitment process. Promote better use of the Exit Questionnaire across Services and develop the process further to allow the Council to capture departure trends more efficiently. This will enable the Council to put measures/actions in place where practical which will introduce alternative career paths which may negate the need for our people to seek alternative careers outwith the Council. Currently Reviewing Pay and Grading model to take account of the implications of the living wage on the erosion of differentials between skill sets. To ensure existing performance levels are at least maintained performance management issues are addressed at the early stages with appropriate training and support to address identified skills gaps. Where there is insufficient improvement the formal performance management process should be initiated with support from the HR Team as required. Creation of a Professional Development framework which can be applied where appropriate across Services where future skill gaps have been identified e.g. pending retirements/ lack of suitably qualified and experienced professionals in the market place etc. This helps ensure the necessary skill set is available to meet future service needs through the creation of professional trainee route. Whilst the policy to appoint to the first point of the scale will remain the default position, this will be relaxed in hard to fill posts on receipt of business case. Exceptionally, posts could be advertised without notification of appointment to first point of the scale as the norm.	3	3	9	Service Manager HR & Payroll Service Manager Corporate Policy & Improvement	October 2017 March 2018 March 2018 March 2018 Ongoing March 2018 Ongoing	New risk created May 2016 and further revised July 2017 with no change to assessment of current scores.

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ELC CR 8	**Duty of Care to Public and Public Protection** The Council has a responsibility to provide care and support for the people of East Lothian and East Lothian's environment. Any breach of this duty of care may compromise legislative duties, health, safety and wellbeing, impacting on, for example, the protection of children and adults. Failure to fulfil the duty of care could also result in serious harm/death to an individual/s, prosecution, having to pay compensation and have a negative impact on the reputation of the Council. A failure to secure efficient and effective Public Protection arrangements, covering Child Protection, Adult Support and Protection, Offender Management, Violence against Women and Girls and Substance Misuse services, may see the Council being unable to fulfil its statutory duties/duty of care which could contribute to a service user suffering harm/death or detriment. This would in turn result in reputational damage to and increased scrutiny of the Social Work services. The duty of care is at the heart of the Council's approach to risk management. The likelihood of this risk occurring is influenced by a range of factors including: (1) Complexity of service delivery, infrastructure, environment and partnership arrangements across the Council services; (2) Increasing population and the number of vulnerable people in East Lothian; (3)Increased population and more complex service demands presented by an increasing number of service users whilst resources have reduced (4) Levels of deprivation in East Lothian; (5) Capacity in partnership and purchased services.	The East and Midlothian Public Protection Committee (EMPPC) was established in July 2014 to incorporate the Adult Protection Committee, Child Protection Committee, Offender Management Committee and Violence Against Women Partnership and to ensure robust links with Midlothian and East Lothian Drug and Alcohol Partnership (MELDAP). Review of Violence Against Women and Girls Services concluded and recommendations were agreed in July 2017. Governance and scrutiny arrangements in place through Critical Services Oversight Group (CSOG), including Self Evaluation. The Public Protection Office Business Plan is reviewed six monthly by CSOG. East Lothian and Midlothian Public Protection Strategic Business Plan 2014-18 approved by CSOG 03/12/15. The business plan 2015-2018 is a working document and exceptions are reported to EMPPC / CSOG on a quarterly basis. Policies, Protocols, Procedures and Guidance are in place and available on Public Protection website www.emppc.org.uk. Chief Social Work Officer (CSWO) fulfils statutory role and responsibilities, overseeing and reporting on Public Protection issues to Chief Executive and Elected Members, reporting annually to Council giving oversight of Public Protection performance including assessment of risks and pressures. The Council delivers services within a comprehensive framework of business control arrangements i.e. Single Outcome Agreement, Council Plan, Service Plans, Service Business Continuity and Risk Management Plans, CONTEST and a suite of corporate health and safety policies. This framework provides a robust control and ongoing review for public duty of care and public protection risks. The Council employs staff through robust recruitment policies including pre-employment vetting through Disclosure Scotland and the Protecting Vulnerable Groups scheme. The Council continues to work towards delivering the UK Governments Counter Terrorism strategy, known as Prevent, Contest. All employees access appropriate training/E-Learning covering core Public Protection and Health and Safety training e.g. GIRFEC, Child Protection, Prevent, Adult Protection and Health & Safety. All Regulated Services e.g. Homes for the Elderly, Schools are inspected by Care Inspectorate and HMiE. Action Plans are implemented following on from all Regulated Services inspections.	3	4	12	Ongoing review of the Public Protection Performance Framework through the EMPPC Performance & Quality Improvement Sub Group. New obligations of the Children & Young People Bill introducing the 'Named Person' role will be further developed and implemented during 2016/17. Assess implementation of Adult Support and Protection procedures across partnership services to fully embed procedures in practice meeting legislative duties. Suite of Health and Safety Management Arrangements being introduced. The East Lothian and Midlothian Public Protection Strategic Business Plan will be refreshed and a new one signed off in 2018.	2	4	8	Chief Executive Critical Service Oversight Group Depute Chief Executives Director of East Lothian Health and Social Care Partnership Heads of Service Chief Social Work Officer Public Protection Office Health and Safety Team Emergency Planning and Risk Management Team	May 2017 March 2018 March 2018 March 2018 March 2019	Risk further reviewed and updated August 2017 with no change to assessment of current scores. Former Public Protection and Duty of Care to Public Risks combined and reviewed May 2016. Current risk score reduced from 16 to 12 and Predictive Risk score reduced from 12 to 8 as likelihood reduced. Risk reviewed and updated April 2015 by CMT with further review planned throughout 2015/16.

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ELC CR 9	**Duty of Care to Council Staff (Health & Safety)** East Lothian Council has a duty of care to all its employees across the full range of services and those who can be affected by the Council's activities. Any breach of this duty of care may affect the health, safety and wellbeing of the Council's employees leading to increased sickness absence, pressures on service delivery with the added potential for claims against the Council for incidents involving employees or non-employees. Lone Working Failure of the Council to provide employees with effective Lone Working Arrangements and the appropriate training could result in injury or death to those employees resulting in H&S prosecution, civil insurance liability, reputational risk, increased sickness absence and pressures on service delivery. Safe Driving at Work "Health and Safety Law applies to on the road work activities as to all work related activities and the risks should be managed within a health and safety management system". Failure to implement and maintain a Safe Driving at Work (SDAW) Policy and Guidance to ensure that the Council meets current Health & Safety guidelines could result in the Council facing legal action if a serious road accident were to take place involving any driving operation undertaken by employees, Elected Members, volunteers, agency workers or other authorised parties using personal, Council or hired vehicles, as well as any driving Council fleet vehicles, in connection with Council business.	All employees receive an induction, have job outlines and follow the PRD process ensuring all are capable and trained to perform safely in their roles. Quarterly Joint Health and Safety Committees oversee the Health and Safety Agenda of Council. This is supported by Departmental committees examining health and safety at a department level. Quarterly reviews of Occupational Health Service referral levels take place. Monthly Occupational health contract and work level review takes place along with a review of service need and demands. Revised Managing Attendance Policy in place since January 2017. Workshops (by HR Team) for Managers undertaken prior to and after release to ensure all are familiar with the revisions. More robust scheme which will help to identify any employee health and wellbeing issues earlier to enable managers to put appropriate support mechanisms in place. Managers' guidance notes issued and HR Team available to support Managers as required. Risk assessments carried out to identify significant workplace hazards and to establish suitable workplace controls e.g. safe systems of work. Safety Management System in place and supported by audit and inspection programme across the Council. Health and Safety Training needs are identified from project plans and Risk Assessment Findings. Managing attendance and Managing sickness Absence Policies in place. Training for managers in managing attendance and sickness absence in place. An ongoing programme of HWL initiatives rolled out across all Services promoting health and well being in the workplace. 24/7 Employee Assistant Programme in place available to all employees. Physiotherapy available and OH service in place. Lone Working Information on Lone Working is part of the Service Level Induction process. Lone Working employees who require access to the lone worker system have received training on the use of this. Specific procedures are in place in services with a high level of lone working such as Children's Wellbeing and Revenues, including risk assessments, electronic diaries, mobile phones and signing in/out books. Lone workers register and use the Corporate Lone Working System operated through the Contact Centre. Revenues & Welfare Support lone workers are allocated a Reliance personal alarm that provides 24/7 monitoring using GPS. Lone workers can be tracked via a dedicated website and are able to raise	3	4	12	Explore implementation of Vehicle Tracking system into Fleet Vehicles used by lone staff working directly with clients. Imminent re-specification and re-tender of the Contact Centre Client Management System, hosting the staff lone working component, in progress to sustain lone working system and process. Review and redraft of Gender Based Violence policy nearing completion. Review SDAW Policy and Guidance through the SDAW Group.	2	4	8	Depute Chief Executive – Partnerships and Community Services Head of Children and Adult Services Service Manager – Revenues SDAW Group Health and Safety Team Human Resources Public Protection Office	September 2017 September 2017 September 2017 November 2017	Risk reviewed and updated April 2017 with no change to assessment of current scores. Risk refreshed December 2015 by CMT with current residual score reduced from 15 to 12 and planned score reduced from 10 to 8. Risks on Lone Working, Safe Driving at Work and Duty of Care amalgamated into one Duty of Care (H&S of employees) Risk in May 2014 at the request of CMT.

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		an alarm by activating their device. This service is also being utilised elsewhere within the organisation. http://www.relianceprotect.co.uk/our-service/devices/ A Potentially Violent Clients Register has been set up which enables the sharing of information relating to potentially violent clients across customer facing teams allowing managers to identify and implement control measures to protect employees from harm. Safe Driving at Work A Safe Driving at Work Policy and a Guidance Manual has been completed by the SDAW Group to ensure that safe driving principles are embedded across the Council. This policy is now available online for all Managers to utilise. Arrangements are in place to ensure the reporting and recording of all accidents and incidents arising from work related driving as well as identifying and implementing remedial actions following road traffic accidents. Council vehicles used in the course of Council activities are properly maintained and fit-for-purpose. All Council vehicles over 3.5t are maintained in accordance with VOSA publication "Guide to Maintaining Roadworthiness".										
ELC CR 10	**Contest** Deliver the UK Governments Counter Terrorism (CT) strategy, known as CONTEST. All Local Authorities in Scotland are required to comply with the statutory legislation issued under section 24 of the Counter Terrorism and Security Act 2015. Failure to discharge this duty could result in the Secretary of State issuing a direction to the Council via the powers within the act and would also result in a loss of reputation and negative publicity.	Multi agency 'J' Division CONTEST Meeting attended by East Lothian Council representatives. ELC has established a CT WG chaired by the Deputy Chief Executive with members consisting of the CMT and Police Scotland. ELC has appointed a senior members of staff as SPoC and Deputy for Prevent as per guidelines and has also appointed a SPoC for Prepare and Protect. Under Protect the CMT are prepared for the Government to raise the Security Level to Critical. This includes ensuring BC plans are fit for purpose. ELC follows and contributes towards the 'J' Division Contest group implementation plan. Training gap analysis completed in respect of Prevent. Education personnel are fully engaged with Prevent and appropriate filters have been installed on the Education infrastructure. ELC Managers have received Prevent training. E Learning (level 1) training package available to all staff.	4	3	12	Programme of awareness training and delivery of packages such as WRAP/ACT Now training to be followed in ELC. A good level of engagement to be sustained with Community Planning Partners. Head of Education to progress Prevent training for staff and pupils. Prevent reporting process will be established.	2	3	6	Chief Executive Depute Chief Executives Council Management Team	March 2018 December 2017 September 2017 December 2017	New risk created May 2016 and further reviewed April 2017 with no change to assessment of current scores.

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			L	I	L x I		L	I	L x I			
ELC CR 11	**Severe Weather** There is a risk that an extended period of severe winter weather will lead to an increase demand for gritting and snow clearing of roads/footpaths which exceeds normal capacity and supplies of salt. This could result in travel disruption, difficulties for people in accessing services, failure to maintain refuse collection timetable and school closures at short notice as well as a possible increase in insurance claims related to pothole damage.	East Lothian Councils Winter Maintenance Plan has been in place for some time and ensures that the main transport routes are treated as priority. The ELC Severe Weather Response Plan has been developed over the past few years and ensures a co-ordinated and consistent multi-agency response across the county and is reviewed annually. Claims protocol in place within the Insurance section. Council's Salt Barn has a capacity of 8,000 tonnes to meet demand arising from severe cold weather. Snow clearing equipment has been supplied to Primary Schools. Snow clearing equipment has been offered to Community Councils with some taking up this offer. A number of grit bins are provided to enable self-help gritting of adopted roads and footways. Winter Maintenance operatives are trained to SVQ or equivalent in winter gritting and snow clearing. Winter Maintenance Duty officers trained as Winter Service Supervisors to City and Guilds level. Guidance and information on ELC website. Several Community Councils have started to create or have created their own emergency response plans or asset registers of volunteers and skills available at a time of crises. ELC now finance all 20 Community Councils annual insurance premiums ensuring that Insurance is not perceived as a barrier to invoking such plans. The Council continues to work with the Community Councils and other voluntary groups including Tenants and Residents Associations to promote and progress "Resilient Communities" as per the Scottish Government initiative "Ready Scotland". Training and awareness sessions for staff. Training and exercising with partner agencies.	3	3	9	A workshop, hosted by East Lothian Council, to further progress Resilient Communities, for the benefit of Community Councils and other voluntary organisations, is planned to take place in 2018.	3	3	9	Depute Chief Executive – Partnerships and Community Services	September 2018	Risk refreshed March 2017 with no change to assessment of current scores.

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			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 12	**Carbon Management** There is a risk that the Council may fail to meet its public bodies duty under the Climate Change (Scotland) Act 2009 to reduce its carbon emissions, adapt to climate change and endeavour to act sustainably. Failure to mainstream and embed action to address climate change issues may harm the Council's reputation (in terms of corporate social responsibility) and increase the potential for unbudgeted costs and financial penalties. Such an example is the Carbon Reduction Commitment (CRC), which is essentially a carbon tax. In 2014/15, the CRC was extended to include emissions from street lighting. Additionally, the CRC cost per tonne of carbon emitted from energy and street lighting rose from £12 to £16 per unit.	A Climate Change Planning and Monitoring Group has been established, under the East Lothian Partnership (inaugural meeting February 2015). The Group will play a critical part in driving and coordinating the work of the Partnership to meet its climate change obligations and commitments. The Group will be responsible for developing and monitoring a Climate Change Strategy to replace the Environment Strategy and the Carbon Management Team will update the Carbon Management Plan (2009-14, extended to 2015). Supporting the work of the Group will be a number of delivery subgroups, a number of which already exist (e.g. Carbon Management Team). The Subgroups will be tasked to implement relevant plans and projects identified in the Climate Change Strategy. An Energy Transformation Board has been formed, which has been tasked to look at generating income from installing low carbon technologies across the Council's estate. One of the key commitments of this group is to produce a Sustainable Energy and Climate Action Plan. Area Partnerships serving the six cluster areas of East Lothian were established in 2014, providing the main opportunities for local communities to contribute to the East Lothian Plan and influence service planning and delivery in their area. Each Partnership is responsible for developing a strategic level area Plan, linked to the priorities in the ELP, which will be delivered by partners and involve local communities. Sustainable travel has been identified as a key priority across all the Partnerships.	3	3	9	Develop a Climate Change Strategy, update the Carbon Management Plan and produce a Sustainable Energy and Climate Action Plan. Develop an Active Travel Improvement Plan, with input from the 'East Lothian on the Move' events held within each Area Partnership, as part of the Local Transport Strategy.	2	3	6	Depute Chief Executive – Partnerships and Community Services	March 2018 March 2018	Risk refreshed February 2017 by Sustainable Development Officer with no change to assessment of current scores.
ELC CR 13	**Development Plan** Failure to maintain an up-to-date Local Development Plan could lead to a shortfall in the effective 5 year housing land supply to meet the needs of our growing population and a lack of control over planning decisions due to planning by appeal. This could lead to unplanned development at odds with the Council's planning strategy for East Lothian, and consequent reputational damage. It could also contribute towards the Council not being able to achieve its Council Plan objectives – Growing our Economy and Growing our Communities – and related Single Outcome Agreement objectives. The Local Development Plan is also required to support and guide the provision of infrastructure required to meet the needs of our growing population and growing economy.	Additional planner recruited during 2016, however, in fulfilling peak workload tasks staffing levels and other resources are stretched. Finalisation of the proposed Local Development Plan for examination is part of a Planning Business Plan objective (ongoing review). Details are set out in the Local Development Plan Scheme with timescales (to be reviewed by April 2017). Detailed timeline drawn up for LDP examination. ELC and SESplan Development Plan Schemes commit to a programme of Development Plan Scheme review (reviewed annually). SESplan Joint Committee, Project Board and Steering Group guide joint authority preparation of Strategic Development Plan for Edinburgh and SE Scotland. Community Planning Partnership liaison and involvement through East Lothian Strategic Land Use Planning Group. Proposed LDP approved September 2016, Schedule 4 responses to representations approved March 2017. This gives a basis to consider the principle of	4	2	8	Schedule 4 submissions agreed by Council without modification. Close liaison with DPEA to ensure timescale for submission for examination is minimised.	3	2	6	Head of Development	September 2017	Risk Refreshed by Head of Development and Service Manager – Planning March 2017. Current risk score reduced from 12 to 8 and Predictive risk reduced from 8 to 6 due to implemented measures over past 12 months. Risk Refreshed by Head of Development and Service Manager – Planning February 2016. Current risk score reduced from 15 to 12.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
		housing development on sites that may contribute to a 5 year housing land supply, subject to technical assessment including cumulative impacts. A fully collaborative and corporate approach prioritises the Council's case for Examination of the proposed plan. Work on schools consultation(s) and transport modelling completed. Infrastructure constraints identified collaboratively in accordance with proposed plan development work and integrated in terms of future financial planning. Housing Land Supply: Interim Planning Guidance as updated approved by East Lothian Council 23 February 2016.										

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 14	**Business Continuity** Non availability of: • premises, through fire, flood or other unexpected incident; • key staff or significant numbers of front-line staff for any reason including a Pandemic; • systems (IT, telephony, power failure etc); • any form of transportation due to a fuel shortage. The occurrence of any of these may have an adverse effect on the Council to function fully and to complete critical services and statutory requirements.	Business Continuity Framework Plan in place and regularly reviewed. Business Continuity Plans are maintained for all service areas, giving details of minimum levels of staff, alternate locations, exercise and review dates and version control. The Chief Executive has a statutory responsibility for the ELC BC process. The Heads of Service remain responsible for ensuring the BC process is completed within their area of work. Each service area now has a Single Point of Contact (SPoC) and deputy who are responsible for, their services BC Plan, exercising this plan and ensuring it is maintained. All BC Plans are managed through Continuity² Software. ELC staff have access to an e-learning package on Business Continuity. IT –specific disaster recovery arrangements in place for the critical systems – telephony, e-mail and social care. These have duplicate servers in place off site which can be brought into action if ELC lost its main data centre at JMH. An IT Disaster Recovery Plan is in place and will be regularly updated when any changes take place in the main data centres. For single server failure - there are over 100 systems now running on virtual servers which automatically fall over to another server if there are hardware issues. Controls that are in place to prevent and limit the effects of IT system unavailability including firewalls, anti-virus software, system/ data backup routines, and resilience in the form of a back-up generator for the main data centre at JMH. The Council has a Fuel Plan in place and is able to call a Fuel Group at anytime. Fuel supply is held at our depots and can be sourced externally from local fuel service stations and through shared services with other Local Authorities. Regular monitoring of current fuel stock and assessment of any weather predictions, political developments or industrial action etc that may affect fuel availability.	2	4	8	Progress Business Continuity ‘alternative accommodation’ plan and a ‘site specific’ plan. Organise and plan a full real time exercise, involving a facility (possibly JMH) to test the ELC BC plans.	2	3	6	Depute Chief Executive – Partnerships and Community Services Depute Chief Executive – Resources and People Services	March 2018 November 2017	Risk refreshed April 2017 with no change to assessment of current scores.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 15	**Corporate Events Management** Effective preparation and co-ordination across a number of services, for high profile events coming to East Lothian is essential and failure to achieve this could result in a risk of adverse reputational impact for the Council on a national/international level as well as possible legal procedures at fatal accident enquiries accounting for our action or non-action. COSLA, Police Scotland and the Health & Safety Executive (HSE) recommend that Local Authorities form a core group, led by a senior officer, who will meet to discuss all events taking place within their area over a pre determined period of time. This group would include the blue lights and other appropriate organisations and decide if each individual event should be organised through a separate, specific Safety Advisory Group (SAG) or if the event can carry on without interference, other than appropriate safety advice. The following criteria would be considered by the 'over arching' SAG: • Status of the principal e.g. HM Queen • Status of the event organiser e.g. Scottish Defence League • The size of the crowd or the number of spectators • The profile of the event e.g. North Berwick Highland games. • The requirement for a TTRO • At the request of one of the partner agencies • At the request of an event organiser The council is involved in events as they tend to take place in Council parks or on our roads and the Council issues licenses and permits for events. The Council also has a statutory role in enforcement /inspection (building control, food hygiene etc.) and will help the organisers with traffic management. If the event organisers fail to have the correct licences in place then it is them that face the risk of criminal prosecution.	The Council now has a SAG policy and a Senior Officer – Events Co-ordination in place who is now the Single Point of Contact (SPOC) to overview events and event notifications, awareness and assessment to support overarching SAG meetings and Corporate Events Management Group meetings and the actions that flow from these. Corporate Events Management Group in place and hold regular overarching SAG meetings (monthly) to decide which events require specific SAG. Strategic SAG Group meetings co-ordinate preparation for various events as per event schedule, with representation from all relevant Services areas and Multi-Agency Partners. Council staff involved in events have considerable experience and proven track records in organising and managing events. Event guidance for organisers of events is published on the Council website. Where a SAG group is set up, for a specific event, it has no statutory power to stop it taking place; however, it can withdraw its support and co-operation which means that the event cannot proceed. This is especially true in terms of their insurance cover. Police Scotland will always provide the final advice on public safety.	2	3	6	Senior Officer – Events Co-ordination and Line Manager to attend SAG training and liaise with other Local Authorities and COSLA to determine and introduce 'best practice'. Events Guidance Manual to be completed and put online with information on Insurance, Communications, Travel Plans (bus routes) and Council and External Contact information.	2	3	6	Depute Chief Executive - Partnerships & Community Services Head of Service (Development) Service Manager – Protective Services Team Manager, Economic Development	September 2017 September 2017	New risk created May 2016 and updated April 2017 with current score reduced from 12 to 6 and residual score from 8 to 6 due to implemented measures, chiefly new Senior Officer – Events Co-ordination and SAG process in place.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 16	**Equality** Failure to meet duties and legislative requirements of the Single Equality Act 2010. The Single Equality Act 2010 and related guidance places a general duty on public authorities to be active in promoting equality, eliminating unlawful conduct and fostering good relations. It also places specific duties on public authorities to • report on mainstreaming the equality duty; • publish equality outcomes and report progress; • assess and review policies and practices; • gather and use employee information; • publish gender pay gap information; • publish statements on equal pay; • consider award criteria and conditions in relation to public procurement; • publish in a manner that is accessible. In late 2017 or early 2018, the Scottish Government are expected to introduce a 'socio- economic duty'. This will require the Council to consider the impact of our work on those living in poverty. The Council will need to respond to the full requirements of this new duty and raise awareness of the requirements on the Council. There is a risk that the Council may not be able to meet its general or specific duties and in particular at a time when difficult budget decisions are having to be made that there will be cuts in services or increases in charges that have a disproportionate impact on people who may need those services most because of their equality background. The Council would be open to legal challenge of not meeting its duties and in particular of not carrying out adequate assessment of impact of policies and budget decisions.	ELC Equality Plan in place and available online. A revised Equality Plan will be produced in 2017. This includes the commitments made by East Lothian Council as a Licensing Board and as an Education Authority. The plan outlines our commitments: • Continue to lead a culture where respect, choice and understanding is fostered and diversity positively valued; • Maintain a working environment where unlawful discrimination, harassment, victimisation or bullying is not tolerated; • Continue to develop our understanding of the needs of different individuals and communities in a time of rapid change; • Continue to embed the equality agenda in all our work, and contribute to the early intervention and prevention approach adopted by the Council and its Partners; • Improve understanding of the impact of poverty and inequality on people's lives; and • Ensure that we plan and deliver services which meet modern standards of delivery and that are inclusive of a wide range of different needs from digital services to face to face interactions The Integrated Impact Assessment Process is embedded and is now widely used. This includes consideration of poverty which should allow us to meet the requirements of the new socio economic duty. A programme of support, including training on the new IIA process is ongoing. The Health & Social Care IJBs (East & Midlothian and City of Edinburgh) along with NHS Lothian will use the 'checklist and IIA form' package, with East and Midlothian Councils using the IIA form only package. HR is annually capturing the employment monitoring information required under the Act, reporting it appropriately and carrying an Equal Pay Audit. ELearning equalities modules are available on Learn Pro and 'Get in on the Act' guides to the Council's legal responsibilities are available for all employees and Elected members. A new e learning package 'Understanding Poverty' has been added to support employees to understand about taking poverty into account when designing services and will be updated once details of the Socio Economic duty are known. Equality indicators have been included as part of the Performance Framework and SOA indicator set. These will be reviewed to ensure that these align with the revised Local Outcome Improvement Plan (LOIP). The Council has established a Poverty Commission to report on and make recommendations for actions to further the Council Plan and LOIP to reduce inequalities. We will be working with Police Scotland to refresh the East Lothian Hate Crime Action plan.	2	3	6		2	3	6	Depute Chief Executive – Partnerships and Community Services		Risk register updated August 2017 to include the new Equality Plan and to flag the introduction of the Socio Economic duty. No change to assessment of current scores. Risk further reviewed and updated April 2017 with no change to assessment of current scores. Risk reviewed and refreshed May 2016 with both current and predictive scores reduced from 8 to 6 due to implementation of additional measures.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 17	**Standards in Public Life** Failure of corporate governance or to meet standards in public life. Failure of the Council's corporate governance or of officials or members to meet standards in public life could result in reputational damage.	The main internal controls are the Council's Code of Corporate Governance, the Annual Governance Statement, Standing Orders, Scheme of Administration and Financial Regulations. Standing Orders (the Schemes of Administration and Scheme of Delegation) were extensively revised and approved by Council in August 2013 and further revised on a regular basis since. The conduct of elected members, officials and employees is governed by Codes of Conduct. The Standards Commission is responsible for encouraging high standards of behavior by Councillors and will adjudicate where there are allegations that Councillors have breached the Code of Conduct. The Audit and Governance Committee also has a role in promoting good governance. The Council's Monitoring Officer, legal advisers and the Team Manager, Democratic and Licensing provide advice as required. Internal Audit conducted a review of the process for Elected Members' Registers of Interests and Declarations of Gifts and Hospitality and a report was submitted to the Audit & Governance committee in March 2015. The report recommendations were implemented in May 2015 and remain best practice. A programme of briefings for Elected Members has been established since 2013 with events currently scheduled every month during the committee session. Ad hoc additional briefings are also held. Briefing topics for the 2017/18 session will be communicated to Members once these are confirmed. The Council is developing its links with the Local Area Network of audit and inspection agencies and its Auditors. A comprehensive induction programme for Elected Members was approved by Council in February 2017, and commenced immediately following the local government election in May 2017 and will continue to take place as required to ensure understanding of the importance of standards in public life. There was a specific session on the Code of Conduct, and it was also referred to in several other sessions. Elected Members have an ongoing opportunity to participate in a CPD programme, which is currently being developed in conjunction with the Council's Organisational Development Team. This will be based on the offering available from the Improvement Service and the IS have offered to input into the final product. Elected Members have an ongoing opportunity to attend Master classes run by the Improvement Service and dates and topics for the first sessions in 2017 have already been offered out. Since May 2015, a six monthly reminder is issued to Elected Members regarding updating their Register of Interests and Declarations of Gifts and Hospitality.	3	2	6	A 100-day review will take place with all Elected Members during August 2017. This will be carried out by way of face-to-face meetings with Elected Members and will cover: the Elected Member Induction Programme, the Councillors' Code of Conduct, PA support, office accommodation, Access to Council officers, committee papers, surgeries, and further training and development.	3	2	6	Depute Chief Executive – Resources and People Services Depute Chief Executive – Partnerships and Community Services	August 2017	Risk further reviewed and updated July 2017 with both current and predicitive risk scores increased to 6 due to the number of newly elected Councillors.

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 18	**Stability of the Council Plan** The 2017-2022 Council Plan (adopted by Council in June 2017) is a key element in securing long term stability for future service delivery planning. The risk of not fulfilling this would present challenge for the council in maintaining high quality service delivery, meeting the aspirations of our customers and the longer term effectiveness of the organisation.	The Plan is regularly monitored and reviewed by CMT and reported to Audit and Governance on an Annual basis. The following are all currently in place: 2017-2022 Council Plan Council Vision / Key priorities / Strategic Goals Long term budget planning Service Plans based around the Council Plan. The implementation of the Council Plan is being monitored by the Council Management Team and through Annual Report to Council.	2	2	4		2	2	4	**Council Management Team**	August 2018	Risk Refreshed August 2017. Current risk score reduced from 9 to 4 and Predictive risk reduced from 6 to 4 due to adoption of new Council Plan. Risk created May 2016 and further refreshed April 2017 with no change to assessment of current scores.

Original date produced (Version 1)	13 April 2011		
File Name	East Lothian Council Corporate Risk Register		
Original Author(s)	Scott Kennedy, Risk Officer		
Current Revision Author(s)	Scott Kennedy, Risk Officer		
Version	**Date**	**Author(s)**	**Notes on Revisions**
1	13/04//2011	S Kennedy	Original Version
2	05/12/2011	S Kennedy	2nd version made available to BoD for review
3	23/08/2012	S Kennedy	Draft version updated
4	15/11/2012	S Kennedy	Updated following BoD meeting and Strategy update
5	07/12/2012	S Kennedy	Updates received from services following BoD recommendations
6	18/12/2012	S Kennedy	Updated with additional risks.

Risk Score	Overall Rating
20-25	Very High
10-19	High
5-9	Medium
1-4	Low

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			

7	04/01/2013	S Kennedy	Updated following consideration by CMT
8	09/05/2013	S Kennedy	EP &BC Risks updated
9	31/07/2013	S Kennedy	Data Protection Risk Added
10	01/11/2013	S Kennedy	Welfare Reform Risk updated (no change to score)
11	04/03/2014	S Kennedy	New Corporate Risks added on Safe Driving at Work, VERS, Fuel Shortages and Lone Working
12	March/April 2014	S Kennedy	All risks reviewed, refreshed and scores updated where required.
13	11/04/2014	S Kennedy	New Corporate Risk on Integration of Health &Social Care and Adult Wellbeing added.
14	25/04/2014	S Kennedy	Amendments following consultation with CMT and Risk Authors
15	01/05/2014	P Vestri	Amendments following review of latest draft by Chief Executive and Depute Chief Executives.
16	27/05/2014	S Kennedy	Final amendments following consultation with CMT and Risk Authors including addition of Development Plan and Public Protection risks
17	23/12/2014	S Kennedy	Climate Change Risk refreshed as well as adding column for date Planned Risk Measures will be completed by to the Register.
18	February-April 2015	S Kennedy	All Risks Refreshed by authors and reviewed by CMT
19	December 2015	S Kennedy	All Risks Refreshed by authors and reviewed by CMT
20	January 2016	S Kennedy	Carbon Management, Flooding and Equality Risks refreshed.
21	April – May 2016	S Kennedy	Amended following CMT meeting & further update of all risks including new risks created and Duty of Care and Public Protection Risks combined.
22	March – May 2017	S Kennedy	New risk created on Limitation and all other risks reviewed.
23	August 2017	S Kennedy	All risks reviewed by Owners and CMT

East Lothian Council
Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	Will undoubtedly happen, possibly frequently >90% chance
Likely	4	Will probably happen, but not a persistent issue >70%
Possible	3	May happen occasionally 30-70%
Unlikely	2	Not expected to happen but is possible <30%
Remote	1	Very unlikely this will ever happen <10%

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfil obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	Single or Multiple fatality within council control, fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	Number of extensive injuries (major permanent harm) to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Major adverse publicity (regional/national), major loss of confidence.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate budget)	Serious injury requiring medical treatment to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Some adverse local publicity, limited damage with legal implications, elected members become involved.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's budget)	Lost time due to employee injury or small compensation claim from service user or public (First aid treatment required).	Some - between 2 and 6 months to recover.	Some public embarrassment, no damage to reputation or service users.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's budget)	Minor injury to employee, service user or public.	Minimal - Up to 2 months to recover.	Minor impact to council reputation of no interest to the media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council

Risk	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Chief Executive
SUBJECT:	Education Risk Register

6

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1 PURPOSE

1.1 To present to the Audit and Governance Committee the Education Risk Register (Appendix 1) for discussion, comment and noting.

1.2 The Education Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document, which is reviewed and refreshed on a regular basis, led by the Education Local Risk Working Group (LRWG).

2 RECOMMENDATIONS

2.1 It is recommended that the Audit and Governance Committee notes the Education Risk Register and in doing so, the Committee is asked to note that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- the total profile of the Education risk can be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Education and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

3.1 The Risk Register has been compiled by the Education LRWG. All risks have been evaluated using the standard (5x5) risk matrix, which involves multiplying the likelihood of occurrence of a risk (scored 1-5), by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Education Risk Register includes 9 High risks, 8 Medium risks and 2 Low Risks. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy, are embedded across the Council.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy

6 RESOURCE IMPLICATIONS

6.1 Financial - It is the consideration of the Education Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Education Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning and Risk Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	14 September 2017

Education Risk Register v11

Date reviewed: 14 September 2017

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ED 1	Scottish Government's Education Governance: Next Steps and proposed Education Bill The Implications of the Scottish Government's Education Governance: Next Steps and proposed Education Bill 2018 will impact on the role, functions and funding of the education service at Local Authority level but this is a work in progress and the detail has still to be finalised and published. The uniform establishment of educational regions may result in an increase in unnecessary bureaucracy and a loss of local accountability, as well as a general weakening of democratic representation. The current levels of devolution of responsibility are adequate and any increased devolution may result in increasing the workload and burden on schools and teachers as well as creating excessive bureaucracy, bring too much risk to school level and distract from leading teaching and learning.	The Education Authority will continue to carry out its legislative and statutory duties and functions to ensure Council priorities are taken forward to improve outcomes for children and their families. The Chief Executive and Head of Education will continue to work with Scottish Ministers in taking forward the Education Governance: Next Steps programme. The Head of Education will continue to liaise with Heads of Education from within the South East Alliance regional collaboration group to develop an inter-authority regional collaboration plan. It will slow down our impact on the delivery of the Council Plan priorities	4	4	16	Continue to engage at national level through meetings and seminars to ensure the Education Service is up to date with latest information on the proposals	3	4	12	Head of Education Head of Council Resources	August 2018 for all		New risk created August 2017 by Education Senior Management Team.
ED 2	Expansion of Early Learning and Childcare (ELCC) to 1140 hours. Scottish Government are implementing plans to expand ELCC to 1140 hours by 2020. Potential risk that this cannot be delivered within the timescale due to challenges of expanding within existing resource, available funds and staffing. Risk that expansion cannot be delivered due to pressures on other council departments Risk that quality in existing early years provision deteriorates because the focus is on the expansion. Reputational risk to the Council from Scottish Government reporting on progress in relation to the delivery of 1140hrs ELCC Parents not able to access 1140hrs of ELCC Financial impact in relation to resources not yet determined by the Scottish Government will have a negative impact.	The Education Authority will continue to develop detailed plans to take forward the expansion. Project board and associated working groups are already in place. The Head of Education and Quality Improvement Manager will continue to liaise with the Scottish Government and other authorities to develop further plans. Work underway to establish baseline of quality across all provision and ELCC across all settings will be supported and monitored by the early years team Head of Resources liaison through involvement in Scottish Government groups.	4	4	16	Continue to ensure regular planned governance meetings with focussed actions and reporting back on key priorities. Continue to review the strategic leadership and planning for full implementation by 2020. Ongoing work with other council departments to ensure key priorities can be met. Ongoing liaison with SG to ensure that risks are flagged and that the service is aware of expectations and demands. Further develop relationships with neighbouring authorities in learning from other approaches and ensuring that progress is on track. Ensure ongoing focus on the quality of existing provision alongside the expansion and enhance the number of staff focussed on both areas.	3	4	12	Head of Education Head of Council Resources Head of Finance Quality Improvement Manager	August 2018 for all		New risk created August 2017 by Education Senior Management Team.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ED 3	Scottish Attainment Challenge – Pupil Equity Funding (PEF) Failure to demonstrate that the Implementation of support and interventions to address the need to close the attainment gap and improve literacy, numeracy and health & wellbeing and break the link between poverty and poor educational attainment are achieved. Potential for schools to put in place additional resources that fail to address the need to close the gap resulting in no improvement in those pupils for whom the funding has been provided. Potential risk of short-term funding being used to employ additional members of staff who through continuous service will achieve permanency in their role and the cost pressures associated with retaining them when the PEF funding ceases in four years' time. Additional budgetary pressures may arise in relation to the retention of staff who could be surplus to requirements. Reputational damage to the Council should schools fail to deliver a positive outcome for those children and young people the funding has been awarded to. No improvement in attainment, no closing of the attainment gap ultimately failing to meet the requirements of the Attainment Challenge Risk of not receiving positive inspections as there is insufficient evidence of impact on closing the attainment gap evaluated under QI 3.1 – Ensuring wellbeing, equality and inclusion. This could lead to increased scrutiny be external scrutiny bodies such as Education Scotland. Education Scotland provide information on education service performance as part of a Shared Risk Assessment. Failure to demonstrate improved performance could result in negative reporting within the published Audit Scotland Scrutiny Plan.	Head Teachers have submitted proposals on how they intend to use the funding indicating the expected impacts/outcomes it will have in relation to closing the attainment gap. The proposals have been reviewed by central Department Officers and will be monitored throughout the course of the school session to measure impact. Database of staff appointments being held within the department to identify those funded through PEF. Close working with HR and Finance colleagues to manage the impact this additional workforce will have longer term. Additional resources allocated to central Education, HR, Finance and Procurement services to support and implement the effective use of PEF.	4	4	16	Ongoing monitoring of the impact additional resources are having in relation to the supports/interventions put in place. Regular monitoring of additional staffing appointed under PEF as well as additional resources being incurred. Close liaison with Head Teachers and colleagues in Finance, HR and Procurement to support, monitor and record the additional staffing and other resources put in place. Quality Improvement Team will be monitoring the impact at school level through discussions with Head Teachers looking at attainment data results. Central management information team will be undertaking data gathering, recording, analysis to inform and measure progress in raising attainment. Regular meetings with Education Scotland to discuss progress.	3	4	12	Head Teachers Head of Education Quality Improvement Manager Service Manager Education (Strategy & Ops)	August 2018 for all	Growing our People	New risk created August 2017 by Education Senior Management Team.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
ED 4	Statutory Requirements A failure to meet our statutory requirements and other targets due to budget constraints or conversely overspending our budget in order to meet said statutory requirements and targets. There are increasing requirements from the Government e.g. teacher numbers guarantee and 600/1140 hours of childcare and early education and there is a need to think creatively around budget deployment to meet needs. If appropriate solutions are not implemented, this could result in children and young people not receiving their entitlement to education and lead to a reduction in opportunities for young people with the consequence of parental dissatisfaction and damage the reputation of the Council. The opportunity is to create new propositions and service offerings.	The annual budget allocation is prioritised and monitored while the Scheme of Devolved School Management determines the allocation at School level. Detailed budget planning measures are in place together with monthly monitoring and validation. Education Steering Group meets termly to review, direct and agree changes to strategy. Benchmarking against other authority initiatives and devolved school management schemes to ensure efficiencies. Working with Finance colleagues at early stage to highlight and address possible budget pressures. Staffing is continually monitored to ensure we meet the required Pupil to Teacher ratio at September Census point. Scottish Government monitors this. Close working with schools regarding established staffing compliments and continual updating of SEEMIS records to ensure accurate and up to date information is held.	4	4	16	Early Years Strategy to include required capital and revenue investment to deliver the Scottish Government's 1140hrs programme. Improve Head Teacher awareness of Pupil: Teacher ratios and monitor staffing levels more rigorously to mitigate against not meeting the required ratio.	3	3	9	Chief Executive Head of Education Service Manager – Education (Strategy & Ops) Head of Council Resources Deputy Chief Executive – Resources and People Services Head of Finance Quality Improvement Manager	September 2017 September 2017	2 3 4	Risk further reviewed and updated August 2017 with no change to assessment of scores. Risk Refreshed August 2016 with no change to score. Refreshed September 2015 – Current Risk Score increased from 8 to 16 and residual score from 4 to 9. Risk reviewed August 2017 with no change to the score.
ED 5	Educational Attainment Failure to raise the standards of educational attainment for all will lead to a reduction in opportunities for young people such as entrance to Further and Higher Education or employment, with the consequence of parental dissatisfaction and damage the reputation of individual schools and the education service as a whole. A failure to report positive findings in relation to the four national priorities set out within the national improvement framework and in the use of Pupil Equity Funding to close the attainment gap will lead to further scrutiny by external organisations such as Audit Scotland, Education Scotland and Scottish Government and the Local Area Network.	Each school has a School Improvement Plan, guided by the revised annual Education Service Plan (developed and delivered by Education Steering group in consultation with key stakeholders) with target setting for attainment. QIOs monitor and evaluate schools while HMIE have a school inspection programme. Regular liaison with Education Scotland Area Lead Officer (ALO). Curriculum for Excellence continues to evolve in schools while Education disseminates best practice, guidelines and policies. Secondary school staff member seconded June'17 to lead on the senior phase reform to August'19. The Future Technologies Centre (Construction Academy) in partnership with Edinburgh College and Infrastructure Department is now open and partnership meetings with Edinburgh College in place to secure broader curriculum offer to young people across the county.	4	4	16	Plan to develop curriculum across all areas to improve continuity and progression in learning with the broad general education. Plan to improve approaches to assessment in literacy and numeracy through professional learning opportunities, Quality improvement visits and trained QAMSOs. New improvement targets to be set for schools to increase attainment and improve performance. Continue to improve the transition of young people from mainstream education to work, training, further and higher education through working with secondary schools and East Lothian Works. Develop an authority wide model for the Senior Phase that incorporates all elements of the curriculum. Continue to develop partnership arrangements with QMU and Edinburgh College to broaden the	3	3	9	Head of Education Quality Improvement Manager Quality Improvement Officers Head Teachers	August 2018 for all with First report to Scottish Government in Aug/Sept 2018 August 2019	2 3 4	Risk further reviewed and updated August 2017 with no change to assessment of scores. Refreshed August 2014 with current risk score increased from 6 to 16 and residual risk score increased from 4 to 9.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
		School strategies are in place for increasing expectations of pupils and families (including tackling the barriers to improving achievement and ensure pupil attendance i.e. reducing the attainment gap). Primary School Review visits conducted session 2016-17 to inform policy development and validation of improvements in performance. Targeted support for schools and early year's providers is provided where a need is identified. Policies are in place covering Health & Wellbeing, Numeracy & Mathematics, Quality & Assurance and Learning & Teaching which will be updated to reflect recent national guidance. Activities to improve attainment to be reported upon at every future Education Committee as appropriate. A suite of data has been developed to highlight KPIs, share with schools and agree performance improvement. Education Steering Group will review priorities detailed in the Service Plan and update as appropriate.				curriculum. Ongoing as part of the DYW recommendations to be realised by 2020. Early Learning and Childcare Strategy to develop a career path for potential future Early Years Practitioners. Early Years 1140 hours project Board and working groups in place to take forward plans to expand and build highly qualified practitioners for early years. A new database system is being developed to enable schools to drill down and identify the gap in attainment and intervene at an earlier stage to close the attainment gap. New arrangements for quality assuring school performance being developed taking into account new national guidance such as the Pupil Equity Fund and National Improvement Framework. Review of all Education policies planned to take account of recent changes to National guidance and legislation.							
ED 6	Supply Teachers There is a nationwide shortage of supply teachers which is impacting on East Lothian. In practice this means that classes are being covered by Management. Further changes are being made to the supply system to improve efficiency of processes however this is having little impact on the number of supply vacancies filled. This is impacting on the quality of learners experience also on the availability of management to undertake their leadership role.	LNCT Group set up in addition to national COSLA working group, identifying practical solutions to the challenge. Continue to advertise and recruit to supply list. Appointment of permanent Primary supply teachers. Continue to work with Contact Centre to improve communication with supply teachers in order to engage their services. Working collaboratively with neighbouring authorities and Edinburgh University to provide an appropriate course for returners to the profession. This will be enhanced through local advertising.	4	4	16	The Council continues to review procedures for the appointment and deployment of supply staff including inter-authority collaboration which it is hoped will lead to a reduction in unfilled posts and Head Teachers workload. Via COSLA and links with Scottish Government civil servants continue to inform the national debate around teacher numbers, both permanent and supply.	3	3	9	Service Manager – Education (Strategy & Ops)	December 2017 December 2017	2 3 4	Risk further reviewed and updated August 2017 with no change to assessment of scores. Residual risk score increased from 6 to 9 July 2015. New risk created August 2014.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk: Likelihood (L)	Assessment of Current Risk: Impact (I)	Assessment of Current Risk: Risk Rating (L x I)	Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]: Likelihood (L)	Impact (I)	Residual Risk Rating (L x I)	Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
ED 7	IT Infrastructure The IT infrastructure will not be in place to support the use of digital technologies moving forward. A failure to address this could result in a lack of infrastructure to address the use of digital technology and impact on the ability to enhance learners' digital literacy skills.	Collaborative working between IT ICT and Education continues in respect of addressing the needs of schools and the wider services. EDIT group established and includes representatives from central IT, central Education officers and school based management and meets bi-monthly and is developing an ICT strategy and plan to maintain and improve the current ICT infrastructure within schools. An Education Digital IT group is in place to review the current ICT strategy and infrastructure. The current strategy identifies the required level of support and intervention within the authority and schools. Meeting held June 2017 with Head of Education and Service Managers to secure funding to commence IT infrastructure improvements within schools. Funding identified from within the Education Curriculum for Excellence budget and programme of works now moving forward.	3	4	12	Finalise and implement the ICT strategy which is dependent upon appropriate finance. Work with schools to encourage them to promote the effective use of current and future ICT resources. Work has started with partners to develop an on-line learning environment for all students to reflect the way young people can now learn. Connected learning network	2	4	8	Head of Education Service Manager Education (Strategy & Ops) Service Manager - IT Infrastructure Quality Improvement Manager	December 2017 for all		Risk further reviewed and updated August 2017 with no change to assessment of current scores. New risk created August 2016.
ED 8	School Estate Management Failure to maintain up-to-date information on the Condition and Suitability of the schools' estate may result in having insufficient data to inform planned maintenance budgets and essential building works. Failure to provide adequate financial and staffing resources to maintain the school estate to the required standard could result in schools falling into an unsatisfactory condition and being unsuitable for current use.	Rolling programme of condition and suitability surveys for the Primary schools are reported on annually to provide SPI data. Property Inspectors and the Asset Team identify priorities on a 3 year rolling programme and implement within available budgets. Work is prioritised on a risk management basis, addressing statutory compliance matters first (fire safety, electrical, safety DDA etc). Reports to Corporate Asset Group will highlight risks which cannot be managed and may impact on the operation or safety of the school estate.	3	4	12	Condition and Suitability surveys for all Primary schools are almost complete, with only newer schools to be completed for 2017/18. These are reported on annually to Scottish Government through SPI data return. Once all surveys are complete work will be prioritised dependant on budget availability.	2	4	8	Depute Chief Executive – Resources and People Services Service Manager - Engineering Services and Building Standards	March 2018 March 2018		Risk further reviewed and updated August 2017 with no change to assessment of current scores. Risk refreshed June 2016. Risk transferred from Corporate Risk Register May 2014 then refreshed July 2014.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
ED 9	Changing demographics of East Lothian Population – proposed LDP housing development, population growth and pressures on schools' estate. Failure to respond to the changing demographics of the East Lothian population such as unexpected or unpredicted fluctuations in the make-up of the population e.g. the number of pupils with Additional Support Needs. This may lead to not having suitable school provision available and a consequent impact on children's education. Risk to uncertainty with forward planning for the expansion of any schools where pupil roll numbers may increase faster than projected resulting in insufficient time to plan for capacity in schools.	Strategic Asset and Capital Plan Management is responsible for the managing and planning for the School Estate Management. Education feed into this activity through preparation of pupil roll projections and class organisation profiles. Provision of the pupil roll related information is provided to Strategic Asset and Capital Plan Management. Regular monitoring is in place in Strategic Asset and Capital Plan Management to review programme for school requirements. Changes which may impact on capital investment are escalated to Education and Finance for consideration. Strong communication links with parent and governing bodies. Regular Education Asset Management meetings are held to manage the impact of potential housing development on the schools' estate. Schools' Estate Planning Officer post filled – capacity monitoring in place.	3	4	12	The Schools Estate Management plan will be updated to reflect the programme identified as a result of the proposed LDP. Contingency plans being developed to mitigate against risk, including recruitment of additional temporary technical staff.	2	4	8	Depute Chief Executive – Resources and People Services Service Manager - Education (Strategy & Ops) Service Manager - Strategic Asset & Capital Plan Management Principal Officer – Strategic Planning	On approval of LDP – spring 2018 Subject to approval of recruitment of additional technical staff – by early October 2017	2 3 4	Risk refreshed August 2017 by Service Manager – Strategic Asset & Capital Plan Management current score increased from 8 to 12 and predictive scores from 4 to 8.

Original date produced (Version 1)	1st March 2012		
File Name	Education Risk Register		
Original Author(s)	S Kennedy		
Current Revision Author(s)	S Kennedy		
Version	**Date**	**Author(s)**	**Notes on Revisions**
Original	1st March 2012	S Kennedy	
2	19/11/12	S Kennedy	Updated following update to Risk Strategy
3	08/01/13	S Kennedy	Updated with Education Risk Group's updates.
4	11/04/13	S Kennedy	Updated with Education Risk Group and Management Team's updates.
5	May 2014	S Kennedy	Risks refreshed by Education and Corporate Risk on School Estate Management Added
6	August 2014	S Kennedy	Risks refreshed (including former risk on post replacements being removed and new risks added) by Richard Parker and Liz McLean for Property involvement and checked/updated by Head of Education.
7	July 2015	S Kennedy	Risks refreshed (including former risks on standard of competence, service performance and replacement of director removed and new risk on safes added) by Head of Education and Service Manager – Assets.
8	September 2015	S Kennedy	Risk relating to Property updated by Manager and split into two risks. Further refresh by Head of Education.
9	June 2016	S Kennedy	Updated following meeting with Head of Education and Senior Staff
10	August 2017	S Kennedy	Fully refreshed by Head of Education and Senior Staff. New Risks created on I.T. Infrastructure, Scottish

Risk Score	Overall Rating
20-25	Very High
10-19	High
5-9	Medium
1-4	Low

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				

			Attainment Challenge, Education Governance and Recruitment of Primary School Head Teachers.
11	August 2017	S Kennedy	Further refreshed by Education Management with 4 new risks added on Scottish Government's Education Governance: Next Steps and proposed Education Bill, Expansion of Early Learning and Childcare (ELCC) to 1140 hours, Scottish Attainment Challenge – Pupil Equity Funding (PEF) and Recruitment of Primary School Head Teachers.

East Lothian Council
Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	Will undoubtedly happen, possibly frequently >90% chance
Likely	4	Will probably happen, but not a persistent issue >70%
Possible	3	May happen occasionally 30-70%
Unlikely	2	Not expected to happen but is possible <30%
Remote	1	Very unlikely this will ever happen <10%

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfil obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	Single or Multiple fatality within council control, fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	Number of extensive injuries (major permanent harm) to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Major adverse publicity (regional/national), major loss of confidence.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate budget)	Serious injury requiring medical treatment to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Some adverse local publicity, limited damage with legal implications, elected members become involved.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's budget)	Lost time due to employee injury or small compensation claim from service user or public (First aid treatment required).	Some - between 2 and 6 months to recover.	Some public embarrassment, no damage to reputation or service users.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's budget)	Minor injury to employee, service user or public.	Minimal - Up to 2 months to recover.	Minor impact to council reputation of no interest to the media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council

Risk	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 26 September 2017

BY: Depute Chief Executive (Resources & People Services)

7

SUBJECT: Internal Audit Report – Housing Benefit and Council Tax Reduction

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1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Housing Benefit and Council Tax Reduction.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of the internal controls surrounding Housing Benefit and Council Tax Reduction was undertaken as part of the Audit Plan for 2016/17.

3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
HOUSING BENEFIT AND COUNCIL TAX REDUCTION

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17, a review of the internal controls surrounding the administration of Housing Benefit (HB) and Council Tax Reduction (CTR) was undertaken. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place to ensure that staff responsible for administering HB and CTR receive regular updates on legislative changes that affect claimants' entitlement to HB and CTR.
- For the sample of cases examined, a valid claim form was on file – all forms were signed and dated by the claimant or their representative.
- Appropriate documentation was on file to support the rent payable by the claimant to the landlord and eligible rent had been properly determined – the Local Housing Allowance (LHA) weekly rates had been correctly applied where applicable.
- For the sample of cases examined, the claimant's statement of calculation clearly detailed the claimant's gross income, income disregards, applicable amount, excess income and income taper.
- Adequate arrangements are in place for the recovery of housing benefit overpayments identified.

1.3 Areas with Scope for Improvement

- In some cases, the benefit calculations were based on out of date information – in one case, the benefit calculation for 2016/17 was based on earnings figures submitted by the claimant for February, March and April 2014. *Risk – information used in the benefit calculation may be incorrect.*
- The current approach adopted for the annual uprating of pensions requires review. *Risk – incorrect determination of housing benefit.*
- In a number of cases, the Capita system failed to reflect the most up to date information in respect of the claimant's Child Tax Credit and Working Tax Credit. *Risk – weekly entitlement to housing benefit may be incorrect.*
- There was a lack of adequate procedures in place to ensure the accuracy and completeness of information input to the Capita system. *Risk – errors and omissions may occur and remain undetected.*
- The existing arrangements in place for the calculation and classification of overpayments require review. *Risk – amounts included in the subsidy claim may be inaccurate.*

1.4 Summary

Our review of Housing Benefit and Council Tax Reduction has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager **September 2017**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
HOUSING BENEFIT AND COUNCIL TAX REDUCTION

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that adequate evidence is on file to support the claim – appropriate evidence should be obtained from claimants of all bank accounts held.	Medium	Service Manager Benefits/Benefits Team Leaders	Agreed		September 2017
3.4.1	Management should review the current approach adopted for uprating annual pension rates.	Medium	Service Manager Benefits/Benefits Performance Officer	Agreed – Capita to be contacted & DMs reminded to correct discrepancies		September 2017
	Management should ensure that the Capita system is updated to reflect the most recent pension figures received from the DWP.		Service Manager Benefits/Benefits Team Leaders	Agreed – DMs reminded to correct discrepancies ASAP		September 2017
	Management should ensure that up to date and accurate earnings information is used in the benefit calculations.		Service Manager Benefits/Benefits Performance Officer	Agreed – full use will be made of real time information system (RTI)		September 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1 (cont)	**Management should ensure that benefit calculations are based on the claimant's most up to date Child Tax Credit and Working Tax Credit awards.**	**Medium**	**Service Manager Benefits/Benefits Team Leaders**	**Agreed – full use will be made of the ATLAS (data transfer) system**		**September 2017**
	Management should ensure that for claimants in receipt of student bursaries/loans, the correct dates for the academic year are input to the Capita system.		**Service Manager Benefits/Benefits Team Leaders**	**Agreed – adherence to Quality Assurance Procedure already in place**		**In Place**
	Management should ensure that appropriate procedures are in place for checking the accuracy and completeness of information input to the Capita system.		**Service Manager Benefits/Benefits Team Leaders**	**Agreed – regular audit check in place under Quality Assurance Procedure**		**In Place**
3.5.1	**Management should review the existing arrangements in place for the calculation and classification of overpayments.**	**Medium**	**Service Manager Benefits/Benefits Performance Officer**	**Agreed – regular audit check in place under Quality Assurance Procedure**		**In Place**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1	**Management should ensure that up to date earnings information is used in the calculation of Council Tax Reduction.**	**Medium**	**Service Manager Benefits/Benefits Team Leaders**	**Agreed – DMs reminded to make full use of all appropriate information**		**September 2017**
	Management should ensure that all relevant changes are promptly updated on the Capita system.			**Agreed**		**September 2017**

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Internal Audit Report – Gas Servicing and Maintenance

8

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Gas Servicing and Maintenance.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of the internal controls surrounding Gas Servicing and Maintenance was undertaken as part of the Audit Plan for 2016/17.

3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
GAS SERVICING AND MAINTENANCE

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17, a review was undertaken of Gas Servicing and Maintenance. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place to ensure that the Council meets its responsibilities in relation to gas safety.
- For the sample of domestic properties reviewed, we found that annual gas servicing had been carried out within the specified timescales.
- Appropriate documentation is held for all properties that have been subject to a gas safety check.
- Contracts are in place for the annual gas servicing of both domestic and non-domestic Council properties.

1.3 Areas with Scope for Improvement

- Information recorded on the Council's Contracts Register for gas servicing and maintenance was inaccurate and incomplete – for the non-domestic properties contract, both the supplier and the contract start date were incorrect. For the domestic properties contract, there had been a failure to include the optional extension date. *Risk – information held may be inaccurate.*
- In one case, work awarded to a contractor was not in accordance with the Council's Corporate Procurement Procedures – there was a lack of contract documentation in place clearly outlining the service specification, terms and conditions and contract rates. *Risk – failure to comply with Council procedures.*
- There was a lack of evidence to confirm that the total number of domestic properties charged in the contractor's invoice reconciled to the records held by the Council. *Risk – errors and omissions may occur and remain undetected.*
- There was a lack of a clear audit trail of rates negotiated with existing contractors – in some cases, rates had been based on verbal discussions. *Risk – difficulties may arise in resolving disputes with contractors.*
- In some cases, there had been a failure by the contractor to provide a detailed breakdown of the costs charged for non-contract work. *Risk – inappropriate payments may be made.*

1.4 Summary

Our review of Gas Servicing and Maintenance identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager **September 2017**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
GAS SERVICING & MAINTENANCE

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the Council's Corporate Procurement Procedures are complied with in the awarding of all work to contractors – contract documentation should be in place clearly outlining the service specification, terms and conditions and contract rates.	High	Service Manager – Engineering Services & Building Standards	Agreed – will look to appoint QA contract under the Framework within the next three months		December 2017
3.1.2	Management should ensure that information recorded on the Contracts Register is accurate and complete.	Medium	Service Manager – Legal and Procurement	Agreed		October 2017
3.1.3	Management should ensure that additional work awarded to existing contractors is awarded either at the contract rates or via 'Quick Quote' in accordance with the Council's Corporate Procurement Procedures.	Medium	Service Manager – Engineering Services & Building Standards	Agreed – all works to be awarded at contract rates		September 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	**Management should ensure that the pricing schedule, which forms part of the tender, includes all properties for which servicing is required.** **Management should ensure that a clear audit trail exists to support the cost of materials included in invoices.** **Management should ensure that a clear audit trail exists for changes to contract rates that have been agreed with the contractor.**	**Medium**	**Service Manager – Engineering Services & Building Standards**	**Agreed**		**September 2017**
3.2.2	**Management should ensure that regular reconciliations are undertaken between the total number of domestic properties charged in the contractor's invoice and the records held by the Council.**	**Medium**	**Service Manager – Engineering Services & Building Standards**	**Agreed**		**September 2017**
3.3.1	**For non-domestic properties, Management should ensure that gas servicing is undertaken within the required timescales.**	**Medium**	**Service Manager – Engineering Services & Building Standards**	**Agreed**		**September 2017**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	For all non-contract work undertaken, Management should ensure that the invoices submitted by the contractor provide a full breakdown of costs being charged.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		September 2017
3.5.1	Management should ensure that adequate evidence is held to support reconciliations undertaken between the contractor's record of properties requiring gas servicing and the Council's records.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		September 2017
3.6.1	Management should review the current arrangements in place for recharging work undertaken on non-Council properties.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		September 2017

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 26 September 2017

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Non-Residential Charging

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1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Non-Residential Charging.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of the internal controls surrounding Non-Residential Charging was undertaken as part of the Audit Plan for 2017/18.

3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
NON-RESIDENTIAL CHARGING

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2017/18, a review was undertaken of the Charging for Non-Residential Social Care Services. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A Charging Policy for Non-Residential Social Care 2017/18 is in place. The Policy was recently updated and sets out the services to be charged in 2017/18, the charges applicable for each service and the financial assessment process.
- For a sample of services reviewed, we found that the charges applied were in accordance with the agreed rates.
- Appropriate arrangements are in place for the administration of the home meals service.

1.3 Areas with Scope for Improvement

- There was a delay in finalising the charges for Non-Residential Social Care Services for 2017/18, resulting in charges being applied at the previous year's rates for the first three months of the financial year. *Risk – loss of income to the Council.*
- In some cases, there was a lack of documentation on file to support the income and capital figures used in financial assessments. *Risk – lack of a clear audit trail.*
- The capital thresholds currently applied in the financial assessment process require review. *Risk – failure to follow the COSLA guidance.*
- At present, there is a lack of consistency in the de-minimis limit being applied to the charging of Non-Residential Social Care Services. *Risk – loss of income to the Council.*
- There has been a delay in resolving the issues surrounding the charging arrangements for Council tenants with community alarms, resulting in a loss of income to the Council. *Risk – failure to collect all income due.*

1.4 Summary

Our review of the Charging for Non-Residential Social Care Services has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager **September 2017**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
NON-RESIDENTIAL CHARGING

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that information published on the Council's website is updated to reflect the current charges for Non-Residential Social Care Services.	Medium	Group Service Manager – Planning and Performance	Agreed		In Place
3.2.1	Management should ensure that the annual revision of charges is approved timeously to enable the updated rates to be applied from the start of the financial year.	Medium	Group Service Manager – Planning and Performance	Agreed		February 2018
3.3.1	Management should seek to resolve the issues surrounding the charging of community alarms for Council tenants as a matter of urgency.	High	Group Service Manager – Planning and Performance in conjunction with other relevant Service Managers	Agreed – will require input from a number of service areas including Council Resources and Community Housing		March 2018
	Management should ensure that regular reconciliations are carried out between the list of service users held by Telecare and the list held by the Debtors section.	Medium	Group Service Manager – Planning and Performance	Agreed		October 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should review the Mosaic system parameters with a view to incorporating the state pension qualifying age within the income thresholds. Management should review the capital thresholds currently applied in the financial assessment process.	Medium	Group Service Manager – Planning and Performance	Agreed		March 2018
3.4.3	Appropriate documentation should be held on file to support the income and capital figures used in financial assessments.	Medium	Service Manager – Benefits	Agreed		October 2017
3.4.4	Management should review the current arrangements in place for raising invoices. Management should review the current arrangements whereby no contributions are being sought from service users whose assessed maximum contribution is less than £12.50 per week. Management should ensure that invoices clearly indicate if the rate charged is a weekly rate or an hourly rate.	Medium	Group Service Manager – Planning and Performance	Agreed – will be addressed as part of a wider business review Agreed Agreed		December 2017 March 2018 October 2017

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 26 September 2017

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Taxicard Scheme

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1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Taxicard Scheme.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of the internal controls surrounding the Taxicard Scheme was undertaken as part of the Audit Plan for 2017/18.

3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
TAXICARD SCHEME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2017/18, a review was undertaken of the Council's Taxicard Scheme. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Appropriate guidance is provided to Taxicard holders on the operation of the Taxicard scheme.
- Adequate arrangements are in place to notify applicants who have failed to meet the eligibility criteria.

1.3 Areas with Scope for Improvement

- The adequacy and effectiveness of the Taxicard scheme in place requires review. *Risk – the scheme may be out of date and ineffective.*
- The existing Taxicard application form requires review, to ensure that it provides key information required to assist in determining eligibility. *Risk – failure to adopt a consistent approach.*
- There was a lack of adequate checking arrangements in place as part of the application process – the existing procedures do not require applicants to provide supporting documentation to verify identity or residence. *Risk – inappropriate awards may be made.*
- The current approach adopted for assessing applications requires review – in some cases, Taxicards were awarded to applicants who had failed to meet the eligibility criteria. *Risk – an inconsistent approach may be adopted.*
- There was a lack of effective arrangements in place for monitoring cardholder usage – in some cases, cardholders had exceeded the maximum limit of 104 journeys per annum. *Risk – misuse of the Taxicard scheme.*
- In a number of cases, cardholders had failed to sign the receipt to confirm the journeys made. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate checking procedures in place prior to processing payments to taxi operators. *Risk – duplicate payments may be made.*
- There was a failure to ensure that written agreements were in place between the Council and all taxi operators participating in the Taxicard scheme. *Risk – failure to comply with the conditions of the scheme.*
- The current procedures for renewing Taxicards require review – in some cases, Taxicards had been re-issued prior to a renewal form being received from the cardholder. *Risk – duplicate cards may be issued.*

1.4 Summary

Our review of the Taxicard Scheme has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager **September 2017**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
TAXICARD SCHEME

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should review the adequacy and effectiveness of the current Taxicard scheme in place.	Medium	Service Manager – Transport	Agreed – review to be undertaken		December 2017
3.2.1	Management should ensure that applicants provide supporting documentation to verify their identity and residence.	Medium	Service Manager – Transport	Agreed – feasibility to be considered within review		December 2017
3.2.2	Management should ensure that the current Taxicard application form provides key information required to assist in determining eligibility. Management should ensure that a consistent approach is adopted in the assessment of applications received. Management should ensure that all assessments are reviewed by a second member of staff.	Medium	Service Manager – Transport	Agreed – to be identified within review		December 2017
3.3.1	Management should ensure that Taxicards are only renewed following the receipt of a renewal form from the applicant.	Medium	Service Manager – Transport	Agreed – admin process to be reviewed		December 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Management should ensure that applicants do not hold more than one active Taxicard – all duplicate cards should be cancelled. Management should review the current practice of renewing Taxicards on an annual basis – consideration should be given to extending the period of award beyond the current one year.	Medium	Service Manager – Transport	Agreed – admin process to be reviewed Agreed – to be identified within review		December 2017
3.4.1	Management should ensure that inactive records are removed from the Taxicard database.	Medium	Service Manager – Transport	Agreed – admin process to be reviewed		December 2017
3.5.1	Management should ensure that signed agreements are held with all taxi operators participating in the Taxicard scheme.	Medium	Service Manager – Transport	Agreed – briefing to all taxi operators within scheme		November 2017
3.6.1	Management should ensure that taxi operators submit invoices on a monthly basis. Management should ensure that taxi operators submit a bona fide invoice together with the proforma spreadsheet. Management should ensure that adequate checks are carried out to prevent duplicate invoices being processed and paid.	Medium High	Service Manager – Transport	Agreed – briefing to all taxi operators within scheme Agreed – admin to be issued instruction /guidance		November 2017 September 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1 (cont)	Management should take appropriate action to recover duplicate payments identified.	High	Service Manager – Transport	Agreed – operator to be contacted regarding issue		September 2017
3.6.2	Management should ensure that all Taxicard receipts are fully completed and signed by both the taxi driver and the Taxicard holder to evidence that the journeys have taken place. Management should ensure that taxi operators are not reimbursed for journeys where the Taxicard holder has not signed the receipt.	High	Service Manager – Transport	Agreed – briefing to all taxi operators within scheme Agreed – admin to be updated and instructed		November 2017 September 2017
3.7.1	Management should ensure the effective monitoring of cardholders' usage to ensure that the maximum number of journeys is not exceeded. Management should ensure that appropriate action is taken where cardholders have reached the maximum 104 journeys per annum – both the Taxicard holder and taxi operators should be notified of cards that have exceeded the journey limit and advised that no further payments will be made for these cards.	High	Service Manager – Transport	Agreed – admin to be given instruction, monthly reporting required		September 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	**Management should explore alternative methods of delivering the Taxicard scheme.**	**Medium**	**Service Manager – Transport**	**Agreed – within review**		**December 2017**

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Internal Audit Follow-up Reports

11

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recent follow-up work undertaken by Internal Audit.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the findings of Internal Audit's follow-up work on Freedom of Information, Section 75 Payments, Housing Voids and Home to School Transport.

3 BACKGROUND

3.1 Internal Audit follows up recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for four audits reported in 2016/17. Our findings are detailed below.

Freedom of Information

3.2 Internal Audit's report on Freedom of Information was issued in March 2017. Our follow-up review has highlighted that the two recommendations accepted by Management have been implemented.

Section 75 Payments

3.3 Internal Audit's report on Section 75 Payments was issued in September 2016. Our follow-up review has highlighted that of the fourteen recommendations made, seven have been fully implemented and significant progress is currently being made in implementing the remaining seven recommendations.

Housing Voids

3.4 Internal Audit's report on Housing Voids was issued in September 2016. Our follow-up review has identified that of the nine recommendations made, two have been fully implemented and the remaining seven are outstanding. A detailed spreadsheet outlining the outstanding recommendations has been provided to Management and a further progress report will be brought to the next Committee meeting.

Home to School Transport

3.5 Internal Audit's report on Home to School Transport was issued in March 2017. Five recommendations were made as part of the review – the recommendations were agreed with the former service manager. We note that of the five recommendations, one has been partly implemented.

3.6 We note that a new manager has recently been appointed and is in the process of reviewing the outstanding recommendations and a further progress report will be brought to the next Committee meeting.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel **-** None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Strategy for the Prevention and Detection of Fraud and Corruption

12

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1 PURPOSE

1.1 The Council has in place a Strategy for the Prevention and Detection of Fraud and Corruption, which forms part of the Council's counter fraud arrangements. A review was recently undertaken to update the existing Strategy to ensure that it accurately reflects the current arrangements within the Council.

1.2 The purpose of this report is to inform the Committee of the updated Strategy.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the updated Strategy for the Prevention and Detection of Fraud and Corruption.

3 BACKGROUND

3.1 The Audit and Governance Committee's remit covers the development of an anti-fraud culture within the Council to promote the highest standards of probity and public accountability.

3.2 East Lothian Council is committed to ensuring that the risk of fraud and corruption is minimised and that where fraud and corruption does occur the Council will deal with it in an appropriate manner.

3.3 The introduction of the Strategy for the Prevention and Detection of Fraud and Corruption has played an important part in formalising the Council's approach to dealing with fraud and corruption and its expectations of Councillors and employees in this regard.

3.4 The Strategy contains a Statement of Intent and includes coverage of the Operating Culture, Deterrent and Preventative Measures, Fraud Response Policy and Detection and Investigation Procedures.

3.5 The updated Strategy is outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 Policy and Resources Committee, 6 February 2001 – Strategy for the Prevention and Detection of Fraud and Corruption.

7.2 Audit Committee, 15 December 2009 – Strategy for the Prevention and Detection of Fraud and Corruption.

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

EAST LOTHIAN COUNCIL

STRATEGY FOR THE PREVENTION AND DETECTION OF FRAUD AND CORRUPTION

1. Statement of Intent

1.1 The Council aims to provide excellent public service and needs to ensure propriety and accountability in all matters. The Council is determined to protect itself and the public from fraud and corruption and is committed to the rigorous maintenance of a strategy for the prevention and detection of fraud and corruption, which will provide a framework for:

- Encouraging fraud deterrence and prevention.
- Raising awareness of fraud and corruption and promoting their detection.
- Performing investigations and facilitating recovery.
- Invoking disciplinary proceedings and referral to the Police and/or the Procurator Fiscal.
- Monitoring, publishing and updating the policy and its related procedures and performance.

2. Definitions

2.1 The Council regards “fraud” as being any intentional distortion of financial statements or other records whether to conceal the misappropriation of assets or otherwise for gain.

2.2 In relation to Housing Benefit and Council Tax Reduction, knowingly obtaining benefit to which there is no, or lesser, entitlement is regarded as fraud.

2.3 The Council regards “corruption” as the offer or acceptance by a Councillor or employee (or any member of such a person’s family) of a payment, favour or gift as a reward or an incentive for actions (or inactions) contrary to the proper conduct of their duties.

2.4 Bribery can be described as the offering or receiving of an inducement for an action which is illegal, unethical or in breach of trust. Inducements can take the form of gifts, fees, rewards or other advantages.

2.5 A more detailed set of definitions is given in Appendix A to this strategy document.

3. Prevention and Detection of Fraud and Corruption

3.1 The Council's Strategy for the Prevention and Detection of Fraud and Corruption is based on a series of comprehensive and related elements designed to deter any fraudulent or corrupt act. These elements are:

- Operating Culture
- Deterrent and Preventative Measures
- Fraud Response Policy
- Detection and Investigation Procedures

3.2 Operating Culture

3.2.1 The Council is determined that the culture and tone of the organisation meets the expectations of the Nolan Committee on Standards of Public Life, and is committed to the Nolan Principles of objectivity, accountability, honesty, selflessness, leadership, openness and integrity.

3.2.2 The Council expects Councillors and employees to lead by example ensuring opposition to fraud and corruption, adherence to rules and regulations and compliance with National and Local Codes of Conduct. Councillors and employees are expected to conduct themselves in a manner which is beyond reproach at all times.

3.2.3 The Council requires all individuals and organisations with whom it deals in any capacity to behave towards the Council with integrity and without intent or actions involving fraud or corruption.

3.2.4 Council employees and members of the public are important elements in the stance against fraud and corruption and are positively encouraged to raise any concerns they may have using the Council's Whistleblowing Policy. Employees reporting concerns under the Whistleblowing Policy are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998. The Council will support employees who report concerns and will make every effort to protect their confidentiality and to protect them from reprisals. Concerns from members of the public may also be raised using the Council's Complaints Procedure.

3.2.5 Training and guidance are vital in maintaining the effectiveness of the Strategy for the Prevention and Detection of Fraud and Corruption and its general credibility. The Council supports work related training, particularly for employees involved in internal control systems, to ensure that best practice is followed across all Council services.

3.2.6 As part of its responsibilities, the Council's Internal Audit Unit is required to investigate all instances of suspected fraud, financial irregularity or corruption. Audit plans are required to provide adequate coverage of the risk of fraud and corruption and also to reflect the requirement for audit staff to be properly and regularly trained.

3.2.7 Where appropriate, the Council co-operates with other local authorities and public sector bodies in the prevention, detection and investigation of fraud and corruption.

3.2.8 The Council, along with other local authorities and public sector bodies, participates in the National Fraud Initiative (NFI) data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland.

3.3 Deterrent and Preventative Measures

3.3.1 The Council's Standing Orders and Financial Regulations set out a framework for dealing with the affairs of the Council and all employees have a duty to comply with their provisions.

3.3.2 Key documentation, including working manuals and operating procedures, should be available for all financial and operating systems and issued to relevant staff. Every effort must be made to continually review and develop these systems in line with best practice to ensure efficient and effective internal controls, including the effective segregation of duties to detect error and deter fraudulent activity.

3.3.3 The adequacy and appropriateness of the Council's financial systems are independently monitored and assessed by External Audit, while the control and operating systems are reviewed by Internal Audit. Senior Management is committed to continuously improving the systems for which it is responsible, both through its own self-assessments and by positive response to audit recommendations.

3.3.4 It is the responsibility of all Councillors to make sure that they are familiar with the Councillors' Code of Conduct and to ensure that their actions comply with the provisions of the Code.

3.3.5 Employee recruitment is required to be in accordance with procedures laid down by the Head of Council Resources in consultation with other appropriate senior officers and, in particular, written references must be obtained, and other appropriate checks made, to confirm the honesty and integrity of potential employees before appointments are made.

3.3.6 Council employees are required to follow the National Code of Conduct for Local Government Employees, the Council's Disciplinary Code and any other Code of Conduct related to their personal professional qualifications.

3.3.7 Council employees are required to follow the Policy on Acceptance by Employees of Gifts and Hospitality. Any employee in breach of this policy may be liable to investigation under the appropriate Disciplinary Procedure.

3.3.8 Council employees must declare any possible conflicts of interest, which they may have, whether in contracts entered into by the Council or otherwise, and these must be noted in a register maintained for that purpose.

3.3.9 A separate Policy on Registration of Interests is in place for Chief Officers. The policy covers remuneration, related undertakings, contracts and non-financial interests. All Chief Officers are required to comply with this policy, which is intended to underpin and assist in the achievement of transparency, openness and honesty.

3.4 Fraud Response Policy

3.4.1 The Council will be robust in dealing with any financial malpractice and can be expected to deal timeously and thoroughly with any person who attempts to defraud the Council or who engages in corrupt practices, whether they are Councillors, employees, consultants, contractors or other suppliers, tenants or unrelated third parties.

3.4.2 All suspicions of impropriety must be reported to the Internal Audit Manager in the first instance and these will be investigated.

3.4.3 The Internal Audit Manager will ensure that matters are reported to the Police if there are reasonable grounds for believing that a criminal offence has been committed.

3.4.4 The Council's Disciplinary Procedures will be used where the outcome of investigation indicates improper behaviour on the part of employees.

3.4.5 Where loss has been suffered through fraudulent activity, the Council will pursue the perpetrator for recovery, including taking appropriate legal action.

3.5 Detection and Investigation Procedures

3.5.1 In the majority of cases, it is the diligence of employees and the alertness and good citizenship of the public at large that enables detection to occur.

3.5.2 All instances of fraud or financial irregularity in the Council are investigated by Internal Audit on behalf of the Chief Executive.

3.5.3 Depending on the nature and anticipated extent of the allegations, the Internal Audit Unit will normally work closely with Management and other agencies, such as the Police and the Procurator Fiscal, to ensure that all allegations and evidence are properly investigated and reported upon.

4. Review

4.1 The Council has in place a clear framework of systems and procedures to deter, detect and investigate fraud and corruption. It will ensure that these arrangements are fair and confidential and are monitored and updated to keep pace with future developments in preventing, deterring and detecting fraudulent or corrupt activity that may affect its operation.

4.2 A continuous overview of these arrangements will be maintained through the Audit and Governance Committee, the Chief Executive, the Depute Chief Executives and Internal Audit.

4.3 The Council will ensure that the existence of this policy, and its application, are well publicised.

September 2017

APPENDIX A

Strategy for the Prevention and Detection of Fraud and Corruption

Fraud, Corruption, Bribery, Irregularity and Error – Definitions

Preamble

There is no formal legal definition of "fraud" or "corruption", and although there is general agreement that "fraud" and "corruption" would be recognised, there have been many different attempts to define these terms.

Many people refer to "irregularity" or "suspected fraud" in their definitions because investigations will often reveal error, misconduct or misunderstandings and it is important not to pre-judge whether there has been criminal intent.

The following alternative definitions are presently in use:

FRAUD

A precise legal definition of fraud does not exist, but fraud can be defined as being any intentional distortion of financial statements or other records. This may involve:

- falsification or alteration of accounting records or other documents;
- misappropriation of assets or theft;
- suppression or omission of the effects of transactions from records or documents;
- recording transactions which have no substance;
- intentional misrepresentations of transactions or of the body's state of affairs.

The term "fraud" in its widest sense can also be defined as "those intentional distortions of financial statements or other records which are carried out to conceal the misappropriation of assets or otherwise for personal gain". Specifically in relation to Housing Benefit and Council Tax Reduction, fraud is defined as "knowingly obtaining benefit to which there is no entitlement, thus incurring a fraudulent overpayment".

Fraud is any act of deception, which acts or is intended to act to the financial detriment of the Council.

Fraud generally occurs where there is a deliberate intent by a person to obtain property or financial advantage by deception and includes a wide variety of offences including intentional deceit, falsification of accounts, theft, corrupt practices, embezzlement, bribery, etc.

Areas particularly susceptible to fraud, bribery or corruption are set out below with examples of fraudulent activity (the list is not exhaustive).

Area	**Example of fraudulent activity**
Contracts	• Collusion with others during the tendering process • Awarding work to specific suppliers in return for some form of benefit
Council Tax	• Claiming single person discount or other exemptions where there is no entitlement
Housing Benefit	• Obtaining benefit to which there is no, or lesser, entitlement
Recruitment	• Fictitious work history and/or references • Abuse of the recruitment process – showing favouritism and bias to specific individuals for financial gain
Abuse of Position	• Falsification of records to cover up fraudulent activity such as stolen cash
Travel Claims	• False journeys claimed • Inflated mileage • Two employees claiming separately for a journey taken together
Expense Claims	• Claims submitted to the Council and to a third party
Cash Receipts/Petty Cash	• Accepting and retaining cash for personal use • Seeking reimbursements for non-Council expenditure
Payroll	• Hours worked being overstated to take advantage of overtime for financial gain • Undertaking personal work during Council time and seeking to conceal this by falsifying records
Ordering and Payments	• Goods ordered for personal use • Goods ordered from a specific supplier in return for some form of benefit
Stocks and Assets	• Using Council assets for personal use such as running a private business • Theft of Council supplies and equipment
Timesheets	• Falsifying records of hours worked e.g. timesheets and flexi sheets • Claiming to be sick but carrying out paid work elsewhere

CORRUPTION

Corruption may be defined as the offering, giving, soliciting or accepting of any inducement or reward, which could influence the actions taken by the body, its members or officers. Main areas of activity (but not exclusive or exhaustive) which are susceptible to corruption include:

- contracts;
- asset disposal;
- planning consents and licences.

In the sense in which corruption is related to fraud, corruption may be defined as "a payment, favour or gift given to an officer or member of the Council (or any member of such a person's family) as a reward or an incentive to that person for actions (or inactions) contrary to the proper conduct of his/her duties".

Corruption may also describe a situation where a person, alone or acting with another person(s), carries out, or fails to carry out, an action as a result of an inducement or bribe.

BRIBERY

The Bribery Act 2010 was introduced to update and enhance UK law on bribery including foreign bribery. Notably, it introduces a new strict liability offence for companies and partnerships of failing to prevent bribery. The introduction of this new corporate criminal offence places a burden of proof on local authorities to show they have adequate procedures in place to prevent bribery. The Council could be guilty of an offence if an 'associated person' carries out an act of bribery in connection with its business. A person will be 'associated' with the Council where that person performs services for or on behalf of the Council. The Bribery Act also provides for strict penalties for active and passive bribery by individuals as well as companies.

The Bribery Act creates four prime offences:

- two general offences covering the offering, promising or giving of a bribe (active bribery) and the requesting, agreeing to receive or accepting of a bribe (passive bribery);
- two further offences which specifically address commercial bribery. The Act creates an offence relating to bribery of a foreign public official in order to obtain or retain business or an advantage in the conduct of business, and creates a new form of corporate liability for failing to prevent bribery on behalf of a commercial organisation.

Bribery can be described as the offering or receiving of an inducement for an action which is illegal, unethical or in breach of trust. Inducements can take the form of gifts, fees, rewards or other advantages.

IRREGULARITY

Irregularity is used here to describe any suspected wrongful act by a Councillor or employee that may result in a financial loss to the Council, for example, suspicions of corruption or theft from "inside" the Council. This includes, but is not restricted to, the intentional distortion of financial records, either to conceal the misappropriation of assets or for some other purpose.

ERROR

Error refers to unintentional mistakes such as:

- arithmetic or clerical mistakes in the underlying records;
- unintentional misrepresentation of facts;
- unintentional misapplication of accounting policies.

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	26 September 2017
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Internal Audit Progress Report 2017/18

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1 PURPOSE

1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2017/18.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2017/18.

3 BACKGROUND

3.1 This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

3.2 The progress made to date is outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	14 September 2017

INTERNAL AUDIT PROGRESS REPORT 2017/18

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Non-Residential Charging	We will examine the arrangements in place for the assessment and charging of clients receiving non-residential care.	September 2017	Completed
Counter Fraud Arrangements	We will examine the counter fraud arrangements operating within the Council with a view to ensuring that these are robust.	September 2017	Completed
Taxicard Scheme	We will examine the arrangements in place for the Council's Taxicard Scheme, which provides subsidised taxi travel for people with severe and permanent physical disability who do not have regular access to private motorised transport.	September 2017	Completed
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	September 2017	Completed
Training	We will examine the effectiveness of the controls surrounding training and development activity across the Council including attendance at conferences.	September 2017	In Progress
Homelessness	We will review the procurement and payment arrangements in place for accommodation provided to homeless clients.	November 2017	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Performance Bonds	We will review the processes in place within the Council for the use of performance bonds.	November 2017	
Review of Complaints Procedure	We will review the procedures in place for the handling of complaints received by the Council.	November 2017	
School Meals Income	We will examine the arrangements in place for the collection, recording and banking of school meals income.	November 2017	
ALEOs	We will review the governance arrangements operating within an Arms Length Organisation.	November 2017	
Learning and Development	We will review the arrangements in place for community learning and development and the links to the Area Partnerships/Managers.	November 2017	
Review of Overtime	We will review the adequacy and effectiveness of the monitoring arrangements in place for those employees receiving overtime on a regular basis.	February 2018	
Housing Rent Arrears	We will examine the processes and controls in place for the recovery of housing rent arrears.	February 2018	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Throughcare and Aftercare	We will review the arrangements in place for supporting young people looked after by East Lothian Council who are about to leave care or have recently left care.	February 2018	
Social Care Fund	We will review the arrangements in place within Adult Services for monitoring the use of the Social Care Fund.	February 2018	
Common Repairs	We will review the systems and processes in place for dealing with common repairs projects where a statutory notice has been issued by the Council and the Council is required to enforce the notice.	February 2018	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2018	
National Fraud Initiative	Time has been allocated for co-ordinating and reviewing data matches identified following the 2016/17 National Fraud Initiative exercise.	February 2018	
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	February 2018	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Internal Audit Plan 2018/19	Internal Audit will present the detailed operational Audit Plan for 2018/19 for approval to the Audit and Governance Committee.	February 2018	
Council Tax – Liability	We will review the arrangements in place for determining Council Tax liability.	June 2018	
Non-Domestic Rates	An audit of Non-Domestic Rates (NDR) will be carried out. The review will focus on the procedures in place for the Billing and Collection of NDR.	June 2018	
Debtors	A review of the systems and processes in place for raising debtor invoices will be carried out to ensure that sundry income due to the Council is properly identified, collected and accounted for.	June 2018	
Procurement of Goods and Services – Property Maintenance	We will review the arrangements in place within the Council's Property Maintenance Section for the procurement of goods and services.	June 2018	
Care at Home Payments	We will review the internal controls in place for payments made to care at home providers used by the Council.	June 2018	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	June 2018	
Annual Internal Audit Report 2017/18	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2017/18, as required by the Public Sector Internal Audit Standards.	June 2018	
Controls Assurance Statement 2017/18	Internal Audit will provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the financial year 1 April 2017 to 31 March 2018.	June 2018	

Audit and Governance Committee - Annual Work Plan 2017/18

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Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
26/09/17	Housing Benefit and Council Tax Reduction Gas Servicing and Maintenance Non-Residential Charging Counter Fraud Arrangements Taxicard Scheme Follow-up Reports Progress Report 2017/18	Annual Report to Members ISA 260 Report		Annual Accounts 2016/17	Corporate Risk Register Education Risk Register
28/11/17	Training Homelessness Performance Bonds Review of Complaints Procedure School Meals Income Arms-Length Organisations Learning and Development Progress Report 2017/18		Equal Pay	Treasury Management Mid-Year Review Report Enjoyleisure	Service Risk Register

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
20/02/18	Housing Rent Arrears Review of Overtime Throughcare and Aftercare Social Care Fund Common Repairs Review of Performance Indicators National Fraud Initiative Follow-up Reports Internal Audit Plan 2018/19 Progress Report 2017/18	2017/18 Annual Audit Plan	Local Government Finance Early Learning and Childcare	Council Improvement Plan Monitoring Report	Risk Management Strategy Update
12/06/18	Council Tax – Liability Non-Domestic Rates Debtors Procurement of Goods and Services – Property Maintenance Care at Home Payments Annual Internal Audit Report 2017/18 Controls Assurance Statement 2017/18 Progress Report 2017/18	2017/18 Interim Management Report	Arms Length External Organisations Local Government Performance and Challenges	Treasury Management Statement 2017 Corporate Governance Self-evaluation/ Annual Governance Statement	Service Risk Register