



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 25 SEPTEMBER 2018
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:

Councillor J Henderson (Convener)
Councillor J Findlay
Councillor K Mackie
Councillor K McLeod
Councillor B Small

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Ms S Saunders, Head of Communities & Partnerships
Mr T Reid, Head of Infrastructure
Mr P Vestri, Service Manager – Corporate Policy & Improvement
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor
Ms S Fortune, Service Manager – Business Finance
Mrs L Denovan, Corporate Finance Manager
Mr R Parker, Service Manager – Education (Strategy & Operations)
Mr P Grant, Service Manager – Property Maintenance

Clerk:

Ms F Currie

Visitors Present:

Ms G Woolman, Audit Scotland
Ms E Scoburgh, Audit Scotland
Ms C Foster, Audit Scotland

Apologies:

Councillor S Currie
Councillor F Dugdale
Councillor J Williamson

Declarations of Interest:

None

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 12 JUNE 2018

The minutes of the Audit and Governance Committee meeting held on 12 June 2018 were approved as a true record.

2. INTERNAL AUDIT REPORT – SEPTEMBER 2018

The Convener advised Members that the reporting of Internal Audit's work had been brought forward to the beginning of the agenda to ensure that the Committee could give the appropriate level of scrutiny to this area of its remit. She indicated that this new arrangement would continue for future meetings and she welcomed Members' feedback on this change and the revised report template.

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued since the last meeting of the Committee and providing an update on the progress against the 2018/19 annual audit plan.

Mala Garden, Internal Audit Manager, presented the report outlining the purpose of each audit report, highlighting some of the key findings and drawing Members' attention to the level of assurance provided to Management as a result of this audit work.

Debtors

Councillor Small queried the agreed completion date for one of the recommendations which had been graded as 'high'. Liz Denovan, Corporate Finance Manager, explained that the next round of exception reporting/monitoring would take place in October, at which point a review would take place, and therefore a completion date of December 2018 was not unreasonable.

Councillor McLeod asked for clarification of two of the areas with scope for improvement which were highlighted in the report. Stuart Allan, Senior Auditor, provided further information on the delays in invoices being raised and the implications for the Council. Mrs Denovan responded to questions on the costs of legal action and the segregation of duties.

In response to a question from Councillor Findlay, Ms Garden advised that Internal Audit had last reviewed this area of work in 2011 and that they covered all of the main systems as part of their ongoing programme of work. She said she was content with the current timescale for reviewing sundry debtors and reminded Members that the moderate level of assurance meant that although there were areas for improvement, the audit had not identified any significant concerns.

The Convener asked if it would be possible to quantify the levels of assurance in numerical terms. Ms Garden suggested that it may be difficult to do but she referred Members to the definitions of the levels of assurance contained at the end of each audit report.

Councillor Small welcomed the inclusion of a 'level of assurance' for each audit but said that it would be helpful to have numbers attached to each categorisation.

Gillian Woolman, Audit Director, Audit Scotland, also welcomed this additional information in the reports adding that she considered the definitions of each level of

assurance provided by Internal Audit as adequate and in line with good practice. She further advised Members that Audit Scotland placed significant reliance on the work of Internal Audit. She added that while efforts were made to avoid any duplication between the work of the internal and external audit teams, Members could be assured that substantial work had been undertaken on debtors.

Procurement of Goods and Services (Property Maintenance)

In response to questions from Councillor Small, Douglas Proudfoot, Head of Development, acknowledged that there was work to be done to ensure that the Scotland Excel framework was applied appropriately to both core and non-core items. He said that failures to correctly apply procedures could result in the Council losing out on discounts or failing to achieve best value.

Mr Lamond added that the necessary procurement processes were in place and that the issues highlighted by Internal Audit were more about failures to apply these processes.

Responding to further questions from Councillor Findlay and Councillor McLeod, Mr Proudfoot and Paul Grant, Service Manager – Property Maintenance, outlined the different processes required for large scale construction projects and those for goods and services. Mr Grant clarified the distinction between core and non-core items. He also recognised the point made by Councillor McLeod on the benefits of using better quality items but accepted that it was important to ensure that the correct procurement procedures were followed for all suppliers.

Mr Proudfoot advised Members that the logic of the framework approach did work – economies of scale securing better price being one benefit – but that his officers needed to ensure that quality standards were maintained and that the items that were purchased were compatible with existing installations in a property repairs context.

In reply to a question from Councillor Mackie, Mr Proudfoot acknowledged that a national framework meant that the Council was buying in bulk from national rather than local suppliers. However, the procurement arrangement did try to encourage suppliers to have local points of delivery to boost local employment and the potential for a local supply chain.

VAT

In response to questions from Councillor Small, Mrs Denovan explained that HMRC made ad hoc or unannounced visits to monitor the Council's compliance with VAT requirements. No areas of concern had been raised during these visits.

Residential Charging

Ms Garden and Mr Allan responded to questions relating to the lack of independent checking of some financial assessments outlining the key concerns and actions agreed with Management. Mr Lamond added that resource constraints and small teams were factors and ideally, from a control perspective, there would be independent checks undertaken on all assessments. However, this was not possible and the decision had been taken to adopt a more proportionate approach that would focus on new assessments, as the potential risk of error was greater than for reassessments.

Mr Allan also responded to a question on the payment of rates for one client, which were in excess of the agreed rates. He confirmed that this issue had been highlighted to the service area and a review of this case would be concluded shortly. Any overpayments would be recovered from the provider and he agreed to report back to the Committee once the review was complete.

Decision

The Committee agreed to note:

- (i) The main findings and recommendations from Internal Audit reports issued during the period July to September 2018; and
- (ii) Internal Audit's progress against the annual audit plan for 2018/19.

3. ISA 260 LETTER FROM AUDIT SCOTLAND

Audit Scotland submitted their ISA 260 letter to East Lothian Council which included their proposed unqualified auditor's report and a draft letter of representation under ISA 580.

Ms Woolman presented the document to Members outlining the purpose and content and highlighting key issues. She then proceeded directly to the annual audit report.

4. EAST LOTHIAN COUNCIL 2017/18 ANNUAL AUDIT REPORT

Ms Woolman presented Audit Scotland's annual audit report to Members for 2017/18 confirming that they intended to issue an unqualified audit opinion. She summarised the key messages in parts 1 - 3 of the report including the significant findings from the audit of the accounts and reviews of financial management and sustainability. Ms Woolman indicated that the unaudited accounts were of a good standard and she acknowledged the level of support and access provided by finance staff during the audit process. She said that this was by no means the case with all local authorities. She informed Members that overall the financial statements provided positive assurance and there were no issues of materiality to be reported.

Esther Scoburgh outlined parts 4 - 5 of the report relating to governance, transparency and value for money, and drew Members' attention to the appendices which included the action plan of recommendations for improvement and a summary of significant audit risks identified during the planning stage.

In response to questions from Members, Ms Woolman provided further information on the factors taken into account when assessing a council's financial sustainability. Referring to the rating used in appendix 2 of the report, she advised Members that public sector organisations had to work hard to achieve a rating of 'satisfactory' and, along with the unqualified audit opinion, it formed part of a positive report card for the Council.

Ms Woolman also responded to questions relating to the Council's use of reserves, the importance of understanding whether such use was planned or unplanned and the need for Council's to maintain a healthy level of reserves year on year. Mr Lamond provided clarification of the term 'uncommitted reserves' and outlined the potential uses of such funds.

Mrs Leitch referred to the work undertaken on the Council's Local Development Plan (LDP) and asked about the extent to which this and the associated capital programme might feature in future audits.

Ms Woolman explained that the audit report was a building block to the annual local government financial overview report which identified areas of best practice across the country. She added that this area of work could appear in local audit plans in due course.

Responding to a question on Britain's withdrawal from the EU and the possibility of no deal being agreed, Ms Woolman indicated that Audit Scotland had no plans to issue any publications or advice to Councils at this stage.

Councillor Small thanked Ms Woolman and her team for their diligence and professional approach. He welcomed the report's findings and acknowledged that the Council's financial position remained challenging and continued to require close monitoring.

Decision

The Committee agreed to note the contents of the report.

5. ANNUAL ACCOUNTS 2017-18

A report was submitted by the Depute Chief Executive (Resources & People Services) providing the Committee with an update on the main changes arising during the audit of the draft financial statements 2017-18, and to ask the Committee to approve the now audited accounts for 2017-18.

Sarah Fortune, Service Manager – Business Finance, presented the report outlining the key steps in the process of preparation and approval of the accounts and she summarised the adjustments made as a result of the audit. She confirmed that, once approved, the accounts would be signed and published on the Council's website.

Decision

The Committee agreed to:

- (i) Note the main changes arising during the course of the audit; and
- (ii) Approve the 2017-18 audited accounts for the Council and its group components.

6. CORPORATE RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Corporate Risk Register for discussion, comment and noting.

Sharon Saunders, Head of Communities & Partnerships, presented the report outlining the background to the preparation and review of the risk register. She reminded Members of the formula for assessing risk and advised that the current document contained 8 High risks, 9 Medium risks and 2 Low risks.

Ms Saunders also referred to the new format of the risk register which would shortly come into use. She indicated that a development session for Councillors would take place at 2.00pm on Tuesday 22 January 2019 which would provide further details of the changes, including the revised procedures for reporting to the Committee.

Councillor Findlay noted that the expansion of early learning and childcare to 1140 hours included the potential reputational risk to the Council. He asked whether this issue might not also present a financial risk. Ms Saunders acknowledged this point and Richard Parker, Service Manager – Education, confirmed that any potential financial risks would be looked at as part of the Council's implementation strategy. Mrs Leitch added that talks were progressing with providers on the basis of proposals already considered by Council and funding provided by the Scottish Government.

In response to questions from Councillor Mackie regarding funding for coastal flood prevention in Musselburgh, Tom Reid, Head of Infrastructure, advised that the proposals were at an early stage and would be subject to public consultation in due course. Mr Lamond said that he was not aware of any Common Good funding contribution towards the project.

In response to questions from the Convener on the risks associated with workforce planning and public sector reforms, Paolo Vestri, Service Manager – Corporate Policy & Improvement, advised on the mitigation measures which had been put in place. These included the Council's recently approved Workforce Plan and preparation for the coming into force of the Community Empowerment Act. Mrs Leitch added that the Council continued to work with the Scottish Government on shaping major reforms to the Education system.

Mr Lamond responded to further questions on business continuity outlining the work undertaken in relation to IT infrastructure and improving the resilience of critical systems.

The Convener also raised the issue of the LDP and when the register should begin to reflect the risks associated with the preparation of the next plan. Mrs Leitch indicated that the recently approved LDP, and the delivery of the work and projects associated with it, was still the main focus of the Council's work.

Councillor McLeod welcomed the fact that there were no 'red' risks contained in the register and he congratulated staff on their continuing efforts to mitigate risks as far as possible. He singled out the Welfare Rights Team for particular praise in dealing with the challenges associated with the roll-out of Universal Credit.

Decision

The Committee agreed to note the Corporate Risk Register and, in doing so, 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
- the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

7. COMMUNITIES & PARTNERSHIPS RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Communities & Partnerships Risk Register for discussion, comment and noting.

Ms Saunders presented the report outlining the background to the preparation and review of the risk register and advising Members that the current document contained 1 High risk, 30 Medium risks and 16 Low risks. She explained that although Medium risks would not usually be reported to the Committee, as there was only 1 High risk, the decision had been taken to include those Medium risks scoring 8 or 9.

In response to questions from Members, Ms Saunders and Mr Lamond provided further information in relation to mitigation measures put in place to manage the risks associated with IT systems. Ms Saunders also drew Members' attention to the correlation between the risks outlined in this Service Risk Register and the Corporate Risk Register reviewed earlier.

Councillor Small welcomed the investment being made in the customer-facing service area and said he looked forward to seeing the continuing impact of the mitigation measures on the future risk rating.

Decision

The Committee agreed to note the Communities & Partnerships Risk Register and, in doing so, 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 Communities & Partnerships 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 Communities & Partnerships and are likely to be a feature of the risk register over a number of years.

8. COUNCILS' USE OF ARM'S-LENGTH ORGANISATIONS (ACCOUNTS COMMISSION, MAY 2018)

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) reviewing East Lothian Council's position in relation to the findings of the Accounts Commission report, '*Councils' use of arm's-length organisations*'.

Mr Vestri presented the report summarising the main findings and the key points of East Lothian Council's response to the messages in the Accounts Commission report and the recommendations for action. He advised Members that the definition of 'arm's length external organisation' (ALEO) used in the report was quite broad and included joint boards set up by legislation. He also pointed out that his covering report had been prepared before the external auditors' report had been finalised and he reminded Members that the Council had accepted the auditors' recommendation in relation to scrutiny of ALEOs and regular reporting to the Audit & Governance Committee.

Mr Vestri and Mr Lamond responded to questions from Members and provided additional information on the issues to be considered should the Council wish to extend

its use of ALEOs, the governance arrangements for joint boards which involve representatives from different local authority areas, and improving procedures to achieve a more proportionate level of governance and scrutiny.

The Convener thanked officers for their input and suggested that the Accounts Commission report, and the covering report, be circulated to all Councillors for information.

Decision

The Committee agreed to:

- (i) note the position of East Lothian Council in regard to the key messages in the Accounts Commission report, *'Councils' use of arm's-length organisations'*; and
- (ii) use the recommendations in the Accounts Commission report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit & Governance Committee.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee

REPORT TO: Audit and Governance Committee

MEETING DATE: 27 November 2018

BY: Depute Chief Executive (Resources & People Services)

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SUBJECT: Internal Audit Report – November 2018

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee and to provide an update on the progress made against the 2018/19 annual audit plan.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from Internal Audit reports issued during the period from October to November 2018 as contained in Appendix 1;
 - ii. Internal Audit's progress against the annual audit plan for 2018/19 as set out in Appendix 2.

3 BACKGROUND

- 3.1 Since the last meeting of the Committee, final reports have been issued in respect of the following audits: Payments on Schedule, Adult Services Transport, IT Access Controls and Trade Waste Income.
- 3.2 The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- Payments on Schedule – Moderate Assurance
 - Adult Services Transport – Moderate Assurance

- IT Access Controls – Moderate Assurance
- Trade Waste Income – Moderate Assurance

3.4 The progress report attached as Appendix 2 is prepared to assist the Committee in their remit to evaluate Internal Audit’s work and measure progress against the annual audit plan.

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	19 November 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS ON SCHEDULE**

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Payments on Schedule. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate processes are in place for paying private residential care homes via Payments on Schedule – payments are made on a four weekly cycle and detailed information is held in respect of each resident including the billing period, the placement cost, client contribution and the amounts payable.

1.3 Areas with Scope for Improvement

- The operational procedures in place for processing Payments on Schedule require review and updating. *Risk – guidance in place may be out of date.*
- There was a lack of appropriate documentation (death certificates or Tell Us Once forms) on the Mosaic system to confirm the date of death for deceased residents. *Risk – over or under payments may be made.*
- In some cases, there was a lack of formal documentation to confirm the last date of service delivery for residents leaving a residential home. *Risk – over or under payments may occur.*
- The checking mechanisms in place require review to ensure that all payments processed are accurate and complete. *Risk – over or under payments may occur.*
- The current approach adopted for the recovery of overpayments requires review – in some cases, there had been a failure to recover amounts due where the overpayments related to the last Council funded resident in the home. *Risk – failure to recover all overpayments made.*
- There was a lack of adequate procedures in place to ensure that overpayments paid back to the Council by care home providers had been correctly accounted for in the Council's Creditors system. *Risk – failure to properly account for overpayments paid back.*
- For rejected Bacs payments, the procedures in place for confirming changes to supplier bank account details require review. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Based on our review of Payments on Schedule, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

November 2018

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS ON SCHEDULE**

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 operational procedures in place for Payments on Schedule are reviewed and updated.	Medium	Group Service Manager – Planning and Performance	Agreed		January 2019
3.2.1	Management should ensure that appropriate documentation is held on the Mosaic system to confirm the last date of service delivery for both deceased clients and for clients moving out of a residential home.	Medium	Group Service Manager – Planning and Performance	Agreed		Ongoing
3.3.1	Management should ensure that appropriate checking mechanisms are in place to confirm the accuracy and completeness of all payments processed.	Medium	Group Service Manager – Planning and Performance	Agreed		January 2019
3.4.1	For those cases where an overpayment has arisen in respect of the last Council funded resident in the home, Management should ensure that a detailed procedure is developed for recovering the amounts due.	Medium	Group Service Manager – Planning and Performance	Agreed		January 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.2	Management should liaise with Finance to ensure that overpayments paid back to the Council by care home providers are properly accounted for.	Medium	Group Service Manager – Planning and Performance	Agreed		In Place
3.5.1	For rejected Bacs payments, Management should ensure that appropriate checks are carried out prior to changing supplier bank account details.	Medium	Service Manager – Business Finance	Agreed		November 2018

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.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT ADULT SERVICES – TRANSPORT

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Adult Services – Transport. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A Taxi Services Contract is in place, which forms part of the Transport Services Framework, and includes details of framework providers and agreed rates for taxi journeys within East Lothian and to certain specified destinations outwith East Lothian.
- Adequate administrative processes are in place for the provision of transport to adult services clients – assessment of transport needs is carried out by Adult Services, while transport is procured via the Council's Transport section.
- New social care charges were approved by Cabinet in March 2018 including rates for the use of Council provided transport.

1.3 Areas with Scope for Improvement

- A draft Transport Policy is in place for clients using East Lothian Health and Social Care Partnership commissioned transport, however the Policy requires to be approved and issued to staff with responsibility for assessing transport needs. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of adequate information held in the client's support plan to confirm that all suitable transport options had been considered in determining the transport requirements for individual clients. *Risk – failure to ensure that eligibility criteria are applied consistently.*
- In a number of cases, requests for transport were being made by Adult Services via email – a standard transport request form is not currently in use. *Risk – transport requirements may not be fully detailed.*
- There was a lack of evidence to indicate that annual reviews are being undertaken of clients' transport needs. *Risk – failure to identify changes to transport requirements.*
- In some cases, non-framework providers were being used to provide transport. *Risk – failure to obtain best value.*
- In some cases, supplier invoices failed to detail key information on service users and the number of journeys undertaken. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Based on our review of Adult Services – Transport, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

November 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
ADULT SERVICES – TRANSPORT**

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 draft Transport Policy is approved and issued to relevant staff.	Medium	Group Service Manager – Planning and Performance	Agreed		November 2018
3.3.1	Management should ensure that appropriate documentation is held to confirm that a detailed assessment of individual client’s transport needs has been undertaken. The assessment should clearly demonstrate that all suitable transport options have been considered and provide a clear rationale for approving the transport. Consideration should be given to introducing a separate form for the assessment of transport needs.	Medium	Service Manager – Assessment and Support Planning/ Assistant Area Manager	Agreed		March 2019
3.4.1	Management should ensure that a Transport Request Form is developed to enable key information on clients’ transport requirements to be recorded.	Medium	Group Service Manager – Planning and Performance/ Service Manager – Transport	Agreed		December 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1 (cont)	The Transport Request Form should be completed by the service area and forwarded to the Transport section.	Medium	Service Manager – Assessment and Support Planning/ Assistant Area Manager	Agreed		December 2018
3.5.1	<p>Management should ensure that the Taxi Services Contract is used for all transport requests where the destination is covered by the provisions of the Contract.</p> <p>Management should continue to review all existing transport provision for social care clients to ensure that best value is being achieved.</p>	Medium	Service Manager – Transport	Agreed		Ongoing
3.6.1	Consideration should be given to annual reviews being carried out of clients' transport needs – details of ongoing transport requirements should be provided to the Transport section.	Medium	Service Manager – Assessment and Support Planning/ Assistant Area Manager	Agreed		January 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	Management should ensure that supplier invoices provide key information on service users and the number of journeys undertaken.	Medium	Service Manager – Transport	Agreed		March 2019
3.8.1	Management should ensure compliance with GDPR requirements when making transport arrangements for clients.	High	Service Manager – Transport/ Assistant Area Manager	Agreed		Ongoing

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.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT IT ACCESS CONTROLS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of IT Access Controls. Our review focused on five systems within the Council (AVD, CHRIS, PECOS, Total and Uniform). 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 user access to the Council's corporate network is properly controlled – employees are required to sign the Council's IT Acceptable Use Policy and line manager authorisation is required prior to access being granted.
- Formal processes are in place for managing user access to both the CHRIS and PECOS systems.

1.3 Areas with Scope for Improvement

- For three of the systems reviewed (AVD, Uniform and Total) the arrangements in place for managing user access require review – at present there is no requirement for users to complete a user access request form, prior to access being granted to these systems. *Risk – inappropriate access may be granted.*
- In some cases, there was a lack of evidence to confirm that the level of user access granted was appropriate to the employee's current role. *Risk – users may have inappropriate access to data.*
- There was a lack of evidence to indicate that regular reviews were being undertaken of user access to individual systems – in some cases, the list of users included former employees of the Council and/or employees who had moved positions within the Council and no longer required access to the system in their current role. *Risk – failure to ensure that access is restricted to appropriate employees only.*
- For some of the systems examined, the user password requirements were inconsistent with the Council's IT Acceptable Use Policy. *Risk – inappropriate access to sensitive data.*

1.4 Summary

Based on our review of IT Access Controls, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

November 2018

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
IT ACCESS CONTROLS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	<p>Management should ensure that a consistent approach is adopted for managing user access to individual systems – a user access request form should be in place for all systems.</p> <p>All user access request forms should be authorised by the employee's line manager prior to system access being granted.</p>	Medium	Systems Administrators	Agreed		December 2018
3.3.1	Management should review user access levels to ensure that the level of access granted is appropriate to the employee's current role.	Medium	Systems Administrator – Total	Agreed		In Place
3.4.1	Management should ensure that regular reviews are undertaken of user access to individual systems – access should be restricted to appropriate employees only.	Medium	Systems Administrators	Agreed		December 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that user password requirements are consistent with the Council's IT Acceptable Use Policy.	Medium	Systems Administrators	Agreed		December 2018

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.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LoTHIAN COUNCIL – INTERNAL AUDIT TRADE WASTE INCOME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Trade Waste Income. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate arrangements in place for the collection of commercial waste.
- A detailed list of trade waste collection and disposal charges for 2018/19 is available on the Council's website.
- A comprehensive database is maintained of all trade waste customers including business name and address, trade waste account number, collection details, payment methods and details of all amounts received and amounts outstanding.

1.3 Areas with Scope for Improvement

- There is a lack of documented procedures in place for the administration of trade waste. *Risk – an inconsistent approach may be adopted.*
- In some cases, there had been delays in customers returning the Waste Transfer Note, however the Council had continued to provide a trade waste collection service to these customers. *Risk – non-compliance with legislation.*
- In some cases where there had been changes to service delivery, the Waste Transfer Note had not been amended to reflect the revised service being provided. *Risk – information held may be inaccurate or incomplete.*
- In some cases, the Council had continued to provide a trade waste collection service, although there had been delays in payments being made by the customer. *Risk – loss of income to the Council.*
- The existing informal arrangements in place for raising invoices by the service area require review – invoices should only be raised via the Council's Sundry Accounts section. *Risk – lack of a clear audit trail.*
- There is a lack of regular reconciliation between the income recorded on the Waste Services database and amounts recorded in the Council's general ledger. *Risk – errors and irregularities may occur and remain undetected.*
- The current arrangements in place for refunds require review, including the authorisation process and the refunding of card payments by the service area. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Based on our review of Trade Waste Income, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

November 2018

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
TRADE WASTE INCOME**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that detailed procedures are in place for the administration of trade waste.	Medium	Head of Infrastructure	Officers will provide a written protocol to support current activities.		December 2018
3.4.1	<p>Management should ensure that a fully completed Waste Transfer Note is held for all trade waste customers for whom a service is being provided.</p> <p>Management should ensure that details recorded on the Waste Transfer Note are consistent with the database.</p> <p>Management should ensure that the information on the database is accurate and complete.</p> <p>Management should ensure compliance with legislation – a collection service should only be provided where a valid Waste Transfer Note is held.</p>	Medium	Head of Infrastructure	<p>Officers to review trade waste database and DOC WTN.</p> <p>As above</p> <p>As above</p> <p>This is currently carried out. The exception is the period of ‘grace’ between contracts, due to businesses delaying the document return. SEPA and the WM Network have debated and agreed this</p>		<p>December 2018</p> <p>December 2018</p> <p>December 2018</p> <p>April 2019</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1 (cont)				process is required to avoid waste being left on the kerbside. Grace will be limited to 30 days.		
3.5.1	Management should ensure that direct debit schedules are promptly updated to reflect the revised rates following changes to service delivery.	Medium	Head of Infrastructure	This is current practice however we will review the database.		December 2018
3.5.2	Management should ensure that where businesses fail to pay the trade waste collection and disposal charges, consideration is given to the service being withdrawn.	Medium	Head of Infrastructure	This is current practice.		In Place
3.6.1	Management should ensure that invoices are only raised via the Council's Sundry Accounts section.	Medium	Head of Infrastructure	Officers to review process and redesign in conjunction with Debtors section.		February 2019
3.7.1	Management should ensure that regular reconciliations are undertaken between the income recorded on the Waste Services database and the amounts recorded in the Council's general ledger.	Medium	Head of Infrastructure	This is currently done but will be improved by formalising the process and recording the outcome.		March 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1 (cont)	The reconciliation should be checked and signed by a person independent of the preparer.	Medium	Head of Infrastructure	Agreed		March 2019
3.8.1	Management should review the current arrangements in place for refunds, including the authorisation process and the refunding of card payments by the service area.	Medium	Head of Infrastructure	Removal of Paye.net refund option and redesign of process with Debtors section.		December 2018

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
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INTERNAL AUDIT PROGRESS REPORT 2018/19**Appendix 2**

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
VAT	For all payments processed by the Council, we will examine the arrangements in place to ensure that VAT is correctly accounted for.	September 2018	Completed
Adult Services – Residential Care	We will review the arrangements in place for the assessment and charging of clients in residential care.	September 2018	Completed
IT Systems Access	We will review the IT access controls/access rights in place for all the Council's main systems.	September 2018	Completed
Trade Waste Income	We will review the arrangements in place for the billing and collection of trade waste income.	November 2018	Completed
Adult Services – Payments on Schedule	We will review payments on schedule processed through the Mosaic system – our audit will focus on the arrangements in place for the recovery of credit balances.	November 2018	Completed
Adult Services – Transport	We will review the transport arrangements within Adult Services – as part of the review we will assess if the arrangements in place for securing transport are cost effective and well managed.	November 2018	Completed
Conflicts of Interest	We will examine the arrangements in place for the disclosure of potential conflicts of interest by members of staff.	November 2018	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools	We will review the financial arrangements operating within one school to ensure compliance with the financial procedures in place.	November 2018	In Progress
NDR – Liability	We will continue our audit work on Non-Domestic Rates (NDR) – in 2018/19, we will review the arrangements in place for determining NDR liability.	February 2019	
Planning Enforcement	We will check to ensure that planning enforcement is being carried out in accordance with legislation and Council policy.	February 2019	
Contracts	As part of our annual review of procurement, we will examine a sample of contracts to ensure compliance with the Council’s Corporate Procurement Procedures.	February 2019	
Business Grants and Loans	We will review the arrangements in place for the awarding of grants and loans to businesses within East Lothian.	February 2019	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2019	
Disclosure Checks	We will review the disclosure checking arrangements in place for members of staff and volunteers working with children and/or protected adults.	February 2019	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Bank Reconciliations	We will check to ensure that appropriate and effective systems of control are in place for the Council's bank accounts.	June 2019	
Council Tax	We will continue our audit work on Council Tax – for 2018/19, our review will focus on the procedures in place for the recovery of Council Tax arrears.	June 2019	
Fixed Assets	We will review the systems in place for maintaining and updating the Council's Fixed Asset Register.	June 2019	
Following the Public Pound	We will review the monitoring arrangements in place for a sample of organisations receiving partnership funding from the Council in 2018/19.	June 2019	
Building Standards	We will examine the arrangements in place for the processing of applications received for building warrants, including the collection of income due to the Council.	June 2019	
Creditors	We will review the procedures in place for processing supplier invoices for payment and we will check to ensure that adequate arrangements are in place for the prevention and detection of duplicate payments.	June 2019	

REPORT TO: Audit and Governance Committee

MEETING DATE: 27 November 2018

BY: Depute Chief Executive (Resources and Peoples Services)

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review 2018/19

3

1 PURPOSE

- 1.1 To update the Committee on Treasury Management activity during the first half of 2018/19.

2 RECOMMENDATIONS

- 2.1 The Committee are asked to note the content of the report.

3 BACKGROUND

- 3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with cash being available when it is required. Surplus monies are invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 Accordingly, treasury management can be defined as:

“The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective

control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 3.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which will be presented to the full Council before 31st March 2019.

The strategy will complement the Treasury Management Strategy and will provide the following: -

- a high-level overview of how the capital expenditure, capital financing and treasury management activities contribute to the provision of services;
- an overview of how the associated risk is managed and;
- the implications for future financial sustainability for the council

The strategy is a high level document linked to the strategic objectives of the council and will be fully aligned with the Strategic Asset Management Plan, the Finance Strategy and the Treasury and Investment Strategy.

- 3.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy for the year ahead (approved by Council in February 2018), a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

3.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

Mid Year Position

3.7 The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

3.8 Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

3.9 Wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast as at 30th September 2018:

Table 3.1

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

Treasury Management Strategy Statement and Annual Investment Strategy update

- 3.10 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 27th February 2018.
- 3.11 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Table 3.2

Prudential Indicators 2018/19	Approved £m	Current Estimated Prudential Indicator £m
Authorised Limit	487	487
Operational Boundary	456	456
Capital Financing Requirement	456	447

Includes on balance sheet PFI schemes and finance leases etc.

The Council's Capital Position (Prudential Indicators)

- 3.12 This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

3.13 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Table 3.3

Capital Expenditure by Service	2018/19 Original Estimate £m	2018/19 Revised Estimate £m
General Services	45	45
HRA	25	22
Total capital expenditure	70	67

Revised budget estimates based on provisional Q2 2018 outturn forecasts

Changes to the Financing of the Capital Programme

3.14 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt. This external borrowing need may also have additional increases due to maturing debt and other treasury requirements.

Table 3.4

Capital Expenditure	2018/19 Original Estimate £m	2018/19 Revised Estimate £m
Total capital expenditure	70	67
Financed by:		
Capital receipts	13	14
Capital grants	15	15
Capital reserves		
Revenue	2	2
Total financing	30	31
Borrowing requirement	40	36

Revised budget estimates based on provisional Q2 2018 outturn forecasts

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

- 3.15 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary. We are projecting to be within the approved limits for both CFR and Operational Boundary.

Table 3.5

	2018/19 Approved Limits £m	2018/19 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – General Services	222	217
CFR – HRA	196	192
Total CFR	418	409
Net movement in CFR	24	20
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	418	409
Other long term liabilities*	38	38
Total debt (yearend position)	456	447

* On balance sheet PPP schemes and finance leases etc.

Limits to Borrowing Activity

- 3.16 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 3.6

	2018/19 Original Estimate £m	2018/19 Revised Estimate £m
Borrowing	380	377
Other long term liabilities*	38	38
Total external debt	418	415
CFR* (year end position)	456	447
Underborrowing		32

*Includes on balance sheet PPP schemes and finance leases etc.

- 3.17 The Head of Council Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
- 3.18 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government in Scotland Act 2003.

Table 3.7

Authorised limit for external debt	2018/19 Approved Limit £m	2018/19 Current Position £m
Borrowing	448	377
Other long term liabilities *	39	38
Total	487	409

* Includes on balance sheet PPP schemes and finance leases etc.

Investment Portfolio 2018/19

- 3.19 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.11, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 3.20 Investment decisions during the first 6 months of 2018/19 were taken in accordance with the approved strategy.
- 3.21 There were two short term investments made and repaid during the period, remaining surplus cash balances were held in the Council's bank account.

Table 3.8

Date of Lending	Borrower	Amount	Interest rate	Date repaid
09/05/18	Telford & Wrekin Council	£ 5m	0.57%	10/09/18
21/06/18	North Lanarkshire Council	£ 5m	0.50%	21/09/18

- 3.22 East Lothian Council Common Good funds and Charitable Trust funds are managed in two separate portfolios by an external investment management company, Investec. At 30th September 2018, the East Lothian Charitable Trust portfolio was valued at £3.489m, which represents an increase of £0.192m over the 6 month period. The performance of this portfolio for the first 6 months is on a par with the benchmark.
- 3.23 The Common Good portfolio was valued at £3.562m which represents an increase of £0.194m over the 6 month period. The expectation is that this portfolio should grow the fund and generate the best income at the minimal risk, the performance in the first 6 months is in line with this expectation given the current market conditions.

Investment Counterparty criteria

- 3.24 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

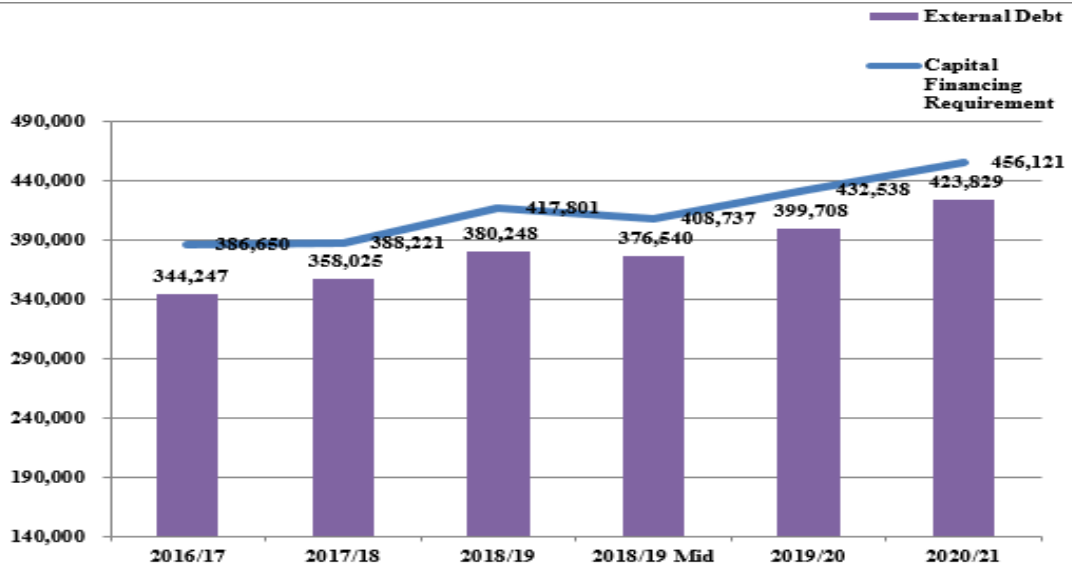
Borrowing

- 3.25 The Council's capital financing requirement (CFR) for 2018/19 is projected to be £409m. The net CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3.6 shows the Council expects to have borrowings of £377m and utilise £32m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

Comparison of Capital Financing Requirement to actual/estimated external borrowing

Graph 3.1

See over//



3.26 No external borrowing was taken in the first 6 months of the financial year.

3.27 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), new external borrowing of £36m is estimated to be undertaken during the second half of this financial year. The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2018 to 30 September 2018

Graph 3.2

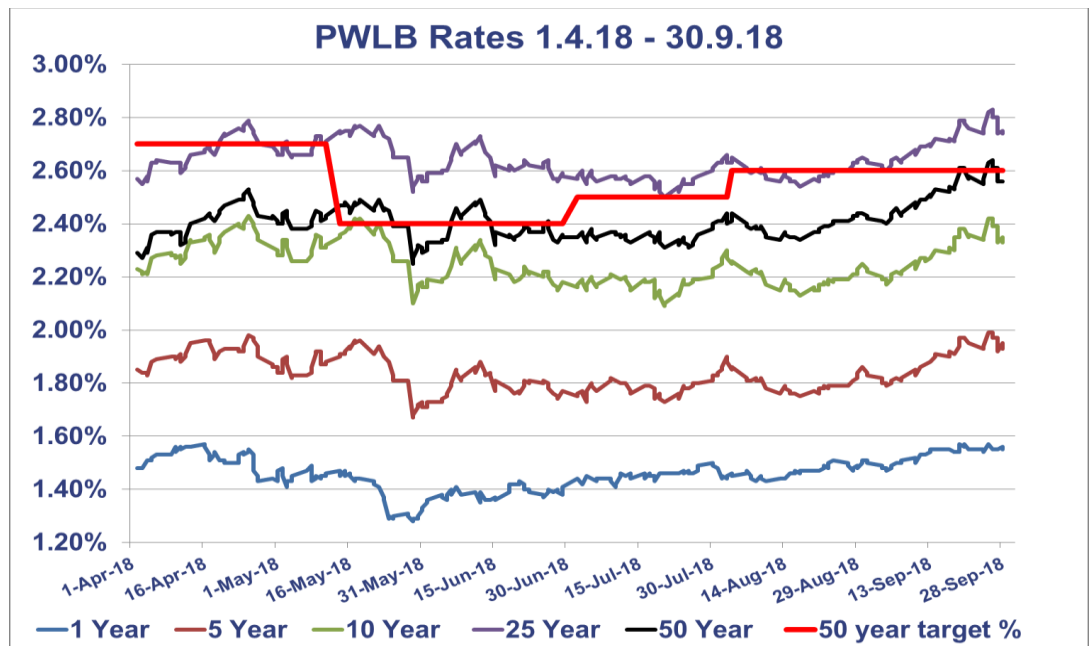


Table 3.9

	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

3.28 Two PWLB loans matured during the first six months and were repaid:

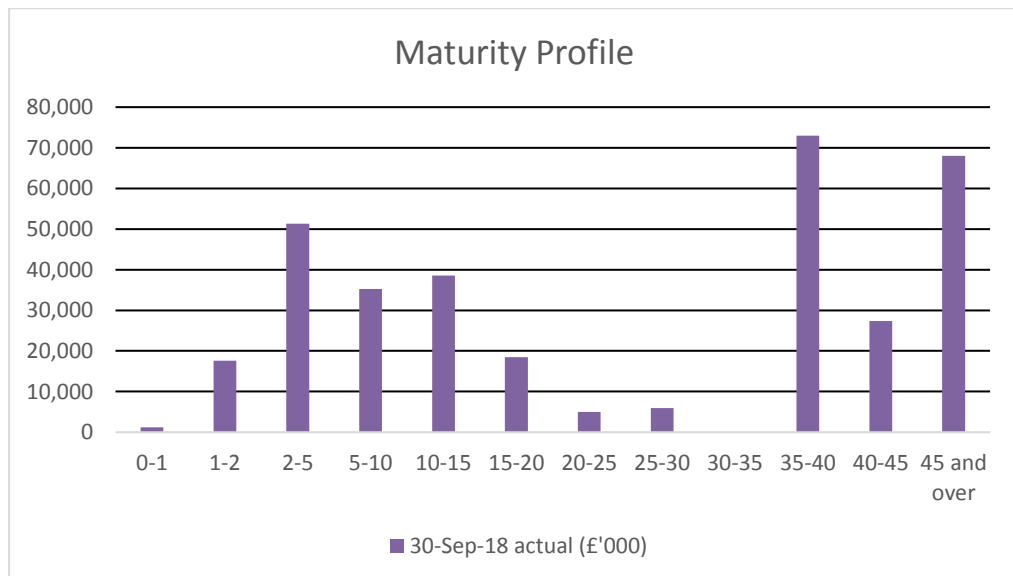
Table 3.10

Date repaid	Principal	Maturity	Interest rate
24/09/18	£5m	8 years	3.86%
24/09/18	£10m	8 years	3.89%

There were no short term loans taken or repaid.

Current Maturity Profile

Graph 3.3



Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

No debt rescheduling has therefore been undertaken to date in the current financial year.

IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. This means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The full effects of IFRS9 are being assessed and the Treasury impact will be reported in the Annual Report due to be presented to the Committee in June 2019.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report however the Council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well-being of equalities groups and an Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - There are no direct financial implications associated with this report however the Council's Treasury Management activity clearly has a significant impact on the management of the Council's financial resources.

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

- 7.1 Treasury Management Strategy 2018/19 to 2020/21 – East Lothian Council
27 February 2018.

AUTHOR'S NAME	Jim Lamond
DESIGNATION	Head of Council Resources
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DATE	12 November 2018

Report	East Lothian Council Audit and Governance Committee
Author	Bill Axon
Meeting Date	27 November 2018
Action	To note

Background

In October 2009, Enjoy East Lothian Limited (**Enjoy**) was established to manage, under contract, sports and leisure facilities and services on behalf of East Lothian Council (ELC). The current contract between **Enjoy** and ELC runs until 30 September 2021.

The facilities managed by **Enjoy** comprise six major sites -

- Aubigny Sport Centre, Haddington.
- Loch Centre, Tranent.
- Musselburgh Sport Centre
- North Berwick Sport Centre
- Meadowmill Sport Centre, Tranent
- Dunbar Leisure Pool, Dunbar

Enjoy also manages a variety of other sports facilities throughout East Lothian, which includes -

- Grass Pitches and Pavilions
- Synthetic Pitches (2G, 3G and water based)
- Seasonal Facilities (putting, pitch and putt, bowling etc.)
- Tennis Courts
- Golf Courses (Musselburgh Old Course and Winterfield, Dunbar)
- Athletics Track
- Climbing Wall
- Stables Pavilion (catering provision)

All of the facilities are owned by ELC with the exception of Dunbar Leisure Pool, which is wholly owned by **Enjoy**.

Enjoy is a company limited by guarantee, governed by its memorandum and articles of association and does not have a share capital. The company has charitable status under sections 466 to 493 Corporation Tax Act 2010 and its Scottish Charity Number is SC040527.

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Delivering services for East Lothian Council. **Enjoy** East Lothian Ltd, also known as 'Enjoy' and 'Enjoyleisure'. Scottish Registered Charity Number: SC040527



In order to secure charitable status, **Enjoy** must be entirely independent of ELC. Any perceived control exerted by ELC over **Enjoy's** business activities could threaten **Enjoy's** charitable status.

The provision of services by **Enjoy** to ELC is governed by a contract between the two organisations. The only influence ELC is able to exert over **Enjoy** is in terms of this contractual arrangement for the management of its sport facilities, for which ELC makes a contract payment.

All of the employees engaged in the provision of the services are wholly employed by **Enjoy**.

In terms of contract governance:

- There are four Directors appointed by ELC to the Board of **Enjoy** (all Elected Members).
- ELC has an appointed contract monitoring officer at Senior Level and there is a quarterly contract meeting chaired by ELC.
- Communication regarding service delivery between **Enjoy**, ELC and where necessary all local Elected Members is maintained at all times.
- Senior staff of ELC are also invited to attend Board Meetings as observers.

The Business Executive led by Bill Axon is responsible for the day-to-day management of **Enjoy's** affairs, and they are accountable to the Board of Directors.

The Non-Executive Board of Directors ensures that **Enjoy** conducts its affairs in accordance with its stated purpose. It sets the policies, strategies and objectives, and then preside over the Executive and his staff who are responsible for delivering them.

The Board is Chaired by Gordon Wales and consists of 4 Elected Members of ELC and a maximum of eight Community Representatives who, when appointed, are residents of East Lothian.

Business Context

Enjoy is committed to inspiring active living. It is our aim to enrich the physical and mental wellbeing of East Lothian's communities through the provision and development of a breath of activities and leisure opportunities for all ages and abilities to enjoy.

However, like other publically funded bodies we continue to be challenged by reduced funds available for public services. In order to fulfil our commitment to the people of East Lothian, **Enjoy** needs to make up for this shortfall through income generation. However, it needs to be recognised this can be significantly compromised by the inability to improve, maintain and refurbish Sport Centres to ensure they do not become old, tired and unattractive to visit.

As budgets become increasingly compressed the capacity to meet day-to-day maintenance demands and to achieve the desired facility developments is becoming increasingly difficult, taking account of the age of certain Sport Centres and Swimming Pools.

Whilst we may meet some of the above challenges by adopting a more commercial approach to the practice of managing Sport Centres, nonetheless, it would be unreasonable to believe sport and leisure centres can become self-sufficient in the future.



Over the period of time of business operation, **Enjoy** has been able to accommodate the yearly reduction in management fee by significantly increased participation and membership numbers, which has created a business environment for the company of growth including income. This has also been supplemented by management and board actions:

- reduce management and administration costs
- targeted price increases
- developing new business opportunities
- workforce management

With so many competing leisure activities within East Lothian, affordability is the key, and any significant increase in charges could be a deterrent to those suffering genuine financial hardship. This particular group remain a target group, for those we are trying to encourage increased physical activity.

East Lothian's housing provision is increasing dramatically; and all plans indicate it will do so for the next 5-10 years. Given that this provision includes a significant number of family dwellings, in certain areas it is likely that **Enjoy** will have an insufficient facility capacity to be able to respond to the increased demands on its services, which further compromises **Enjoy's** ability to increase income.

Enjoy and all our partners need to work together to look at alternative ways of increasing income. We need to develop expenditure opportunities to collectively invest in a sport and leisure infrastructure, which will get more people physically active. It is accepted by all related professional bodies that such an approach will support and help to tackle some of the major health issues facing our region, such as obesity, diabetes and heart disease etc.

Business Performance 2017/18

Since its creation in 2009, **Enjoy** has seen continuing growth in our income streams, despite reductions in the contract payment by ELC year on year.

Contract Payment from ELC

2010 / 11	2017 / 18
£2,787,612	£2,224,600

The above £2,224,600 contract payment equates to:

- 33.12% of **Enjoy's** total income
- 28.47% of **Enjoy's** total expenditure

This is a significant saving for the Council and Council Tax payers, however also provides a positive outcome of increased, accessibility, business activity and users.

Challenges

Enjoy has a very strong record of good financial management and historically has a good track record of managing within agreed budgets, however, the past year has regrettably not been without its challenges. In early 2018 financial reporting for the period 2017/2018 was identified as being inadequate. The anticipation of what was expected and required by the Executive and Board was not being met. A contributory factor was the



introduction of a new financial data collection and reporting system, however, not all issues were attributable to this piece of work.

The Executive supported by the Board intervened immediately and decisive action was taken to address identified shortfalls, including the appointment of a new Financial Controller in February.

As a result, noteworthy progress was achieved prior to year-end (31st March 2018). Since then significant corrective action has been attained, with additional work still remaining. It should be noted that all reported budget differences were met fully by **Enjoy**.

Additionally, the ongoing reductions in available funds for public services and how those existing funds are distributed and timing of budget decision making, creates a very challenging financial environment for **Enjoy** to operate within.

It is worth noting that the current approach of providing universal sport and leisure facilities within East Lothian to all major communities is commendable and is extremely valued by residents of East Lothian and has consistently been supported by this and previous administrations.

Business Developments

Despite reductions and financial challenges, **Enjoy** has continued to grow and enhance its public offering.

In the past year, significant developments were made with the creation of our Swimming Lesson Membership, "Get in the Swim". The scheme operates across each of **Enjoy's** Swimming Pools, offering children weekly swimming lessons, (scheduled across 48 weeks of the year) and unlimited free casual swimming for a monthly direct debit fee.

We have additionally be able to retain our Fitness Membership Scheme circa the 4900 mark. Direct Debit income now equates to 24.06% of our annual income and therefore is a prominent focus both in terms of development, retention and customer satisfaction.

Members

Membership figures at 1st November 2018 stand at the following:

1. Gym membership: **4,883**
2. Swimming Lesson Membership **1,975**
3. Golf Course Membership (two courses) **1,057**
4. Access to Leisure (low income scheme) **2,482**
5. Sports award scheme (free access to elite athletes approved by ELC) **231**
6. Leisure Pass Discount Card **205**

This gives **Enjoy** a total of **10,833** individual affiliates within East Lothian, which is in approximately **10%** of the population.

Visitor Numbers

Despite maintenance issues, resulting in temporary closures and a particularly harsh winter, we were able to achieve an overall increase in visitor numbers of 0.5% totally **1,367,731** visits across all of **Enjoy's** services.

Staffing Compliment

As of May 2018, **Enjoy** employed 369 members of staff, (226 female and 143 male).

- 173 Permanent Staff (97 female : 76 male)
- 196 Casual Staff (129 female : 67 male)

Headline Achievements

COUNCIL OBJECTIVE: INCLUSION / SOCIAL BENEFIT

Across East Lothian, **Enjoy** actively supports and encourages the participation of all ages and abilities within our sports facilities. Our focus is on providing active choices as well as developing and delivering opportunities for the communities at large to engage and participate in activities to improve their overall health and wellbeing.

As such, **Enjoy** keeps the social benefit for East Lothian at the forefront of its day-to-day decision making. Some of these benefits can be challenging to directly quantify; however examples of specific initiatives that are in place include:

- Operation of fully disabled access facilities and a range of activities for people with disabilities
- Delivering the Access to Leisure Scheme for eligible customers which allows reduced rates including use of facilities at certain times for an enhanced reduced rate
- Offering female only swim sessions
- Availability of low impact classes / activities for users with limited or restricted movement
- Offering discounted rates for Community Clubs
- Free Swims throughout the Summer Holidays (**note** – withdrawn 2018/2019)
- Commitment to providing Employability Placements & Vocational Volunteer opportunities within our communities.
- Developing closer links between NHS treatment in the local community including provision for people suffering with dementia
- Introduction of Autism Friendly Soft Play Sessions at Wiggles, Tranent
- Provision of a safe, comfortable environment within our café areas for people to meet

Disabled Access

Enjoy actively encourage participation by all ages and abilities. Disabled friendly and accessible activities provided by **Enjoy** and local clubs offers customers access to athletics, badminton, archery, bowling, multi-sports, fitness classes, swimming lessons (for both infants and children) and a dedicated swimming club which has members that compete at a national level.

Via the Access to Leisure Scheme, qualifying East Lothian applicants are able to enjoy significantly discounted rates to make use of the facilities, making physical activity both accessible and affordable.

Furthermore we offer support to casual customers visiting our facilities for the first time, through links with specialist websites www.disabledgo.com and www.euansguide.com which provide detailed descriptions of the access and facilities available within our Sports Centres.

Administering the Access to Leisure Scheme

Throughout 2017/18 the Access to Leisure scheme, which **Enjoy** administers on behalf of ELC, provided entry to **Enjoy's** facilities for **£1** per activity between the hours of 9:30am – 4:30pm Monday - Friday and discounted entry at all other times.

Applications for the last 3 years are as follows:

Applications to date	2015-16	2016-17	2017-18
Total	2548	2488	2727

The Access to Leisure Scheme continues to be a popular and a well-utilised pathway for disadvantaged individuals and families across East Lothian to access sport and leisure activities.

2017-18 saw an increase in applications from the year before, up 10%. People with disabilities and those in receipt of universal credit accounted for 25% of all applications, with child dependents (for all categories) accounted for 29% of applications.


Access to Leisure Admissions

		2015-16	2016-17	2017-18
Access to Leisure		49,638	48,191	40,698
Single Admissions	Bodyworks Gym	9,805	9,328	10,011
	Free Weights Room	891	811	787
	Swimming	14,847	13,946	12,512
	Health Suite	3,838	3,634	2,847
	Racket Sports	2,742	2,168	1,699
	Crèche	1,457	1,400	1,183
	NB Trampolines	649	631	745
Classes	ASN Activities	823	582	799
	Fitness Classes	6,302	6,622	5,415
Booked Activities	Gymnastics	2,239	2,140	2,038
	Climbing Wall	20	44	61
	Swimming Lessons	5,721	6,597	1,788
	Summer Activities	304	288	190

NB: The above decline in Swimming Lesson uptake is not a true reflection of the whole period due to the introduction of the 'Get in the Swim' lesson membership scheme in September 2017. The swimming lesson figures above for 2016-17 include 4 blocks of swimming lessons, whereas the 2017-18 figures only include 1 block (April – June 2017).



Availability of Low Impact Fitness Classes

Being able to provide a pathway and foundation for participation is an important aspect of **Enjoy's** pledge to "inspire active living". As such, as of April 2018 **Enjoy's** fitness class offering included 75 introductory 'Low Impact' classes - 24% of the classes on offer. Highlighted with a  symbol, these classes are suitable for individuals looking to make a return to exercise, without putting too much stress on joints. These classes have also attracted a significant corner of the 'senior' market and are incredibly well attended.

These classes include: Aqua Circuits | AquaFit | Ballet Stretches | BodyBalance | Fitness for All
Funky Fitness | Fitness Fun | Fitness Pilates | Functional Fitness | Music & Movement | Pilates
Seats & Beats | Stretch & Strength | Tai Chi Chuan | Swimming | Yoga | Zumba Gold.

Discounted Rates for Community Clubs/Groups

Throughout **Enjoy's** history, we have worked in collaboration with the Sports Clubs and organisations and (since their creation) the East Lothian Sports Hubs, to deliver our commitment to provide community access to East Lothian's Sporting Facilities.

A key focus of maintaining these relationships is being able to offer the clubs and groups, fit for purpose, well maintained and importantly affordable facilities and on occasion's free use. This not only ensures the club's long-term viability, but further enhances our commitment to deliver more specialised coaching and development activities for the benefit of the community.

Free Swims

During 2017, **Enjoy** continued to support an initiative to award Free Child Swim sessions to under 18s throughout the 6 week summer holiday period. (**Please note**, this provision was withdrawn for 2018).

Total Free Swim Attendances

	2013	2014	2015	2016	2017
Aubigny Sports Centre	3,675	3,035	3,679	7,733	4,809
Dunbar Leisure Pool	15,625	15,252	14,628	13,003	14,151
Loch Centre	1,587	2,161	1,583	1,842	1,963
Musselburgh Sports Centre	4,711	5,375	3,820	4,054	4,286
North Berwick S C	2,478	1,882	1,642	2,099	1,914
Grand Total	28,076	27,705	25,352	28,731	27,123

Modern Apprenticeships & Vocational Volunteer Opportunities

Enjoy continues to develop our partnership links with Direct Partners and East Lothian Works to offer work placements and volunteering opportunities across the organisation.

We have maintained and enhanced our relationship with Direct Partnerships, through their offering of Modern Apprenticeship opportunities. Through these links, we have been able to upskill members of staff from across the organisation through workplace Modern Apprenticeships in Facility Operations, Business and Administration and Digital Marketing courses.

Through our relationship with East Lothian Works we have 11 long-standing vocational volunteers, who work alongside leisure and café staff within our main sites. These individuals subsequently benefit from an invaluable social engagement opportunity in a workplace environment.

These partnerships allow **Enjoy** to provide training, development and volunteering opportunities; therefore providing a meaningful contribution to employment within East Lothian.

Autism Friendly Soft Play Sessions

With the appreciation that children of all ages and ability can benefit from active play, the team at Loch Centre identified an opportunity to make their multi-level soft play area more accessible to children with autism. First introduced in November 2017, Wiggles Soft Play now offer Autism Friendly Play Sessions on a monthly basis which incorporate additional sensory play equipment and chill out den. With reduced numbers these sessions offer a relaxed inclusive environment for families to meet up and socialise.

To enhance our delivery of these sessions, members of staff at the Loch Centre attended an Understanding Autism Training session in December 2017.

COUNCIL OBJECTIVE: HEALTH & WELLBEING

Sports Centre Visitor Numbers

Enjoy's services and facilities are at the core of East Lothian's major neighbourhoods and we continue to create significant opportunities for everyone within our community to engage actively and energetically, which makes a positive contribution to unlocking the potential of both individuals and our communities.

Total visitor numbers, including school use, clubs, spectators, event use and café visitors in 2017-18 totalled **1,367,731** across all Sports Centres, Pitches, Seasonal Facilities and both Golf Courses.

When comparing 'transactional customers' – those customers who physically interact with reception (listed below) **Enjoy** saw an increase of 0.5%, (4,636).

	2015-16	2016-17	2017-18
3G Synthetic Pitch	5,434	2,756	3,354
ASN Activities - Dry	9,068	9,841	9,931
Athletics	399	219	347
Birthday Party Activities	10,672	12,617	13,665
Bodyworks Gym	111,702	119,580	117,992
Climbing Wall Activities	1,793	3,840	3,924
Crèche Activities	4,733	4,528	3,265
Dry Coached Activities	1,613	1,204	908
FASIC	237	273	236
Fitness Classes	127,568	146,721	153,966
Free Weights Room	14,941	12,740	11,904
Golf Visits	38,419	48,055	51,497
Grass Pitch & Pavilion	14,192	14,103	12,487
Gymnastics	25,167	23,883	24,985
Hall Events	1,007	1,413	1,643
Hall Hire	13,964	11,261	10,756
Health Suite	23,748	24,455	19,344
NB Trampolines	12,494	12,167	10,888
NPLQ Courses	65	176	146
Racket Sports	40,308	39,324	34,136

	2015-16	2016-17	2017-18
Room Hire	15,065	12,935	13,310
Seasonal Facilities	17,291	13,829	15,377
Soft Play	23,572	17,421	15,528
Summer Activities	3,030	2,888	1,797
Swimming	250,677	262,278	258,087
Swimming Lessons	58,386	66,887	75,909
Synthetic Pitch	3,466	2,744	3,274
Grand Total	829,011	868,138	868,656
			0.5%

It is worthy to note, that during March 2018, East Lothian experienced heavy snow fall which resulted in closures at the golf courses and 3 days where the Sports Centres significantly reduced their opening hours. The weather had a noticeable impact on visitor numbers, as the public at large were advised to only travel when necessary, reducing the number of casual leisure customers.

Gymnastics Programme Expansion

From April 2017 to March 2018 the **Enjoy's** gymnastics and trampolining programme saw a number of significant developments alongside a continued successful programme. An additional day of activity was added at Aubigny Sports Centre by the implementation of four pre-school gymnastics classes on a Tuesday. The gymnastics classes on a Thursday at Loch Centre, were expanded to include a P1 beginner class and an advanced class, which has doubled the gymnastics provision at the centre.

Loch Centre also saw an investment in equipment with the purchase of Freestanding Asymmetric Bars costing £4000 which has expanded the opportunities for gymnasts at the centre, as well as bringing Loch Centre in line with other centres with larger programmes.

Three successful events were also ran within **Enjoy's** facilities, which saw 771 gymnasts participate in the gymnastics competition, trampolining competition and the showcase event during 2017/18. These events included gymnasts from the **Enjoy** programme as well as other local programmes and clubs.

Enjoy also expanded gymnastics offering out into the community through its support to the Early Years Gymnastics programme. This involved delivering a number of Gym Monkeys / Gymnastics inspired sessions within 3 schools over an 18 weeks period. In total 195 pupils between nursery – P2 age were involved, which aimed to develop their fundamental skills and introduce them to gymnastics within their curriculum PE.

Membership Schemes

Swimming Lessons Membership Scheme

The focus for **Enjoy** last year was the development and subsequent launch of our and learn to swim initiative with associated membership scheme "Get in the Swim". The membership package provided members with a rolling weekly group swimming lesson, scheduled against 48 weeks of the year (with a guarantee of receiving 45 lessons) and unlimited casual free swims across each of East Lothian's pools. The monthly fee, paid by direct debit is £17.50, with a 50% discount (£8.75) for Access to Leisure customers. In addition each member received a membership card and bag upon sign up to the scheme.

Programme Launch

Between April 2017 and September 2017, **Enjoy** delivered an extensive marketing campaign to communicate the changes in the lesson structure to existing swimming members and publicise our new Get in the Swim membership to potential customers. This involved roadshow events led by the Marketing & Swimming Development Team, where attendance over a 3 week period at each centre ensured that customers had the opportunity to come and talk to a member of staff about any queries they may have had about the new programme. Further onsite promotion through exterior window graphics, dedicated noticeboards, floor vinyl's and pull up panels ensured a highly visible presence throughout all of **Enjoy's** Swimming Pools. In addition a new "Get in the Swim" brochure was designed to contain all the necessary information for customers, ensuring they had sufficient details on the changes.

At the end of the last 'block' of lessons, April-June 2017, there were approx. 1800 children within the lesson programme. By the first week on the new programme, which launched on 2nd September 2017, we had 1957 members enrolled in the scheme with occupancy at 85%. By March 2018, we had 2041 members (85% occupancy) and an enquiry list operating, as the demand for spaces was unexpectedly high.

To celebrate the launch of the programme, we were delighted to welcome Silver Commonwealth Medal winner and Scottish Swimming Learn to Swim Ambassador Duncan Scott to North Berwick Sports Centre. "Creating a Big Splash", Duncan along with pupils from Law Primary, representatives from North Berwick Swimming Club and East Lothian's elite Swim Team were treated to demonstrative and interactive lessons with Duncan as well as some fun and inquisitive Q&A sessions.



Swim Teacher Development

In order to deliver this new programme, we expanded our staffing complement adding two full-time temporary Swim Coordinators in May 2017, to form the Swimming Development Team led by the Swimming Development Officer. The Coordinators have set centres allocated to aid in the running and development of the programme within that centre. They are crucial to the smooth delivery of the programme by being a point of contact for customers and teachers.

Due to the expansion of the programme, we have since upskilled staff to ensure we are fulfilling the quality aspect of the lessons. Since April 2017, we have put over 35 members of staff through their UKCC Level 1 Teaching Aquatics qualification and over 25 staff members through the UKCC Level 2 Teaching Aquatics qualification. We have also trained 10 members of staff to delivery our Early Years programme. We have implemented a CPD training schedule to ensure all teachers receive ongoing training. We have also supported the Swimming Development Officer through the tutor qualification, allowing for courses to be run locally and based on the needs of the county.

Programme Expansion

Since April 2017, we have also expanded our ASN, adult and 1:1 lesson programmes, enhancing our service offering to allow further opportunities for everyone to access swimming.



Our ASN pathway was acknowledged by Scottish Swimming as good practice; specifically highlighting the way we link with our local partners to offer varying opportunities for people with different needs. We were asked to speak at the Scottish Swimming conference November 2017, to provide other Local Authorities and Trusts detail on the pathway we have built in East Lothian.

Our latest initiative is to provide specific lessons for older children (8+) that have not yet learnt to swim.

Recognition

In September 2018, **Enjoy** was selected as a finalist for the Scottish Swimming ‘Learn to Swim Provider of the Year’. The nomination covered areas such as: organisation of the Learn to Swim programme, creating a comprehensive and inclusive pathway, communication with the community and partners, promotion of opportunities and development opportunities for staff. Although, ultimately unsuccessful at the final hurdle, to have identified as one of three finalist across Scotland was an achievement in itself.

To Date

We currently have 2104 members enrolled into the programme (October 2018) with an occupancy of 84%. Over the past month, we have been working closely with Scottish Swimming, our local clubs, performance team and community partners to produce an Aquatics Strategy for East Lothian. We are one of 5 areas in Scotland to initiate this process and the strategy will cover the period between 2019 – 2022.

Fitness Memberships

Enjoy’s Fitness Membership Scheme offers adults (aged 16+) the opportunity to access the Bodyworks Gyms, Free Weights facilities, Swimming Pools, Health Suites and 300+ Fitness Classes across each of East Lothian’s 7 Sports Centres for a monthly direct debit fee.

Since its redevelopment in 2012, the Membership Scheme has continued to be a major source of income for the organisation, and a focus of our service delivery.

Monthly direct debit income from membership payments across 2017-18 on average was £134,651 compared to £29,461 on April 2012.

The total number of Fitness direct debit paying members:

	April 2012	April 2017	April 2018
Fitness Memberships	1,289	4,880	4,931

The above graph above indicates a levelling-off of the membership base circa the 4,900 mark.

A number of the Sports Centres are approaching, if not exceeding (in the case of Aubigny Sports Centre) their membership base capacity. In such circumstances, to dramatically increase membership figures further could be a detriment to the business as members become unable to gain access to the facilities.



With a focus on retention, we concentrate on delivering an engaging, balanced variety of fitness classes, maintaining the quality of gym equipment and delivering ample opportunities for swim sessions across our facilities.

This has at times been challenging, especially when faced with unforeseen maintenance closures, in particular that of the Health Suites at Musselburgh and North Berwick.

Fitness Classes

Fitness classes continue to be the biggest draw for fitness membership applications. It is therefore not surprising to see that 88% of fitness class attendees (an increase of 2% from last year) come from our membership base.

Keep Fit Classes	2017-18	%
Access to Leisure	5,415	4%
Casual Customers	10,817	7%
Discounted Customers	531	0%
Leisure Pass	1,840	1%
Membership Inclusive	135,363	88%
Grand Total	153,966	100%

The fitness class programme is reviewed quarterly. At these points we revise the class timetable, introducing new classes in response to fitness trends and customer interest and popularity. At all times, we strive for a balance between cardio, endurance, low impact and strength and conditioning classes to appeal to as large a customer base as possible.

Total Number of classes	April 2012	April 2013	April 2014	April 2015	April 2016	April 2017	April 2018
	158	229	261	288	303	309	317

Online Booking

The online booking portal launched in September 2016 and has proven to be invaluable to the organisation ever since. In the first month alone 7850 online transactions (both bookings and cancellations) were carried out online, 47% of the total transactions that month. A year later in September 2017 there were 11,829 online transactions equating to 70% of all fitness class transactions for the month.

Two years on, and its popularity continues with the online booking portal handling 12,495 fitness class transactions in September 2018 (76% of all fitness class bookings & cancellations for the month).

	Sep 16	Sept 17	Sept 18
Online Booking Transactions	7,850	11,829	12,495
As % of all Booking Transactions	47%	70%	76%



Going forward, we intend to explore further utilisation of the online booking system, to see what other class and course / casual bookings can be made available for customers to book online.

Service Level Agreements with ELC

These are reviewed annually, with agreement being reached to continue a partnership with ELC payroll and IT. These are viewed by all concerned as being positive arrangements at present; however the overriding factor for future arrangements will be the continuance of meeting **Enjoy's** future business needs.

In-house Human Resource Function

An agreement was made with ELC to withdraw from the HR Service Level Agreement with effect from 1st April 2018. This will allow **Enjoy** to begin implementing an HR strategy that can support business goals making our business more efficient through the planned use of human resources. This will include our ability to target improved performance management; provide direct guidance with regards employment legislation; training and development of staff for growth; employee engagement; support any future change programme and develop a reward scheme relevant for our business.

In January 2018, **Enjoy** appointed a dedicated HR Business Manager, to lead the business forward in all HR matters. Between January – April a handover was completed with the ELC HR team. To assist in the delivery of the HR function, one of our existing Senior Business Support Assistants took on the permanent role of HR Assistant 19 hours per week, with effect from 1st April 2018 to better reflect the duties and responsibilities she was undertaking.

Health and Safety

The health and safety of our customers and our employees is always at the forefront of our priorities in the delivery of our services.

Each year, we review our Health & Safety Policy, which is submitted to the Board for approval. A summarised version of the report is issued to all employees, and a dedicated A5 brochure is included within our induction welcome pack to ensure that all staff are fully aware of their roles and responsibilities when it comes to Health and Safety.

In the last year, we carried out the following additional activities:

- Senior staff (Senior Managers and Service Managers) attended Head of Establishment training in March 2018 organised by ELC. This informed attendees what their roles, responsibilities and actions should be as Head of Establishment and the various systems already in place to allow them to carry out responsibilities efficiently.
- In April Aubigny Sports Centre staged a mock chemical spill within the plant room in order to allow the Scottish Fire Service to run through various drills and training procedures. The event, albeit causing some public interest due to the heightened activity around the centre proved to be an invaluable experience for both **Enjoy** staff involved and the attending fire fighters.
- Continuing our commitment to delivering our services to the highest industry standards, we invested in the renewal of Pool Extraction Boards in all of our swimming pools.
- As part of our annual Leisure Watch Training programme, 62 member of staff attended our training sessions at Meadowmill Sports Centre in August 2017.

Water Safety Event

As part of our Aquatic Strategy **Enjoy** delivered a Water Safety event held at Dunbar Leisure Pool, which was attended by 140 P5 children from Dunbar Primary School.

Being a coastal county, the importance of water safety cannot be understated and with our partnership links with Scottish Swimming and the local RNLI we delivered this specialised event in June 2018.

The workshop incorporated a walk around the harbour, where children identified potential hazards to realise the dangers associated with being around open water. This was followed with a series of lifesaving demonstrations including how to perform basic CPR, place someone into the recovery position and a discussion around cold-water shock syndrome.

The session was really positive and received great feedback from the teachers and pupils involved in the event.

NPLQ Courses

Enjoy has maintained the Institute of Qualified Lifeguard Approved Training Centre Status, which allows our professionally trained staff to maintain their qualifications through in-house training. It also allows **Enjoy** to offer National Pool Lifeguard Qualifications to the general public and through this the opportunity to explore additional income streams.

Between April 2017 – March 2018 we offered 4 x NPLQ courses to the public which resulted in 38 people (89% occupancy) attending the course. These courses generated £8474 worth of income for the business.

In addition we delivered a dedicated NPLQ training course for 5 members of Dunbar Amateur Swimming Club, thus enabling them to maintain their qualifications to self-lifeguard their training sessions at the facility.

The delivery of external NPLQ training courses now feature as a vital element of our continuing recruitment process, and frequently result in attendees going on to become relief and on occasion temporary and permanent members of staff.

Community Economic Investment

Loch Centre Dry-Side Changing Refurbishment

Towards to end of the financial year, **Enjoy** alongside ELC embarked on a 12 week refurbishment of the 'dry side' changing facilities at the Loch Centre in Tranent. The work commenced on Monday 26th February and included:

- Reconfiguration of the layout of the changing room area in order to install a brand new accessible changing, shower and toilet facility (wet room); a provision not previously available on the ground floor of the building.
- Complete refurbishment of the 'dry-side' male and female changing rooms, including new flooring, shower facilities, toilets & hand basins, benched changing areas and new lockers.
- Replacement of an overhead water tank, which was housed above the existing staff-room. The old (excessively large) water tank was replaced with a newer smaller, more efficient water tank.

During the refurbishment one of the dance studios was taken out of commission to provide both a work space for the contractors and essential access to the overhead water tank. Throughout the duration of the works, we were



able to accommodate the majority of the existing classes in other areas of the building, albeit at reduced numbers.

Sustainable East Lothian

Enjoy is a key economic driver within East Lothian, not only as a major employer, but also in attracting events and investment to underpin new activities for the benefit of targeted groups.

We also contribute in making East Lothian a destination of choice to live, visit and work.

We are committed to working with our partners ELC to ensure environmental sustainability through investment when modernising the estate. This is entrenched in management decision making and the administration of the existing estate and in all planned refurbishments.

Financial Performance

An annual audit of **Enjoy** was undertaken by an external auditor (Scott-Moncrieff), which reported an unqualified audit opinion. Extracts from latest audited accounts are shown below.

Group Statement of Financial Activity For the year ended 31 March 2018

	Notes	Unrestricted Funds £	Restricted Funds £	Year to 31 March 2018 £	Year to 31 March 2017 £
Incoming and endowments from:					
<i>Donations and legacies</i>					
Voluntary income	4	25,053	-	25,053	34,179
<i>Charitable activities</i>					
Membership fees		1,759,385	-	1,759,385	1,784,550
Services		2,099,913	-	2,099,913	1,921,511
Management service fee	5	2,224,600	-	2,224,600	2,319,600
<i>Other trading activities</i>					
Trading subsidiary		600,242	-	600,242	586,918
<i>Investments</i>					
Investment income	6	6,930	-	6,930	-
Total		6,716,123	-	6,716,123	6,646,758
Expenditure on:					
<i>Charitable activities</i>					
Membership services	8	(7,012,490)	-	(7,012,490)	(6,348,530)
<i>Other</i>					
Trading Subsidiary	22	(699,282)	-	(699,282)	(638,159)
Net interest defined benefit scheme	11	(101,000)	-	(101,000)	(35,000)
Total		(7,812,772)	-	(7,812,722)	(7,021,689)
Net gains/(losses) on investments		-	-	-	-
Net income/(expenditure)		(1,096,649)	-	(1,096,649)	(374,931)
Transfer between funds		-	-	-	-
Other recognised gains/(losses):					
Gains/(losses) on revaluation of fixed assets		-	-	-	(17,949)
Actuarial gains/(losses) on defined benefit pension schemes	11	940,000	-	940,000	(2,179,000)
Other gains/(losses)		-	-	-	-
Net movement in funds		(156,649)	-	(156,649)	(2,571,880)
Reconciliation of funds:					
Total funds brought forward		4,069,983	15,855	4,085,838	6,657,718
Fund balances carried forward		3,913,334	15,855	3,929,189	4,085,838

Group and Charity Balance Sheet
As at 31 March 2018

	Notes	Group		Charity	
		2018 £	2017 £	2018 £	2017 £
Fixed Assets					
Tangible fixed assets	12	6,470,901	6,784,163	6,470,901	6,784,163
Current assets					
Stock		70,822	51,556	53,329	38,573
Debtors	13	181,158	200,825	336,946	346,675
Cash at bank and in hand		1,204,800	1,289,612	1,029,427	1,100,145
		<u>1,456,780</u>	<u>1,541,993</u>	<u>1,419,702</u>	<u>1,485,393</u>
Creditors: Amounts falling due within one year	14	<u>(752,492)</u>	<u>(879,318)</u>	<u>(675,715)</u>	<u>(822,719)</u>
Net current assets		<u>704,288</u>	<u>662,675</u>	<u>743,987</u>	<u>662,674</u>
Total assets less current liabilities excluding retirement benefit scheme		7,175,189	7,446,838	7,214,888	7,446,837
Retirement benefit scheme (deficit)/asset	11	<u>(3,246,000)</u>	<u>(3,361,000)</u>	<u>(3,246,000)</u>	<u>(3,361,000)</u>
Net assets including retirement benefit scheme asset/(deficit)		<u>3,929,189</u>	<u>4,085,838</u>	<u>3,968,888</u>	<u>4,085,837</u>
Funds					
Unrestricted funds	17	4,231,048	4,352,894	4,270,747	4,352,893
Unrestricted- Revaluation Reserve		2,928,286	3,078,089	2,928,286	3,078,089
Unrestricted- Pension Reserve		(3,246,000)	(3,361,000)	(3,246,000)	(3,361,000)
Restricted funds		15,855	15,855	15,855	15,855
		<u>3,929,189</u>	<u>4,085,838</u>	<u>3,968,888</u>	<u>4,085,837</u>
Total funds		<u>3,929,189</u>	<u>4,085,838</u>	<u>3,968,888</u>	<u>4,085,837</u>

Recommendations

That the Committee notes the information contained within this report.

REPORT TO: Audit and Governance Committee

MEETING DATE: 27 November 2018

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: East Lothian Land Ltd 2017/18

5

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Land Ltd in 2017/18.

2 RECOMMENDATIONS

- 2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

- 3.1 East Lothian Council established East Lothian Land Ltd (ELL) in 2000, a company limited by guarantee (SC208723), through the transfer of undeveloped employment land in council ownership at Macmerry (Opposite the industrial estate) in return for 100% equity in the company.
- 3.2 The transferred employment land at that time was viewed by the private sector as undevelopable providing insufficient return on investment.
- 3.3 No additional financial support was provided to the company by East Lothian Council (ELC). ELL went to the financial market to fund the development costs of the Macmerry Business Park as well as self funding through selling of plots as they were serviced.
- 3.4 In 2016/17 the company developed the empty council building located at Brewery Park, Haddington into 10 individual offices spaces – since opening in October 2016 it has run at 100% occupancy.
- 3.5 The company has a board of 4 directors comprising of the Leader of the Council, Economic Development spokesperson, a private industry sector

representative and the Depute Chief Executive – Resources and People Services.

- 3.6 The Economic Development & Strategic Investments (EDSI) Business Development manager, is the Company Secretary and manager of the company. The manager is supported by the EDSI Business Development assistant.
- 3.7 The board act on a “*Pro Bono*” basis and do not receive payment. The Business Development manager and assistant undertake the work under their current ELC job remits.
- 3.8 Board meetings are held on a regular basis linked to ongoing business requirements and commercial developments. Decisions made are taken by a majority with the Chair having the casting vote on any tied outcome.
- 3.9 Minutes of any board meetings are taken and approved at subsequent board meeting by the chair.

Financial

- 3.10 East Lothian Land Ltd is VAT registered and is audited annually by Springfords Accountancy Dalkeith. End of Year accounts are approved by the board and signed off accordingly and provided to ELC for group accounting purposes. (See appendix 1 End of year accounts).
- 3.11 ELL accountants’ opinion is that the financial statements for the company give a true and fair view of the state of the company affairs as at 31st March 2018 and of its loss of £1,638 for the year then ended. A concern was raised by the accountants over the lack of turnover / actual business for the company during the period which has been noted by the board of directors.
- 3.12 Springfords have now merged with the Baldwin Accounting Group and will be renamed Dallas Campbell. The board agreed to retain the firm as the company accountants at the board meeting held in November 2018.
- 3.13 East Lothian Land Ltd use Excel for accounting purposes and as a VAT registered entity and to comply with “Making Tax Digital” from the 1st April 2019 the company will require to move to an online accounting platform – Xero cloud accounting being the recommendation by the company accountants.
- 3.14 The company changed banks in July 2018 from the Royal Bank of Scotland to Handelsbanken due to the offer of a higher interest rate on funds lodged.

2017/18 Projects Considered

Gateside East and West, Haddington

- 3.15 Both employment sites were to come into Council ownership through Section 75 agreements in the year 17/18 and that ELL may be required to develop the sites. Initial drawings were commissioned for the West site but did not proceed further as the site did not transfer to ELC ownership in this period.
- 3.16 Gateside East site Section 75 was challenged and overturned by the Scottish Government Reporter and did not transfer to ELC ownership.

Tantallon Office, North Berwick

- 3.17 ELL Ltd entered into discussions with the owner of an office development in North Berwick in relation to renting space and converting into 7 small offices.
- 3.18 The project did not proceed as rental level quoted to ELL Ltd for the space was prohibitive and the company would be unable to make a return on investment.

Macmerry Business Park

- 3.19 ELL owns a strip of land at Macmerry Business Park which has a zero value on balance sheet. The site was considered as an option to develop / sell but following discussions with architect it was deemed too difficult to develop.

Dunbar Road, Haddington

- 3.20 ELL following a discussion with ELC estates suggested a possible option for Dunbar Road, Haddington – the current Museum and Library HQ.
- 3.21 ELC had a vacant unit of 15,000 sqft on the first floor at Inveresk Industrial estate (Unit 4.4), Musselburgh which for heavy items is serviced via a lift. Further the unit requires a new external fire escape to be constructed. This make letting of the property challenging.
- 3.22 The option would be to relocate the council services in Dunbar Road to this unit and re-configure Dunbar road for commercial letting.
- 3.23 ELL held a meeting with senior council officials in relation to this building unaware that a relocation of the Museum and Library service had been previously considered in 2014 and was viewed as being not cost effective.

Brewery Park block C

- 3.24 Based on Brewery Park Block B success - Block C was given consideration for future development. The proposal did not progress due to challenging internal layout of the building.

Various

- 3.25 A number of other sites and buildings were raised and discussed by the board of ELL Ltd but did not come to fruition.

2017/18 Projects Delivered

- 3.26 None.

Future Projects

- 3.27 The company actively scans the market for possible developments and have recently been unsuccessful with offers for the RboS building in North Berwick and for a land site allocated for economic use.
- 3.28 Ongoing engagement with a number of possible joint ventures are taking place and the company liaises closely with ELC estates for possible opportunities around vacant council premises and ELC owned commercial properties that may require remediation / rebuilt.

4 POLICY IMPLICATIONS

- 4.1 The two strategic goals of the refreshed East Lothian Council Economic Development Strategy 2012 to 22 are :-
- To increase the number of businesses in East Lothian with growth potential
 - To increase the proportion of East Lothian residents working in and contributing to East Lothian's economy.
- 4.2 The work East Lothian Land Ltd undertakes mirrors and supports the strategic goals set out in the Economic Development Strategy with the company objectives as follows: - *“To promote, support and/or effect the development of land and property within the area served by East Lothian Council, with a view to stimulate economic development and regeneration and so to assist in the creation of employment opportunities.”*

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 - EDSI's Business Development Team manager, Business Development assistant and Depute Chief Executive.
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Report on the financial year 2016/17 presented to the Audit and Governance Committee on 20 February 2018.

AUTHOR'S NAME	Richard Baty
DESIGNATION	Business Development Manager
CONTACT INFO	Tel 7177 rbaty@eastlothian.gov.uk
DATE	9 November 2018

EAST LoTHIAN LAND LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

EAST LoTHIAN LAND LIMITED

COMPANY INFORMATION

Directors	Eric Murray William Innes John McMillan Alex McCrorie
Secretary	Richard Baty
Company number	SC208723
Registered office	John Muir House Room 2.19 Brewery Park Haddington East Lothian EH41 3HA
Auditor	Springfords LLP Dundas House Westfield Park Eskbank Edinburgh EH22 3FB
Business address	John Muir House Room 2.19 Brewery Park Haddington East Lothian EH41 3HA
Bankers	The Royal Bank of Scotland plc 32 Court Street Haddington EH41 3NS
Solicitors	HBJ Gateley Exchange Tower 19 Canning Street Edinburgh EH3 8EH

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EAST LOTHIAN LAND LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors present their report and financial statements for the year ended 31 March 2017.

Principal activities

The principal activity of the company continued to be that of trading in land for development.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Eric Murray
William Innes
John McMillan
Alex McCrorie

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

.....
Eric Murray
Director

.....

EAST LoTHIAN LAND LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF EAST LoTHIAN LAND LIMITED

We have audited the financial statements of East Lothian Land Limited for the year ended 31 March 2017 set out on pages 4 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors, including APB Ethical Standard - Provisions Available for Small Entities (Revised), in the circumstances set out in note 7 to the financial statements.

Scope of the audit of the financial statements

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and the Directors' Report has been prepared in accordance with applicable legal requirements.

EAST LoTHIAN LAND LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBER OF EAST LoTHIAN LAND LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report and take advantage of the small companies exemption from the requirement to prepare a Strategic Report.

J Fergus Kerr ACA (Senior Statutory Auditor)
for and on behalf of Springfords LLP

.....

Chartered Accountants
Statutory Auditor

Dundas House
Westfield Park
Eskbank
Edinburgh
EH22 3FB

EAST LOTHIAN LAND LIMITED**STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2017**

			2017	2016
	Notes	£	£	as restated £
Administrative expenses			(2,728)	(2,470)
Other operating income			2	2
Operating loss			<u>(2,726)</u>	<u>(2,468)</u>
Interest receivable and similar income			500	888
Loss before taxation			<u>(2,226)</u>	<u>(1,580)</u>
Taxation			-	-
Loss for the financial year			<u>(2,226)</u>	<u>(1,580)</u>
Retained earnings at 1 April 2016 as previously reported		(218,782)	(195,186)	
Effect of prior period adjustments	8	<u>22,016</u>	<u>-</u>	
As restated			(196,766)	(195,186)
Retained earnings at 31 March 2017			<u><u>(198,992)</u></u>	<u><u>(196,766)</u></u>

EAST LOTHIAN LAND LIMITED**BALANCE SHEET****AS AT 31 MARCH 2017**

	Notes	2017		2016 as restated	
		£	£	£	£
Current assets					
Debtors	2	144,117		37,640	
Cash at bank and in hand		459,106		592,566	
		<u>603,223</u>		<u>630,206</u>	
Creditors: amounts falling due within one year	3	(2,215)		(26,972)	
Net current assets			601,008		603,234
			<u><u>601,008</u></u>		<u><u>603,234</u></u>
Capital and reserves					
Called up share capital	4		800,000		800,000
Profit and loss reserves			(198,992)		(196,766)
Total equity			601,008		603,234
			<u><u>601,008</u></u>		<u><u>603,234</u></u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the board of directors and authorised for issue on and are signed on its behalf by:

.....
Eric Murray
Director

Company Registration No. SC208723

EAST LOTHIAN LAND LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 MARCH 2017**

	Notes	2017		2016 as restated	
		£	£	£	£
Cash flows from operating activities					
Cash absorbed by operations	6		(133,960)		(12,969)
Investing activities					
Interest received		500		888	
Net cash generated from investing activities			500		888
Net cash used in financing activities			-		-
Net decrease in cash and cash equivalents			(133,460)		(12,081)
Cash and cash equivalents at beginning of year			592,566		604,647
Cash and cash equivalents at end of year			459,106		592,566

EAST LOTHIAN LAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

Company information

East Lothian Land Limited is a private company limited by shares incorporated in Scotland. The registered office is John Muir House Room 2.19, Brewery Park, Haddington, East Lothian, EH41 3HA.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 March 2017 are the first financial statements of East Lothian Land Limited prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 April 2015. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

The financial statements have been prepared under UK Financial Reporting Standard 102. The company's auditors do not believe that the results and balance sheet are inconsistent with International Financial Reporting Standards.

1.2 Going concern

The company has significant cash resources and very few liabilities. The directors consider that the company will continue in operational existence for the foreseeable future and they therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.4 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

EAST LOTHIAN LAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.5 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.6 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

EAST LOTHIAN LAND LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 MARCH 2017****1 Accounting policies****(Continued)****Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2 Debtors

	2017	2016
		as restated
Amounts falling due within one year:	£	£
Loan receivable	144,117	37,640
	<u>144,117</u>	<u>37,640</u>

Debtors include an amount of £122,316 (2016 - £37,640) which is due after more than one year.

3 Creditors: amounts falling due within one year

	2017	2016
	£	£
Other taxation and social security	-	397
Other creditors	2,215	26,575
	<u>2,215</u>	<u>26,972</u>

EAST LOTHIAN LAND LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 MARCH 2017****4 Called up share capital**

	2017	2016
	£	£
Ordinary share capital		
Issued and fully paid		
800,000 Ordinary £1 shares of £1 each	800,000	800,000

5 Parent entity

The company is controlled, by virtue of its owning 100% of the issued share capital, by East Lothian Council whose principal place of business is John Muir House, Brewery Park, Haddington, EH41 3HA. East Lothian Council prepares consolidated financial statements which are publicly available from their website.

6 Cash generated from operations

	2017	2016
	£	as restated £
Loss for the year after tax	(2,226)	(1,580)
Adjustments for:		
Investment income	(500)	(888)
Movements in working capital:		
(Increase) in debtors	(106,477)	(35,258)
(Decrease)/increase in creditors	(24,757)	24,757
Cash absorbed by operations	(133,960)	(12,969)

7 Non-audit services provided by auditor

In common with many businesses of our size and nature we use our auditors to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

EAST LOTHIAN LAND LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 MARCH 2017****8 Prior period adjustment**

Amounts totalling £37,640, of which £15,624 had been capitalised as fixed assets and £22,016 had been expensed as administrative expenses in the accounts for the year ended 31 March 2016, have been restated to be included within debtors. The impact of this prior period adjustment is as follows:

Changes to the balance sheet

	At 31 March 2016		
	As previously reported	Adjustment	As restated
	£	£	£
Fixed assets			
Tangible assets	15,624	(15,624)	-
Current assets			
Debtors due within one year	-	37,640	37,640
	<u> </u>	<u> </u>	<u> </u>
Net assets	581,218	22,016	603,234
	<u> </u>	<u> </u>	<u> </u>
Capital and reserves			
Profit and loss account	(218,782)	22,016	(196,766)
	<u> </u>	<u> </u>	<u> </u>

Changes to the profit and loss account

	Period ended 31 March 2016		
	As previously reported	Adjustment	As restated
	£	£	£
Administrative expenses	(24,486)	22,016	(2,470)
	<u> </u>	<u> </u>	<u> </u>
Loss for the financial period	(23,596)	22,016	(1,580)
	<u> </u>	<u> </u>	<u> </u>

**EAST LOTHIAN LAND LIMITED
MANAGEMENT INFORMATION
FOR THE YEAR ENDED 31 MARCH 2017**

EAST LOTHIAN LAND LIMITED**DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2017**

	2017	2016 as restated
£	£	£
Administrative expenses	(2,728)	(2,470)
Other operating income		
Sundry income	2	2
	<u> </u>	<u> </u>
Operating loss	(2,726)	(2,468)
Investment revenues		
Bank interest received	500	888
	<u> </u>	<u> </u>
	500	888
	<u> </u>	<u> </u>
Loss before taxation	(2,226)	(1,580)
	<u> </u>	<u> </u>

EAST LOTHIAN LAND LIMITED

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED 31 MARCH 2017

	2017	2016
	£	as restated
		£
Administrative expenses		
Audit fees	1,650	1,650
Accountancy	1,018	755
Bank charges	60	65
	<u>2,728</u>	<u>2,470</u>
	<u><u>2,728</u></u>	<u><u>2,470</u></u>