

Best Value

East Lothian Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
July 2025

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Accessibility

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Key facts

	270	Square miles
	113,000	Population
	4,144	Workforce (FTE)
	22	Elected members 10 Scottish Labour, 6 Scottish National Party, 4 Scottish Conservative and Unionist, 1 Scottish Green Party, 1 Independent. Minority Labour Administration
	£45.9m	Cumulative budget gap for 2026/27 and the following three years (based on a flat cash settlement and 5 per cent increases in council tax)
	£286m	Net revenue budget/expenditure 2023/24
	£141m	Capital budget 2023/24, (£107m General Fund, £34m HRA)

Commission findings

The Accounts Commission endorses the Controller of Audit's report on Best Value in East Lothian Council ([presented at page 6](#)) and the recommendations made by auditors in their recent reports. Following consideration of these reports at its meeting on 12 June, the Commission has made the findings presented below:

- 1** Against the demand challenges presented by East Lothian's growing population, the council has improved or maintained performance across many service areas. But this is set against the use of reserves to balance budgets. The council recognises that this is no longer sustainable, and we are pleased to see a financial strategy that commits to limiting the use of one-off resources going forward and to using reserves for 'invest to save' initiatives. Elected members must continue to work together to take the difficult decisions necessary to address the projected cumulative budget gap and ensure financial sustainability.
- 2** In response to resource and demand-led pressures, the Council Plan now focuses on a smaller number of key priorities, underpinned by its financial strategy, transformation strategy and workforce plan. A focus on defining actions, setting clear targets, maintaining oversight of performance, and clearly articulating required improvement actions for these plans is important, if the council's ambitions are to be realised. As auditors have recommended, the council must also be clear about what is an acceptable level of performance in non-priority areas.
- 3** We expect to see evidence in subsequent audits of significant progress in relation to the council's transformation strategy. Of particular importance is ensuring capacity to deliver its digital transformation projects, which have the potential to shape the workforce of the future and lay the foundations for service transformation. We encourage digital and finance teams to continue to work collaboratively as a new finance system is implemented, so that risks are minimised and the system's full benefits can be realised, including improved efficiency and more robust internal controls.
- 4** Like many councils, East Lothian faces persistent workforce capacity, recruitment and retention challenges, so we would encourage it to build on its existing workforce planning foundations and fully implement the auditors' recommendations

as a matter of priority. The council should also continue to seek opportunities to collaborate and share services and staff with other councils and partners. The Commission recognises the council's commitment to leadership development for officers, and training for elected members on effective scrutiny. Ensuring continued development for councillors is critical given the difficult choices that lie ahead.

- 5** The council's commitment to community engagement and empowerment is demonstrated through its service structures and delegated funding. We were encouraged by the way the council engaged with residents in advance of decisions on council tax (as part of setting its 2025/26 budget) and look forward to hearing about how its new Participation and Engagement Strategy can deepen dialogue with communities about the difficult choices that lie ahead. Community views will be invaluable to the cross-party budget working group when taking tough decisions about prioritisation and future budgets.
 - 6** A high response rate to the council's most recent staff engagement survey is encouraging and we look forward to seeing what more it does in future surveys to encourage and facilitate more front-line, non-office-based staff to complete the survey. The survey identified issues around work-related stress and workloads, so it is important to have a complete picture, allowing appropriate action plans to be developed and implemented.
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Controller of Audit report

- 1.** This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973. It is based on evidence collected in the 2022/23 and 2023/24 annual audits of the council, with the latter reported in March 2025. [Appendix 1](#) includes links to the 2022/23 and 2023/24 Annual Audit Reports (AAR) and [Appendix 2](#) includes a link to the Best Value Statutory Guidance.
- 2.** The reporting of Best Value is undertaken through the annual audit of each council and includes detailed work focusing on a Scotland-wide theme. The Best Value theme for 2022/23 was councils' leadership of the development of new local strategic priorities while the 2023/24 theme focused on workforce innovation.
- 3.** The Best Value theme for 2024/25 is Transformation and how councils are redesigning and delivering more efficient services to achieve planned outcomes. The work undertaken by the auditor at the council was not complete in time to be covered here and will be reported on in the 2024/25 Annual Audit.

Pace of continuous improvement

- 4.** East Lothian Council (the council) are committed to the principles of Best Value, with performance in most areas improving over time and relative to family group and national averages.
- 5.** The council has an experienced management team in place that has been relatively stable in recent years. In February 2025, the former chief executive retired and a new chief executive joined the council in April 2025.
- 6.** The council have been largely receptive to the improvement recommendations made by the auditor. However, a number of internal control inconsistencies and inefficiencies persist, and the council needs to strengthen the digital strategy, cybersecurity, and the business continuity management strategy and associated policies, to address prior year audit recommendations.
- 7.** Financial sustainability must remain a priority for the council which has a relatively low level of reserves. The council will need to maintain a focus on financial resilience including developing key indicators and measures.

Best Value Assurance Report follow-up

8. The council has made good progress in implementing the improvement actions in response to the findings and conclusions from the previous (BVAR) in 2018. The recommendations have been tracked through the council's improvement plan, alongside other external audit recommendations and council identified improvement accounts. This is monitored annually. As the council has implemented the improvement actions, further improvement opportunities have been identified as the council looks for continuous improvement. The external auditor will continue to monitor the council's progress in relation to these wider improvement actions as part of their annual audit.

Leadership review

9. Leadership in the development of new local strategic priorities was the subject of Best Value thematic work in 2022/23. The auditor concluded that the council's leadership have been effective in setting out a clear vision and priorities but could enhance the performance objectives it wants to achieve in its priority areas.

10. Governance arrangements are well established, but auditors highlighted that in June 2024 the Audit and Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled as both were not quorate.

11. The Council Plan 2022-27 was approved by the council in August 2022. In February 2024, the council approved proposals to re-prioritise the council plan recognising that the context, including the longer-term impact of the pandemic and cost of living, had changed. The council agreed to focus on delivering a smaller number of priorities than originally envisaged. The council's vision is aligned with community planning priorities in the East Lothian Plan 2017-27 (the Local Outcome Improvement Plan).

12. The council has now set clear performance outcome targets for each of its refreshed priority areas to ensure resources are allocated appropriately. However, greater clarity on what is an acceptable level of performance in non-priority areas is still needed.

13. The council has a range of plans and strategies underpinning the council plan's vision and objectives. These include a Transformation Strategy, Recovery and Renewal Plan, Poverty Plan, Equality Plan, Climate Change Strategy, Integration Joint Board Strategic Plan and the Economic Development Strategy. The Council Action Plan, containing 68 actions, includes implementation of each of these strategies/plans as a single action.

14. Council priorities continue to reflect the need to reduce inequalities, and the council approved the East Lothian Partnership's four-year plan to tackle poverty across the area in August 2024.

15. The council has a Climate Change Strategy which is due to be updated for 2025-30, following consultation on a revised draft at the end of 2024. It is important that actions in the strategy have specific targets for improvement.

16. The council has a Digital Strategy, approved in January 2023, structured around the key themes of the council plan and the need to invest in digital technology to drive transformation. A digital transformation board has been established to oversee performance against the digital strategy and provide the governance, prioritisation and allocation of resources.

17. The council recognise that service transformation is at the heart of delivering financially sustainable public services and a Transformation Strategy was approved in August 2024.

18. A leadership development programme was introduced in 2022 to empower officers to make informed decisions. Corporate and senior management teams have participated in the programme with ongoing roll-out in 2024/25.

19. Training and development are available to all elected members. An induction programme was provided to newly elected members after the May 2022 elections. Officers are responsive to elected members' requests for information. Briefings are regularly provided to give more detailed explanations than is possible in a formal council meeting.

20. There are cross-party working groups including the Budget Working Group and the Climate Change and Sustainability Forum. These foster cross-party discussion and exploration of options for priority areas in advance of formal decision-making at council meetings.

Citizen and community engagement

21. The council are committed to community empowerment as a key principle of its vision. The council's Connected Communities Service has a key role in delivering the council's community empowerment objectives, encompassing the Community Learning and Development Service, support for local area partnerships, community councils and grant funding for community organisations. There are six locally based Connected Communities teams with a significant focus on taking a place-based approach.

22. Communities had the opportunity to put forward their views on council priorities through public consultation for the 2023/24 budget. Further community engagement will be needed so that local citizens understand the difficult decisions needed to ensure financial sustainability of public services.

23. The council has delegated a £200,000 budget to each of its area partnerships (Musselburgh £250,000) for use in relation to general projects, citizen and community engagement and local amenity services.

Effectiveness of performance reporting

24. The council reports on a series of annual performance measures in its Annual Performance and State of the Council Report. The report details how the council is endeavouring to deliver Best Value and good governance and summarises progress made against the actions set out in the council plan action plan.

25. The council has a continuous improvement framework 'Improvement to Excellence' that encompasses objective-setting, planning and management, performance management, self-evaluation and external assessment and accreditation.

26. A key part of the framework is the adoption of a suite of 'Top 50' council plan indicators as the key indicators that monitor progress in achieving the council's strategic goals. A sub-set of 'Top 10' of these indicators has been identified to show at a glance how the council is performing in achieving the council plan.

27. These indicators are updated quarterly and reported through the Policy and Performance Review Committee. The reports are readily accessible on the council's website and show actual performance against target performance, performance trend (whether improving or deteriorating) and a brief commentary on performance.

28. The auditor has concluded that the council has satisfactory arrangements for the preparation and publication of statutory performance information. However, there remains scope to enhance public performance reporting via inclusion of fuller commentary on changes in performance, areas of underperformance and measures to be taken.

Reported performance

29. Performance for 2022/23 was reported to council in the 'State of the Council' report in February 2024. The report for 2023/24 is delayed until June 2025 following the departure of the officer responsible for coordinating the report.

30. Information available on 2023/24 performance was included in the council's accounts. Only 37 of the 'Top 50' indicators could be reported. Of these indicators 15 (40.5 per cent) had improved, eight (21.6 per cent) stayed the same and 14 (37.8 per cent) showed a decline when compared to the previous year.

31. The council reported that 43 per cent of the 37 indicators included in the accounts were on or above target (green), 32 per cent just below or moving towards target (amber), and 24 per cent below target (red).

32. Of the council's 'Top 10' indicators, five were reported as maintained or improving, and two as showing a decline. Data was not available for the other three indicators at the time the accounts were compiled.

33. A review of all LGBF indicators shows that 60 of 107 (56 per cent) available indicators have improved since the base year, five (five per cent) have stayed the same and 42 (39 per cent) have declined. The proportion of the 76 'performance' indicators improving is higher at 64 per cent, with the proportion of the 20 'cost' indicators showing improvement lower at 55 per cent. All 11 of the 'satisfaction' indicators have declined.

34. Of the council's 76 LGBF 'performance' indicators 55 per cent are in the top two quartiles, having increased from 43 per cent in the base year.

35. Considering the latest year in isolation, 45 per cent of the council's LGBF indicators have improved, 40 per cent were assessed as deteriorating and 15 per cent as staying the same. Only three councils had a larger proportion of indicators improve.

Workforce planning

36. In 2023/24, the Best Value thematic review focused on workforce innovation and how councils are responding to workforce challenges. The auditor identified scope to improve target-setting and use of data in the council's workforce planning arrangements, recommending that the council develop a workforce planning performance management framework, linked to its workforce plan, to inform future workforce planning. In total the auditor made eight recommendations.

37. The council Workforce Plan 2023-27 was approved by the council's cabinet in January 2023. It includes an overall vision that the council will be an employer of choice and nine core objectives. It is not clear, however, how workforce planning takes place at the service level to support the council level plan and auditors recommended that the council prepare guidance and templates to support service level planning.

38. The council's workforce plan provides data on the overall headcount and grading, a breakdown by protected characteristics, and available trend data. However, how data is informing the overall strategic approach to workforce planning could be clearer. The workforce plan is supported by an action plan with 40 actions; however not all have appropriate targets which makes it difficult to objectively evaluate what progress has been made and define what success looks like.

39. The council continues to look for opportunities to share services but has limited formal arrangements in place. The council does share a chief internal auditor with Midlothian Council and has an arrangement with the

City of Edinburgh Council who carry out insurance services on its behalf following the retirement of the person undertaking this work.

40. The council has completed a limited number of corporate digitalisation projects. Auditors concluded that the council needs to increase the pace of roll out of its digital transformation projects and address capacity issues within the IT team. Measures for the impact of digital technology on workforce productivity and service outcomes need to be developed. The council could also better set out how it expects digital technology to shape its future workforce, and the progress it is making in tackling digital exclusion among its staff.

41. The council conducted an employee engagement survey in 2023 focused on staff health and wellbeing with an overall response rate of just under 46 per cent. In the survey, 50.9 per cent of wider council staff, 81.5 per cent of teachers and 44.7 per cent of non-teaching school staff who responded reported work-related stress and concerns about workload. The council developed a corporate action plan in response to the 2023 staff survey, actions from which have been integrated into the workforce plan action plan, and a range of initiatives are in place to promote staff wellbeing.

42. The council has revised its flexible and homeworking policies and developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely but has not applied this. Auditors have recommended that the council should review the effectiveness of its Work Smart policy.

Financial management and sustainability

43. The auditor concluded that the council's medium-term financial plans reflect the council's strategic priorities, budget and savings plans are aligned with the 2022-27 Council Plan, and that the council has appropriate budget-setting and monitoring arrangements in place. The auditor highlighted, however, ongoing internal control inconsistencies and inefficiencies at the council, which increase the risk of control weaknesses. Measures need to be put in place to address these issues before the council migrates to a new financial system.

44. The council recognise the financial challenges facing the organisation and in August 2024 approved the Transformation Strategy 2024-29 to help address longer-term sustainability issues.

45. The council's planning context includes population growth, with a 12.6 per cent increase between 2011 and 2022 (99,717 to 112,300 people) and it has a slightly higher proportion of people over 75 years old (9.8 per cent compared to the Scottish average of nine per cent).

46. In 2022/23, the council reported a £6 million overspend, and the general fund balance fell from £29.7 million to £26.4 million. An overspend was also reported for 2023/24 when the council overspent

by £12.3 million. The council have been unable to fully deliver against its savings plans and mitigation actions.

47. Of the £12.3 million overspend in 2023/24, £3.1 million was met from IJB reserves and £9.2 million met from council reserves. Despite the overspend, the General Fund balance increased by £7.8 million to £34.2 million as the council made use of financial flexibilities relating to service concession arrangements (PPP/PFI).

48. The overall general fund balance at 31 March 2024 was £34.2 million, with £26.6 million earmarked for specific priorities. The uncommitted balance was £7.6 million or 2.2 per cent of the revenue budget for the year. The council's policy was to hold a minimum uncommitted general fund balance of £7.2 million.

49. The financial strategy 2025-30 sets a target minimum unallocated general fund balance of 2.5 per cent of the net revenue budget, which would be £8.6 million based on the 2025/26 budget. Key financial information for the council is included in [Exhibit 1](#).

Exhibit 1.

East Lothian Council – key financial information

Budget-setting	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Budget gap	12.9	19	17.3	17.7
Planned to be met via:				
• Savings and flexibilities	0.4	6.7	9.8	2.3
• Use of reserves	8.7	7.4	2.9 ¹	5.9 ¹
• Additional council tax/funding	3.8 (3%)	4.9 (7%)	4.6	9.5 (10%)
Actual				
Savings delivered	0.4	5.8 (87%)		
Reserves			Forecast²	
Use of / (contribution to) reserves	(6.5)	(10.3)	2.2	
Total usable reserves carried forward	45.2	55.5	53.3	
• General fund	26.4	34.2	36.1	
– Earmarked	19.2	26.6	27.6	
– Uncommitted	7.2	7.6	8.5	

Notes:

1. Includes use of capital reserves.

2. Council provided figures May 2025.

Source: Council accounts, committee papers and provided figures

50. Of the councils £26.6 million earmarked general fund balance at the 31 March 2024, £18.5 million is earmarked for transformation, £1.1 million is earmarked for future budgets, £1.1 million is held in respect of devolved school management, and £1.8 million is earmarked for other purposes. Remaining amounts relate to affordable housing (£1.6 million), Scottish Futures Trust funding (£1.3 million) and service concession support (£1 million).

51. The council's total usable reserves carried forward at 31 March 2024 (£55.5 million) represents 17.1 per cent of its budget. This is below the family group and national averages, which are 21 per cent and 23.9 per cent respectively. The council was ranked 26 for this LGBF indicator.

52. The council is forecasting a further overspend in 2024/25 and an unplanned use of reserves of £1.1 million (February 2025 quarter 3 financial review). It is expected that total usable reserves will fall by £2.2 million, to £53.3 million, when the outturn is reported for 2024/25 (based on figures provided by the council at the end of May 2025).

53. The council's current financial strategy includes a set of budget development principles which includes a commitment to minimising the use of one-off resources to balance the budget and ensuring that use of reserves is limited to investment that will deliver ongoing cost reduction.

54. The auditor is satisfied that reserves levels are being regularly reviewed but highlights ongoing sustainability issues associated with using reserves to fund recurring expenditure. A clear plan and effective management of the council's reserves will be a necessary part of maintaining financial sustainability. Given the scale of the financial challenge, auditors have recommended that the council develop financial resilience indicators and resilience measures with a greater emphasis on its reserve position.

55. When the budget was set for 2025/26, the council identified savings of £2.3 million and planned to use £5.9 million of capital reserves to smooth loan charges. A council tax increase of ten per cent was approved.

56. The council is forecasting a cumulative budget gap of £45.9 million for the period 2026/27 to 2029/30 (based on a flat cash settlement and five per cent increases in council tax). This assumes the proposed savings of £2.3 million are delivered in 2025/26. The council has yet to set out how it will close its budget gap for 2026/27 and beyond, and elected members will need to work together to take some difficult decisions.

Housing revenue account

57. In 2023/24, the council planned for and delivered a surplus on the HRA prior to the charging of £1.3 million of capital expenditure to revenue. The HRA reserve increased slightly to £1.5 million.

58. Gross rent arrears as at 31 March as a percentage of rent due for that year increased from 5.8 per cent in 2022/23 to 6.3 per cent in 2023/24.

Delivery of the capital programme

59. The council approved a general services capital programme for 2023/24 of £98.9 million, and a housing capital programme of £33.9 million.

60. The outturn on the general services capital programme spend was reported as £51.1 million for 2023/24, representing a slippage of 53 per cent against the revised budget. The underspend reflects measures agreed by the council to pause or delay any uncommitted expenditure as well as a variation from the expected timing of spend across a number of projects.

61. The housing capital programme outturn was reported as £42.9 million for 2023/24, £9 million higher than the original budget. This reflects the increase in the number of new build council house sites which has been met by additional grant funding and an increase in borrowing.

62. The council's overall capital financing requirement (its underlying need to borrow) increased from £567.7 million to £625 million in 2023/24. The council's ratio of general fund financing costs to net revenue stream in 2023/24 was below the family group and national averages (ranked ten). While the HRA financing cost ratio is above family group and national averages (ranked 21 out of 26). The auditor has recommended that the council should establish clear indicators to support its assessment of the ongoing affordability of the capital programme.

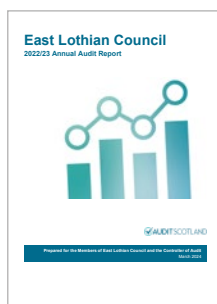
Appendix 1

2022/23 and 2023/24 Annual Audit Reports

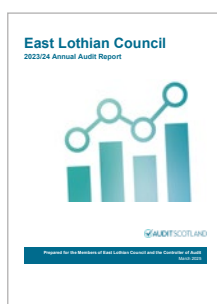
These reports summarise the findings from the 2022/23 and 2023/24 annual audits of East Lothian Council.

Each Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts
- conclusions on the council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
 - Financial management
 - Financial sustainability
 - Vision, leadership and governance
 - Use of resources to improve outcomes.



2022/23 Annual Audit Report **East Lothian Council** March 2023



2023/24 Annual Audit Report **East Lothian Council** March 2024



Appendix 2

Best Value Statutory Guidance

The Local Government in Scotland Act 2003 introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

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