

# Notice of meeting and agenda

## **The City of Edinburgh Council**

**10.00 am, Thursday, 22 October 2015**

Council Chamber, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

### **Contact**

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## **1. Order of business**

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- 1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

## **2. Declaration of interests**

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- 2.1 Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

## **3. Deputations**

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- 3.1 Guarantee Sibling Places at Towerbank
- 3.2 Brightons and Rosefield Residents' Association

## **4. Minutes**

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- 4.1 The City of Edinburgh Council of 17 September 2015 (circulated) – submitted for approval as a correct record

## **5. Questions**

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- 5.1 By Councillor Edie – Transient Visitor Levy – for answer by the Council Leader
- 5.2 By Councillor Orr – Installation of Bus Shelters – for answer by the Convener of the Transport and Environment Committee
- 5.3 By Councillor Rust – High School Devolved Budgets – for answer by the Convener of the Education, Children and Families Committee
- 5.4 By Councillor Nick Cook – 4-Weekly Waste Collections – for answer by the Convener of the Transport and Environment Committee
- 5.5 By Councillor Orr – Sustainable Energy Action Plan – for answer by the Convener of the Transport and Environment Committee

## **6. Leader's Report**

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- 6.1 Leader's report (circulated)

## **7. Appointments**

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- 7.1 Appointments to Committees etc – report by the Deputy Chief Executive (circulated)

- 7.2 Edinburgh Integration Joint Board – Appointment of Chief Officer – report by the Chief Executive (circulated)

## **8. Reports**

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- 8.1 Outcome of the Statutory Consultation Process on Options for Proposed Changes to the Catchment Area of Towerbank Primary School – report by the Executive Director of Communities and Families (circulated)
- 8.2 2016/20 Revenue and Capital Budget Framework - referral from the Finance and Resources Committee (circulated)
- 8.3 The City of Edinburgh Council - Report to those Charged with Governance on the 2014/15 Audit - referral from the Finance and Resources Committee (circulated)
- 8.4 Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – referral from the Pensions Committee (circulated)
- 8.5 Report by the External Auditor on the Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – referral from the Pensions Committee (circulated)

## **9. Motions**

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- 9.1 By Councillor Austin Hart – Edinburgh Athletic Club – Young Athletes
- “Council congratulates the young athletes (under 13 and under 15 age groups) of Edinburgh Athletic Club who competed against the champions of other areas to win the UK Youth Development League in Birmingham on 5 September and become the top UK club for this age group, and the first Scottish club to do so.”

### **Carol Campbell**

Head of Legal, Risk and Compliance

### **Information about the City of Edinburgh Council meeting**

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The City of Edinburgh Council consists of 58 Councillors and is elected under proportional representation. The City of Edinburgh Council usually meets once a month and the Lord Provost is the Convener when it meets.

The City of Edinburgh Council usually meets in the Council Chamber in the City Chambers on the High Street in Edinburgh. There is a seated public gallery and the Council meeting is open to all members of the public.

## Further information

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If you have any questions about the agenda or meeting arrangements, please contact Allan McCartney, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4246, e-mail [allan.mccartney@edinburgh.gov.uk](mailto:allan.mccartney@edinburgh.gov.uk).

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to [www.edinburgh.gov.uk/cpol](http://www.edinburgh.gov.uk/cpol).

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## The City of Edinburgh Council

Edinburgh, Thursday 17 September 2015

**Present:-**

### **LORD PROVOST**

**The Right Honourable Donald Wilson**

### **COUNCILLORS**

Elaine Aitken  
Robert C Aldridge  
Norma Austin Hart  
Nigel Bagshaw  
Jeremy R Balfour  
Gavin Barrie  
Angela Blacklock  
Chas Booth  
Mike Bridgman  
Steve Burgess  
Andrew Burns  
Steve Cardownie  
Maureen M Child  
Bill Cook  
Nick Cook  
Gavin Corbett  
Cammy Day  
Denis C Dixon  
Marion Donaldson  
Karen Doran  
Paul G Edie  
Catherine Fullerton  
Nick Gardner  
Paul Godzik  
Joan Griffiths  
Bill Henderson  
Dominic R C Heslop

Lesley Hinds  
Sandy Howat  
Allan G Jackson  
Karen Keil  
David Key  
Richard Lewis  
Alex Lunn  
Melanie Main  
Mark McInnes  
Adam McVey  
Eric Milligan  
Joanna Mowat  
Gordon J Munro  
Jim Orr  
Lindsay Paterson  
Ian Perry  
Alasdair Rankin  
Vicki Redpath  
Lewis Ritchie  
Keith Robson  
Cameron Rose  
Frank Ross  
Jason G Rust  
Stefan Tymkewycz  
David Walker  
Iain Whyte  
Norman Work

## 1. Minutes

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### Decision

To approve the minute of the Council of 20 August 2015 as a correct record.

## 2. Questions

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The questions put by members to this meeting, written answers and supplementary questions and answers are contained in Appendix 1 to this minute.

## 3. Leader's Report

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The Leader presented his report to the Council. The Leader commented on:

- Councillors Marion Donaldson and Lewis Ritchie – Congratulations and welcome
- Thanks to ex Councillors Maggie Chapman and Deirdre Brock
- Sincere thanks to all parties for support and quick response to Syrian Refugee crisis
- City Region Deal - submission

The following questions/comments were made:

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|----------------------|---|
| Councillor Gardner   | - Attitude of utilities companies across the City to taking responsibility for work on roads and pathways   |
| Councillor Lunn      | - Thanks to Council officers for report on the Syrian crisis to Communities and Neighbourhoods Committee  |
| Councillor Balfour   | - Welcome to Councillors Donaldson and Ritchie<br>- Refugees – Edinburgh Groups aiding refugees at Calais – temporary accommodation for storage of goods<br>- Transformation programme – no redundancy policy |
| Councillor Day       | - Schemes at Pennywell and Castle Mills – Round 2 of the Scottish Government Capital Regeneration Fund<br>- Jeremy Corbyn - congratulations   |
| Councillor Griffiths | - Refugee crisis at Calais – request for donations of toiletries  |
| Councillor Orr       | - Welcome to Councillors Donaldson and Ritchie<br>- Transient Visitor Levy  |

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|----------------------|--|
| Councillor Cardownie | <ul style="list-style-type: none"> <li>- Condolences to the family of the late Kenny Waugh and request for a fitting tribute</li> <li>- Dave Mackay – update on tribute</li> <li>- Reinforcement of commitment to Capital Coalition pledges</li> </ul> |
| Councillor Heslop    | <ul style="list-style-type: none"> <li>- Natural Neighbourhoods</li> </ul>   |
| Councillor Edie      | <ul style="list-style-type: none"> <li>- Welcome to Councillors Donaldson and Ritchie</li> <li>- Concern at fall in police beat numbers since 2007</li> <li>- Refugees – way to tap into the generosity of spirit of Edinburgh residents</li> </ul>    |
| Councillor Tymkewycz | <ul style="list-style-type: none"> <li>- City of Edinburgh Basketball Club – successful work</li> </ul>  |
| Councillor Nick Cook | <ul style="list-style-type: none"> <li>- Referendum anniversary</li> </ul>   |
| Councillor Rose      | <ul style="list-style-type: none"> <li>- Welcome to Councillors Donaldson and Ritchie</li> <li>- Loss of 100's of potential posts over the course of the next three years within the Council</li> </ul>  |
| Councillor Ross      | <ul style="list-style-type: none"> <li>- Fire at Corstorphone Public Hall Company 2 years ago –thanks to Councillors Edie and Balfour and members of the local organisations active in fundraising</li> </ul>  |
| Councillor Aldridge  | <ul style="list-style-type: none"> <li>- Health and Social Care budget – impact on people and jobs and plans to monitor vulnerable groups and report back</li> </ul>   |
| Councillor Whyte     | <ul style="list-style-type: none"> <li>- Council Transformation Programme - savings</li> </ul>   |
| Councillor Burgess   | <ul style="list-style-type: none"> <li>- Welcome to Councillors Donaldson and Ritchie</li> <li>- Refugee crisis – welcome the action taken by the Council - speed of overall national reaction</li> </ul>  |

#### **4. By-election – No 12 Leith Walk Ward**

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##### **Decision**

To note that Marion Donaldson and John Lewis Ritchie had been elected as Councillors for No 12 Leith Walk Ward.

(Reference –report by the Returning Officer, submitted)

## 5. Appointments to Committees etc

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The Lord Provost ruled in terms of Standing Order 27(1), that this item, which included recommendations which if accepted, would require a change to Act of Council No 8 of 25 June 2015, should be considered due to a material change in circumstances, namely the result of the by-election on 10 September 2015, as previous decisions on this had been made within the preceding six months.

The Council had approved its appointments to Committees, Boards and Joint Boards for 2015/16 on 25 June 2015.

Details were provided on the result of the Council by-election on 10 September 2015 which affected the political balance of the Council and the Council was asked to make the necessary appointments.

### Decision

- 1) To note the report by the Deputy Chief Executive advising of vacancies on a number of Committees and note three further resignations, as follows:
  - Governance, Risk and Best Value Committee – Councillor Blacklock
  - Petitions Committee – Councillor Redpath
  - Culture and Sport Committee – Councillor Tymkewycz.
- 2) To note the update report from the Deputy Chief Executive concerning the result of the Leith Walk by-election on 10 September 2015 which changed the political composition of the Council and had a potential impact on the political balance of five of the Council's Committees.
- 3) To agree to continue consideration of the political balance of the committees affected by the change in the political composition of the Council for one cycle. In the meantime to leave the political balance on those Committees as agreed on 25 June 2015.
- 4) To agree to appoint members to Committees as follows:
  - (i) Communities and Neighbourhoods Committee – Councillor Ritchie
  - (ii) Corporate Policy and Strategy Committee – Councillor Main
  - (iii) Culture and Sport Committee – Councillor Cairns
  - (iv) Education, Children and Families Committee – Councillor Ritchie
  - (v) Finance and Resources Committee – Councillor Bill Henderson
  - (vi) Governance, Risk and Best Value Committee – Councillors Howat and Redpath
  - (vii) Health, Social Care and Housing Committee – Councillor Booth
  - (viii) Personnel Appeals Committee – Councillor Burgess
  - (ix) Petitions Committee – Councillor Donaldson



- (x) Planning Committee/Development Management Sub-Committee – Councillor Ritchie
  - (xi) Planning Local Review Body Panel 1 – Councillor Ritchie
  - (xii) Lothian Valuation Joint Board/Lothian Electoral Joint Committee – Councillor Lunn.
- 5) To agree to appoint Councillor Booth as Convener of the Petitions Committee.
- 6) To appoint Councillors Donaldson and Ritchie to the Leith Neighbourhood Partnership.

(References - Act of Council No 8 of 25 June 2015; report by the Deputy Chief Executive (circulated)

## **6. Appointments to the Convention of Scottish Local Authorities (COSLA)**

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The Council had made appointments to outside bodies for 2012-2017.

Councillor Cardownie and ex-Councillor Chapman had now resigned from the Convention of Scottish Local Authorities (COSLA) and the Council was invited to appoint members in their place.

### **Decision**

To appoint the Councillors Burgess and Howat to COSLA.

(References – Act of Council No 2 of 24 May 2012; report by the Deputy Chief Executive, submitted.)

## **7. Resignation from the Board of Marketing Edinburgh Ltd**

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The Council had made appointments to outside bodies for 2012-2017.

Councillor Nick Cook had now resigned from the Board of Marketing Edinburgh Ltd and the Council was invited to appoint member in his place.

### **Decision**

To appoint the Councillor Mowat to the Board of Marketing Edinburgh Ltd.

(References – Act of Council No 2 of 24 May 2012; report by the Executive Director, City Strategy and Economy, submitted.)

## **8. Appointment to Head of HR and Organisational Development**

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Details were provided on the Recruitment Committee's recommendation for the appointment to the post of Head of HR and Organisational Development.

### **Decision**

To agree to the appointment of Katy Miller to the post of Head of HR and Organisational Development subject to any necessary pre-employment checks.

(References – Corporate Policy and Strategy Committee of 24 March 2015 (item 5); report by the Deputy Chief Executive, submitted.)

## **9. Revenue Monitoring 2014/15 – Outturn report – referral from the Finance and Resources Committee**

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The Finance and Resources Committee had referred a report on the provisional 2014/15 revenue outturn position for the Council based on the unaudited financial statements.

### **Decision**

- 1) To approve the allocation of the capital receipt of £1.183 million in respect of the former East Market Street Garage to the Council's Common Good account.
- 2) To refer the report to the Governance, Risk and Best Value Committee for consideration as part of its workplan.

(References – Finance and Resources Committee 27 August 2015 (item 11); report by Finance and Resources Committee, submitted)

## **10. Revenue Monitoring 2015/6 – Month 3 Position – referral from the Finance and Resources Committee**

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The Finance and Resources Committee had referred a report on the projected month three revenue monitoring position for the Council, based on period two data.

Approval was sought for the Spend to Save application for the Edinburgh Leisure web development project and the £9.8million of savings referenced in paragraph 3.6 of the report by the Deputy Chief Executive, to offset, in part, the forecasted overspend in Health and Social Care.

### **Decision**

- 1) To approve of the Spend to Save application for the Edinburgh Leisure web development project and the £9.8 million of savings referenced in paragraph 3.6 of the report by the Deputy Chief Executive, to offset, in part, the forecasted overspend in Health and Social Care.
- 2) To note the very significant budget pressure in Health and Social Care and the range of mitigating actions set out, which imply direct service impacts; and in that light to request that the Leader make further urgent representation to Scottish Ministers about the extent to which demand for health and social care services was adequately reflected in the local government settlement.
- 3) To refer the report to the Governance, Risk and Best Value Committee for consideration as part of their workplan.

(References – Finance and Resources Committee 27 August 2015 (item 13); report by Finance and Resources Committee, submitted)

## **Declaration of Interests**

Councillor Edie declared a financial interest as Chair of the Care Inspectorate and left the meeting during the Council's consideration of the above item.

### **11. Treasury Management: Annual Report 2014/15 – referral from the Finance and Resources Committee**

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The Finance and Resources Committee had referred a report on Treasury Management activity in 2014/15.

#### **Decision**

- 1) To approve the Treasury Management activity
- 2) To refer the report by the Deputy Chief Executive to the Governance, Risk and Best Value Committee for scrutiny.

(References – Finance and Resources Committee 27 August 2015 (item 18); report by Finance and Resources Committee, submitted)

### **12. Accelerating House Building – referral from the Health, Social Care and Housing Committee**

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The Health, Social Care and Housing Committee had referred a report on the delivery of the National Housing Trust (NHT) Programme and proposed further development of the model for the purpose of accelerating house-building in the city.

The Council was asked to approve the establishment of a Limited Liability Partnership (LLP) to acquire and manage housing for affordable rent and market rent.

#### **Decision**

To agree to the establishment of a Limited Liability Partnership (LLP) to acquire and manage housing for affordable rent and market rent.

(References – Health, Social Care and Housing Committee 8 September 2015 (item 10); report by Health, Social Care and Housing Committee, submitted)

### **13. Challenging Poverty – Motion by Councillor Hinds**

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The following motion by Councillor Hinds was submitted in terms of Standing Order 16.1:

“The Council and the Edinburgh Partnership have a strong track record in tackling poverty but acknowledge that more needs to be done. Council recognises the often hidden nature of poverty in Edinburgh, with around a fifth of households living on low incomes, with many households having at least one person in work and experiencing in-work poverty.

Council welcomes that the Council Leader recently signed a pledge in support of the Church of Scotland's 'Food Justice Movement' which includes commitments:

- To continue to work alongside those with lived experience of poverty to identify solutions.
- To encourage the Scottish and UK governments to work in partnership with local government, communities and the third sector to tackle food poverty and develop a plan to tackle its causes.

Council also welcomes and endorses the third annual Challenge Poverty Week which will take place from 17 to 23 October and asks the Chief Executive to consider ways the Council can contribute to the 2015 Challenge Poverty Week, including:

- organising events and activities to mark the week;
- promoting the week through the Council website, facebook pages, twitter, etc;
- encouraging partner organisations to get involved.

Council agrees to adopt the Poverty Alliance pledges detailed at [http://povertyalliance.org/policy\\_campaigns/syl/syl\\_pledges](http://povertyalliance.org/policy_campaigns/syl/syl_pledges).”

### **Decision**

To approve the motion by Councillor Hinds.

### **14. Motion by Councillor Burns – Trades Union Bill**

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The Lord Provost ruled that the following item, notice of which had been given at the start of the meeting, be considered as a matter of urgency in order that it be considered timeously.

The following motion by Councillor Burns was submitted in terms of Standing Order 16.2:

“Council notes the Conservative Government are proposing a Trade Union Bill that will restrict the ability of this Council to engage in good industrial relations practices with our workforce and their representatives.

Council believes the collection of union dues through the check-off arrangement, from which the Council receives income, is part of our collective and contractual arrangements with the trades unions and one which we will defend and support.

Council commits not to use agency staff to break or weaken industrial action and to continue to support arrangements that afford trade union representatives sufficient resources to enable them to carry out their functions to ensure the continuation of good industrial relations.

The Leader of the Council commits to write to:

- the Secretary of State for Business, Innovation and Skills stating the Council’s opposition to this Bill and our resolve not to co-operate with any attacks on facility time or check off; and

- the First Minister calling on the Scottish Government to stand with Edinburgh and other local authorities in opposing the proposals in this Bill.”

### **Motion**

To note that the Conservative Government were proposing a Trade Union Bill that would restrict the ability of this Council to engage in good industrial relations practices with their workforce and their representatives.

To note that the collection of union dues through the check-off arrangement, from which the Council received income, was part of the Council’s collective and contractual arrangements with the trades unions and one which the Council would defend and support.

To commit not to use agency staff to break or weaken industrial action and to continue to support arrangements that afforded trade union representatives sufficient resources to enable them to carry out their functions to ensure the continuation of good industrial relations.

To agree that the Leader of the Council commits to write to the Secretary of State for Business, Innovation and Skills stating the Council’s opposition to this Bill and the Council’s resolve not to co-operate with any attacks on facility time or check off.

- moved by Councillor Burns, seconded by Councillor Howat

### **Amendment**

To take no action on the matter.

-moved by Councillor Rose, seconded by Councillor Nick Cook

### **Voting**

For the motion	-	44 votes
For the amendment	-	11 votes

### **Decision**

To approve the motion by Councillor Burns.

## Appendix 1

(As referred to in Act of Council No 2 of 17 September 2015)

### QUESTION NO 1

**By Councillor Bagshaw for answer  
by the Convener of the Planning  
Committee at a meeting of the  
Council on 17 September 2015**

On 26 August 2015 the Development Management Sub-Committee considered an application for a site 80 Metres West of 4 Ferrymuir, South Queensferry (Application No 14/04172/FUL).

In the relevant report the Director of Children and Families assessed the impact of the proposed development on the existing school estate and calculated the financial contribution required to support the provision of essential infrastructure to accommodate the additional pupils at £845,480.00.

The developer stated that the requirement to commit to the full £845,480.00 contribution being sought would seriously prejudice its ability to provide a community facility for the residents of South Queensferry and a reduced financial contribution of £495,480.00 to the provision of education infrastructure was agreed, leaving the Council to make up the £350,000 shortfall.

### Question

- (1) Please list all cases since 2009 of shortfalls between the cost of additional education requirements caused by developments and the amount provided by developers to meet those requirements.

### Answer

- (1) **Background:** The circumstances behind the recommendation of the Acting Head of Planning & Building Standards to the Development Management Sub-Committee to accept a reduced level of contribution towards the provision of education infrastructure in South Queensferry were exceptional and justified in planning terms. The landowner had previously entered into a legal agreement with the Queensferry & District Community Council (QDCC) to provide land and build a community facility at Ferrymuir estimated at a cost of circa £350,000.

The landowner indicated that payment of the full contribution sought by the Director of Children and Families would render the delivery of the community facility unviable.

The proposal to offset the level of education contribution by the cost of providing the community facility was discussed with the relevant officers of Children and Families and QDCC.

**Developer Contributions:** the application at Ferrymuir South Queensferry is only one of three applications out of a total of 78 considered since 2009 that a sum less than that sought by the Director of Children and Families (or where agreement on the basis on which a contribution should be calculated) has been requested and secured through a Section 75 Agreement; the others being a mixed use development proposed by EDI at 199 Fountainbridge (application ref: 14/02814/PPP) and a residential development of 81 dwellings on the site of the former Trinity Park House, South Trinity Road (Application ref: 11/00387/FUL).

- Question** (2) How much has that shortfall amounted to in each case?
- Answer** (2) The position in respect of each site is:
- a) **Ferrymuir:** the legal agreement in respect of residential development has yet to be concluded. The sum specified in the draft legal agreement is £350,000 less than that sought by the Director of Children and Families. However it is £495,480 more than would have been secured under the extant PPP application for the site;
  - b) **199 Fountainbridge:** there is not a shortfall as such in this instance as the advice of the Director of Children and Families in December 2014 was that a suitable level of contribution should be determined by establishing a Fountainbridge education contribution zone, as promoted in the Proposed Local Development Plan Action Programme for other parts of the city. At the time of the application's assessment this approach was not considered to be appropriate at Fountainbridge and a suitable level of contribution was determined by using a formula based on a contribution per unit with sums uprated in line with the

relevant construction price index. The agreement has yet to be concluded. The sum to be secured is £356,116 – a sum that is likely to be less than that which might have been secured through a contribution zone approach. A Fountainbridge contribution zone is not a feature of the Proposed LDP Action Programme;

c) **South Trinity Road:** in May 2011 the Director of Children and Families sought the sum of £329,290 towards the improvement of education infrastructure at Wardie Primary School and Trinity Academy, £179,000 and £150,290 respectively. The sum specified in the legal agreement is £175,587 i.e. £154,603 less than that originally sought and is to be used in respect of improvements at Wardie Primary School only. The agreement was concluded in March this year, almost 4 years after the advice of the Director was received. The reduced sum was determined through a recalculation of the impact of the development on the school estate.

On 8 June 2011 the Asset Planning Manager in Children and Families instructed the Senior Solicitor to waive the contribution to Trinity Academy on the basis that any works there were quite far off in terms of time-scales.

**Question** (3) What measures are being taken to ensure that in future the Council secures the complete and necessary financial contribution towards education arising from new developments?

**Answer** (3) Through the preparation of the Local Development Plan (LDP), its associated Action Programme and revised Developer Contribution guidelines the Council, as planning authority, will have in place an up-to-date suite of development plan policies, known and costed actions described in an Action Programme (which will be kept under review) and guidance that will form a strong basis on which to secure an appropriate level of contribution towards the provision of essential infrastructure, including that required for education purposes. The LDP is presently the subject of Examination by Scottish Ministers, An Action Programme has been prepared and will be agreed following the adoption



of the LDP sometime in 2016 and the developer contribution guideline has been approved, made available for consultation purposes and will be presented to the Planning Committee in final form in December for approval.

**Supplementary Question**

I thank the Convener for his reply. The question I asked followed on from a planning application for a site at Ferrymuir in South Queensferry and had £350,000 funding shortfall to Education. It called for a list of all cases since 2009 of shortfalls between additional educational requirements caused by developments and the amount provided by developers to meet those requirements and asked how much that shortfall amounted to in each case and what measures are being taken to ensure that in future the Council secures the complete and necessary financial contribution towards education arising from new developments.

Now I appreciate the particular circumstances of Ferrymuir and the application as set out in the Development Management Sub-Committee report and the answer to my question, however, the fact remains that the Council is left with a shortfall of £350,000 in terms of education provision necessary for this site and the shortfall in relation to other sites too, and here we're just looking at Education contributions. If you look at the broader picture of developer contributions which includes affordable housing, public transport and public realm there's a significant underfunding of public infrastructure at a time when public budgets cannot make up the gap.

So can the Convener give an assurance that developers will be required to make a full and appropriate contribution in future.

**Supplementary Answer**

In relation to the question itself rather than the speech, if you look at answer 3, what we've done in the new process is develop action programmes for each of the development areas and that should give us a long term view on what infrastructure's required. However, a word of caution, in South Edinburgh for instance the last planning application that went through, we refused it on the basis of the developer couldn't meet the infrastructure cost, he could

only meet half the infrastructural cost on the basis that if he met that cost the development would be uneconomic. That has now gone to the Reporter to make a judgement.

If the Reporter agrees with the developer then that's a signal to us saying that if a site is deemed not to be economically viable then the developer doesn't have to pay the full cost.

If the Reporter agrees with us that it doesn't matter the economic viability of a site, they have to pay infrastructural costs, then clearly there will be no cost to the Council – the difficulty is of course no houses will be built. So we're in between a rock and a hard place here in terms of what we are doing.

We've taken a decision on that site to say to the developer you must meet the costs, it's now with the Reporter – we will need to wait to see how the Reporter views that and clearly if the Reporter does not agree with our interpretation of it, then we're in a difficult place.

**QUESTION NO 2**

**By Councillor Rust for answer by the  
Convener of the Transport and  
Environment Committee at a meeting  
of the Council on 17 September 2015**

**Question** (1) Please advise if there is a penalty clause in any contracts in relation to waste collection between the Council and private contractors.

**Answer** (1) No. Penalty clauses are not enforceable under Scots Law. However, clauses relating to liquidated damages (i.e. reimbursement of costs actually incurred by the Council in remedying any deficiency) are included in the Council's contract regarding third-party waste collection.

**Question** (2) If there is such a clause has it ever been invoked?

**Answer** (2) Please see Answer (1) above.

**Question** (3) How are complaints of failure in service regarding waste collection by private contractors monitored and reviewed?

**Answer** (3) Complaints are logged electronically and where these relate to collections undertaken by a contractor on the Council's behalf, they are passed to the contractor for remedial action to be taken. Complaint numbers are collated on a weekly basis.

Performance is reviewed at fortnightly operational review meetings with the contractor.

Any examples of under-performance from our contractors are challenged robustly and in a timely manner. Such issues are also discussed at the operational review meetings as and when required.

**Supplementary Question** (1) I note the answers from the Convener. I would like to know really three points:-

Firstly, why it's taken from the 26 July until effectively yesterday to get a response on this matter from her Department.

Secondly, I do thank her for the legal education but as a Scottish Law Commission report says in normal speech many lawyers and lay persons would probably refer to a

penalty clause, intending to mean the clause which is usually liquidated damages, but which might exceptionally be unenforceable. Penalty clause is usually used in its widest sense, but conveniently with the semantics of the answer to number 1, we don't actually have an answer to number 2. So could she now answer, has a liquidated damages clause ever been invoked.

Thirdly, in terms of the situation which I think she may be aware about in West Mill and I appreciate she may want to follow this up and not answer today, but we've had 16 or 18 non collections, we've had countless visits by Community Waste Officers, visits by supervisors, hours of Council time spent on this, so can she advise in relation to that specific incidence, what the operational review said and what was robustly challenged.

**Supplementary Answer (1)** First of all Councillor Rust, unlike you I'm not a lawyer and probably as a lawyer you fine know that depending on what the question is and depending on the lawyer depends on what answer you might get to your question. So you've asked three questions.

Your question you've asked me is the penalty clause. You've given me no details in terms of what issue or what incident you're talking about, and then you come today and your question is about penalty clause in any contracts in relation to waste collection between the Council and the private contractors and you have got a response to that.

I think it's slightly unfair Councillor Rust to then turn up this morning without any indication at all of the incident or the issue that you're trying to raise regarding the response to the 26 July. You've asked me the question, I've answered your question if you've got any other details as usual Councillor Rust I'd be happy to get a response as quickly as I can.

**Supplementary Question (2)** Just a follow up Lord Provost. In terms of the quickness of response could you answer that particular question as to why it's taken since the end of July to get an answer, thank you.

**Supplementary Answer** (2) Sorry, I've got a question that's here today which I've answered today which is under the process. If Councillor Rust has an issue about the 26 July which he hasn't had the decency to even suggest before today of what that question is, you'll know Councillor Rust there are many many.....

**Interjection by Councillor Rose** Sorry Lord Provost, on a point of order Lord Provost.....

**Councillor Hinds** Councillor Rust it's me that's answering if you don't mind, maybe you don't like the answer Councillor Rust.

**Councillor Rust** I would suggest you check your e-mails Councillor Hinds.

**Councillor Hinds** It would have been quite polite of you if there has been an incident or issue that you have and you want me to address as a Convener, I'd be happy to do that as you know I will respond to you and if you've got that issue, happy to take it outwith this meeting and get a response as quickly as possible.

**Lord Provost** On a point of order Councillor Rust, you ask your question and you get your answer – that was your answer.

## **Item no 5.1**

### **QUESTION NO 1**

**By Councillor Edie for answer by the Council Leader at a meeting of the Council on 22 October 2015**

#### **Question**

Following questions and reassurances received about the Council's commitment to a Transient Visitor Levy, please list what communication there has been with the Scottish Government since April on this issue?

#### **Answer**

## Item no 5.2

### QUESTION NO 2

**By Councillor Orr for answer by the  
Convener of the Transport and  
Environment Committee at a meeting  
of the Council on 22 October 2015**

#### Question

Concerns have recently been expressed (for example by Living Streets Edinburgh and the Southside Association) about a number of oversized or badly placed new bus shelters, with advertising panels now at right angles to the road. Some of these have resulted in excessive restrictions on the space available for people walking along the footway.

Have the worst examples, such as Buccleuch Street in the Southside, been installed in line with the new contract?

What action is planned to review and remediate these worst examples?

Under the contract, what is the minimum width of space which must be left on the footway for wheelchair users or pedestrians to pass?

#### Answer

## **Item no 5.3**

### **QUESTION NO 3**

**By Councillor Rust for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 22 October 2015**

#### **Question**

What overspend (if any) has there been in Devolved School Management Budgets per High School in each of the past three financial years (a) in real terms and (b) as a percentage of budget?

Has any such overspend been written off? If yes, please advise (a) the name of school and (b) the amount of write off?

#### **Answer**



## **Item no 5.4**

### **QUESTION NO 4**

**By Councillor Nick Cook for answer  
by the Convener of the Transport and  
Environment Committee at a meeting  
of the Council on 22 October 2015**

#### **Question**

To ask the Convener of Transport and Environment if, like Fife Council, CEC has any plans to pilot or introduce 4 weekly waste collections in Edinburgh? What discussions have taken place between coalition elected members and officials regarding the possibility of 4 weekly collections?

#### **Answer**

## Item no 5.5

### QUESTION NO 5

**By Councillor Orr for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 22 October 2015**

#### Question

In May 2011 the Council signed up to the Covenant of Mayors – a European initiative where towns, cities and regions commit to reducing carbon dioxide emissions through greater energy efficiency and renewable energy generation.

A requirement of this Covenant is that a SEAP (Sustainable Energy Action Plan) must be produced setting out how the reduction in emissions will be achieved. A SEAP report was commissioned from a third party contractor during the last administration but it was later shelved and never used. The process was restarted in 2013 by the current administration and a new (in-house prepared) draft SEAP was in existence from at least November 2013. After further delays the Sustainable Edinburgh Annual Report for 14/15 gave February 2015 as the new deadline for completion. However, as at October 2015, and four and a half years since signing the Covenant, the SEAP on the council website is still in draft form.

Can the Convener comment on whether or not she feels that this level of performance meets the standard that the people of Edinburgh expect of their council?

Assuming that a final version is published one day can the Convener confirm that she is confident that the council does have the ability and drive to fulfil its role in the implementation of the SEAP?

#### Answer



October 2015

## Have your say on budget proposals



Following the success of last year's budget consultation, in which 2,000 of you took part, we are once again asking for residents' views on how we spend and save money.

This year you will also get the chance to contribute your own ideas on how city services are provided, using the online '[Your City, Your Say](#)' dialogue page. It forms part of our ten-week engagement, allowing you to feed back on proposals for the [Council's 2016-20 budget](#), which aim to address an overall shortfall of £126m.

You can submit suggestions and views on issues, creating solutions to challenges and ideas for better serving the public and saving money. You can also rate and comment on others' posts.

By doing things differently and introducing our new online engagement tools, we're making it easier for you to contribute your views and ideas, and to understand the different challenges there are in setting the budget. Please take the time to have your say between now and 10<sup>th</sup> December.

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## Save time, do it online

You may have seen our new advertising campaign, '[Save time. Do it online](#)', aimed at encouraging residents to use our website to report issues such as problems with street lighting, pot holes and litter.

The campaign involves a series of posters and bus shelter ads being displayed at sites across the city, refuse lorries, as well as targeted online and radio adverts highlighting the service. It forms part of our 'channel shift strategy' which aims to make savings of £5.9 million by 2017/18 and transform the way residents interact with the Council.

There are currently 35 services available, ranging from requesting a new recycling bin to reporting a problem with a streetlight. From April 2016, the number of different issues residents can report online will double to include new areas such as benefit claims, parking and new licensing transactions.

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## Challenge Poverty Week

Tomorrow, 17<sup>th</sup> October, marks the start of the national [Challenge Poverty Week](#). A number of events and activities are being held locally to coincide with it.

In September, the Council agreed to adopt a set of pledges to challenge the stigma that can so often be associated with living in poverty. Part of the '[Stick Your Labels](#)' campaign, these pledges reinforce that poverty is not inevitable and commit organisations to setting out what they will do to help.

My personal challenge is for organisations and citizens to engage with Challenge Poverty Week and use it as a platform for discussion and action. I would be happy to hear your ideas on tackling poverty in the city; my commitment in return is to consider these views and to use them to help Edinburgh move forward on this crucial agenda.

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## Smarter Cities

The [Scottish Cities Alliance](#) recently launched its 'Smart Cities Scotland' brand with the significant boost that £10m in European funding has been approved for the programme.

As Chair, I am delighted that we have secured the funding, which will not only allow Scotland's cities to become Smart Cities but also give them the edge to attract more investment.

The Alliance, which is the collaboration of Scotland's seven cities and the Scottish Government, aims to use Smart City technology to transform cities into world-leading digital hubs to enable them to become more internationally competitive and boost economic growth.

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## Countdown to Christmas

There's a chill in the air, winter is fast approaching and plans are already well under way for our world-famous Christmas and Hogmanay celebrations. No other city compares to Edinburgh during this time of year and the festivals remain a huge draw for visitors from all over the world.

[Edinburgh's Christmas](#) will kick off on 20 November with the new 'Virgin Money Street of Light' featuring a string of more than 60,000 lights along 26 arches running the length of the City Chambers to the Tron Kirk.

The Royal Mile will also then play host to an 'Old Town Ceilidh' as part of [Edinburgh's Hogmanay](#). This expansion of the Street Party will see revellers attempt to perform the world's longest ever Strip the Willow.

The Concert in the Gardens, set in the Ross Bandstand against the backdrop of Edinburgh Castle, is already a sell-out but there are plenty of other ways to join in. Visit the websites for further details.

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## Stay in the picture

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10am, Thursday, 22 October 2015

## Appointments to Committees Etc

Item number	7.1
Report number	
Executive/routine	
Wards	All

### Executive summary

---

At its meeting on 17 September 2015, the Council made appointments to Committees, Boards and Joint Boards for 2015/16.

Following the resignations of Councillors Brock and Chapman, vacancies on a number of Committees required to be filled. The subsequent election of Councillors Donaldson and Ritchie altered the overall political balance within the Council. In terms of the political balance set out in the Committee Terms of Reference and Delegated Powers vacancies on five Committees fall to be made by the Labour Group, although the Council can resolve otherwise.

The Council on 17 September 2015 agreed to keep the political balance on these Committees unchanged, pending further consideration at this meeting.

### Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome Agreement**

## Appointments to Committees Etc

### Recommendations

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- 1.1 To appoint members to the following committees:
  - a) Corporate Policy and Strategy Committee
  - b) Health, Social Care and Housing Committee
  - c) Petitions Committee
  - d) Transport and Environment
  - e) Police and Fire Scrutiny Committee
- 1.2 To identify in each case any members who are relinquishing membership.

### Main report

---

- 2.1 At its meeting on 17 September 2015 the Council agreed a number of appointments to committees, boards and joint boards for 2015/16.
- 2.2 Council was also advised that the outcome of the Leith Walk by-election had changed the overall political balance of the Council, resulting in 21 Labour members, 17 SNP, 11 Conservative, 5 Green, 3 SLD, and 1 independent.
- 2.3 Committee Terms of Reference and Delegated Functions state that committee membership should be proportionate to the representation of political parties, unless expressly agreed otherwise by the full Council.
- 2.4 Five committees currently do not meet this criteria. They are as follows, together with an indication of the action needed to conform:-
  - 2.4.1 **Corporate Policy and Strategy Committee**  
Appoint one Labour Group member (*in place of a Green Group member*)
  - 2.4.2 **Health, Social Care and Housing Committee**  
Appoint one Labour Group member (*in place of a Green Group member*)
  - 2.4.3 **Petitions Committee**  
Appoint one Labour Group member (*in place of one SLD Group member*)

#### 2.4.4 **Transport and Environment Committee**

Appoint one Labour Group member (*in place of a Green Group member*)

#### 2.4.5 **Police and Fire Scrutiny Committee**

Appoint one Labour Group member (*in place of one SLD Group member*)

### **Measures of success**

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3.1 The Council appoints members to all its Committees.

### **Financial impact**

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4.1 Not applicable.

### **Risk, policy, compliance and governance impact**

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5.1 Appointments are required to support the democratic decision-making process.

### **Equalities impact**

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6.1 Not applicable.

### **Sustainability impact**

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7.1 Not applicable.

### **Consultation and engagement**

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8.1 Not applicable.

### **Background reading/external references**

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[Council Minute of 17 September 2015](#)

## **Alastair D Maclean**

Deputy Chief Executive

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## Links

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**Coalition pledges**

**Council outcomes** CO25 – the Council has efficient and effective services that deliver on objectives

**Single Outcome**

**Agreement**

**Appendices**



10am, Thursday, 22 October 2015

## Edinburgh Integration Joint Board – Appointment of Chief Officer

Item number	7.2
Report number	
Executive/routine	
Wards	All

### Executive summary

---

In terms of the Public Bodies (Joint Working) (Scotland) Act 2014, the Council and NHS Lothian require to be formally consulted on the appointment of the Integration Joint Board (IJB) Chief Officer.

The nomination by the IJB recruitment panel of Robert McCulloch-Graham requires to be confirmed at a special IJB meeting on 16 October 2015. To allow this appointment to be made at that meeting the Chief Executive, in consultation with the Lord Provost, agreed to apply the urgency provisions within the Committee Terms of Reference and Delegated Functions to confirm the Council had no objections to the appointment.

The Council is asked to note the action taken.

### Links

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Coalition pledges

Council outcomes

Single Outcome Agreement

## Edinburgh Integration Joint Board – Appointment of Chief Officer

### Recommendations

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- 1.1 To note the action taken by the Chief Executive, in consultation with the Lord Provost, to intimate no formal objections to the appointment of Robert McCulloch-Graham as Edinburgh Integration Joint Board Chief Officer.
- 1.2 To note that the IJB will be asked to confirm the appointment at its meeting on 16 October 2015.

### Main report

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- 2.1 At its meeting on 17 July 2015 the Edinburgh Integration Joint Board agreed arrangements for the recruitment and selection of its Chief Officer.
- 2.2 An interview panel comprising the IJB Chair, Vice-Chair and four other voting members was agreed. The recruitment process was supported by the Chief Executives of NHS Lothian and the Council, together with Aspen People.
- 2.3 Stakeholder and other meetings were held on Monday 5 October 2015, with formal panel interview on 6 October. Following these, Robert McCulloch-Graham has been selected for the appointment.
- 2.4 In terms of the Public Bodies (Joint Working) (Scotland) Act 2014, NHS Lothian and the City of Edinburgh Council have to be formally consulted on the appointment, prior to ratification at a full meeting of the IJB. This IJB meeting is on 16 October 2015.
- 2.5 NHS Lothian has confirmed it has no objections to the appointment. To allow the IJB to consider the appointment on 16 October 2015 the Chief Executive, in consultation with the Lord Provost, applied the urgency provisions within the Committee Terms of Reference and Delegated Functions to confirm that the Council also had no objections to the appointment.
- 2.6 The Chief Officer will be appointed on Council Employment Terms and Conditions.
- 2.7 The Council is asked to note the action taken by the Chief Executive under urgency provisions.

### Measures of success

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- 3.1 The Chief Officer, Edinburgh Integration Joint Board, is appointed.

## Financial impact

---

4.1 Not applicable.

## Risk, policy, compliance and governance impact

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5.1 The approach taken is fully compliant with the Public Bodies (Joint Working) (Scotland) Act 2014.

## Equalities impact

---

6.1 Not applicable.

## Sustainability impact

---

7.1 Not applicable.

## Consultation and engagement

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8.1 Required consultation took place with NHS Lothian and the Lord Provost.

## Background reading/external references

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[Minute of meeting of the Edinburgh IJB - 17 July 2015](#)

### Andrew Kerr

Chief Executive

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## Links

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### Coalition pledges

**Council outcomes** CO25 – the Council has efficient and effective services that deliver on objectives

**Single Outcome Agreement**

**Appendices**

10am, Thursday, 22 October 2015

## Outcome of the Statutory Consultation Process on Options for Proposed Changes to the Catchment Area of Towerbank Primary School

[Affecting Towerbank Primary School, Craigentinny Primary School, The Royal High Primary School, Duddingston Primary School, Brunstane Primary School, Portobello High School and Leith Academy]

<b>Item number</b>	8.1
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	13 - Leith; 14 - Craigentinny/Duddingston; 17 - Portobello/Craigmillar

### Executive summary

On [3 March 2015](#) the Education, Children and Families Committee approved that a statutory consultation should be undertaken regarding proposals to alter catchment boundaries between Towerbank Primary School and the neighbouring primary schools together with any associated changes required to secondary school catchment boundaries.

A [statutory consultation](#) was undertaken between 8 May 2015 and 22 June 2015 regarding four options for changes to the Towerbank Primary School catchment area which would be expected to achieve the necessary reduction in catchment pupil numbers in the longer term. The purpose of this report is to advise on the outcome of the consultation and make recommendations regarding what option for catchment change should be progressed.

### Links

<b>Coalition pledges</b>	<a href="#">P4</a>
<b>Council outcomes</b>	<a href="#">CO1</a> and <a href="#">CO2</a>
<b>Single Outcome Agreement</b>	<a href="#">SO3</a>

## Outcome of the Statutory Consultation Process on Options for Proposed Changes to the Catchment Area of Towerbank Primary School

[Affecting Towerbank Primary School, Craigentenny Primary School, The Royal High Primary School, Duddingston Primary School, Brunstane Primary School, Portobello High School and Leith Academy]

### Recommendations

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- 1.1 Approve that the catchment boundaries of Towerbank Primary School, Craigentenny Primary School, The Royal High Primary School, Duddingston Primary School, Brunstane Primary School, Portobello High School and Leith Academy are amended with immediate effect in accordance with option 4 as set out in the statutory consultation paper on *Options for Proposed Changes to the Catchment Area of Towerbank Primary School* affecting the addresses and areas in Appendices 7, 8 and 9 and that the sibling guarantee associated with option 4 is applied.
- 1.2 Approve that, in support of option 4, the recommendations outlined in Appendix 6 of this report to improve the routes to schools affected by the proposals are progressed and fully implemented where possible.

### Background

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- 2.1 In August 2013 a new eight classroom extension at Towerbank Primary School was opened which extended the capacity of the school at that time to 21 classes. However, to cater for a high catchment intake in 2014/15 Towerbank Primary School operated a 22 class organisation, including five classes at P1. In October 2014 the Scottish Government released new *Capacity Guidance for Primary Schools* which reduced the number of general purpose spaces required at the school and officially increased the capacity of the school to 22 classes.
- 2.2 In January 2015 registrations for P1 in August 2015 stood at 100 pupils with further registrations being expected. Accordingly, allowing for a drop between January and August 2015, an intake of 99 P1 pupils for 2015/16 was proposed. This level of intake could still be accommodated within the 22 class capacity however the school has chosen to use 23 classrooms as this did not require any additional teaching staff to be provided and they were prepared to lose some GP space. The current number of P1 pupils at the school as of early September

2015 is 95. This information is subject to change until the final census information becomes available in early October.

- 2.3 Projections produced as part of the annual rising rolls assessment in March 2015 suggested that Towerbank Primary School will experience a spike in its intake for August 2016 with a P1 intake of 114 pupils. This intake could still be accommodated within 23 classes but this would require two P1 team teaching classes of 32 pupils.
- 2.4 Beyond 2016/17, the school roll/catchment projections for Towerbank Primary School indicate that school roll numbers will rise to over 660 by 2019 and increase to 700 by 2026 based on a regular P1 catchment intake exceeding 100 pupils. The increase in roll would be further exacerbated by the additional pupils generated from the housing in the Baileyfield development. In creating school class organisations to cater for catchment intakes of over 100 pupils, any extra places created beyond catchment requirements would likely be taken up via placing requests so further adding to pressure on the school.
- 2.5 Catering for over 700 pupils at Towerbank Primary School would require an additional three classes to be provided through a further extension to the school which, if this were to be undertaken, would make this the largest primary school in the city and take the school capacity beyond three streams.
- 2.6 On [3 March 2015](#) the Education, Children and Families Committee approved that a statutory consultation should be undertaken regarding proposals to alter catchment boundaries between Towerbank Primary School and the neighbouring primary schools together with any associated changes required to secondary school catchment boundaries. In arriving at this decision Committee acknowledged the reasons why further extension was not considered to be appropriate and that the only reasonable solution to the future accommodation pressure at Towerbank Primary School was a change to the existing catchment boundary.
- 2.7 The report to Committee on 3 March 2015 included details of one option for catchment area changes between Towerbank Primary School and the neighbouring primary schools which was included as Option 1 in the statutory consultation. However Committee noted that initial informal consultation would be undertaken with the affected schools to establish if there were any other feasible and more preferable alternative options for alterations to catchment boundaries which would still achieve the required outcome. Committee delegated authority to the Director of Children and Families to develop a detailed statutory consultation paper taking into consideration any alterations to the proposed changes arising as a result of the informal consultation.
- 2.8 The purpose of this report is to advise on the outcome of the consultation and make recommendations regarding what option for catchment change should be progressed.

## Main report

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- 3.1 In advance of the formal statutory consultation process being progressed an informal consultation was undertaken with the local community to establish if there were any other options for alterations to catchment boundaries which would still achieve the required outcome.
- 3.2 The report to Committee on 3 March 2015 acknowledged that one such feasible option would be to expand the area to the south of the current Towerbank Primary School catchment area that is proposed for transfer to Brunstane Primary School and to remove the area proposed for transfer to Duddingston Primary School. Initial feedback identified this was an alternative option which was worthy of detailed consideration during the informal consultation therefore it was fully developed as a second option and a short paper was produced to outline how this could potentially be achieved. Affected parent and guardians, Parent Councils and local community groups were notified of this additional option which was included as Option 2 in the statutory consultation.
- 3.3 As part of the informal consultation, workshops were held at each of the four directly affected primary schools. At each workshop the Parent Council and a cross section of parents (identified by the school) were invited to discuss Options 1 and 2 and identify any possible alternative options. In addition to views expressed at the workshops, 48 representations were received mainly from parents/guardians/residents. A summary of the issues raised in the informal consultation process is included in Appendix 1 of the full consultation paper.
- 3.4 As a result of the informal consultation process two further catchment area change options were identified for consideration. The final statutory consultation paper therefore included four potential options for changes to the Towerbank Primary School catchment area which would be expected to achieve the necessary reduction in catchment pupil numbers in the longer term.
- 3.5 The statutory consultation period ran from 8 May 2015 to 22 June 2015. A full statutory consultation paper was produced which set out the details of each of the four options together with the associated educational benefits. Hard copies of the full consultation paper were provided to each school, nursery and the local library. An email was sent to all other statutory consultees, including the school Parent Councils and the local Community Councils, advising them of the consultation and providing the link to the full consultation paper. All parents/guardians at the affected schools were sent a letter notifying them of the statutory consultation and a copy of the summary provided in Appendix 1.
- 3.6 The full consultation paper extends to 52 pages and therefore has not been included within this report however it is available online on the [Council website](#); a summary is provided in Appendix 1. A copy of the full statutory consultation paper is also available in the Elected Members lounge for reference.
- 3.7 Four public meetings were held between 21 May 2015 and 3 June 2015. At each public meeting, all of which were independently chaired, Council officials

outlined the options and answered questions. Records of each meeting are included in Appendix 2.

- 3.8 Representations were invited by letter, email or through a specifically designed online consultation response questionnaire. A total of 428 responses were received during the statutory consultation period comprising 406 questionnaire returns (317 of which included specific comments) and 22 by either email or letter. In some instances multiple email/letter representations were made by the same respondent and in such cases these have been grouped together and treated as one response. The representations received are detailed in Appendix 3 together with a summary of the key issues raised in each response. Due to the volume involved the detailed responses have not been included within this report however the full submissions are available in the Elected Members lounge for reference.
- 3.9 The following table provides an analysis of the responses received during the consultation showing the category of respondent and the preferred option (if one was expressed).

	Option 1	Option 2	Option 3	Option 4	No Preference	Totals	Proportion
Parent/carer of school pupil(s)	7	16	10	48	6	87	20.3%
Parent/carer of school pupil(s) with younger sibling(s)	1	9	0	82	2	94	22%
Parent/carer of pre-school child or children	11	20	8	25	3	67	15.7%
Staff	0	0	0	0	0	0	0%
Pupil	3	1	0	1	2	7	1.6%
Local resident	8	22	12	53	4	99	23.1%
Local organisation	0	0	0	0	0	0	0
Other	0	2	0	69	3	74	17.3%
<b>Totals</b>	<b>30</b>	<b>70</b>	<b>30</b>	<b>278</b>	<b>20</b>	<b>428</b>	
<b>Proportion of Total</b>	<b>7.0%</b>	<b>16.3%</b>	<b>7.0%</b>	<b>65.0%</b>	<b>4.7%</b>		

- 3.10 Of the 428 responses received, a clear majority of 65% expressed a preference for Option 4. Of the 408 responses in which a preference for any of the options was expressed, 68.1% expressed a preference for Option 4.
- 3.11 A consultation exercise with pupils was also carried out by Quality Improvement Officers at the schools directly affected by the proposals and the Head Teacher in each school discussed the proposals with staff and provided feedback. A summary of the issues raised by pupils and staff is provided in Appendix 4.



None of the pupils favoured Options 1 or 2, 6.7% were in favour of Option 3, 86.7% were in favour of Option 4 and 6.7% were unsure.

- 3.12 As required by the Schools (Consultation) (Scotland) Act 2010 as amended by the Children and Young People (Scotland) Act 2014 all of the responses received during the public consultation were made available to Education Scotland for consideration. During August 2015 Education Scotland visited all of the schools affected by the proposals following which they submitted a report addressing the educational aspects of the proposals. This report is included in Appendix 5.
- 3.13 Responses to all of the major issues raised during the consultation process are considered in the following *'Key Themes and Issues and Council Responses'* section. The Council's response to the Education Scotland report is then considered in the following section.

### **Key Themes and Issues and Council Responses**

- 3.14 A number of points were raised, often recurrently, during the public meetings, in the responses received during the consultation period and through the consultation undertaken with pupils and staff. This section draws out the main themes and issues together with the Council's response.

### **Consultation process and alternative options**

<b>Issue Raised</b>	This consultation focuses on current families rather than the whole community and future users of the primary school are therefore excluded. Many people have children in city centre nurseries due to work and were unaware of the proposed changes. A letter notifying residents about the consultation should be sent to every residential property in the area prior to the commencement of the public consultation period.
<b>Council Response</b>	The Schools (Consultation) (Scotland) Act 2010 as amended by the Children and Young People (Scotland) Act 2014 requires the Council to consult with relevant consultees which includes the Parent Council and parents of pupils attending any affected school as well as the pupils themselves, parents of pupils likely to attend an affected school within two years, trade unions and local Community Councils. As part of this consultation every nursery within the catchment areas of the affected schools was notified and asked to share the details with parents. Details of the statutory consultation were also advertised in the press and made available at local libraries. In response to requests made at the first public meeting posters were produced and displayed across the community.  It is not considered an effective use of Council resources to send letters to every household in the affected areas or to notify every nursery in the city centre area.

<b>Issue Raised</b>	The informal consultation leading up to the statutory consultation period was very useful. The Council have responded to points raised, offered further options, and done so in a very clear manner.
<b>Council Response</b>	This was the first time the Council has carried out such a detailed informal consultation process in advance of the statutory consultation period. In future where the issues being addressed by the proposed statutory consultation are considered to be significantly contentious then the informal consultation process will be repeated.
<b>Issue Raised</b>	This exercise has been rushed and, given its potentially serious long term implications, should have been subject to much more consideration and gathering of pertinent data before it commenced. The expectation that there isn't enough capacity in Towerbank Primary School to cater for the expected roll in 2016 should have been identified earlier. Clarification on the decision making process is required.
<b>Council Response</b>	The requirement for the statutory consultation process was only identified in March 2015 as part of the annual rising rolls assessment based on the latest primary school roll projections. This predicted that Towerbank Primary School would be under pressure in terms of accommodating its catchment pupil population in August 2016. As the registration process for the 2016/17 session commences in November 2015 the statutory consultation had to be carried out immediately.  All comments made during the statutory consultation period have been assessed in arriving at the recommendations made in this report. As required by legislation this report has been published three weeks in advance of the Council meeting, being available by 1 October 2015.
<b>Issue Raised</b>	A fairer solution could be proposed, whilst still allowing the sibling guarantee, to perhaps have a moratorium of registrations for new residents for a number of years until the school intake numbers stabilise. This would ensure local children already resident in the area are given the opportunity to attend Towerbank without the need to split up the Portobello community.
<b>Council Response</b>	It is Council policy that any pupil who is resident within a school's catchment area and registers for a place at their catchment school before the end of February in the year they are due to start at the school will be guaranteed a place at that school. It would therefore not be possible to introduce a moratorium on registrations for new residents.
<b>Issue Raised</b>	Why were those residents already in the areas of the Towerbank catchment proposed for realignment when the informal consultation commenced not given an option to remain in the catchment for Towerbank?
<b>Council</b>	Any pupil already attending Towerbank Primary School will be able to continue to attend the school in the future. The legislation governing

<b>Response</b>	statutory consultations requires the Council to undertake a period of public consultation before arriving at any final decision. The date of the Council meeting is therefore the most appropriate from which any agreed changes should be implemented.
<b>Issue Raised</b>	The bigger picture should be looked at and the possibility of a brand new primary school in the area should be seriously considered and consulted upon.
<b>Council Response</b>	A new primary school in the area is not required as there is capacity in the proposed neighbouring receiving schools to accommodate the number of pupils estimated to be generated by the proposed catchment boundary changes in any of the options.
<b>Issue Raised</b>	If there is a desire to give a sibling guarantee (and those numbers have to be absorbed by other primary schools) then a new option based on Option 2 should be considered but with larger transfers to Brunstane (i.e. Areas D and E should be enlarged) to compensate for the extra numbers.
<b>Council Response</b>	Option 4 includes all the areas affected in every other option and offers a sibling guarantee. It was considered this was a fair approach as all of the affected areas had been involved in the informal consultation process. To include new areas in the statutory consultation which had not previously been part of the informal consultation process in order to provide a sibling guarantee for the areas which had been included in the informal consultation was not considered an equitable approach in order to establish an option which would provide a sibling guarantee.
<b>Issue Raised</b>	The transfer of Area C also has a disproportionate impact on Duddingston Primary School compared to the transfers to the other schools. Brunstane clearly has the capacity so it should absorb all of the catchment changes to Towerbank and any guarantees that are given as part of that package.
<b>Council Response</b>	Duddingston Primary School has the capacity to accommodate the pupil numbers expected to be generated by the proposed catchment boundary changes in the options which include Area C due to the large percentage (more than 40%) of its current school roll which is made up of out of catchment placement requests. Many of these placements come from the Brunstane Primary School catchment area so if Duddingston starts to cater for a greater percentage of catchment pupils one implication will be that Brunstane will also retain more of its catchment population. Brunstane has the spare capacity to cater for the expected increase in its own catchment area and any increase created by any of the options in this statutory consultation which affect the school.  The areas proposed in the statutory consultation paper for transfer to Brunstane Primary School have been included based on an assessment

	of the numbers affected and suitable geography. An option which solved the issues at Towerbank Primary School by transferring a single larger area to Brunstane would not be considered to be a suitable option due to the distance that the furthest properties would be from the school under such a scenario.
<b>Issue Raised</b>	Exclude Eastfield (Musselburgh Road 1-55) from Area E.
<b>Council Response</b>	Option 1 does not include Area E and 7% of respondents expressed this as a preference. To exclude this area from any of the other options would mean adding a new area to those options in order to make up the pupil numbers required to be removed from the Towerbank Primary School catchment area. To include new areas in any final recommendations which have not previously been part of the consultation process would create additional options regarding which an entirely new statutory consultation would require to be undertaken. The informal consultation was progressed in order to capture the potential for other options and this suggestion was also made during that process. This issue was therefore addressed in the statutory consultation paper as option 1 does not include Eastfield and in option 4, any Eastfield residents with younger siblings not yet at school would be provided with a guaranteed place at Towerbank Primary School for these children.
<b>Issue Raised</b>	Keep Brunstane Road area in Towerbank catchment
<b>Council Response</b>	In option 3 the Brunstane Road area remains within the Towerbank Primary School catchment area. Option 3 was added following the informal consultation as a result of concerns raised about the road crossings between Brunstane Road and Brunstane Primary School. Further details are provided in the Travel, Safety and Active Lifestyles theme below and also in Appendix 6.
<b>Issue Raised</b>	Retain as much of the area to the north of Milton Road East (odd numbered side) as possible within the Towerbank catchment as this offers a significantly safer route to school.
<b>Council Response</b>	All of the routes to school proposed in every option are considered safe. Further detail is provided in the Travel, Safety and Active Lifestyles theme below and also in Appendix 6.
<b>Issue Raised</b>	Possible Fifth option. This option would echo option 1, but would enlarge area C (north side of Portobello High would be the new boundary line), with sibling priority only in order to allow area B to have a sibling guarantee due to the potential for area B having to take a more dangerous route to school (the Milton link) if attending Brunstane Primary School.
<b>Council</b>	Enlarging area C would take an area out of the existing Towerbank

<b>Response</b>	Primary School catchment area which would be closer to the school than any of the other areas included in any of the proposed options. The route to Brunstane Primary School from Brunstane Road is considered safe; an alternative safe route (still considerably shorter than the route to Towerbank) is also available by using the pedestrian crossing opposite the hotel. Further improvements are recommended should any option including this area be progressed as detailed in Appendix 6.
<b>Issue Raised</b>	Why was the decision taken to sell the old annexe and move the nursery on site when that space could easily have been used for more classrooms? The nursery should now be moved to another location to create space for more classrooms.
<b>Council Response</b>	The Council's policy is to have schools on one campus wherever possible and the removal of the former annexe was in direct response to this policy. In the case of the former Towerbank annexe, the new extension at the school not only re-provided the accommodation that was previously available but extended it (by eight classes rather than six) to allow for some growth. The nursery was provided on site as a direct response to requests from the local community and it would affect the delivery of the curriculum for excellence if it were now to be moved. Towerbank's catchment numbers have increased more rapidly than had been predicted due, we believe, to greater than expected inward migration therefore a catchment review is now required.
<b>Issue Raised</b>	Towerbank Primary School should be extended further rather than bringing forward changes to its catchment area. In particular the use of the Council owned playground and Toddler Hut site adjacent to the school should have been considered.
<b>Council Response</b>	<p>The size of site for any new (or replacement) school is prescribed in the School Premises (General Requirements and Standards) (Scotland) Regulations 1967 and the 1973 and 1979 amendments to those regulations. For a new school with a primary school capacity of 451 or more and capacity for a further 40 pupils in the nursery the total site the total site size should be 1.9 hectares comprising two elements for which the appropriate sizes are defined separately: A main school site on which the actual school buildings are located of not less than 1.3 hectares; and an area for playing fields of not less than 0.6 hectares.</p> <p>The regulations do not actually require that playing fields (or pitches) are adjacent to the actual school building but that they are <i>available</i> to the school i.e. could be elsewhere and off-site. In Edinburgh there are many schools where the maximum areas for playing fields are not met however the Council complies with the regulations by virtue of the extensive alternative pitch provision which is available to schools throughout the city.</p> <p>In considering what would be an appropriate site area for any new or</p>

	<p>replacement double-stream primary school with a 40/40 nursery, an overall site area of 1.3 hectares has been identified as being capable of providing an appropriate environment for a primary school and nursery of this size and also incorporate provision for a small pitch adjacent to the school buildings. At just under 0.76 hectares, the size of the current site at Towerbank Primary School is already well below this optimum size when the school is already larger at three-stream; any further increase in capacity would further exacerbate the issue.</p> <p>It is considered that providing additional capacity by further extending the school would reduce the available play area to an unacceptable level. The school playground is also overlooked by houses and tenements and there may be difficulties in securing planning consent for any further development on the site even if it were to be proposed.</p> <p>The size of the playground site adjacent to the school is approximately 0.07 hectares and it is adjacent to the site occupied by the Toddler Hut which is approximately 0.03 hectares. The Toddler Hut lease their property from the Council and a new 80 year lease was agreed by the Council in June 2013. This lease would be a significant barrier to the use of this site by the school as alternative premises for the Toddler Hut would have to be secured. Even if this combined site could be acquired, the necessary road-stopping order secured to create a safe access and any new build accommodation constructed in time the addition of this area would only increase the current site size to around 0.86 hectares (or slighter larger if additional area was gained through closing part of the road). This would still be substantially below the optimum size for a two stream primary school, without taking account of the fact that the school would be operating as more than a three stream organisation with around 700 pupils being accommodated. Providing additional classrooms and associated ancillary accommodation would have a large 'building footprint' and result in an additional 100 children using the site. As a result the remaining area would be under significantly increased pressure both in terms of play and outdoor learning opportunities and would be of overall disbenefit to the pupils' educational experience.</p>
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**Siblings (including logistical, social and emotional implications of no sibling guarantee)**

<b>Issue Raised</b>	At what date will the catchment change become effective and how will the sibling guarantee work?
<b>Council Response</b>	<p>Any catchment change approved by the Council on 22 October 2015 would be effective immediately. The details of the sibling guarantee as stated in the statutory consultation paper are as follows:</p> <p>In future, younger siblings of pupils at Towerbank Primary School (not including Towerbank Primary School nursery) who attended the school at the time of the decision on catchment change and were, at that time, resident in the parts of the Towerbank Primary School catchment</p>

	<p>proposed for transfer would be guaranteed a place at Towerbank Primary School. This policy would only apply if, when the younger sibling was entering P1, he/she continued to be resident in the parts of the Towerbank Primary School catchment from which transfer had previously been approved and an elder sibling is still a pupil at Towerbank Primary School. This guarantee would only apply to younger siblings who were born before the date of the Council decision regarding catchment change.</p>
<b>Issue Raised</b>	<p>The families currently attending Towerbank Primary School have a range of after school pickup/care arrangements in place (e.g. nurseries, after school clubs, grandparent or friends pick up) and care for younger siblings not at the school is often integrated with these arrangements or chosen due to the location of the elder siblings' school. Having siblings, or the children from the families of friends and neighbours who are involved in any care arrangements, attending different schools would complicate these arrangements.</p>
<b>Council Response</b>	<p>As was stated at all of the statutory consultation meetings it is recognised that catchment change is not an easy option; however, it is considered that all other options to address the ongoing accommodation problems at Towerbank Primary School have already been taken. Option 4 was added to the consultation process as a direct result of the strong feeling about the impact on siblings expressed during the statutory consultation. Irrespective of the option ultimately progressed, Children and Families senior management including the Portobello cluster primary school Head Teachers will ensure the implications of change are monitored and any transition where required is made as smooth as possible for the families involved.</p>
<b>Issue Raised</b>	<p>If siblings are attending different schools and nurseries which are further apart than current arrangements then it will encourage greater use of the car and discourage walking, cycling and scooting to school.</p>
<b>Council Response</b>	<p>The main aim of all the proposed options is to ensure the long term provision of sufficient catchment places for pupils attending Towerbank and neighbouring primary schools and the Council is confident that this can be achieved through every option. It is accepted that some of the proposed options could result in an increase in the adoption of less sustainable modes of transport and this is one of the reasons why option 4 was included to address the implications for families with younger siblings.</p>
<b>Issue Raised</b>	<p>There are potentially significant social, emotional, psychological and academic issues affecting children's confidence, performance, well being and behaviour associated with siblings being in different schools or elder siblings having to move school to be with younger children. To separate siblings runs counter to the principles of Getting it Right for Every Child and the Health and Wellbeing indicators. There are also</p>

	<p>practical complications having to attend parents nights, assemblies and sports days at more than one school and there could be an increased requirement for childcare which could have financial and therefore indirectly wellbeing implications for families. The Council promotes that children should be sent to their catchment schools and under options 1, 2 and 3 those families with younger siblings who have followed this advice will be affected.</p>
<b>Council Response</b>	<p>The wide range of potential implications for siblings if they have to attend different schools are recognised and this is why a sibling priority was included in the initial catchment change option which was developed before the informal consultation with school communities in March 2015. As part of the informal consultation the issue of providing a sibling guarantee for those families with elder siblings already at Towerbank Primary school was one of the issues discussed and option 4 was developed to respond to the request for a sibling guarantee.</p> <p>Irrespective of the option ultimately progressed, Children and Families senior management including the Portobello cluster Primary School Head Teachers will ensure that the implications of change are monitored and any transition where required is made as smooth as possible for the families involved. If the recommendation to progress with option 4 is approved then assistance with transition will be particularly important for families with children already attending the Towerbank Primary School nursery who live in one of the transfer areas and in which there are no elder siblings currently attending the school.</p>
<b>Issue Raised</b>	<p>Families with children due to start school in 2016 are unable to properly discuss this with their children as they don't know which school they will attend. This means that we are unable to prepare them fully for the transition between nursery and school.</p>
<b>Council Response</b>	<p>The timing of the statutory consultation was determined to ensure that a Council decision is made before the registration process for school places for 2016/17 which commences in November 2015. Families will therefore be aware of their primary school catchment area at least eight full months in advance of their children starting school.</p>
<b>Issue Raised</b>	<p>Having children at different schools would increase the necessity for car sharing, walking to school or back home alone or being unsupervised in the playground before and after school all which present increased risk to child safety.</p>
<b>Council Response</b>	<p>Irrespective of the option progressed at the end of the statutory consultation process child safety outside school hours remains a parent/guardian responsibility.</p>
<b>Issue Raised</b>	<p>The logistical issues with multiple school and childcare drop offs are insurmountable. At no point in this consultation document is there any explanation of how the Council suggests parents drop off and pick up</p>



	children at two different schools at the same time.
<b>Council Response</b>	The affected primary schools would work together to mitigate the impact for any affected family. This would include considering the schools having different official start times to account for the time required by parents to travel between the different locations. While it would remain the choice of the individual whether to use them or not, after school clubs and breakfast clubs are available.
<b>Issue Raised</b>	The Council has said families with siblings at different schools would be allowed to drop children off at school up to half an hour late. This is not an acceptable solution. This adds up to 2.5 hours of school a week missed, a total of 95 hours across an academic year. In addition, all schools have literacy hour first thing in the morning, meaning our children would be missing out on a vital part of their education, not to mention the disruption this would cause other children. Another suggested solution is the creation of a walking bus, where parents could take turns taking several children to school.
<b>Council Response</b>	The suggestion of arriving late at school has not been made as part of this statutory consultation process and may perhaps have been confused with the suggestion noted in the answer above that cluster schools could have different official start times to overcome the logistical challenges faced by families affected by change. The use of a walking bus is something that would be organised on an individual school basis and has not been suggested as a solution to any of the logistical implications of catchment change.
<b>Issue Raised</b>	Younger siblings have already familiarised themselves with the school environment of their older siblings and developed relationships with peers who they expect to begin school with at the same time. It would be very unsettling for them to have to attend an alternative school.
<b>Council Response</b>	As was stated at all of the statutory consultation meetings it is recognised that catchment change is not an easy option; however, it is considered that all other options to address the ongoing accommodation problems at Towerbank Primary School have already been taken. Option 4 was added to the consultation process as a direct result of the strong feeling about the impact on siblings expressed during the statutory consultation.
<b>Issue Raised</b>	Families living outwith the current catchment with siblings hoping to attend the school in future years should not be guaranteed a place, as out of catchment placements have never been guaranteed.
<b>Council Response</b>	None of the four options include any guarantees for siblings within families living outwith the current Towerbank Primary School catchment area.
<b>Issue</b>	Based on the data provided during the consultation only 27 future pupils

<b>Raised</b>	of Towerbank would benefit from a sibling guarantee. Why, for a mere five - six pupils on average per annum, could a sibling guarantee not be provided with all options being considered?
<b>Council Response</b>	<p>For options 1, 2 and 3 the proposed catchment areas have been created based on establishing a revised, reduced catchment population which would achieve the standard intake for a three stream school. Even a small number of additional pupils would almost certainly require additional staff and would likely require additional classroom space. This is why in option 4 a sibling guarantee can only be provided by including a larger area for catchment change in the proposals.</p> <p>It was also recognised in the statutory consultation paper that the sibling data is likely to be incomplete as there may be families with younger siblings currently either attending a private nursery, or not attending a nursery who will have an older sibling in the school at the time of any relevant Council decision. If any of these families have recently moved into the area then they would not have been identified from the cross check with birth data.</p>
<b>Issue Raised</b>	A sibling guarantee for out of catchment children in the receiving schools should also be considered.
<b>Council Response</b>	Any family with out of catchment children currently attending Brunstane, Duddingston or The Royal High Primary School who have younger siblings knew at the time of placing their elder sibling/s in that school there was no guarantee for younger siblings to also be accepted into that school. The provision of a sibling guarantee for out of catchment families at these schools is therefore not considered appropriate.
<b>Issue Raised</b>	The point of having guaranteed places for siblings is both a bad precedent to set, and also it has not been required in the past to have siblings in the same school. If siblings at Towerbank Primary School are given a guaranteed place as in option 4, this would open the way for parents at other schools to argue for the same.
<b>Council Response</b>	It is considered for the reasons explained in the statutory consultation paper that a sibling guarantee within option 4 is suitable in this instance. This does not set a precedent for any proposed future catchment change as any future proposals in other areas are likely to be brought about due to a different set of circumstances. Future statutory consultation processes would only consider any suitable option/s to address the situation of the specific circumstances being addressed.
<b>Issue Raised</b>	The provision of guaranteed places for siblings in Option 4 is not the right course of action. The decision should be made with longer term foresight than the seven years needed to appease parents with children currently at Towerbank.
<b>Council</b>	There is no provision of a sibling guarantee in options 1, 2 or 3 and each

<b>Response</b>	of these options would create the required long term reduction in catchment pupil numbers at Towerbank Primary School. Option 4, with a sibling guarantee, will also be sustainable in the long term and over time also has the potential to lead to suitability improvements (e.g. removal of the temporary units and the creation of more playground space) at Towerbank Primary School.
<b>Issue Raised</b>	The parents of those children who have a sibling currently attending Towerbank Primary have been very vociferous and public in their campaigning, which I feel clouds the results of the consultation.
<b>Council Response</b>	The aim of the statutory consultation is to gather the views of as many stakeholders as possible particularly the families directly affected by the proposals. A variety of options have been proposed and varying levels of support has been received for each option. All responses received have been considered by the Council in arriving at the recommendations contained within this report and each full responses has been made available to Elected Members as part of the decision making process.

### Travel, Safety and Active Lifestyles

<b>Issue Raised</b>	What are the main criteria considered when determining if a route to school is safe and how up to date is the information used when the routes are assessed?
<b>Council Response</b>	All of the routes proposed in the statutory consultation are considered by the Council to be safe for children travelling to school in the company of an adult. The factors which are taken into account in assessing safety include the nature of route, the width of carriageway, the presence of footpaths, the presence of lighting, the presence of crossing facilities, the existence of public bus service, wooded areas, subways and the extent of any crimes committed at school times. The database is hosted on a Geographical Information System (GIS) system using the latest ordinance survey mapping.
<b>Issue Raised</b>	The route along A199 (Milton Road East) is unsuitable for children to cycle and scoot and contravenes the safe routes to school policy due to: <ul style="list-style-type: none"> <li>• 40mph limit</li> <li>• fast traffic, no cycle lane and steep incline</li> <li>• significant number of side street junctions to cross</li> <li>• number and speed of HGVs on the route</li> <li>• busy entrance ways to Kings Manor Hotel and Edinburgh College</li> <li>• road used by two bus routes</li> </ul> A potential alternative route is the Brunstane Burn walkway.
<b>Council Response</b>	This route already meets the safe routes to school criteria and is a route which can be used by catchment pupils to get to Brunstane Primary

	<p>School, St John's RC Primary School or Portobello High School. As a consequence of feedback at some of the public meetings held during the statutory consultation process, Council officials agreed to walk this route with parents and children during the school run/rush hour period to record any opportunities to improve the route along Milton Road East to Brunstane Primary School. This walk was carried out on Friday, 19 June 2015 and several possible issues were recorded as requiring further investigation. During a subsequent site visit a Children and Families representative discussed all the improvement opportunities identified with an officer from the Council Roads Team and agreed potential improvement actions. Further details of the potential improvements are provided in Appendix 6 of this report.</p> <p>There is no lighting on the Brunstane Burn walkway so this would not be considered a safe route to school.</p>
<b>Issue Raised</b>	<p>The junction between Milton Road East/A1/Sir Harry Lauder Road is extremely busy at rush hour and not suitable for families with small children and buggies. There is a lack of good crossings from the Brunstane Road area across to the underpass. As a result, Option 3 gives the least disruption to the danger of crossing main, dangerous roads (namely Milton Road East).</p>
<b>Council Response</b>	<p>The provision of a new pedestrian and cycle crossing adjacent to where Brunstane Road meets Milton Road East is one of the potential improvements recommended to be implemented should the Council decide to approve an option which includes area D becoming part of Brunstane Primary School's catchment area. Further details are provided in Appendix 6.</p>
<b>Issue Raised</b>	<p>Crossing patrols should be put in place at different points along Milton Road East - would also benefit pupils going to the new high school.</p>
<b>Council Response</b>	<p>The requirement for crossing patrols is assessed by the Council's Road Safety Team and Children and Families will request that assessments are carried out for any new routes required as a result of the Council's final decision in relation to this statutory consultation.</p>
<b>Issue Raised</b>	<p>The underpass at the Milton Road East/A1/Sir Harry Lauder Road junction is poorly lit and dirty and can be a rather frightening/threatening place.</p>
<b>Council Response</b>	<p>The maintenance and repair of the underpass is carried out on a regular basis by the appropriate teams within the Council's Services for Communities directorate.</p>
<b>Issue Raised</b>	<p>There are only two or three buses along Milton Road East to Brunstane Primary School and there would still be a considerable walk through the underpass to get to school. Will there be any transport assistance put in place to help those families who may have children at different schools?</p>

<b>Council Response</b>	As all the proposed routes are less than two miles there would be no home to school transport assistance provided for any of the properties affected by any of the options in the statutory consultation paper.
<b>Issue Raised</b>	The Council must ensure there's something put in place to ensure safety, whichever option is chosen.
<b>Council Response</b>	A description of all the proposed routes to school is available on the <a href="#">Council website</a> and details of improvement measures suggested by Roads colleagues are provided in Appendix 6.
<b>Issue Raised</b>	In option 1, 2 and 3 could the priority for siblings be offered first to those in areas where the route to the proposed new school is considered to be the least safe?
<b>Council Response</b>	As is stated in the statutory consultation paper all of the proposed routes in every option have been checked and meet the criteria to be considered a safe route to school therefore there would be no need to prioritise places on this basis.
<b>Issue Raised</b>	Traffic is likely to increase even further with all the new houses at Brunstane Farm and in East Lothian and with the new high school. The Local Development Plan proposes an exit from new housing onto Milton Road East, next to cemetery.
<b>Council Response</b>	As part of the planning process for any new major housing site included in the Local Development Plan, a detailed Transportation Assessment would require to be completed. This assessment would analyse the impact of development traffic and propose appropriate mitigation measures for any detrimental impacts identified, including any which would impact on safe routes to existing schools.
<b>Issue Raised</b>	Disagree that there's too many busy roads on the way to Brunstane, as there are subways and crossings to use, and there are busy roads to cross on the way to Towerbank too - many parents accompany or even drive their kids to school at present so could drive to Brunstane too.  There are already areas within Brunstane Primary catchment that do have similar routes, streets such as Stanley Street, Christian Crescent, Brand Drive and surroundings already have to cross Milton Road to get to Brunstane Primary School. Daiches Brae, Brunstane Road South, Brunstane Banks and neighbouring streets also have to cross Milton Links in their route to school.
<b>Council Response</b>	As is stated in the statutory consultation paper all of the proposed routes in every option have been checked and meet the criteria to be considered a safe route to school.
<b>Issue Raised</b>	The walking distances to Duddingston Primary School are greatly increased. It is a 15 minute walk along very busy, heavily trafficked

	streets to reach Duddingston PS – this is not acceptable. This route is used by drivers as a local ‘rat run’ and there will be two major crossings to negotiate. It is not a 'safe route to school' because of the traffic speeds and volumes.
<b>Council Response</b>	The proposed route is considered a safe route to school.
<b>Issue Raised</b>	Older children won't be able to travel independently or with a group of friends.
<b>Council Response</b>	It is the responsibility of parents/guardians to ensure their children travel safely to school and this includes determining at what age they are able to make the journey by themselves or with friends.
<b>Issue Raised</b>	Car use will increase and add to parking and congestion problems around Duddingston Primary School.
<b>Council Response</b>	A pilot scheme to address congestion at six schools across the city of which Duddingston Primary School is one began on 22 September 2015 and residents of the streets affected will now need a permit if they want to drive in or out of the street while the restrictions are in place. Permits are free to residents. Further details are available on the <a href="#">Council website</a> .
<b>Issue Raised</b>	The route to Duddingston Primary is already traffic calmed and much safer or pupils could walk through the Figgate Park.
<b>Council Response</b>	There is no lighting in Figgate Park so the proposed safe route to Duddingston does not include this as an option.
<b>Issue Raised</b>	Planned building works (demolition of Portobello High and new St John's RC Primary) will introduce potential safety risks for children walking to school.
<b>Council Response</b>	Any of the works to be carried out in relation to the demolition of Portobello High School or the construction of the new St John's RC Primary School will be undertaken in accordance with all the necessary Health and Safety requirements. The Council has significant experience of delivering projects in live school environments and there will be no safety risks for pupils either walking to or from school or when attending school.
<b>Issue Raised</b>	Towerbank Primary School is close to area C and children can walk and cycle to school on their own or with friends - great for independence and the environment. Traffic controls around Portobello High Street adjacent to Portobello Town Hall and the cross roads are very good and very pedestrian friendly.
<b>Council</b>	The routes from area C to both Duddingston Primary School and

<b>Response</b>	Towerbank Primary School are considered safe routes to school.
<b>Issue Raised</b>	The promenade is a very safe route for kids and offers a great opportunity cycle or scooter to school. It is a well used, friendly and safe environment and encourages children to travel independently to school.
<b>Council Response</b>	The Council accepts that the promenade is one of the most segregated traffic free routes available throughout the city in terms of travel to school. However, all of the routes included in the options are considered to be safe routes to school and the accommodation pressure at Towerbank Primary School requires that proposals for catchment change have to be considered.
<b>Issue Raised</b>	A lot of the traffic at Portobello comes from people travelling the long distance from Joppa, if they went to Brunstane it would: <ul style="list-style-type: none"> <li>• Reduce car pollution and congestion along Portobello High Street</li> <li>• Reduce parking congestion around the centre of Portobello</li> <li>• Make Towerbank School pupils safer by reducing traffic around the school.</li> </ul>
<b>Council Response</b>	A reduction in the size of Towerbank's catchment area should reduce the number of children being driven to school and improve congestion in the town centre and beside the school. For all of the addresses proposed for transfer to Brunstane Primary School the new route to school is the same length or considerably shorter than the route to Towerbank Primary School.
<b>Issue Raised</b>	Traffic around Brunstane Primary School can already be very congested and this is likely to become a bigger problem.
<b>Council Response</b>	Brunstane Primary School will continue to promote its travel plan to all children and parents/guardians to ensure that, where possible and when practical, options other than the car are used for travel to school.
<b>Issue Raised</b>	Why change the existing policy of ensuring that children do not have to cross major roads to go to school?
<b>Council Response</b>	The Council does not have a policy of ensuring that children do not have to cross major roads to go to school and there are several examples across the city where children have to cross major routes and junctions to attend their catchment school.
<b>Issue Raised</b>	I understood that walking to school was a key objective in travel to school policies. The proposals will encourage more car use because the trip to school would be so much longer.
<b>Council Response</b>	The primary purpose of this statutory consultation is to ensure that sufficient accommodation is available in the long term for pupils in the primary schools within the Portobello High School Cluster area. Each of

	<p>the schools has a travel plan and one of the aims of the travel plans is to encourage walking to school. All routes proposed within this statutory consultation are considered suitable for walking to school and are less than two miles, the distance beyond which pupils would qualify for free home to school transport.</p>
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### Distance to School and Natural Communities

<b>Issue Raised</b>	<p>The areas described as D and E are significantly further away from Towerbank School than area C.</p> <p>The distance to the proposed receiving school for those living in Area C is greater than current arrangements unlike areas D and E which are either the same distance or closer to the new school.</p>
<b>Council Response</b>	<p>All the proposed routes vary in length with some being longer and others being shorter than the current routes to Towerbank Primary School. The important aspects are that all of the routes are considered to be safe routes to school and are less than two miles, the distance beyond which pupils would qualify for free home to school transport.</p>
<b>Issues Raised</b>	<p>Joppa will now be divided with some streets going to Brunstane and some going to Towerbank, this will have a direct impact on the community environment and also affect property prices.</p> <p>Eastfield residents live on the seafront the terrace is an extension of the promenade and is viewed as such by residents, walkers and tourists alike.</p> <p>Area C is right in the heart of Portobello and the children there have a right to attend their local primary school as this gives a sense of belonging in their local community.</p> <p>Pupils living in Brunstane Road should be split by the railway with the bottom half going to Towerbank and children living in the top half of the street moving to Brunstane.</p>
<b>Council Response</b>	<p>As is demonstrated by the range of opinions expressed above it is accepted that all of the options to a greater or lesser extent will transfer areas considered part of a distinct community to a different school catchment. However, the overarching aim of this statutory consultation is to alleviate the ongoing accommodation pressures being experienced at Towerbank Primary School and, while catchment review is never an easy option to undertake, it is considered in this situation to be the only viable solution. Consideration will also be given to how best to support families in transfer areas with younger children who will potentially be attending different schools from neighbours with children already attending Towerbank Primary School.</p>
<b>Issue</b>	<p>As Towerbank Primary school uses Brighton Park for their Sports Day,</p>



<b>Raised</b>	Brighton Place should stay in Towerbank Primary catchment area
<b>Council Response</b>	Many schools across the city use facilities outside their catchment area for sports activity and as such this is not a reason why a specific area should remain within the Towerbank Primary School catchment area.

### **Socio-economic and Educational issues**

<b>Issue Raised</b>	<p>Brunstane Primary School has poor catchment retention and is at an early stage in a change process. It is reasonable that parents express their concerns on these issues. The fact that only 50% of the Brunstane catchment chooses to go to its own school only highlights the need for improvements to the teaching methods and conditions. Money should be invested in Brunstane to improve its reputation so that it does not seem such a poor option for many parents. It would be better to make more use of schools, such as Duddingston, that parents do have confidence in and do chose to send their children to, schools that are hitting or improving attainment levels and have spaces for the children being displaced from Towerbank.</p>
<b>Council Response</b>	<p>If the school roll increases at Brunstane there will be a greater socio economic mix which will have a positive impact on attainment and achievement. The greater mix and larger number of children will also allow for more opportunities for active learning. There will also be a more diverse parent forum which will have a positive impact on the wider school community.</p> <p>The curriculum in all schools is designed to meet the needs of individual pupils through the commitment to Getting it Right for Every Child. Core programmes are similar in all schools and these are adapted to the appropriate level for each child and stage. For example, there are citywide maths and literacy programmes and with an increased roll at Brunstane the school will have better opportunities to group children with others at a similar level where they can benefit from peer support.</p> <p>All schools are challenged to constantly review and improve. Brunstane has recently become a pilot school for RAFA (Raising Attainment for All). Building on a base of personal learning plans, Brunstane has committed to developing more effective learning profiles for each of their children. The school is currently rolling out an iPads project which will see the current P6s trained to use iPads and all will have them in P7. The Council is confident that attainment levels will rise at Brunstane.</p> <p>Brunstane receives Positive Action Money due to the number of pupils who qualify for free school meals. Currently the school uses some of the money employing an acting Principal Teacher to lead on support for learning. The school is currently just below the level where funding becomes available for a Depute Head. If the catchment is changed and pupil numbers increase, a depute would be employed from the Devolved School Management budget which would allow more Positive Action</p>

	<p>Money available for resources for support for learning; this would also include support for more able pupils.</p> <p>Brunstane has also established a nurture group and benefits from having an identified nurture room. The school is very close to Edinburgh College and is developing project links with Edinburgh Young Workers who can gain experience in the school. The new Portobello High School will open in 2016 and its proximity to Brunstane will create new opportunities such as access to specialised facilities for the primary school which we would expect to inspire and challenge the primary pupils.</p> <p>Brunstane is also involved in a new Parent/School Partnership Project in addition to one other primary school and secondary school in the city.</p> <p>All of the options would increase the number of catchment pupils attending The Royal High Primary School and options 1, 3 and 4 would increase the number of catchment pupils attending Duddingston Primary School. This would have a consequential affect of more catchment pupils attending both Craigentenny Primary School and Brunstane Primary School.</p>
<b>Issue Raised</b>	<p>An up-to date report/assessment for Brunstane Primary School needs to be completed by Education Scotland (the last one was in 2007, eight yrs ago) and proper procedures put in place (not just the change of a Head Teacher) to give the students the support they need so it can be seen that the attainment levels are increasing before new children attend the school.</p>
<b>Council Response</b>	<p>The Council has no control over when Education Scotland will carry out an inspection at any specific school. However, as detailed in the statutory consultation paper the Children and Families Quality Improvement Officers carried out a follow up assessment of the school in 2009 which concluded: <i>“With support from the education authority, Brunstane Primary School provided a good standard of education for its pupils. The school had progressed very well since the inspection and had made the necessary improvements in light of the inspection findings. The current improvement plan had had a positive impact on the work of the school. The teamwork in the school provided a very good basis for continued improvement.”</i></p>
<b>Issue Raised</b>	<p>The Council should defer this change until attainment levels at Brunstane are comparable to Towerbank. Without bringing attainment level up first Brunstane will continue to be poorly attended.</p>
<b>Council Response</b>	<p>The timing of the statutory consultation is aligned to a Council decision being required in October 2015 before the pupil registration process for 2016/17 commences in November 2015. The steps being taken to improve attainment have been detailed in the answer above.</p>

## Fairness and residential property issues

<b>Issue Raised</b>	Many families have moved into the existing catchment area so that their children could attend Towerbank and to now have this option taken away from them is unfair. Unless the attainment levels for Brunstane are raised to match those of Towerbank it also seems unfair for families who have bought property in the area especially to be within the Towerbank catchment to be forced to go to another school with lower attainment levels.
<b>Council Response</b>	The issues raised during the consultation process about attainment levels at Brunstane Primary School have been fully addressed in the response provided in the previous section. It is appreciated that for some families the school catchment area is a significant consideration when buying property and, as was stated at all of the statutory consultation meetings, this is one of the reasons why it is recognised that catchment change is not an easy option for all involved. However, it is considered that all other options to address the ongoing accommodation problems at Towerbank Primary School have already been taken and that the options put forward in the consultation paper are the only feasible solutions to the current situation.
<b>Issue Raised</b>	Residential property value is deemed to be higher in the Towerbank Primary School catchment, any move out of catchment will have a major impact on house prices.
<b>Council Response</b>	The catchment changes are for educational reasons and (potential) variations in house prices are not a factor which the Council takes into consideration when assessing options for change.

## Future pupil numbers (including non-catchment pupils)

<b>Issue Raised</b>	What is the official capacity of Towerbank Primary School and what supporting accommodation is required for a school of its size?
<b>Council Response</b>	The Scottish Government published guidance on <a href="#">Determining Primary School Capacity</a> in October 2014 and the Council is in the process of assessing and, where appropriate, revising the capacity of each primary school in the Council estate in accordance with this guidance. The primary schools affected by the proposed catchment changes have been re-assessed according to the required classrooms and general purpose (GP) spaces specified in this guidance. For Towerbank the application of this guidance reduces the number of required GP spaces from five to four, thereby increasing the official capacity of the school to 22 classes. As well as the requirement for four GP spaces, a school of this size would ideally have a standard gym hall of 180m <sup>2</sup> or larger and a separate dining area.

<b>Issue Raised</b>	What will happen to those children in Towerbank Nursery who in future will not be in the school's catchment area?
<b>Council Response</b>	Those children will be expected to attend their catchment school unless a sibling guarantee is applicable. If the recommendation to progress with option 4 is approved then assistance with transition will be particularly important for families with children already attending Towerbank Primary School nursery who live in one of the transfer areas and where there are no elder siblings currently attending the school.
<b>Issue Raised</b>	Why are there no catchment areas for nurseries?
<b>Council Response</b>	There is no absolute requirement for children to attend nursery and the Council recognises that parents/guardians require flexibility in terms of the nursery options they are able to provide for their families. For these reasons it would be impracticable to set catchment areas for nursery provision.
<b>Issue Raised</b>	Duddingston Primary is full and the children would suffer if there were extra children from Towerbank. The school would have to remove a general purpose space to provide for an additional class and it already has a temporary unit providing two class spaces, which suggests it would not benefit from having an increased pupil intake. It is likely that the school's catchment area is experiencing the same demographic changes as those that have created the capacity problem for Towerbank, i.e. many families with young children moving into the area. This could render Options 1, 3 and 4 a short term fix, leading to further catchment changes and disruption to children and families in the near future.
<b>Council Response</b>	Currently Duddingston Primary School has a large number of children from outside its catchment area attending the school. If there were more catchment pupils, fewer placing requests would be granted and therefore numbers at the school would not change significantly. The latest projections suggest the school's capacity is sufficient to deal with any increased catchment numbers arising from any of the options within this statutory consultation or as a result of inward migration of families with young children into the area. Based on these projections the number of classes within the school will not need to increase and no GP space will be lost.
<b>Issue Raised</b>	It is questionable how many school places moving area C into the Duddingston catchment area would actually create at Towerbank.
<b>Council Response</b>	The statutory consultation paper estimates that over a full school cycle (seven years) 48 additional catchment pupils would be generated for Duddingston Primary School. This estimate is based on the number of pupils (no matter which school they attend) currently residing within the

	area. This is considered to be the best way of estimating the pupil generation as part of a catchment review and has been the method used in all recent catchment reviews undertaken by the Council.
<b>Issue Raised</b>	The Council cannot continue to approve planning applications for extra flats and houses in every part of Portobello without ensuring there are sufficient school places.
<b>Council Response</b>	Children and Families are consulted on any planning application which will potentially have an impact on education infrastructure across the city. If for any application it was considered that there was no feasible way of accommodating the pupils generated by a development then this would be stated in the consultation response. If appropriate a recommendation that the application should be refused on this basis would be made to the Planning Case Officer.
<b>Issue Raised</b>	Looking beyond the next few years, the Council needs to make a decision with long term sustainability that will optimally utilise all the schools in this area - giving them all an optimal number of pupils, and where possible giving them all enough leeway to accommodate fluctuations in pupil intake.
<b>Council Response</b>	Children and Families believe, based on all the latest data available, that all of the options in the statutory consultation paper are sustainable in the long term.
<b>Issue Raised</b>	Children who are currently at Towerbank Primary School and not in the catchment should be moved to their associated school, thus making room for kids who actually live in Portobello.
<b>Council Response</b>	Once a child, whether catchment or out of catchment, has been given a place within any particular school it is not established practice to remove the child from the school to alleviate capacity pressure at the school.
<b>Issue Raised</b>	The Authority should deal more robustly with fraudulent attempts to get children a place in popular schools.
<b>Council Response</b>	<p>The Children and Families Grant Awards and Placement Team have been working with the Council's Corporate Fraud since February 2015 to identify any such issues. This includes a check of the council tax records to see if the parent details match; if they do not then a home visit is arranged.</p> <p>To date across the city 192 checks have been carried out, there have been approximately 40 home visits and five places have been withdrawn as a result of these investigations.</p>
<b>Issue Raised</b>	The Royal High Primary School and Duddingston Primary School have high numbers of out of catchment pupils. The catchment areas for these schools should be reviewed.

<b>Council Response</b>	There is no need to review the catchment area as both schools have the capacity to accommodate their entire catchment populations even if these increase as a result of this statutory consultation.
<b>Issue Raised</b>	Even if there is capacity in the receiving schools there is currently a shortage of teachers and it will be difficult to recruit the required staff, either full time or on supply, required for the increase in pupils.
<b>Council Response</b>	The supply of teaching staff has been an issue in recent years across all of Scotland. The Council is currently proactively addressing this situation. In time the roll at Towerbank Primary School is expected to reduce and voluntary staff transfer to the other schools may be required.

## Education Scotland

### *Legislative Context*

- 3.15 The Schools (Consultation) (Scotland) Act 2010 as amended by the Children and Young People (Scotland) Act 2014 requires that the authority refer the proposals to Education Scotland so that they may prepare a report on the educational aspects. In producing their report, which is included in full in Appendix 5, Education Scotland considered the options set out in the statutory consultation paper as well as all of the full responses received during the public consultation period. Education Scotland also visited all the schools affected by the proposals and discussed the educational aspects with staff and pupils before producing their final report.
- 3.16 The conclusion of Education Scotland is that there is overall educational benefit to the proposal to reduce the size of the catchment area of Towerbank Primary School. It was noted in the report that parents, staff, children and young people at all the schools recognised the importance of addressing the over capacity at Towerbank Primary School and that Option 4 with the sibling guarantee had the most support.

### *Response to Education Scotland*

- 3.17 The Act requires that the Council's consultation report include 'a statement of the authority's response to Education Scotland's report'. The Education Scotland report identified two key issues for the Council to consider which are set out in the following table together with the Council's response.

<b>Issue Raised</b>	To ensure the benefit of the proposals are realised it will be important for senior managers and staff to continue to discuss possible arrangements with children and their parents as plans for the reduction of the catchment are developed.
<b>Council Response</b>	Following the decision by Council, Children and Families will ensure the decision taken is communicated to all parents/guardians at the affected schools. Children and Families will also ensure that, in the following

	years as any changes are implemented and take effect, every effort will be made to support pupils, parents/guardians and staff with the transition process. If the recommendation to progress with option 4 is approved then assistance with transition will be particularly important for families with children already attending Towerbank Primary School nursery who live in one of the transfer areas and where there are no elder siblings currently attending the school. Consideration will also be given to how best to support families in transfer areas with younger children who will potentially be attending different schools from neighbours with children already attending Towerbank Primary School.
<b>Issue Raised</b>	In its final consultation report the Council should ensure that concerns relating to safe routes to school are fully explored and addressed.
<b>Council Response</b>	The response to the issues raised about safe routes to school during the statutory consultation process are fully considered in Appendix 6 and improvements to routes to school form a key part of the recommendations of this report which will be implemented as required based on the Council's final decision.

## Conclusions

- 3.18 The two most frequently recurring issues put forward during the statutory consultation period by stakeholders were the implications for siblings if, as a result of catchment change, they had to attend different schools and the safety of the routes to schools involved in the proposed options.
- 3.19 In relation to the sibling issue the majority of responses received were in favour of option 4 which provides the sibling guarantee. Perhaps unsurprisingly a significant majority of respondents with children already at Towerbank and with younger siblings favoured this option. However, it was also the favoured option of those respondents with no younger siblings, those who only have pre-school aged children and residents with no children. As such, it is concluded there is considerable support within the wider community to proceed with option 4 and it is recommended this option should be progressed.
- 3.20 Option 4 involves the transfer of all the areas considered in the statutory consultation paper to the receiving schools and therefore all of the routes to schools identified in the consultation report will be utilised in the future. Whilst all these routes are considered to be safe routes to school, due to the strength of opinion expressed during the consultation period, further assessment has been carried out to identify further improvements that could be made. The outcome of this assessment is detailed in Appendix 6 and some specific improvements have been identified. It is recommended that if option 4 is approved then these improvements should be implemented wherever possible.
- 3.21 For ease of reference the details from the full consultation paper regarding the catchment implications of option 4 have been set out in appendices to this report as follows:

- (i) The parts of the existing Towerbank Primary School catchment which, under option 4, would transfer to different primary school catchment areas are shown in the map in Appendix 7.
- (ii) A list of addresses/properties (including all flats and subdivisions) which would be affected under option 4 is included in Appendix 8.
- (iii) Apart from Craigentenny Primary School the surrounding primary schools are all feeders for Portobello High School. The area proposed for change to the Craigentenny catchment under option 4 would also require to be changed from the Portobello High School catchment to the Leith Academy catchment but no pupils would be affected as the change is to simply rationalise the boundaries. The map in Appendix 9 shows the proposed secondary school catchment changes.

## Measures of success

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- 4.1 The reduction of catchment pupils numbers at Towerbank Primary School to a level where the school can operate efficiently within its available capacity.

## Financial impact

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- 5.1 The cost of implementing the proposed safe routes to school improvements is estimated to be £70,000. Opportunities for funding (e.g. Sustrans, safe routes to school or through the Neighbourhood Partnership) will be explored and any gap in funding would be met from existing Children and Families budgets.

## Risk, policy, compliance and governance impact

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- 6.1 The recommendations in this report do not impact on an existing policy of the Council and there are no health and safety, governance, compliance or regulatory implications that elected members need to take into account when reaching their decision.
- 6.2 The most significant risk associated with the recommendations made in this paper is that the measure of success is not achieved due to the expected reduction in catchment numbers for Towerbank Primary School not materialising. One of the main reasons why this would occur would be continued growth in the rate of migration into the area and/or new residential development within the remaining Towerbank catchment area which would generate additional pupils.
- 6.3 It has recently been brought to the attention of Children and Families that a Council owned site to the north of the catchment area (known locally as The Pitz) is to be marketed for sale. Should this site, or any other significant site within the remaining Towerbank Primary School catchment area, be brought forward for residential development in the future then Children and Families would be consulted as part of the planning process and would carry out an



assessment of the implications for education infrastructure based on the latest projections and other information available at that time.

## Equalities impact

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- 7.1 There are no negative equality or human rights impacts arising from this report.
- 7.2 The Council will continue to ensure that the needs of pupils who have a disability are met by the accommodation available at the schools affected by these proposals or, where catchment changes are proposed, appropriate alternative accommodation. The provision of facilities offered to school users with learning and behavioural support needs will be unaffected.
- 7.3 Accordingly, these proposals have no significant impact on any equalities groups and provide greater opportunities for catchment pupils to attend their catchment school. For these reasons, the overall equalities relevance score is 1 (out of a possible 9) and a full Equalities Impact Assessment is not required.

## Sustainability impact

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- 8.1 The recommendations in this report may result in some social, environmental and economic implications. However, it is considered that the mitigation and transition support measures identified in this report will address concerns raised during the statutory consultation related to siblings and safe travel to school.
- 8.2 The main economic implication would be not providing sufficient places in schools to allow for the delivery of a quality education and the consequential affect this could have on attracting investment into the city. As the primary purpose of the consultation is to address accommodation issues this helps to ensure education infrastructure is sufficient to support the economic growth of the city.

## Consultation and engagement

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- 9.1 This statutory consultation process has been undertaken according to the procedures set out in the Schools (Consultation) (Scotland) Act 2010 as amended by the Children and Young People (Scotland) Act 2014.

## Background reading/external references

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Report to the Education, Children and Families Committee on [3 March 2015](#).

### **Gillian Tee**

Executive Director of Communities and Families

Contact: Billy MacIntyre, Head of Resources, Children and Families

E-mail: [billy.macintyre@edinburgh.gov.uk](mailto:billy.macintyre@edinburgh.gov.uk) | Tel: 0131 469 3366

## Links

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<b>Coalition pledges</b>	P04 - Draw up a long-term strategic plan to tackle both over-crowding and under use in schools
<b>Council outcomes</b>	CO1- Our children have the best start in life, are able to make and sustain relationships and are ready to succeed. CO2 - Our children and young people are successful learners, confident individuals and responsible citizens making a positive contribution to their communities.
<b>Single Outcome Agreement</b>	SO3 - Edinburgh's children and young people enjoy their childhood and fulfil their potential
<b>Appendices</b>	1- Summary of the Statutory Consultation Paper 2 - Records of the Statutory Consultation Public Meetings 3 - Summary of Consultation Responses Received 4 - Pupil and Staff Consultation 5 - Education Scotland Report 6 - Safe Routes to Schools 7 - Proposed School Catchments under Option 4 8 - List of Affected Addresses Under Option 4 9 - Existing and Proposed Secondary School Catchment Areas

## **Appendix 1 – Summary of the Statutory Consultation Paper**

### **Consultation on Options for Proposed Changes to the Catchment Area of Towerbank Primary School - Summary Paper**

#### **Why do we need to change these catchment areas?**

The number of school age children living in Portobello and Joppa has increased significantly over the last ten years. As a result, in the longer term it is expected that the local primary school, Towerbank, will not be able to accommodate all the pupils in its catchment area. Therefore, this statutory consultation considers options to make the Towerbank Primary School catchment area smaller so that fewer children live in it.

If we reduce the number of children starting Primary 1 at Towerbank by around 14 every year, we can:

- bring the school back towards an annual P1 intake of 90 pupils
- reduce the school roll by nearly 100 pupils over seven years
- run the school as a three stream (21 class) primary in the long term

#### **What options are being considered?**

There are four options being considered as part of this consultation and the areas proposed for transfer in each option are outlined in the attached maps. A list of addresses affected by each option is also attached.

#### **How would the changes affect other local schools?**

Brunstane, Duddingston and The Royal High Primary Schools would have larger catchment areas with more families living in them. While the overall size of the Portobello catchment area would reduce, pupil numbers would stay the same as the receiving primary schools are all feeder schools in its cluster.

The catchment areas of Craigentenny Primary School and Leith Academy would be bigger if the stretch of industrial land (Area A on the attached option maps) next to Seafield Road (where the bus garage and car showrooms are) is moved as shown. The change will simplify local catchment boundaries for the long term. It is a good time to make the change as there are no pupils living here, so no families are affected.

#### **What about younger brothers and sisters of current Towerbank pupils?**

*Options 1, 2 and 3:* Priority placing would apply for 7 years, until start of term 2022.

Siblings will have priority on any spare places that are available in Towerbank Primary School (once catchment needs are met) if the family can show that they:

- lived at an affected address when the change was approved
- had a child in P1 to P7 on the day that the new catchment area took effect
- continue to live at an affected address when the younger child starts P1

- have a child in P2 to P7 at Towerbank on the day the younger child starts P1

*Option 4:* a guaranteed place will be available in Towerbank Primary School for any younger siblings born on or before the date of a decision to change the catchment area is taken by the Council, if the family can show that they:

- lived at an affected address when the change was approved
- had a child in P1 to P7 on the day that the new catchment area took effect
- continue to live at an affected address when the younger child starts P1
- have a child in P2 to P7 at Towerbank on the day the younger child starts P1

This special provision would place siblings who meet the criteria ahead of requests from children living outside the realigned areas. Once sibling priority/guarantee places have been applied, then normal Council policy would apply for out of catchment placing requests.

### **Why do more houses have to transfer in option 4?**

This is to provide the scope for the sibling guarantee and ensure there are places available for the extra pupils to be retained in the Towerbank catchment in this option. A larger area of the existing Towerbank catchment requires to be transferred to the receiving schools so that space is created for the siblings at Towerbank.

### **When would the changes come into effect?**

If any catchment changes are approved by the Council it is proposed that the changes would take immediate effect. This means that the placing procedures for Primary 1 pupils for the start of the 2016/17 school session would be conducted on the basis of the new catchment areas. The Council are expected to take their decision on Thursday 22 October 2015 before the Primary 1 registration process starts in November 2015.

### **The consultation process**

All comments made during the statutory consultation period will be recorded and represented in a final Outcomes of the Consultation report that we expect to be considered by Council on Thursday 22 October 2015. This report must be published three weeks in advance of the Council meeting so will be available by 1 October 2015.

### **Why are we consulting?**

The different options put forward will have different impacts on families. We want to hear the views of anyone affected by the proposals. There is also a legal obligation to carry out a statutory consultation under the Schools (Consultation) (Scotland) Act 2010 as amended by the Children and Young People (Scotland) Act 2014.

### **Why are Craigentiny Primary and Leith Academy being consulted when no Towerbank or Portobello High School pupils will actually move there?**

Even though no current pupils are affected this could change in the future. The Council is legally obliged to tell both schools and parents or carers about the possible changes. They need to have the opportunity to find out more and give us their views.

## How can I find out more about the proposals or make my views heard?

This paper outlines the different options. If you want more information you can find the full consultation paper, along with background reports, maps, address lists and other supporting information, on our website at [www.edinburgh.gov.uk/towerbankconsultation](http://www.edinburgh.gov.uk/towerbankconsultation).

We have also organised four public meetings, as below.

<b>Date</b>	<b>Venue</b>	<b>Time</b>
Thursday, 21 May	Towerbank Primary School	6.30 – 8.30pm
Monday, 25 May	Brunstane Primary School	6.00 – 8.00pm
Monday, 1 June	Duddingston Primary School	6.30 – 8.30pm
Wednesday, 3 June	The Royal High Primary School	6.30 – 8.30pm

Each meeting will open with a short presentation about the proposed options for catchment change, followed by a question and answer session. Council Officers will take a note of each meeting and all of the points raised will be captured in the final Outcomes of the Consultation report. You can attend any meeting that suits you. Please telephone (0131) 469 3161 by Friday 15 May if you need translation services or childcare at a meeting.

### **Tell us your views: public consultation period closes 22 June 2015**

It would be helpful if you could take time to complete our short survey – you can find it easily online at [www.edinburgh.gov.uk/towerbankconsultation](http://www.edinburgh.gov.uk/towerbankconsultation). If you don't have internet access then you can pick up a copy at your school or in Portobello Library.

You can also email comments to us directly at [cf.propertyreview@edinburgh.gov.uk](mailto:cf.propertyreview@edinburgh.gov.uk) or if you prefer they can be posted to:

Gillian Tee  
Director of Children and Families  
City of Edinburgh Council  
Council Headquarters  
Waverley Court (Level 1:2)  
4 East Market Street  
Edinburgh  
EH8 8BG.

All comments require to be received by 22 June 2015.

### Record of Meeting

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#### **Options for the Proposed Changes to the Catchment Area of Towerbank Primary School**

#### **Public Consultation Meeting held at 6.30 pm, Thursday, 21 May 2015, Towerbank Primary School, Edinburgh**

**Present:** Approximately 40 members of the public

**In Attendance:** Tom Wood (Independent Chair), Councillor Paul Godzik (Convener of the Education, Children and Families Committee), Billy MacIntyre (Head of Resources, Children and Families), Crawford McGhie (Asset Planning Manager, Children and Families), Janice MacInnes (Quality Improvement Officer, Children and Families) Therese Laing (Quality Improvement Officer, Children and Families), Joyce Gilmour (Head Teacher, Towerbank Primary School), Kevin Brack (Head Teacher, Brunstane Primary School), Karen Morris (Head Teacher, Duddingston Primary School) and Laura Millar (Committee Services)

#### **1. Introduction**

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Tom Wood introduced himself and advised that he had been invited by the City of Edinburgh Council as an independent person to chair the public consultation meeting. The consultation was based on the options for proposed changes to the catchment area of Towerbank Primary School.

The Schools (Consultation) (Scotland) Act 2010 required the Council to conduct a public consultation ahead of a report on the proposals being submitted to Education Scotland for consideration in September 2015. The public consultation would provide an opportunity for people to express their views and feed directly into the process..

Reassurance was given that no decision had been made in terms of proposed changes to the catchment area of Towerbank Primary School, and the consultation process would encompass the views of parents and the public to ensure that the final report to Council would reflect these views. A final decision would be taken by elected members at the meeting of the full Council on 22 October 2015, when a report, including the results of the consultation, would be considered.

Billy MacIntyre (Head of Resources, Children and Families) also provided reassurance that no decision had yet been made and, although officers were presenting four options, all views and suggestions were welcomed. All questions and statements would be listened to and included in the report to be considered by elected members when making the final decision about the catchment area of Towerbank Primary School.

#### **2. Presentation**

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Crawford McGhie (Asset Planning Manager, Children and Families) delivered a presentation that provided background information on the reasons behind the

requirement to change the catchment area, the informal public consultation process, the four proposed options and the overall benefits offered to the area through changing the catchment area.

### **Requirement for Change**

There had been a significant increase in the number of school age children living in the area over the past decade. As a result of these rising rolls, Towerbank Primary had been extended to create a 22 class organisation with any further development on the constrained 0.8 hectare site considered to be detrimental. As pupil numbers were expected to keep increasing, the school was no longer able to accommodate all the children living in the catchment area.

It was considered that high catchment numbers would be best addressed by altering the catchment area to reduce the number of catchment pupils attending the school in future years. The Education, Children and Families Committee considered a report on *Primary School Rising Estate Rolls* on 3 March 2015. The Committee agreed to delegate authority to the Director of Children and Families to develop a statutory consultation paper on the proposed changes to catchment area boundaries, and also undertake, in advance of the Statutory Consultation, an informal consultation process to identify any alternative options.

### **Informal Consultation**

The informal consultation process involved information being circulated to all parents and stakeholders with an invitation to comment and workshops were held at all of the affected schools. There was a general acceptance at the workshops that change was required to the current catchment area boundaries.

As a result of alternative options identified in the informal consultation process, two further catchment change options were included.

### **Benefits**

The benefits of a change in the catchment area were explained. Each of the four options would result in a more even distribution of pupils across the schools in the area. The receiving schools had the capacity and facilities to ensure that there would be no detrimental effect on the quality of education provided.

All the receiving schools were in line with or above the city average for attainment levels aside from Brunstane which was currently slightly below. The movement of pupils from the Towerbank catchment area would allow a more diverse socio-economic mix in receiving schools presenting the opportunity to raise attainment levels for all.

None of the options presented affected the catchment area for secondary education as all the schools affected were feeder schools for Portobello High School.

## **3. The Proposal**

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Crawford McGhie explained the four options identified by Children and Families. He outlined the differences within each option and provided estimates of how many catchment pupils would be affected within each different area. Option 4 was highlighted

as the only option which offered a sibling guarantee where any younger siblings of those already attending Towerbank Primary, born before the time of any Council decision on catchment area change, would be guaranteed a place in Towerbank Primary.

## 4. Questions and Comments

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### Routes to School

**Question 1** – The routes to receiving schools being categorised as safe, amiable and appealing is offensive. Councillors and Council Officials are invited to walk the routes categorised as safe with young children in rush hour. What is deemed as safe and by whom?

**Answer** – (Crawford McGhie) Children and Families staff would be happy to walk the routes and have partially done so already. Children and Families hold a database of all the routes to school across the city. They are categorised by criteria including surfaces, junctions, traffic lights, lighting etc.

(Billy MacIntyre) The database is also used when calculating if children are entitled to free home to school transport. It plots the safest route from home to school and determines if this is safe and under the 2 mile limit for primary school children.

**Statement** – There are currently no roads to cross between home and school allowing my child to cycle in safely every day. A change in the catchment area would mean this is no longer possible and will discourage cycling.

**Question 2** – I look at databases as part of my job and believe the Council need to be more pragmatic about this. No other school has as many busy roads and junctions in the area i.e. A1, City Bypass and road to Musselburgh.

**Answer** – (Billy MacIntyre) The Department believe the routes to school are safe in terms of surfaces, crossings etc. The question of whether any other schools have as many busy junctions and major roads in the immediate area will be examined and an answer provided in the final report.

**Statement** – The junctions surrounding Brunstane Road are extremely busy. My family have relocated from one end of the street to the other to get into catchment area for Towerbank Primary, any change will result in the children having to attend another school. I strongly support option four as the sibling guarantee is the only right thing to do.

**Question 3** – How old is the safe routes to school database and the 2 mile radius measurement?

**Answer** – (Billy MacIntyre) Scottish Government legislation determines that a primary school child who lives further than two miles from their catchment school is entitled to free transport. This becomes a three mile radius for children over the age of eight, however, the City of Edinburgh Council policy has maintained the radius limit at 2 miles for all primary pupils.



The question on how up to date the safe routes to school data is will be examined and an answer provided in the final report.

**Question 4** – Will there be any investment in the route to Brunstane Primary and surrounding area i.e. crossings or the underpass?

**Answer** – (Crawford McGhie) The underpass is classified as safe with children currently using it as a safe route to school.

**Question 5** – Will there be any transport assistance put in place to help those who have to get children to different schools if option four is not chosen?

**Answer** – (Billy MacIntyre) No transport assistance will be provided, however various options can be examined to assist parents transporting children to different schools such as breakfast clubs, staggered start and finish times etc. An off-site annex was created for South Morningside Primary and transport assistance was not provided for affected parents.

**Question 6** – If option four is not chosen, could siblings attending receiving schools with the most dangerous routes to school be prioritised?

**Answer** – (Billy MacIntyre) The Council do not consider any of the routes to the receiving schools to be dangerous. The option to prioritise siblings on less safe routes will be examined and included in the final report.

**Question 7** – It was previously agreed that Council officials would walk the routes deemed safe by the database; can you take a young child on this walk to see the difficulties and dangers this will cause?

**Answer** – (Crawford McGhie) Officials will walk the routes deemed safe by the database and identify any additional safety measures required but will not be able to bring a young child.

**Question 8** – The volume of traffic will increase in the area if the Brunstane farmland is developed into housing, has this been taken into consideration?

**Answer** – (Billy MacIntyre) This would be a matter for the planning section to negotiate with any potential developer to put in mitigating measures to reduce the impact on transport.

### **Receiving Schools**

**Question 1** – How will Brunstane be made suitable for more children?

**Answer** – (Billy MacIntyre) Brunstane Primary School has the capacity for 420 children with a roll of 190. It also benefits from good playgrounds and community programmes. From an asset management point of view; there is no work necessary at Brunstane Primary.

(Kevin Brack, Head Teacher, Brunstane Primary School) Parents are welcome to take a tour of the school and ask any questions they wish. Brunstane Primary is very fortunate in that they have spare classrooms with a roll well under the actual capacity.

It is also important to keep in mind that, while the grounds and outskirts are of importance, it is the learning that takes place within which takes precedence. The school is entitled to additional funding due to a high number of children receiving free school meals; this money is used for teachers and ICT equipment.

**Question 2** – Why are only 52% of the catchment area children attending Brunstane Primary School?

**Answer** – (Crawford McGhie) There has been a large number of children opting to go to Duddingston Primary rather than Brunstane Primary which accounts for the lower school roll.

(Councillor Godzik) It is important to remember that parents have the biggest impact on the education of their child.

#### **Sibling Guarantee – Option 4**

**Question 1** – When is the cut off date for catchment change and what is the sibling guarantee?

**Answer** – (Billy MacIntyre) The sibling guarantee was added to the suite of options as a result of strong feeling during the informal consultation. There is no preferred option or recommendation from the Council; the Children and Families Department wish to do what is most beneficial for Towerbank. The timeline for the sibling guarantee is siblings born before 22 October 2015; living in the area, with siblings currently in the school would get a guaranteed place. Under options 1, 2 and 3, there is no sibling guarantee, they would be entitled to sibling priority on the schools waiting list, however, this is not a guarantee of a place.

**Statement** – I'm pleased at the addition of option 4 in the suite of options as this proves the Council are listening to the wishes of parents. Many have purchased property in the area specifically based on catchment area. The sibling guarantee is the right thing to do logistically and emotionally.

**Question 2** – My family have moved house specifically to get into the catchment area with one child already attending Towerbank and another due to start in August 2016. The elder child had stated that they would move school to remain with their sibling. I'm pleased at the addition of option 4 as it is fair, however I am concerned that a guarantee was not previously considered. How many out of catchment places will there be and what is the number of siblings that will be seeking a place?

**Answer** – (Crawford McGhie) The number of out of catchment area appeals change annually so I can't predict how many there will be in the future.

**Question 3** – I am living in Brunstane Road with children already attending Towerbank and can only agree that option 4 is the best solution. The Children and Families objectives include giving children the best start in life, options one to three do not take into account the impact of splitting families. What are Ms Gilmour's thoughts on the sibling guarantee?

**Answer** – (Joyce Gilmour, Head Teacher, Towerbank Primary School) In agreement that option four which includes the sibling guarantee is the only fair option.

**Question 4** – How many out of catchment children are in the school currently?

**Answer** – (Crawford McGhie) Children that are out of catchment before any changes are put into place will not be entitled to the sibling guarantee. There are currently 68 out of catchment children in Towerbank which equates to approximately 10% of the school.

**Question 5** – I am supportive of option four as it is the fairest. How does waiting list prioritisation work?

**Answer** – (Billy MacIntyre) Waiting list prioritisation is based on distance from home to school, those living further away will have a lower priority level.

**Statement** – I am strongly in favour of option four with separating siblings putting the children's mental health at risk.

**Question 6** – How many children would be granted a place at Towerbank with the sibling guarantee?

**Answer** – (Billy MacIntyre) There are 27 children that would be granted a place in Towerbank that the Department are aware of. This number does not include children who have recently moved into the catchment area or those who attend private nurseries.

### **Other Options**

**Question 1** – Catchment area review is the easy option, not the last resort. What documentation do you have to prove that building extension etc is not a viable option?

**Answer** – (Councillor Godzik) The Department have the available funding so would extend if it were a viable option; catchment change is the last resort.

(Billy MacIntyre) The Scottish Government recommend a site of 1.9 hectares for a single stream school. Towerbank is bursting at the seams, building extra classes would be detrimental to the general purpose space, playground etc. It is not recommended to spilt a school over various sites as this would be detrimental to pupils.

**Question 2** – At the informal consultation workshops, no other options were presented. Where is the report which proves that catchment area review is the only option?

**Answer** – (Billy MacIntyre) The report went to the Education, Children and Families Committee on 3 March 2015. If there are any alternatives to catchment review, please include these in the consultation response.

(Councillor Godzik) Towerbank has already had two extensions, allowing more children places on the constrained site would be detrimental to the education of the whole school.

**Question 3** – Changing the catchment area seems to be rubber-stamped without full consideration to other options?

**Answer** – (Billy MacIntyre) The report presented to the Education, Children and Families Committee did include options which were discounted for good reason.

According to Scottish Government recommendations, a double stream school and nursery should be on a site of 1.9 hectares. Towerbank Primary is already a triple stream school and a 40/40 nursery on a 0.8 hectare site. More children cannot be placed in Towerbank Primary on this constrained site.

**Question 4** – Is catchment change a last resort?

**Answer** – (Billy MacIntyre) Changing the catchment area of a school is a last resort and the decision to do so is not taken lightly. After analysis of the area, changing the catchment emerged as the logical option.

(Councillor Godzik) The Department are not forcing a specific option, there is an opportunity to amend or have additional alternatives considered.

(Billy MacIntyre) Without the consultation process, there would be only one option. This allows the community to feedback to elected members so they can make an informed choice.

**Question 5** – When did consultation on catchment change begin?

**Answer** – (Billy MacIntyre) Projections for school rolls are updated annually in January. These figures went to the Education, Children and Families Committee on 3 March 2015 where it was identified that Towerbank Primary could not cope with the volume of catchment area children. The Committee therefore agreed to begin consultation on proposed catchment area changes for Towerbank Primary.

**Statement** – There has not been enough forward planning, the Department should have known in advance that the catchment roll would rise out with the schools capacity.

### **Towerbank Nursery**

**Question 1** – Can the nursery be moved to another location?

**Answer** – (Billy MacIntyre) The Department do not encourage splitting the nursery from the parent school but you are welcome to express this idea as part of the consultation. A catchment area review was viewed as the only option and was the focus of the informal consultation.

**Question 2**– The nursery was moved onto the Towerbank Primary site a number of years ago, why was this allowed on a constrained and already busy site?

**Answer** – (Joyce Gilmour) The school pushed to move the nursery on site. It is better for both teachers and children to be integrated with the primary school in terms of learning and organisational logistics. The extension of eight rooms has made an excellent difference to the school but has only provided classroom space with no additional general purpose areas. Currently, the school has one hall used as both a dining hall and gym which requires strict organisation.

**Question 3** – What will happen to those children in Towerbank Nursery who now cannot get a place in the primary school?

**Answer** – (Billy MacIntyre) As there is no catchment area limits on nurseries, there will be no impact on provision.

**Question 4** – It was stated previously that the nursery was integrated with the school for educational reasons – why are there no catchment areas for nurseries?

**Answer** – (Billy MacIntyre) There is no direct correlation between nursery and primary in terms of catchment area.

### **Decision Making**

**Question 1** – Clarification was sought on the decision making process that the catchment area review will follow and what the final report would contain? Pleased with the addition of option 4 with the sibling guarantee as separating siblings would be heart-breaking.

**Answer** – (Billy MacIntyre) The sibling guarantee was considered but was not in the original paper; it was added as a result of strong feeling during the informal consultation stage.

The process to be followed will be:

- 1) Comments will be collected through the consultation process. Feedback both positive and negative is requested for all options.
- 2) Consultation responses will be collated and sent to Education Scotland for analysis.
- 3) The final report will be drafted containing: responses to all the issues and questions raised by parents, an analysis report from Education Scotland, consultation feedback and an officers recommendation of a suitable option. Other options may be added following consultation feedback.
- 4) The final decision sits with elected members of the Council on 22 October 2015. They may go against the officer recommendation

As this report involves Education Scotland, it will be published on 1 October 2015, 3 weeks in advance of the meeting of the Council instead of the standard 6 days.

**Question 2** – How will the elected members make the decision?

**Answer** – (Billy MacIntyre) Officers are happy with all four options as they all achieve the desired outcome. After statutory consultation, all responses will be assimilated into a report which officers will use to gain a better depth of understanding. A recommendation will be put forward based on community and professional opinion along with all other options. Councillors will then debate this and come to a decision.

(Councillor Godzik) The report will be made available 3 weeks prior to the full Council meeting, the individual political groups will discuss this and decide to either accept the recommendation in the report or make an alternative suggestion.

### **Towerbank Primary School Site**

**Question 1** – What is the size of the playground at Towerbank and how does this compare with other schools in Edinburgh? It would be a fairer comparison to measure against other Edinburgh schools rather than the whole of Scotland.

**Answer** – (Billy MacIntyre) The playground size is calculated by head count of pupils. Towerbank is high in the list for little space compared with pupil numbers.

**Question 2** – The temporary unit on site should have another extension, is there any possibility to build upwards? Why are temporary units not counted as capacity? What is the size of the Council owned land next to the School?

**Answer** – (Councillor Godzik) The Department cannot simply keep adding to the school on the constrained site without impacting on education.

The question on the Council owned site next to the school will be examined and an answer provided in the final report.

**Statement** – Towerbank is the second largest school in Edinburgh with an average sized playground. Nine years ago, this was a double stream school but now is triple stream with more families moving into the area.

The Parent Council fought for the nursery to be brought on site and for the extension of the current building. The school is now at capacity as a triple stream school, co-ordinating a shared dining and gym hall is difficult.

It was thought the roll would peak but it has continued to rise therefore the question of catchment area change can no longer wait. As a member of the Parent Council and as someone who worked in the education sector as an architect, separation of the school and nursery is not viable; catchment review is the only option.

**Question 3** – Being a large school isn't a bad thing so long as it is managed correctly. Why can't temporary units be made permanent or built upwards?

**Answer** – (Billy MacIntyre) Large schools are not a bad thing, however, large rolls on small sites are problematic.

(Crawford McGhie) Schools are entitled to general purpose space; Towerbank cannot take any more pupils and maintain this with 23 classrooms required in 2014/15.

**Question 4** – What are the educational benefits of general purpose space?

**Answer** – (Janice McInnes) General purpose space is important space with no desks used for IT, drama, and music.

(Joyce Gilmour) The school used to have a library which was lost to classroom space and the IT suite will be lost to classroom space this year. The temporary units are used for breakfast and after-school clubs, music and timetabled for classes as well as for storage and additional support groups.

**Question 5** – Why could several classes not be created by building a second floor on top of the current dining/gym hall?

**Answer** – (Billy MacIntyre) More accommodation would be the easy option for the school, however, taking the roll up to 700 children in a constrained site such as Towerbank would be detrimental for the education of pupils.

## 5. Conclusion

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Tom Wood thanked everyone for their contributions and summarised the evening discussions into the following main points:

- 1) Routes to school - Are they really safe and is the Council's database to determine the safety of a route accurate and up to date?
- 2) Have other options been fully examined?
- 3) Overwhelming support for option four and the inclusion of a sibling guarantee allowing family unity.

Billy MacIntyre, in concluding the meeting, thanked the audience for the questions and points made this evening. These would be recorded and addressed in the final report to be submitted to Council in October 2015 for a final decision. It was appreciated that this was not a pleasant situation but the Children and Families Department believed that changing that catchment area was the best option.

Councillor Godzik added that the scale of this issue is recognised and all issues raised were heard and would be examined. If development had been a viable option, it would have been identified for consideration.

## Record of Meeting

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### Options for the Proposed Changes to the Catchment Area of Towerbank Primary School

#### Public Consultation Meeting held at 6.00 pm, Monday, 25 May 2015, Brunstane Primary School, Edinburgh

**Present:** Approximately 40 members of the public

**In Attendance:** Tom Wood (Independent Chair), Billy MacIntyre (Head of Resources, Children and Families), Crawford McGhie (Asset Planning Manager, Children and Families), Therese Laing (Quality Improvement Officer, Children and Families), Stuart Mclean (Committee Services) and Alison Clyne (Committee Services).

### 1. Introduction

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Mr Tom Wood introduced himself and advised that he had been invited by the City of Edinburgh Council as an independent person to chair the public consultation meeting. The consultation was based on the options for proposed changes to the catchment area of Towerbank Primary School.

The Schools (Consultation) (Scotland) Act 2010 required the Council to conduct a public consultation ahead of a report on the proposals being submitted to Education Scotland for consideration in September 2015. The public consultation would provide an opportunity for people to express their views and feed directly into the consultation process.

Reassurance was given that no decision had been made in terms of proposed changes to the catchment area of Towerbank Primary School, and the consultation process would encompass the views of parents and the public to ensure that the final report to Council would reflect these views. A final decision would be taken by elected members at the meeting of the full Council on 22 October 2015 when a report including the results of the consultation would be considered.

Billy MacIntyre (Head of Resources) also provided reassurance that no decision had yet been made and, although officers were presenting four options, all views and suggestions were welcomed. All questions and statements would be listened to and included in the report to be considered by elected members when making the final decision about the catchment area of Towerbank Primary School.

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Crawford McGhie (Asset Planning Manager, Children and Families) delivered a presentation that provided background information on the reasons behind the requirement to change the catchment area, the informal public consultation process, the four proposed options and the overall benefits offered to the area through changing the catchment area.



## **Requirement for Change**

There had been a significant increase in the number of school age children living in the area over the past decade. As a result of these rising rolls, Towerbank Primary had been extended to create a 22 class organisation with any further development on the constrained 0.8 hectare site considered to be detrimental. As pupil numbers were expected to keep increasing, the school was no longer able to accommodate all the children living in the catchment area.

It was considered that high catchment numbers would be best addressed by altering the catchment area to reduce the number of catchment pupils attending the school in future years. The Education, Children and Families Committee considered a report *Primary School Estate Rising Rolls* on 3 March 2015. The Committee agreed to delegate authority to the Director of Children and Families to develop a statutory consultation paper on proposed changes to catchment area boundaries, and also undertake, in advance of the Statutory Consultation, an informal consultation process to identify any alternative options for the school.

## **Informal Consultation**

The informal consultation process involved information being circulated to all parents and stakeholders with an invitation to comment and workshops were held at all of the affected schools. There was a general acceptance at the workshops that change was required to the current catchment area boundaries.

As a result of alternative options identified in the informal consultation process, two further catchment change options were included.

## **Benefits**

The benefits of a change in the catchment area were explained. Each of the four options would result in a more even distribution of pupils across the schools in the area. The receiving schools had the capacity and facilities to ensure that there would be no detrimental effect on the quality of education provided.

All the receiving schools were in line with or above the city average for attainment levels aside from Brunstane which was currently slightly below. The movement of pupils from the Towerbank catchment area would allow a more diverse socio-economic mix in receiving schools presenting the opportunity to raise attainment levels for all.

None of the options presented affected the catchment area for secondary education; as all the schools affected were feeder schools for Portobello High School.

## **3. The Proposal**

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Crawford McGhie explained the four options identified by Children and Families. He outlined the differences within each option and provided estimates of how many catchment pupils would be affected within each different area. Option 4 was highlighted as the only option which offered a sibling guarantee where younger siblings of those already attending Towerbank Primary, born before the time of any Council decision on catchment area change, would be guaranteed a place in Towerbank Primary.

## 4. Questions and Comments

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### Future developments

**Question 1** – It has been suggested that a development at Brunstane Farm could lead to over two thousand additional houses being built. What impact would this have on congestion, pollution and the City of Edinburgh policy on safe routes to school?

**Answer 1** – (Crawford McGhie) I understand that the proposed site is contained within the Local Development Plan (LDP). The LDP is expected to be approved in April 2016, although this in itself does not guarantee a development on the site. Any development would be considered on its merits with full assessments, including transport, being undertaken. There would also be significant mitigating factors that would have to be implemented to cope with the rise in traffic.

**Question 2** – If the development at Brunstane Farm is approved will there be a further catchment review, to deal with the inevitable influx of families?

**Answer 2** – (Crawford McGhie) The educational infrastructural appraisal associated with the LDP suggests that the entire area proposed for development would generate enough pupils for an entirely new double stream school, therefore the housing development would become the catchment for that new school. Any new school would require a statutory consultation to determine its catchment.

(Billy MacIntyre) Part of the statutory consultation regarding any new school at Brunstane Farm would include consideration of safe routes to that school.

**Question 3** – I would like to thank you for Option 4 (sibling guarantee), is it possible you will have to consider the catchment boundaries should the migration into Portobello continue?

**Answer 3** – (Billy MacIntyre) We don't think so. We have been cautious in over estimating the numbers involved but we also have to ensure that we leave some flexibility. There is no restriction on any other good ideas, if you can identify any further options please feed these back to us.

**Question 4** – The population of Edinburgh has increased considerably over a significant period of time, what has the Council done to address the impact of an increasing population?

**Answer 4** – (Billy MacIntyre) There has been an increase in birth rates and a definite change in demographics within Edinburgh over recent years, we review this annually to try and identify where there may be some catchment/capacity pressures. Last year we felt that it could maybe happen but the numbers didn't suggest at that point that it was necessary but we are now at that crunch point. The situation regarding Towerbank is unique.

It is a complex issue, drawing out the likely numbers involved. The fact of the matter is that intra catchment movement in Edinburgh is higher than most other Local Authorities and this is a further challenge. There is also a higher number of private nurseries in Edinburgh which makes it difficult to establish a projected number of school places

required as we don't know the number of children involved. The methodologies involved in pulling together the likely school roll are not exact and are averaged out over 3 years.

On a level of complexity the challenge we are faced with at Towerbank is probably the most complex.

**Question 5** – The development at Milton Road East has passed through stage 1 of the planning process. Do you not think it is silly to rush this decision should you not wait until the planning process has been completed?

**Answer 5** – (Billy MacIntyre) Education infrastructure is being taken into consideration during the planning process. Children and Families are a statutory consultee during the planning process and if we feel the capacity is not there to meet the demands of the development then we will report this to the Planning Committee. It is never a foregone conclusion that this or any other planning application will be granted. Any concerns we had about this development would be reported to the relevant authority.

### **(Safe) Routes to School**

**Question 1** – At a previous meeting concerns were raised regarding children walking to and from school. Walking to school should be encouraged, however the policy is not practical due to the threat posed by traffic.

**Answer 1** – (Billy MacIntyre) The City of Edinburgh Council Officers have made a commitment to walk the proposed route, considered to be safe, which would be used by children to travel to and from school.

**Question 2** – I appreciate that officers have committed to walking the route to school. Can I ask that in doing so that they do it with a buggy, a toddler, a child, shopping and they should also walk it during rush hour and in poor weather conditions? You must also take into consideration that parents share the responsibility for ensuring each other's children reach school safely, this is the reality that we are facing.

**Answer 2** – (Billy MacIntyre) Officers are committed to walking the route. The Council has a repository/database of safe routes to schools and takes into consideration various elements, including lighting and surfaces. We do consider the routes to be safe, however if during the walk any further safety measures are felt to be necessary we will look at the possibility of introducing them.

**Statement** – Thank you for agreeing to walk that route, but I would say that looking at it on paper to actually walking it is very different.

**Question 3** – What cognisance is given to people who run red lights, particular in rush hour?

**Answer 3** – (Crawford McGhie) Officers will take this into consideration. The Children and Families safe routes are based on the presence of certain physical attributes. We will walk the route at a time when children could be walking to school.

**Question 4** – If you add any level of volume to a safe route to school you add risk. Does your data reflect buses and other vehicles that use the area? Does the Council have a back up for those families that will be forced to move school?

**Answer 4** – (Billy MacIntyre) We have established a model of safe routes that is mindful of traffic. If any measures that would be sensible to introduce are identified we will consider introducing them.

**Question 5** – My child will simply refuse to cross the Milton link due to the level of traffic?

**Answer 5** – (Billy MacIntyre) Depending on what option is adopted you could consider submitting a Placing in School request.

**Statement (Tom Wood)** The issue around safety echoes feelings at Towerbank, as does the impact on siblings and educational standards. The concerns raised around road safety were that it looks good on paper but what does it look like on the ground. Officers have agreed to walk the routes to ensure that they were safe, not just in theory but in practice.

**Question 6** – Safe routes to school, I appreciate it is a hard job but how do you strike a balance between safety and the impact any changes to the catchment will have on families. How do you make that choice?

**Answer 6** – (Billy MacIntyre) We are not basing the decision on safety as all options are considered safe. Four options have been developed but none are deemed preferred at this time. The purpose of this consultation is to determine what the community thinks is best for them. We as officers have no idea what that option might be.

We appreciate that once the consultation finishes it will be a challenge to identify a preferred option. We will draw the positives and negatives from each option and put forward what we think is the best solution for the community also factoring in educational considerations and what the majority view was.

**Statement (Tom Wood)** – The feelings at these public meetings weighs heavily on Councillors.

**Question 7** – We will need to agree to differ on safety, but it doesn't seem as if you are listening to our concerns regarding safety?

**Answer 7** – (Billy MacIntyre) We believe that the routes to and from all schools are safe. We have pledged to walk the routes. The experts have made the judgment they are safe. Any comments that are received regarding safety we have an obligation to report to the Councillors who will make the final decision.

The report outlining the responses received during the consultation will be published 3 weeks in advance of the Council meeting. You will then have an opportunity to make a deputation to Councillors at that meeting before they make the final decision.

**Statement (Parent)** I would like to reassure those parents that may bring their children to Brunstane in future that there is a group of parents that travel via Milton Road East

and that this is considered to be a very safe route. As a parent it is easy to say but please don't worry. My son cycles on Milton Road East and he is in Primary 2, my son does not walk.

**Statement** (Tom Wood) We have talked a lot about Option 4, but Option 3 was developed to address concerns people had about crossing the junction.

**Question 8** – I have concerns about road safety, if the catchment areas were redrawn my street is not specifically in the Brunstane Primary School catchment area, consequently my child would be expected to cross a busy road.

**Answer 8** – (Billy MacIntyre) Catchment change is the last resort. Catchment review is not good for any of the parties involved, including the Council and children. The routes to Towerbank and other schools within the locality use similar routes which we consider to be safe.

### **Logistical Arrangements**

**Question 1** – How do you propose parents manage the logistics of ensuring their children reach school on time, should they be separated? There has been some suggestions regarding a walking school bus, somebody suggested bringing our youngest into school 30 minutes late every day and breakfast clubs.

**Statement** (Tom Wood) In terms of the question could we maybe expand upon what the sibling guarantee is?

**Answer 1** – (Billy MacIntyre) Under Option 4, if a family live within an area proposed for transfer and the younger child has an elder sibling still at Towerbank yet they were considered under the new catchment rules, meaning they should go to an alternative school, they would not need to go to the alternative school and could go to Towerbank. Under the other 3 options this guarantee would not apply and it would be a sibling priority scheme.

We recognise that this is an emotive process and as such we introduced Option 4. On the back of the information gathered, during the informal consultation process, we believe that we are responding to what the community has said by introducing option 4.

**Statement** (Tom Wood) I am led to believe that this is the first time that the City of Edinburgh Council has offered a sibling guarantee.

(Crawford McGhie) In terms of the logistics, the sibling priority does cover some of the concerns raised, option 4 ensures that siblings won't be split up and this has never happened before.

Clearly there is no guarantee as to which option will go forward. School transport may help, but I appreciate that travel distance may not permit this; I also understand that all schools under review have breakfast clubs.

The summary papers do address some of the logistical concerns raised. The sibling guarantee in Option 4 would mean parents would be under no further pressure to transport siblings to 2 separate sites.

(Billy MacIntyre) Depending on what option is to be adopted, whether it involves sibling guarantee or sibling priority we will work with the school communities and parents to try and mitigate as far as possible the concerns regarding drop off and pick up times.

(Therese Laing) There are options open to schools to mitigate some of these concerns, for example they could work together, in clusters, to ensure that start times are sufficiently varied to allow parents to get each of their children in on time.

The City of Edinburgh Council is committed to working with each school affected to try and mitigate any logistical problems that may arise.

**Statement** (Tom Wood) Should option 4 be accepted the issue of travel logistics is a moot point. At previous meetings concerns were raised around the practicalities associated with Options 1, 2 and 3.

### **Attainment & Transition**

**Question 1** – How does increasing the population of a class room impact on the quality of teaching and attainment levels? Will extra resources be available to meet the increase in class sizes?

**Answer 1** – (Therese Laing) Attainment is not based on tests but on individual attainment. It is important to recognise that attainment at Brunstane Primary School is better than comparator schools.

Attainment is often based on socio-economic factors rather than class sizes, while attainment at P1-4 is within national levels.

We will be putting measures into place at Brunstane Primary School at P1-4 that will feed into the senior year.

As a consequence of an increase in enrolment numbers Brunstane Primary School would also be able to access positive action money. There is also potential that should the school roll increase the school will likely be allocated a Deputy Head post.

**Statement** (Head Teacher) It is the school's responsibility to ensure that children reach their full potential. Regarding attainment levels we were very pleased to have been included in a national programme of raising attainment.

**Question 2** – I am very supportive of Option 4 and am concerned for my child's welfare if it is not adopted. What conversations have you had with colleagues regarding Curriculum for Excellence and child welfare. The separation of siblings could impact on their welfare and flies in the face of 'Getting it Right for Every Child'?

**Answer 2** – (Therese Laing) We recognise how important siblings are and are confident that all staff are trained in 'Getting it Right for Every Child'. All four Head Teachers involved will work together to ensure smooth progression/transition.

As part of the consultation we are dedicated to speaking to children to allow us to tease out some of the issues they are likely to face including those that have younger siblings. The outcome of these discussions will be fed back to Councillors to allow them to make an informed decision.

**Statement** - The sibling guarantee would make the transition so much easier.

**Question 3** - Have changes to catchment in the past had any impact on siblings?

**Answer 3** – (Billy MacIntyre) I don't have this information to hand. The school estate is being stretched; we don't have the flexibility to meet the increasing demand. There has also been an increase in the number of catchment requests over the last few years which has further exacerbated the situation, the scope for such requests to be accommodated will be reduced in future.

**Statement** – Dividing families is not the answer.

**Answer 3** – (Therese Laing) We agree which is why Option 4 has been included. Transition is important, which is evidenced by the time we spend addressing it within schools. We have full confidence that all four Head Teachers that this catchment review will impact upon will work together to ensure a smooth transition for all pupils.

A lot of work regarding transition is taken forward beginning at the transition from nursery to P1. There is a great deal of collaborative working between the various nurseries, due in part to the fact that nurseries are not tied to a catchment area.

**Question 4** – Having a child go to a different nursery than their sibling(s) is not the same as saying they are not going to the same school. They may have the perception that they are being rejected. What is the psychological impact on a 5 year old facing this scenario? Has this been discussed with an educational psychologist?

**Statement** – I am strongly in favour of Option four, as I feel that separating siblings puts the children's mental health at risk. Children want to go to school with people that they have grown up with; changing this could create a lot of issues.

**Answer 4** – (Billy MacIntyre) This hasn't been looked at specifically and I am not sure what previous research has been done regarding this. But this will be included in the final report to Council.

(Therese Laing) Part of Curriculum for Excellence is taking into consideration the health and well being of the child, this will be taken into consideration when the child is at school but parents have to take the responsibility for this when the child is at home.

We will examine how best to ensure the emotional and psychological impacts any of the changes may have on the children are mitigated.

### **Developing the 4 Options**

**Question 1** – Do you fully understand the impact those coming into the school will have?

**Answer 1** – (Crawford McGhie) The number we have estimated is based on birth rates, and those leaving the area and those coming into the area.

**Statement** – These are important figures, you should know for sure.

**Answer 1** – (Billy MacIntyre) We don't have a complete source for that data. Nothing is that specific.

**Statement** – Your job is to know these figures.

**Answer 1** – (Billy MacIntyre) We need to future proof any decision that is made which is why the figures we have used are conservative.

**Question 2** – Would the Council consider applying the sibling guarantee to all children?

**Answer 2** – (Billy MacIntyre) No, Option 4 already includes a significant increase in the catchment and is not something we would consider. If the sibling guarantee could have been incorporated into Options 1-3 there would have been no need for Option 4.

**Question 3** – Did you have 27 spaces when you increased the streets for Option 4?

**Answer 3** – (Billy MacIntyre) Yes, there are potentially other siblings that we don't know about. As part of the statutory consultation we will be speaking to nurseries to get a better handle on the likely number of siblings. This could be considered being overly cautious but we don't want to be back here in 2 years.

We anticipate that if families move out of the catchment area they are likely to be replaced by families of a similar size and demographic, leaving the status-quo.

### **Other Questions**

**Question 1** – Is it too late to have a further option added that would redraw the boundaries further?

**Answer 1** – (Billy MacIntyre) The 4 Options that have been developed have been developed by a team that have taken numerous variables into consideration and on the back of the informal consultation.

To ensure you get the correct numbers within each of the options is a challenging and complex task. This does not mean that further options would not be considered. We would encourage anybody with any ideas to submit it in writing and/or electronically.

(Crawford McGhie) Any revision to the 4 Options or further options would also involve having to examine the capacity at the receiving schools. We are happy to take any feedback.

**Question 2** – Cllr Godzik has told parents they should accept their catchment school and not put in out of catchment requests. As I parent I took that advice. I am now being told that my youngest child may not be offered a place at their catchment school. Consequently I have lost confidence in the Council. What should we say to families going to their catchment school?

**Answer 2** – (Billy MacIntyre) We would always encourage parents to go to their catchment school. The position we find ourselves in is exceptional. The population has increased within the area and we have been forced to look at the catchment area.

There have been 25 schools up to August 2015 that we have had to look at regarding pressures of rising school rolls. At the 25 we have been able to deliver additional accommodation or adapted the existing school buildings to make sure we didn't have to change the catchment boundaries.



Regrettably at Towerbank the constraints on the site mean that it is not physically possible to increase the capacity to meet the anticipated catchment numbers; the growth at Towerbank has exceeded expectations.

The catchment, for all schools, must be sustainable, with this in mind we don't want to have to go through this process every few years. By undertaking this process in the manner in which we are we are giving you and future parents security over the school your children will attend.

**Question 3** – Towerbank is not the only school to find themselves in this situation. Various Parent Councils have warned the Council that this very situation would arise years ago, but the Council has done nothing, until now.

**Answer 3** – (Crawford McGhie) – We appreciate the sentiment. We have been proactive in trying to identify as soon as possible when problems such as this will arise.

**Question 4** – My older child is at Brunstane Primary School, just outside the catchment. If people were to move into the area would they get that place?

**Answer 4** – (Crawford McGhie) Normal placement rules would then apply.

**Question 5** – What about those parents that are happy to go with the flow?

**Answer 5** – (Crawford McGhie) We have assessed the number of pupils with siblings, we have estimated 27 but there are likely to be more whom we have not identified.

## 5. Conclusion

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Tom Wood thanked everyone for their contributions and summarised the evening discussions into the following main points:

- 1) Routes to school - Are they really safe and is the Council's database to determine the safety of a route accurate and up to date?
- 2) The health and psychological well being of the children must be taken into consideration.
- 3) Overwhelming support for Option 4 and the inclusion of a sibling guarantee.

Billy MacIntyre, in concluding the meeting, thanked the audience for the questions and points made this evening. These would be recorded and addressed in the final report to be submitted to Council in October 2015 for a final decision. It was appreciated that this was not a pleasant situation but the Children and Families Department believed that changing the catchment area was the best option.

Billy added that the scale of this issue is recognised and all issues raised were heard and would be examined. If development had been a viable option, it would have been identified.

## Record of Meeting

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### Options for the Proposed Changes to the Catchment Area of Towerbank Primary School

#### Public Consultation Meeting held at 6.30 pm, Monday, 1 June 2015, Duddingston Primary School, Edinburgh

**Present:** Approximately 30 members of the public

**In Attendance:** Tom Wood (Independent Chair), Councillor Cathy Fullerton (Vice Convener of the Education, Children and Families Committee), Billy MacIntyre (Head of Resources, Children and Families), Crawford McGhie (Asset Planning Manager, Children and Families), Therese Laing (Quality Improvement Officer, Children and Families), Aileen Mclean (Senior Education Manager, Early Years, Children and Families), Kevin Brack (Head Teacher, Brunstane Primary School), Karen Morris (Head Teacher, Duddingston Primary School) and Blair Ritchie (Committee Services).

### 1. Introduction

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Mr Tom Wood introduced himself and advised that he had been invited by the City of Edinburgh Council as an independent person to chair the public consultation meeting. The consultation was based on the options for proposed changes to the catchment area of Towerbank Primary School. Mr Wood would ensure that everyone present would be allowed to ask questions and get responses. This was the third of four consultation meetings.

The Schools (Consultation Scotland) Act 2010 required the Council to conduct a public consultation ahead of a report on the proposals going to Education Scotland for consideration in September 2015. The public consultation would provide people with the opportunity to express their views and feed directly into the consultation process.

Mr Tom Wood welcomed everyone to the meeting. He explained the procedure for the meeting, whereby there would be a short presentation after which the parents would have the opportunity to ask questions. There were four options regarding which the Council had expressed no preference. The consultation process would encompass the views of parents and the public to ensure that the final decision would reflect these views. A decision would be taken by elected members at the meeting of the full Council on 22 October 2015. The decision would be based on a report that incorporated all the views expressed by parents and the public.

Billy MacIntyre (Head of Resources) indicated that this was a catchment review. This was a difficult process, rising rolls was a significant issue which the Council had already identified and will need to address. There were no opportunities for further accommodation; therefore to have a catchment review was the only option. For this, a consultation was required. All questions and statements would be considered and included in the report to be considered by elected members when making the final decision about the catchment area of Towerbank Primary School.

## 2. Presentation

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Crawford McGhie (Asset Planning Manager) delivered a presentation that provided some background information on the reasons behind the requirement to change the catchment area, the informal public consultation process, detailing the four proposed options and the overall benefits offered to the area through changing the catchment area.

### **Requirement for Change**

There was significant increase in the number of school age children living in the area over the past decade. As a result of these rising rolls, Towerbank Primary was extended to create a 22 class organisation with any further development on the constrained 0.8 hectare site considered to be detrimental. As pupil numbers were expected to keep increasing, the school was no longer able to accommodate all the children living in the catchment area.

It was considered that high catchment numbers would be best addressed by altering the catchment area to reduce the number of catchment pupils registering to attend the school in future years. The Education, Children and Families Committee considered the report *Primary School Rising Rolls* on 3 March 2015. The Committee agreed to delegate authority to the Director of Children and Families to develop a statutory consultation paper on the proposed changes to the catchment area boundaries and also undertake, in advance of the Statutory Consultation, an informal consultation process to identify any alternative options.

### **Informal Consultation**

The informal consultation process involved information being circulated to all parents and stakeholders with an invitation for comment and workshops held at all of the affected schools. There was a general acceptance at the workshops that change was required to the current catchment area boundaries.

As a result of alternatives identified in the informal consultation process, a further two catchment change options were included.

### **Benefits**

Crawford explained some of the benefits a change in the catchment area would allow. Each of the four options would result in a more even distribution of pupils across the schools in the area. The receiving schools have the capacity and the facilities to ensure that there would be no detrimental effect on the quality of education provided.

All the receiving schools were in line with or above the city average for attainment levels aside from Brunstane which was currently slightly below. The movement of pupils from the Towerbank catchment area would allow a more diverse socio-economic mix in receiving schools presenting the opportunity to raise attainment levels for all.

None of the options presented affect the catchment area for secondary education; all the schools discussed were feeder schools for Portobello High.

### 3. The Proposal

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Crawford McGhie explained the four options identified by Children and Families. He outlined the differences within each and provided estimates of how many pupils would be affected within each different area. Option 4 was highlighted as the only option which offered the sibling guarantee where younger siblings of those already attending Towerbank Primary, born before the time of any Council decision on catchment area change, would be guaranteed a place in Towerbank Primary.

### 4. Questions and Comments

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#### **Sibling Guarantee**

**Question 1** – A parent indicated that they had two children in Towerbank Primary School, however one of their daughters would not be able to go there. The Authority had stated that there would be priority for siblings, but there seemed to be no guarantee of places. It was proposed to change the catchment and split this between two schools, however there was no precedent for providing sibling guarantee. The Authority should ensure the well being of families and take steps to ensure that they were kept together. This should be taken forward into the review.

**Answer** – (Billy MacIntyre) The Authority does not want to break up families, but wants what is best for all communities. Guaranteed places for younger siblings does not in one situation create a precedent and each case would be examined according to individual circumstances.

**Question 2** – Some of the options for the proposed school catchments were an unusual mix of boundaries as they seem to set geography against value. Therefore, option 4 was the best choice.

**Answer** – (Billy MacIntyre) The Authority was considering different areas and trying to provide choices. They were also factoring in safe routes to schools and trying to maximise choice for the community.

**Question 3** – A parent indicated that they lived in Brunstane Road and had a child attending Towerbank, therefore, option 4 was best for them. But why was there no sibling guarantee given at the beginning of the process and why had a guarantee not been included in options 1, 2 and 3? They had also been told that the Authority did not know how many families would be affected.

**Answer** – (Billy MacIntyre) Option 4 was based on taking a far larger part of the area out of the existing catchment, which made it different from the other options. To provide sibling guarantee, it was necessary to take more children out of the catchment, therefore, it was not possible to provide sibling guarantee for each option as the area to be moved would have had to be considerably larger.

(Crawford McGhie) There were priority places for siblings in Options 1, 2 and 3. The Authority had worked with the schools and had carried out a survey to establish the numbers and this had been cross-referenced with birth data. However, this left a gap

with people who had moved into the area, where there were no children at the school nursery or children attended private nurseries.

**Question 4** – A parent challenged the figure given by the Authority of 27 sibling children going to Towerbank. The intake for this school had been raised by 18 and figures had been minimised. The Authority should be more concerned with providing safe routes to schools. It seemed that the sibling guarantee was blackmailing the parents to choose option 4. They did not want children travelling up this road in future as this would be putting them at risk.

**Supplementary Question** – A parent indicated that they had looked at the figures. The Authority was asking them to send their son to Duddingston, which was a considerable distance. Had the Authority reflected on this?

**Answer** – (Billy MacIntyre) This was not blackmail, but more a case of creating a balance. Options 1, 2 and 3 had their merits, but only option 4 provided sibling guarantee, which was not blackmail. The Authority had provided other options and invited those in the local community to state their preference. It is necessary to find a way forward for the proposed changes of the catchment area at Towerbank. At the end of the process the Authority would consider the feedback and the elected members would make a decision.

(Crawford McGhie) Regarding the distances for school routes, Area C had been measured from its midpoint as shown in the statutory consultation paper. The area was included by looking at the geography and deciding how this related to the catchment area and school routes.

(Billy MacIntyre) - In respect of the four options, there had been alternative options suggested at the other meetings. The Authority would be happy to consider these, but they would still have to achieve the same objectives.

**Question 5** – A parent stated that their house was at the top of Brunstane Road. Their son was going to Towerbank and they had an infant daughter who they also wanted to go there. They would support option 3, but did not think that it was fair for everyone, therefore, they supported option 4.

Why was option 4 not included from the start of the public consultation? It was difficult to believe that this is not an option in other parts of the City.

**Answer** – (Billy MacIntyre) This was a good question, which the Authority had considered. There were factors which had to be considered for option 4 and sibling guarantee has some risk attached to it. There was informal consultation before the formal process began. As a result of the alternatives identified in the informal consultation, a further two catchment change options were identified.

**Question 6** – A parent thought that, in respect of the informal consultation process, their views were being considered. They believed that Towerbank Primary School was different from Duddingston Primary School. However, it was difficult to understand why there was not strong feeling at Towerbank.

**Answer** – (Billy MacIntyre) The Authority had received feedback through the neighbourhood consultation process, and further consultation was being carried out, Crawford McGhie being involved with working groups. This was a time consuming process, but it was beneficial and would be repeated if necessary in any future process which may be required elsewhere in the city.

### **Road Safety**

**Question 1** – The Authority had advised that all routes were safe, but what were their criteria for this assessment? Was this based on the number of cars or were they factoring in more houses?

**Answer** - (Crawford McGhie) For any proposed development, the developers have to go through the planning process. The developer would have to have figures for the number of potential cars. If housing development were to take place which would impact on schools, then road safety would have to be considered.

The Department of Children and Families was an official consultee and if they thought that the development had implications for the local schools this would be factored into the planning process. The Authority took its responsibilities seriously.

**Question 2** – A parent from Eastfield indicated that in Portobello and Joppa, there was strong support in the community for option 4. In fact, people who are not directly affected by the catchment review, supported option 4.

**Answer** – (Billy MacIntyre) He would encourage people to respond directly and provide feedback, using methods such as questionnaires.

**Question 3** – A retired Head Teacher indicated that he approved of option 4. He understood that the officials needed to give a response and that the elected members had political considerations. No one here seemed to be against option 4, therefore, had there been any opposition to this option? At Eastfield, his grandchildren attended the nursery and it seemed that one of the proposals might mean that they will have to cross nine roads. It was difficult to justify that crossing nine roads was safer than four roads.

**Answer** – (Councillor Fullerton) No-one was opposing option 4.

(Billy MacIntyre) There had been no messages expressing opposition to option 4 which had been submitted at this point in the consultation process. He then explained the process for analysing information received from the community.

**Question 4** – A parent stated that they did not oppose option 4, but wanted to comment on how the Authority engaged with people. Most people did not know about the consultation and there was a lack of communication. To resolve this, the Authority should put information through every householder's door.

**Answer** – (Billy MacIntyre) The Authority had not carried out a leaflet drop as it was expensive and was not guaranteed to reach every household. They had written to community councils and other groups in the community and had put notices in libraries

and supermarkets. They had also produced additional posters and would circulate them in private nurseries. As previously stated, they were happy to accept new ideas.

**Comment** – A parent advised that their daughter attended P1 and they had a child who would also be attending the school. Option 4 was advantageous for her own children, but not for everyone. There were no safe routes to school and an increase in the amount of pedestrians would mean an increase in risk. There had been a fatal accident in this area. As Council officials made the decisions, they should strongly consider if it was not a bad idea for children to be running onto busy roads. The route for Option 4 was not safe for the other families.

**Question 5** – The Authority should clamp down on families who were out of catchment and were trying to get into the school, using dubious methods.

**Answer** – (Billy MacIntyre) If parents with non-catchment children were abusing the system, the Council had robust procedures to counter this.

A parent indicated that they agreed with this to an extent, however, the school roll was rising as the population was increasing.

**Answer** – (Billy MacIntyre) The projected intake of pupils was in excess of the accommodation that was available.

(Aileen MacLean) Parents had a legal right to apply for out of catchment places however, parents who moved into an area had to provide evidence of address.

(Billy MacIntyre) The Authority is aware that any proposals should have safe routes. There was an established process and criteria which would be applied, however other factors had to be considered, such as the quality of surface crossing. Officers would walk the route to Brunstane and if added safety measures were required, these would be considered.

**Question 7** – Regarding out of catchment requests, a parent indicated that they would not want their children to walk from their homes to Brunstane. After the officials had carried out their walk, they should think carefully about safety implications.

**Question 8** – A parent stated that they were nearly hit by a car, near the junction at the top of Brunstane Road, which illustrated that this was not a safe route. The officials should stand at the top of Brunstane at peak times to observe the busy traffic.

Speed limits of 20 mph could be implemented and extra crossings could be installed. What safety measures and what ideas did the Authority have?

**Answer** – (Billy MacIntyre) Officials would walk the route and consider any suggested improvements and the roads Authority would then need to consider these. The Authority would welcome suggestions from members of the public, they could then make recommendations, and these would be put to the elected members for consideration if appropriate.

**Question 9** – What was the extent of the 20 mph limits?

**Answer** – (Billy MacIntyre) There were proposals to change speed limits on parts of Milton Road at certain times, however I don't have that detail to hand.

(Councillor Fullerton) – Once the roads authority checked out the roads and if they were found to be unsafe, then they would be changed. There were many roads being considered for 20 mph speed limits.

**Question 10** – Officials should also walk to Duddingston to compare the two routes.

**Answer** – (Billy MacIntyre) Officials would do this.

### **Siblings at Different Schools**

**Question 1** – Siblings being at different schools made it difficult for families to be involved in the activities of schools.

**Answer** – (Theresa Laing) The school would hope to make it easy for the transition and the Head Teachers would work with the parents. Many parents liked to be involved with schools, however it was understood that it was difficult to be fully involved if their children were in two different schools.

(Karen Morris) She had a vision for the school. The schools had to be thoughtful and plan carefully for events and parents' evenings and ensure that they did not clash. Additionally, there were health and wellbeing aspects to consider and how this would affect children.

(Kevin Brack) The schools would engage with parents. Additionally, the schools also had a responsibility to educate children about road safety.

(Billy MacIntyre) This was a good point. Edinburgh was unique in terms of the very high level of intra catchment movement. There was the impact of rising rolls and siblings were displaced from catchment schools, because their older siblings were sent to non-catchment schools.

**Question 2** – Was the Authority not forcing families to split up?

**Answer** – (Billy MacIntyre) This was a different issue and would be addressed.

**Question 3** – At a previous meeting, they had asked about the logistics of taking children to different schools. What then was the view of the Head Teachers on having children arriving at different times?

**Answer** – (Crawford McGhie) South Morningside Primary School had staggered starting times, but this was in two different buildings. At previous meetings it was suggested a possibility would be different schools having different starting times.

(Billy MacIntyre) Circumstances were different in South Morningside as there were different buildings. The Authority would try to mitigate any difficulties.

**Question 4** – If option 4 was not chosen, how could the Authority choose which children should be prioritised?

**Answer** – (Billy MacIntyre) Priority would be given to children who fell within the category. Regarding options 1-3, there was the removal of catchment population, so that the intake was regularised. If spaces were to become available, then those closest to the school would have priority. For example, if there were two spaces available in P1 and three children, the two spaces would be given to those closest to the school.



## **Allocation of Spaces**

**Question 1** – What information was there on siblings and was this cross referenced with different areas?

**Answer** – (Crawford McGhie) The Authority had addresses and postcodes available, which allowed them to compile the information.

(Billy MacIntyre) The process of allocation was not a precise science. The Authority was building in flexibility to allow sibling guarantee.

**Question 2** – A parent indicated that they had built a house 300 yards from their old house, within the catchment area. If people purchased properties within the catchment, to get access to a school, was this acceptable?

**Answer** – (Billy MacIntyre) He himself had bought a house to be in a catchment area and would not like to be in the position of being the subject of a catchment review. The catchment population had grown extensively and it was necessary to identify the solution and get the best decision. The Authority was committed to this.

**Question 3** – Did your answer support option 4 and being the best and fairest option?

**Answer** – (Crawford McGhie) There were four options in the Consultation and the Council has no preferred option. Although the City of Edinburgh Council's catchment placement policy was perhaps not perfect, it was more comprehensive than that of other local authorities.

**Question 3** – A parent indicated that this was their first house. Considering that there was substantial building work taking place, would this consultation process not be repeated in a few years time?

**Answer** – (Crawford McGhie) During the planning stage of development, the projected number of pupils would be taken into account.

(Billy MacIntyre) The proposed development at Gilmerton Dykes Road would only generate 13 pupils. Additionally, the Development Management Sub-Committee had rejected this application. For proposed developments, the Education Authority would put forward their views and point out the implications.

**Question 4** – What would happen once a school was at capacity?

**Answer** – (Billy MacIntyre) This would only affect the new intake of pupils. The Authority would not remove any current children from the school who were out of catchment.

**Comment** – A parent invited the panel and Head Teachers to an exhibition in the Tide Cafe at 4.00 pm to 5.00 pm on Friday 5 June. This showed photographs of families which highlighted the bonds between children.

**Question 5** – How many extra children could be accommodated at Duddingston Primary School?

**Answer** – (Crawford McGhie) The current catchment population was 283, the school roll was 384 and of this, 226 were catchment and 158 were out of catchment children.

The biggest out of catchment number came from Brunstane. The school capacity is 427 so a greater number of catchment pupils could be accommodated.

**Question 6** – There was a fifth option, which was to take Brunstane area out of the equation altogether.

**Answer** – (Crawford McGhie) This could be considered by the Authority.

### **Towerbank**

**Comment** – A parent said that they understood why parents with children at Towerbank would not support option 4, if there was no absolute guarantee of places for younger siblings at Towerbank. Therefore, Option 4 was divisive for communities. Many people have had to move to other schools.

**Comment** – A parent indicated that they did support the guarantee for siblings in Option 4, however, this option was not beneficial for the entire community.

**Comment** – They had a child, with a younger sibling and would like them to go to Towerbank. Option 1 was more advantageous for them, but they supported option 4 because they thought that sibling guarantee was important.

**Comment** – The Authority should consider road safety very seriously. Families were greatly affected by young people being killed. Officers should take several trips to these busy roads and observe the traffic.

## **5. Conclusion**

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Councillor Fullerton thanked everyone for coming to the meeting and emphasised that their comments would be noted and considered.

Billy MacIntyre agreed with Councillor Fullerton. He indicated that this was not an easy process, however, he provided reassurance that the Authority was listening to parents. The Authority was happy to consider all suggestions, especially in respect of road safety, and all other comments and suggestions for the review, which would be included in the report.

Tom Wood thanked everyone for their contributions, the school for their hospitality, and summarised the evening's discussions into the following main points:

- 1) Safety was a big issue for parents. The Authority had taken this into account and officers would walk the school routes which had been highlighted, to see if there were any further improvements which could be made.
- 2) There was strong feeling that it was important to keep families together.
- 3) There was strong support for option four which allowed younger siblings guaranteed places

Members of the public had until 22 June 2015 to send their contributions.

## Record of Meeting

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### Options for the Proposed Changes to the Catchment Area of Towerbank Primary School

#### Public Consultation Meeting held at 6.30 pm, Wednesday, 3 June 2015, The Royal High Primary School, Edinburgh

**Present:** Approximately 20 members of the public

**In Attendance:** Tom Wood (Independent Chair), Councillor Paul Godzik (Convener of the Education, Children and Families Committee), Billy MacIntyre (Head of Resources, Children and Families), Crawford McGhie (Asset Planning Manager, Children and Families), Therese Laing (Quality Improvement Officer, Children and Families), Willie French (Head Teacher, The Royal High Primary School), Kevin Brack (Head Teacher, Brunstane Primary School), Karen Morris (Head Teacher, Duddingston Primary School) and Alison Clyne (Committee Services)

### 1. Introduction

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Tom Wood introduced himself and advised that he had been invited by the City of Edinburgh Council as an independent person to chair the public consultation meeting. The consultation was based on options for the proposed changes to the catchment area of Towerbank Primary School.

The Schools (Consultation) (Scotland) Act 2010 required the Council to conduct a public consultation ahead of a report on the proposals being submitted to Education Scotland for consideration in September 2015. The public consultation provided an opportunity for people to express their views and feed directly into the process, ensuring that the views of the community would be fully considered in the decision making process.

Tom Wood noted that this was the fourth and final public meeting and that there had been a high quality of input and debate at the previous meetings. Reassurance was given that no decision had been made in terms of proposed changes to the catchment area of Towerbank Primary School and the consultation process would encompass the views of parents and the public to ensure that the final decision would reflect these views. A decision would be taken by elected members at the meeting of the full Council on 22 October 2015. The decision would be based on a report that incorporated all the views expressed by parents and the public.

Councillor Godzik highlighted that catchment change was not the preferred route and that all other options had been fully explored. It was recognised this situation was difficult for everyone involved. There had been an informal consultation with parents before commencing the formal consultation in order to ensure that everyone had a say throughout the process.

Billy MacIntyre (Head of Resources, Children and Families) provided reassurance that no decision had yet been made and that although officers were presenting four options, all views and suggestions were welcomed. All questions and statements would be

listened to and included in the report to be considered by elected members when making the final decision about the catchment area for Towerbank Primary School.

## 2. Presentation

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Crawford McGhie (Asset Planning Manager, Children and Families) delivered a presentation that provided background information on the reasons behind the requirement to change the catchment area, the informal public consultation process, detail on the four proposed options and the overall benefits offered to the area through changing the catchment area.

### Requirement for Change

There had been a significant increase in the number of school age children living in the area over the past decade. As a result of rising rolls, Towerbank Primary had been extended to create a 22 class organisation with any further development on the constrained 0.8 hectare site considered to be detrimental. As pupil numbers were expected to keep increasing, the school was no longer able to accommodate all the children living in the catchment area.

It was considered that high catchment numbers would be best addressed by altering the catchment area to reduce the number of catchment pupils attending the school in future years. The Education, Children and Families Committee considered a report *Primary School Estate Rising Rolls* on 3 March 2015. The Committee had agreed to delegate authority to the Director of Children and Families to develop a statutory consultation paper on proposed changes to catchment area boundaries and to also undertake, in advance of the Statutory Consultation, an informal consultation process to identify any alternative options.

### Informal Consultation

The informal consultation process involved information being circulated to all parents and stakeholders with an invitation to comment and workshops were held at all of the affected schools. There was a general acceptance at the workshops that change would be required to the current catchment area boundaries.

As a result of alternatives identified in the informal consultation process, a further two options for catchment change were included.

### Benefits

The benefits a change in the catchment area would allow for were explained. Each of the four options would result in a more even distribution of pupils across the schools in the area. The receiving schools currently had the capacity and facilities to ensure that there would be no detrimental effect on the quality of education provided.

All the receiving schools were in line with or above the city average for attainment levels aside from Brunstane which was currently slightly below. The movement of pupils from the Towerbank catchment area would allow a more diverse socio-economic mix in receiving schools presenting the opportunity to raise attainment levels for all.

None of the options presented would affect the catchment area for secondary education as all of the schools affected were feeder schools for Portobello High School.

### 3. The Proposal

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Crawford McGhie explained the four options identified by Children and Families. He outlined the differences within each and provided estimates of how many catchment pupils would be affected within each different area. Option 4 was highlighted as the only option which offered a sibling guarantee where younger siblings of those already attending Towerbank Primary, born before the time of any Council decision on catchment area change, would be guaranteed a place in Towerbank Primary.

### 4. Questions and Comments

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#### Routes to School

**Question 1** - I am here as a parent and as a Consultant in Accident and Emergency. Are you aware of a report released this week by the Child Accident Prevention Trust on road safety? The study shows that most road accidents involving children are linked with the rush hour. I currently live in Eastfield and would have to cross nine roads to get to Brunstane Primary. This is a real risk to children, not just a theoretical one.

I also feel strongly that splitting up siblings is wrong.

**Answer 1** - (Billy MacIntyre) We have not seen the report but welcome it being brought to our attention. The Authority takes its responsibility in relation to safe routes very seriously but would also note that it is the responsibility of parents and guardians to take their children to school safely. The Council believes the routes identified are safe, but have taken on board comments and undertaken to walk the routes to school. Unfortunately it is inevitable in a city like Edinburgh that children will have to cross busy roads. We welcome suggestions on how road safety could be improved and take this issue very seriously.

**Question 2** - The changes would mean that I would go from not crossing any roads to crossing several.

**Answer 2** - (Billy MacIntyre) We accept this and will reflect this in the report to Council. Unfortunately this is one of the possible impacts of a catchment review.

**Question 3** - When the Baileyfield site was considered there was an outcry that the route was not appropriate even for secondary school pupils. Harry Lauder Road and Fishwives Causeway are very busy roads. This is an example of the Council changing its position.

In addition, although you will be walking the route, many of the accidents on Milton Road West and East involve cars coming off the road. Will railings be put up?

**Answer 3** - (Billy MacIntyre) We consider the routes to be safe but welcome comments and suggestions on how safety could be further improved. It is the responsibility of parents and guardians to get their children to school safely but it is the Council's

responsibility to ensure there are safe routes available. We will walk the routes and take on board the comments from parents.

(Councillor Godzik) I appreciate that this is a concern, particularly in the Eastfield area. Alternative options can be considered. The location you have now is probably one of the safest in the city as there are no cars on your route to school. Any change to this will mean the addition of cars and make the route less safe. We will do what we can to ensure the route is as safe as possible.

**Comment 4** - At a previous public meeting at Brunstane Primary, another parent noted that she walks her children to school and it was safe, however she has noted since that she didn't realise the route was as far for other families.

**Question 5** - What types of measures could make the routes safer? As children get older, they want to walk themselves to school. Some of these roads (such as Harry Lauder Road) are not appropriate for even older children to walk themselves. This will add to traffic and frustration.

**Answer 5** - (Billy MacIntyre) In terms of Harry Lauder Road, we can look at additional or improved crossings or railings (although these can also be a potential hazard). Any specific ideas would be welcomed and if considered appropriate included in the report to Council.

**Question 6** - What are the criteria for having a crossing guard? I'm concerned about the danger of traffic at school drop off points.

**Answer 6** - (Billy MacIntyre) This can be discussed with the Council department which employs crossing guards. In terms of drop off concerns, each school has a travel plan and this could be considered by these schools as a cluster.

(Councillor Godzik) Drop off concerns can be looked at by Committee. For example, there might be options for closing off the area around the schools at certain times of the day.

**Question 7** - What is considered as a safe route? Is the volume of cars considered? I agree that the safety of children is the responsibility of parents but the level of danger along Milton Road is different from other roads.

**Answer 7** - (Crawford McGhie) The physical aspects of the route are considered but the volume of cars is not something we have control over. We assess the quality of the route on its physical attributes.

**Question 8** - I live on Brunstane Road and the suggested route for me is along Milton Road East, which is a worry. The crossing there is on a junction (where Milton Road East meets Sir Harry Lauder Road) with a traffic island, which is difficult to manage. This might be a particular area to consider for adding a crossing guard.

**Answer 8** - (Crawford McGhie) Mitigating actions will be discussed with colleagues in the Transport Department and considered as part of walking the routes.

## **Impact on communities**

**Question 1** - Has the impact on communities been considered? Splitting up the children on one street to go to different schools has an impact on the community.

Option 4 is my preferred option – I have two boys at Towerbank Primary and am worried about the impact on my daughter if she has to go to a different school. I see a strong case for the sibling guarantee and the value of families. You are in the Children and Families Department – if families are separated, this undermines the family.

**Answer 1** - (Councillor Godzik) We recognise the impact of this on your personal circumstances and your families. Please reflect this in your written feedback too, as well as your preferred options.

(Billy MacIntyre) We haven't identified a preferred option. There are pros and cons for each option and all comments are important and will be reflected in the report to Council. Ultimately, the decision is for Elected Members to make.

**Comment 2** - In the Brunstane Road area, Option 1 would mean a small number of houses moving catchment area. All options will have similar pros and cons for communities.

## **Impact on other schools**

**Question 1** - I understand the issues at Towerbank, but what about the impact of this on other schools? Class sizes at The Royal High Primary School are rising – how can the school accommodate increased numbers? Could a new school not be built?

**Answer 1** - (Billy MacIntyre) There is legislation on maximum class sizes (P1 – 25, P2/3 – 30 and P4 – 33). There are a significant number of out of catchment requests for this school, which the authority has to accept if there is space. The Appeals process is also a factor – it is not unusual to have class size capacity breached if the Appeal Committee consider there is an exceptional case. The change in catchment areas would mean there would be fewer out of catchment space at this school and at Duddingston Primary. There are no plans to build an additional school.

(Councillor Godzik) Rising Rolls is an issue across the city and we are dealing with this in a number of ways, including increasing the budget to build extra classrooms. It is not possible to build additional classrooms at Towerbank Primary – catchment review is the only option. We accept that this is a difficult proposal and not everyone will agree.

(Willie French, Head Teacher, The Royal High Primary School) The Royal High Primary School classes have a mixture of capacities. One P1 class has 31 and there is one composite with 25. There is only capacity for one more classroom which would create 14 classes.

(Crawford McGhie) There are 340 on the school roll and 157 are non-catchment children, which is very high. A 14 class school would have capacity for 420, which is as high as it could go. Out of catchment requests would be considered less and less.

(Karen Morris, Head Teacher, Duddingston Primary School) At Duddingston Primary, we are aware of the regulations on class size. At our school, around 40% of children

are out of catchment. We are very aware of this issue and the capacity of the building is regularly discussed.

(Kevin Brack, Head Teacher, Brunstane Primary School) At Brunstane Primary there is plenty of space. We have six or seven spare classrooms. There is also space in the grounds. No matter how big the classes, there are creative ways to deal with this. For example, children might work in groups. There are lots of ways to learn within a big class.

**Question 2** - Does the Council ever consider tackling the issues and perceptions with some schools and the reasons for out of catchment requests? We might lose facilities from The Royal High Primary School and that is very worrying. There are perceived failings at other schools which mean out of catchment requests are made.

**Answer 2** - (Councillor Godzik) The Council has been very clear over the years that parents should choose their catchment school, but the Education Act (1980) means that parents have the right to choose. If there is space at a school, we are under the obligation to give them a place. This has been discussed with colleagues at Holyrood but ultimately it is not our decision.

(Therese Laing) We have had difficult times at Brunstane Primary. There were Head Teacher issues and Acting Head Teachers for a long time, but a Head Teacher has now been appointed. We are confident that this will improve attainment at the school. Attainment is not the only consideration – the school has excellent HMI ratings and this is actually better than at other schools. Results are already improving due to recent interventions. This is a small school and that can reflect badly on results.

**Question 3** - Out of catchment places are high currently at The Royal High Primary School. Would changes mean this would stop?

**Answer 3** - (Councillor Godzik) There will still be the right for parents to choose a school. We have always been very clear that there is no guarantee that siblings will get in to the same out of catchment school. Catchment schools bring communities together.

**Question 4** - If a school is full because of non-catchment pupils, what happens if more pupils move into the catchment area?

**Answer 4** - (Billy MacIntyre) The out of catchment pupils would not be removed – the catchment pupils would go onto a waiting list or capacity would be created within the school.

#### **Sibling Guarantee – Option 4**

**Question 1** - I have concerns on a practical level. Are you saying there would be a 12 year guarantee under option 4?

**Answer 1** - (Billy MacIntyre) No – this would only apply for children who have been born and already have a sibling at that school by the time the decision is made.



**Question 2** - I feel like the line is moving. We did what we were told to do and chose our catchment school. Now, out of our own control, you are changing the rules. This isn't fair – you need to honour the catchment for the sake of families.

**Answer 2** - (Councillor Godzik) We accept your point. This is the reason for having Option 4. We would rather not be in this scenario but we need to address the issues.

**Comment 3** - I am an out of catchment parent. It would be heartbreaking to split up siblings – I would like to see a sibling guarantee at this school.

**Comment 4** - I would vote for Option 1. I sympathise with the siblings issue, but communities are wider than inside one house and are also important.

**Question 5** - I would urge you to consider a sibling guarantee for all options. What are the sibling figures and when is the spike for Towerbank?

**Answer 5** - (Crawford McGhie) I would be happy to make the sibling figures available online at the earliest opportunity. It should be noted that there will be more siblings whom we do not know about. We want to ensure that if we say there will be a sibling guarantee, this really is a guarantee.

**Question 6** - Is there a general principle that an individual appeal can make a class number exceed the statutory limit?

**Answer 6** - (Billy MacIntyre) Yes, this is the case.

**Question 7** - In terms of capacity – it is one thing saying on paper that there is capacity at The Royal High Primary School, but what about the supply teacher crisis? There have not been enough teachers for years – how will this be addressed?

**Answer 7** - (Therese Laing) This is an issue across all of Scotland and efforts are being made to tackle this in Edinburgh. We are trying to attract as many supply teachers as possible and interviews are underway at the moment.

(Councillor Godzik) We accept this is an issue, although part of a national issue.

**Question 8** - My son is in Primary 1. If there is no sibling guarantee, I would have to make two runs or move my child. I put my son into his catchment school and now the goal posts have moved for the second sibling. A sibling guarantee is the only fair thing to do.

**Answer 8** - (Billy MacIntyre) This is why Option 4 has been included. It reflects the strength of feeling around this issue. Please reflect this in your written responses.

(Councillor Godzik) Catchment review is always the last option. This is not something I want or that officers want to do.

### **Other Options**

**Question 1** - If Duddingston Primary has 40% out of catchment pupils, would it not be better to increase the size of zone C in Option 1? There are a lot of out catchment children – would it not make more sense to fill the school up with more catchment children? Option 1 is my preferred option but with a sibling guarantee by including an expanded zone C and taking out the Milton Road area.

**Answer 1** - (Karen Morris, Head Teacher, Duddingston Primary) There is the possibility of more families moving into the area so that could be a potential issue.

(Crawford McGhie) We will look into your suggestions and provide feedback to Councillors in the Outcomes of the Consultation report.

**Question 2** - I am in favour of the sibling guarantee with Eastfield being kept in. Is there a way to make formal suggestions?

**Answer 2** - (Billy MacIntyre) Please submit these in writing or by email to the address provided in the consultation document.

(Councillor Godzik) Councillors will need to be satisfied that Option 4 has a sibling guarantee that works. We are happy to receive your suggestion in writing.

**Question 3** - I think that you should look at existing catchment areas – people are unhappy with their catchment schools and the reasons need to be looked at. It is not only the perceived standards; we might not feel part of the community that the catchment school is serving.

**Answer 3** - (Councillor Godzik) I accept that catchment is a line on a map, but if people invest their time in their catchment school, this creates a strong body of pupils and community. I understand the reasons for applying for out of catchment schools are varied and complex.

(Billy MacIntyre) We have not looked at options for moving the catchment areas between Duddingston Primary and Brunstane Primary etc, this would involve wider difficulties and issues.

**Comment 4** - Option 4 might not be the only option – Milton Road East is unsafe, so there could be an increase in numbers of catchment pupils at Duddingston Primary.

### **Decision Making**

**Question 1** - Will you be speaking to lower school children, who are actually affected, to get their views? A book has been produced by children on their views for the consultation.

**Answer 1** - (Billy MacIntyre) We would be delighted to hear responses from children of all ages and all of these will be considered. We will work with Head Teachers to consult with children as appropriate. Past experiences show that this can be difficult for younger children but we will work with Head Teachers to decide.

## **5. Conclusion**

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Therese Laing noted that there were four excellent Head Teachers in the Portobello cluster and that there was full confidence in them whichever option was chosen.

Tom Wood thanked everyone for their contributions and summarised the evening's discussions into the following main topics:

- Safety of routes to school and how this could be improved.
- Potential for alternative options and tweaks to existing options.

- The impact on families and communities caused by changing catchment areas.
- Catchment areas and out of catchment placements; and
- Adequate provision of teachers and supply teachers.

Billy MacIntyre thanked everyone for attending and for their high quality contributions and questions. He noted that the Council were listening to the community and all views would be reflected in the report to Full Council, which would be considered in October 2015. This had been a valuable process and provided the Department with a clear sense of the views of the community. Written submissions were also encouraged on the options presented and alternative options.

## Appendix 3 – Summary of Consultation Responses Received

### Responses by Online Questionnaire

In total there were 406 responses to the online questionnaire. There were 317 responses where additional comments were made and every comment has been separately assessed. The categories of the issues raised in each comment is shown in the table below alongside the unique reference number generated for each response (this reference number would have been sent to those who supplied an email address). In section 3 of the main report the categories of issues raised are grouped into appropriate themes and a Council response is provided for each unique issue raised. The remaining 89 responses only expressed a preference for an option and did not provide any additional comments.

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W842-4	Travel and Safety
	Social and Emotional
	Siblings Together
	Property
	Natural Community
	Logistics
	Future Numbers
	Educational
ANON-MK2E-W844-6	Active Lifestyle
	Social and Emotional
	Siblings Together
	Logistics
ANON-MK2E-W845-7	Fairness
	Travel and Safety
	Social and Emotional
	Siblings Together
ANON-MK2E-W846-8	Logistics
	Property
	Natural Community
ANON-MK2E-W847-9	Distance to school
	Siblings Together
	Logistics
ANON-MK2E-W849-B	Future Numbers
	Travel and Safety
	Social and Emotional

Online Questionnaire Reference Number	Category of Issues Raised
	Siblings Together
	Natural Community
	Logistics
	Future Numbers
	Fairness
	Active Lifestyle
ANON-MK2E-W84A-K	Siblings Together
ANON-MK2E-W84B-M	Siblings Together
	Logistics
	Future Numbers
ANON-MK2E-W84C-N	Travel and Safety
	Social and Emotional
	Siblings Together
	Future Numbers
ANON-MK2E-W84F-R	Travel and Safety
	Property
	Natural Community
ANON-MK2E-W84H-T	Siblings Together
ANON-MK2E-W84K-W	Siblings Together
ANON-MK2E-W84M-Y	Future Numbers
	Siblings Together
ANON-MK2E-W84N-Z	Property
ANON-MK2E-W84P-2	Property
	Natural Community
	Future Numbers
	Distance to school
ANON-MK2E-W84Q-3	Future Numbers
	Distance to school
	Travel and Safety
ANON-MK2E-W84T-6	Social and Emotional
	Siblings Together
	Out of Catchment
	Logistics
	Future Numbers
	Fairness
	Educational

Online Questionnaire Reference Number	Category of Issues Raised
	Siblings Together
ANON-MK2E-W84U-7	Logistics
	Travel and Safety
ANON-MK2E-W84V-8	Siblings Together
	Natural Community
	Distance to school
	Travel and Safety
ANON-MK2E-W84W-9	Siblings Together
	Out of Catchment
	Natural Community
	Future Numbers
	Logistics
ANON-MK2E-W84Y-B	Fairness
	Social and Emotional
ANON-MK2E-W84Z-C	Logistics
	Other
ANON-MK2E-W851-4	Distance to school
	Siblings Together
ANON-MK2E-W852-5	Logistics
	Educational
	Distance to school
	Consultation Process
	Siblings Together
ANON-MK2E-W853-6	Logistics
	Future Numbers
	Travel and Safety
ANON-MK2E-W854-7	Socio-economic
	Social and Emotional
	Property
	Out of Catchment
	Natural Community
	Educational
	Distance to school
	Travel and Safety
ANON-MK2E-W856-9	Future Numbers
	Consultation Process

Online Questionnaire Reference Number	Category of Issues Raised
	Active Lifestyle
	Siblings Together
ANON-MK2E-W857-A	Logistics
	Travel and Safety
ANON-MK2E-W858-B	Natural Community
	Fairness
	Educational
	Travel and Safety
ANON-MK2E-W85A-M	Logistics
	Future Numbers
	Distance to school
	Active Lifestyle
	Siblings Together
ANON-MK2E-W85C-P	Logistics
	Distance to school
ANON-MK2E-W85E-R	Travel and Safety
ANON-MK2E-W85G-T	Social and Emotional
	Siblings Together
	Logistics
	Educational
	Active Lifestyle
	Socio-economic
ANON-MK2E-W85J-W	Social and Emotional
	Property
	No Sibling Guarantee
	Natural Community
	Future Numbers
	Distance to school
	Consultation Process
	Travel and Safety
ANON-MK2E-W85K-X	Property
	Natural Community
	Future Numbers
	Consultation Process
	Active Lifestyle
	Social and Emotional

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W85M-Z	Siblings Together
	Logistics
	Educational
	Travel and Safety
ANON-MK2E-W85N-1	Travel and Safety
	Distance to school
	Active Lifestyle
	Travel and Safety
ANON-MK2E-W85P-3	Socio-economic
	Natural Community
	Future Numbers
	Distance to school
	Consultation Process
ANON-MK2E-W85R-5	Siblings Together
	Future Numbers
ANON-MK2E-W85U-8	Travel and Safety
ANON-MK2E-W85W-A	Out of Catchment
	Natural Community
	Distance to school
	Social and Emotional
ANON-MK2E-W85X-B	Siblings Together
	Educational
	Travel and Safety
ANON-MK2E-W85Y-C	Property
	Out of Catchment
	Natural Community
	Future Numbers
	Distance to school
	Consultation Process
	Active Lifestyle
Travel and Safety	
ANON-MK2E-W85Z-D	Social and Emotional
	Natural Community
	Logistics
	Future Numbers



Online Questionnaire Reference Number	Category of Issues Raised
	Educational
	Active Lifestyle
	Siblings Together
ANON-MK2E-W881-7	Travel and Safety
ANON-MK2E-W882-8	Social and Emotional
	Siblings Together
	Logistics
	Future Numbers
	Fairness
	Educational
ANON-MK2E-W883-9	Travel and Safety
	Property
	Fairness
ANON-MK2E-W884-A	Travel and Safety
	Natural Community
ANON-MK2E-W885-B	No Sibling Guarantee
	Distance to school
	Consultation Process
ANON-MK2E-W886-C	Travel and Safety
	Social and Emotional
	Natural Community
ANON-MK2E-W887-D	Travel and Safety
	Natural Community
	Active Lifestyle
ANON-MK2E-W88A-Q	Travel and Safety
	Siblings Together
	Out of Catchment
	Natural Community
	Educational
	Distance to school
	Consultation Process
Socio-economic	
ANON-MK2E-W88B-R	Social and Emotional
	Siblings Together
	Logistics
	Future Numbers

Online Questionnaire Reference Number	Category of Issues Raised
	Educational
ANON-MK2E-W88C-S	Educational
	Natural Community
ANON-MK2E-W88E-U	Distance to school
	Travel and Safety
ANON-MK2E-W88F-V	Socio-economic
	Property
	Natural Community
	Fairness
	Distance to school
	Other
ANON-MK2E-W88H-X	Travel and Safety
	Out of Catchment
	Natural Community
	Distance to school
	Siblings Together
ANON-MK2E-W88J-Z	Logistics
	Distance to school
	Siblings Together
ANON-MK2E-W88K-1	Logistics
	Future Numbers
	Consultation Process
ANON-MK2E-W88M-3	Siblings Together
ANON-MK2E-W88Q-7	Future Numbers
	Fairness
ANON-MK2E-W88S-9	Travel and Safety
ANON-MK2E-W88U-B	Siblings Together
	Future Numbers
	Fairness
	Distance to school
	Consultation Process
	Travel and Safety
ANON-MK2E-W88W-D	Siblings Together
	Natural Community
	Future Numbers
	Distance to school

Online Questionnaire Reference Number	Category of Issues Raised
	Consultation Process
	Active Lifestyle
	Travel and Safety
ANON-MK2E-W88Z-G	Property
	Future Numbers
	Consultation Process
	Social and Emotional
ANON-MK2E-W891-8	Siblings Together
	Property
	Logistics
	Future Numbers
	Fairness
	Other
ANON-MK2E-W892-9	Travel and Safety
	Property
	Natural Community
	Future Numbers
ANON-MK2E-W893-A	Siblings Together
ANON-MK2E-W896-D	Consultation Process
	Social and Emotional
ANON-MK2E-W89B-S	Siblings Together
	Logistics
	Fairness
	Social and Emotional
ANON-MK2E-W89C-T	Logistics
	Fairness
	Out of Catchment
ANON-MK2E-W89D-U	Natural Community
	Future Numbers
	Distance to school
	Siblings Together
ANON-MK2E-W89E-V	Logistics
	Future Numbers
	Future Numbers
	Social and Emotional
ANON-MK2E-W89F-W	Siblings Together

Online Questionnaire Reference Number	Category of Issues Raised
	Logistics
	Travel and Safety
ANON-MK2E-W89G-X	Natural Community
	Logistics
	Future Numbers
	Consultation Process
	Property
ANON-MK2E-W89H-Y	Natural Community
	Logistics
	Distance to school
	Siblings Together
ANON-MK2E-W89J-1	Natural Community
	Future Numbers
	Educational
	Distance to school
	Other
ANON-MK2E-W89K-2	Travel and Safety
	Social and Emotional
	Future Numbers
	Consultation Process
	Active Lifestyle
	Travel and Safety
ANON-MK2E-W89Q-8	Active Lifestyle
	Travel and Safety
ANON-MK2E-W89R-9	Social and Emotional
	Siblings Together
	Logistics
	Future Numbers
	Fairness
	Educational
	Consultation Process
	Consultation Process
	Travel and Safety
ANON-MK2E-W89S-A	Natural Community
	Distance to school
	Consultation Process

Online Questionnaire Reference Number	Category of Issues Raised
	Travel and Safety
ANON-MK2E-W89W-E	Natural Community
	Natural Community
	Future Numbers
	Distance to school
	Social and Emotional
ANON-MK2E-W89Z-H	Siblings Together
	Logistics
	Future Numbers
	Consultation Process
	Siblings Together
ANON-MK2E-W8A1-G	Natural Community
	Travel and Safety
ANON-MK2E-W8A2-H	Siblings Together
	Property
	Socio-economic
ANON-MK2E-W8A3-J	Out of Catchment
	Natural Community
	Logistics
	Future Numbers
	Fairness
	Educational
	Distance to school
	Consultation Process
	Siblings Together
ANON-MK2E-W8A4-K	Fairness
	Social and Emotional
ANON-MK2E-W8A6-N	Siblings Together
	Travel and Safety
ANON-MK2E-W8A7-P	Consultation Process
	Social and Emotional
ANON-MK2E-W8A9-R	Siblings Together
	Logistics
	Social and Emotional
ANON-MK2E-W8AA-Z	Siblings Together
	Future Numbers

Online Questionnaire Reference Number	Category of Issues Raised
	Consultation Process
	Social and Emotional
ANON-MK2E-W8AB-1	Siblings Together
	Logistics
	Educational
	Social and Emotional
ANON-MK2E-W8AD-3	Siblings Together
	Educational
	Travel and Safety
ANON-MK2E-W8AE-4	Distance to school
	Siblings Together
ANON-MK2E-W8AF-5	Logistics
ANON-MK2E-W8AG-6	Travel and Safety
ANON-MK2E-W8AH-7	Siblings Together
	Logistics
	Future Numbers
	Siblings Together
ANON-MK2E-W8AJ-9	Consultation Process
	Travel and Safety
ANON-MK2E-W8AK-A	Socio-economic
	Natural Community
	Future Numbers
	Educational
	Distance to school
	Consultation Process
	Social and Emotional
ANON-MK2E-W8AM-C	Siblings Together
	Logistics
	Social and Emotional
ANON-MK2E-W8AP-F	Siblings Together
ANON-MK2E-W8AT-K	Future Numbers
	Travel and Safety
ANON-MK2E-W8AV-N	No Sibling Guarantee
	Natural Community
	Distance to school
	Consultation Process

Online Questionnaire Reference Number	Category of Issues Raised
	Siblings Together
ANON-MK2E-W8AY-R	Other
ANON-MK2E-W8B1-H	Siblings Together
ANON-MK2E-W8B4-M	Travel and Safety
ANON-MK2E-W8B5-N	Property
	Natural Community
	Future Numbers
	Educational
	Consultation Process
ANON-MK2E-W8B6-P	Travel and Safety
	Social and Emotional
ANON-MK2E-W8B7-Q	Logistics
	Future Numbers
	Out of Catchment
ANON-MK2E-W8BA-1	No Sibling Guarantee
	Distance to school
	Siblings Together
ANON-MK2E-W8BB-2	Socio-economic
ANON-MK2E-W8BF-6	Out of Catchment
	Educational
	Other
ANON-MK2E-W8BH-8	Distance to school
	Natural Community
ANON-MK2E-W8BJ-A	Distance to school
	Other
ANON-MK2E-W8BN-E	Social and Emotional
	Siblings Together
	Logistics
	Future Numbers
	Property
ANON-MK2E-W8BT-M	Siblings Together
ANON-MK2E-W8BV-P	Social and Emotional
ANON-MK2E-W8C1-J	Siblings Together
	Logistics
	Fairness

Online Questionnaire Reference Number	Category of Issues Raised
	Educational
	Travel and Safety
ANON-MK2E-W8C4-N	Social and Emotional
	Siblings Together
	Out of Catchment
	Logistics
	Future Numbers
	Fairness
	Educational
	Travel and Safety
ANON-MK2E-W8C5-P	Social and Emotional
	Siblings Together
	Property
	Logistics
	Future Numbers
	Fairness
	Educational
	Social and Emotional
ANON-MK2E-W8C6-Q	Siblings Together
	Logistics
	Fairness
	Educational
	Travel and Safety
ANON-MK2E-W8C7-R	Logistics
	Fairness
	Property
ANON-MK2E-W8C8-S	Natural Community
	Educational
	Distance to school
	Siblings Together
ANON-MK2E-W8CB-3	Fairness
	Siblings Together
ANON-MK2E-W8CE-6	Natural Community
ANON-MK2E-W8CF-7	Distance to school
	Travel and Safety
ANON-MK2E-W8CG-8	Social and Emotional



Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8CK-C	Siblings Together
	Logistics
	Natural Community
ANON-MK2E-W8CM-E	Travel and Safety
ANON-MK2E-W8CR-K	Travel and Safety
	Property
	Siblings Together
ANON-MK2E-W8CS-M	Siblings Together
ANON-MK2E-W8CU-P	Social and Emotional
ANON-MK2E-W8CV-Q	Siblings Together
	Logistics
	Educational
	Future Numbers
ANON-MK2E-W8CW-R	Distance to school
	Travel and Safety
ANON-MK2E-W8CY-T	Travel and Safety
ANON-MK2E-W8E2-N	Fairness
	Consultation Process
	Siblings Together
ANON-MK2E-W8E3-P	Siblings Together
	Fairness
	Siblings Together
ANON-MK2E-W8E5-R	Siblings Together
ANON-MK2E-W8E6-S	Siblings Together
	Out of Catchment
ANON-MK2E-W8E9-V	Natural Community
	Future Numbers
	Fairness
	Educational
	Distance to school
	Social and Emotional
ANON-MK2E-W8EA-4	Siblings Together
	Logistics
	Siblings Together
ANON-MK2E-W8ED-7	Social and Emotional
ANON-MK2E-W8EF-9	Siblings Together

Online Questionnaire Reference Number	Category of Issues Raised
	Logistics
	Educational
	Social and Emotional
ANON-MK2E-W8EG-A	Siblings Together
	Logistics
	Fairness
	Travel and Safety
ANON-MK2E-W8EK-E	Travel and Safety
ANON-MK2E-W8EN-H	Property
	Natural Community
	Future Numbers
	Distance to school
	Consultation Process
	Active Lifestyle
	Travel and Safety
ANON-MK2E-W8EP-K	Siblings Together
	Natural Community
ANON-MK2E-W8EQ-M	Future Numbers
	Travel and Safety
ANON-MK2E-W8ET-Q	Social and Emotional
	Siblings Together
	Logistics
ANON-MK2E-W8EU-R	Siblings Together
	Logistics
ANON-MK2E-W8EX-U	Consultation Process
	Other
ANON-MK2E-W8H3-S	Travel and Safety
	Property
	Natural Community
	Future Numbers
	Educational
	Siblings Together
ANON-MK2E-W8H5-U	Out of Catchment
ANON-MK2E-W8H6-V	No Sibling Guarantee
	Future Numbers
	Logistics

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8H7-W	Educational
	Siblings Together
ANON-MK2E-W8H9-Y	Travel and Safety
ANON-MK2E-W8HB-8	Out of Catchment
	Natural Community
	Distance to school
	Siblings Together
ANON-MK2E-W8HC-9	Siblings Together
ANON-MK2E-W8HD-A	Fairness
	Social and Emotional
ANON-MK2E-W8HE-B	Siblings Together
	Social and Emotional
ANON-MK2E-W8HJ-G	Siblings Together
	Logistics
ANON-MK2E-W8HM-K	Siblings Together
ANON-MK2E-W8HQ-Q	Fairness
ANON-MK2E-W8HR-R	Social and Emotional
ANON-MK2E-W8HS-S	Siblings Together
	Logistics
	Fairness
	Educational
ANON-MK2E-W8HU-U	Property
	Fairness
	Socio-economic
ANON-MK2E-W8HY-Y	Future Numbers
	Educational
	Social and Emotional
ANON-MK2E-W8K3-V	Siblings Together
	Logistics
ANON-MK2E-W8K4-W	Consultation Process
ANON-MK2E-W8K5-X	Travel and Safety
ANON-MK2E-W8K6-Y	Educational
	Other
ANON-MK2E-W8KC-C	Travel and Safety
	Active Lifestyle
	Siblings Together

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8KE-E	Property
	Logistics
	Future Numbers
	Siblings Together
ANON-MK2E-W8KJ-K	Siblings Together
ANON-MK2E-W8KK-M	Social and Emotional
ANON-MK2E-W8KM-P	Siblings Together
	Logistics
ANON-MK2E-W8KN-Q	Logistics
	Fairness
	Social and Emotional
ANON-MK2E-W8KQ-T	Siblings Together
	Social and Emotional
ANON-MK2E-W8KR-U	Siblings Together
ANON-MK2E-W8KS-V	Siblings Together
ANON-MK2E-W8KT-W	Logistics
	Social and Emotional
ANON-MK2E-W8KU-X	Siblings Together
	Future Numbers
ANON-MK2E-W8KW-Z	Consultation Process
	Logistics
ANON-MK2E-W8KX-1	Social and Emotional
ANON-MK2E-W8KY-2	Siblings Together
	Logistics
	Future Numbers
	Travel and Safety
ANON-MK2E-W8KZ-3	Siblings Together
	Logistics
	Other
ANON-MK2E-W8N1-W	Property
	Future Numbers
	Fairness
	Siblings Together
ANON-MK2E-W8N2-X	Logistics
	Travel and Safety
ANON-MK2E-W8N3-Y	Out of Catchment

Online Questionnaire Reference Number	Category of Issues Raised
	Siblings Together
ANON-MK2E-W8N4-Z	Out of Catchment
	Logistics
ANON-MK2E-W8N9-5	Social and Emotional
ANON-MK2E-W8NA-D	Siblings Together
	Out of Catchment
	Future Numbers
	Consultation Process
ANON-MK2E-W8NC-F	Social and Emotional
ANON-MK2E-W8NE-H	Siblings Together
	Logistics
	Future Numbers
	Fairness
	Educational
	Consultation Process
	Social and Emotional
ANON-MK2E-W8NG-K	Distance to school
	Siblings Together
ANON-MK2E-W8NH-M	Logistics
	Siblings Together
ANON-MK2E-W8NJ-P	Social and Emotional
ANON-MK2E-W8NQ-W	Siblings Together
	Out of Catchment
	Logistics
	Educational
	Future Numbers
ANON-MK2E-W8NS-Y	Siblings Together
ANON-MK2E-W8NU-1	Social and Emotional
ANON-MK2E-W8NX-4	Siblings Together
	Travel and Safety
ANON-MK2E-W8Q3-2	Social and Emotional
	Siblings Together
	Future Numbers
	Fairness
	Other
ANON-MK2E-W8QK-T	Property

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8QP-Y	Fairness
	Educational
	Siblings Together
ANON-MK2E-W8QZ-9	Social and Emotional
ANON-MK2E-W8R2-2	Siblings Together
	Natural Community
	Logistics
	Fairness
	Travel and Safety
ANON-MK2E-W8R3-3	Siblings Together
	Logistics
	Future Numbers
	Educational
	Consultation Process
	Travel and Safety
ANON-MK2E-W8R7-7	Future Numbers
	Consultation Process
	Siblings Together
ANON-MK2E-W8R8-8	Siblings Together
ANON-MK2E-W8RA-H	Logistics
	Educational
	No Sibling Guarantee
ANON-MK2E-W8RC-K	Future Numbers
	Distance to school
ANON-MK2E-W8RD-M	Siblings Together
ANON-MK2E-W8RF-P	Fairness
	Distance to school
ANON-MK2E-W8RJ-T	Siblings Together
ANON-MK2E-W8RM-W	Fairness
	Siblings Together
ANON-MK2E-W8RQ-1	Siblings Together
ANON-MK2E-W8RU-5	Future Numbers
	Educational
	Siblings Together
ANON-MK2E-W8RV-6	Logistics
	Distance to school

Online Questionnaire Reference Number	Category of Issues Raised
	Siblings Together
ANON-MK2E-W8RW-7	Siblings Together
ANON-MK2E-W8RX-8	Fairness
	Siblings Together
ANON-MK2E-W8RY-9	Other
ANON-MK2E-W8S1-2	Logistics
ANON-MK2E-W8SY-A	Siblings Together
ANON-MK2E-W8T1-3	Other
ANON-MK2E-W8T5-7	Property
	Fairness
	Social and Emotional
ANON-MK2E-W8T6-8	Siblings Together
ANON-MK2E-W8T9-B	Natural Community
ANON-MK2E-W8TA-K	Siblings Together
ANON-MK2E-W8TB-M	Travel and Safety
ANON-MK2E-W8TE-Q	Natural Community
	Future Numbers
	Fairness
	Active Lifestyle
	Siblings Together
ANON-MK2E-W8TJ-V	Logistics
	Siblings Together
ANON-MK2E-W8TK-W	Siblings Together
ANON-MK2E-W8TM-Y	Siblings Together
ANON-MK2E-W8TN-Z	Siblings Together
	Out of Catchment
	Logistics
	Future Numbers
	Fairness
	Siblings Together
ANON-MK2E-W8TP-2	Social and Emotional
ANON-MK2E-W8TQ-3	Logistics
ANON-MK2E-W8TS-5	Natural Community
ANON-MK2E-W8TT-6	Property
ANON-MK2E-W8TW-9	Natural Community
	Distance to school

Online Questionnaire Reference Number	Category of Issues Raised
	Travel and Safety
ANON-MK2E-W8TY-B	Natural Community
	Future Numbers
	Fairness
	Active Lifestyle
	Siblings Together
ANON-MK2E-W8TZ-C	Siblings Together
ANON-MK2E-W8U3-6	Fairness
	Travel and Safety
ANON-MK2E-W8U4-7	Socio-economic
	Social and Emotional
	Siblings Together
	Property
	Logistics
	Future Numbers
	Fairness
	Educational
Consultation Process	
ANON-MK2E-W8U8-B	Distance to school
	Travel and Safety
ANON-MK2E-W8UA-M	Socio-economic
	Natural Community
	Logistics
	Distance to school
	Siblings Together
ANON-MK2E-W8UC-P	Siblings Together
ANON-MK2E-W8UE-R	Siblings Together
ANON-MK2E-W8UF-S	Logistics
	Consultation Process
	Travel and Safety
ANON-MK2E-W8UG-T	Educational
	Active Lifestyle
	Travel and Safety
ANON-MK2E-W8UH-U	Distance to school
	Siblings Together
ANON-MK2E-W8UK-X	Siblings Together



Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8UM-Z	Future Numbers
	Logistics
ANON-MK2E-W8UN-1	Future Numbers
	Logistics
ANON-MK2E-W8UP-3	Logistics
ANON-MK2E-W8UQ-4	Fairness
	Travel and Safety
ANON-MK2E-W8UR-5	Active Lifestyle
	Social and Emotional
ANON-MK2E-W8US-6	Logistics
ANON-MK2E-W8UT-7	Educational
	Travel and Safety
ANON-MK2E-W8UV-9	Siblings Together
	Logistics
	Travel and Safety
ANON-MK2E-W8UX-B	Social and Emotional
	Siblings Together
	Logistics
	Fairness
	Educational
ANON-MK2E-W8UZ-D	Travel and Safety
	Logistics
ANON-MK2E-W8V2-6	Logistics
	Fairness
ANON-MK2E-W8V5-9	Siblings Together
ANON-MK2E-W8V6-A	Logistics
	Fairness
	Travel and Safety
ANON-MK2E-W8V7-B	Active Lifestyle
	Property
ANON-MK2E-W8V8-C	Educational
	Siblings Together
ANON-MK2E-W8V9-D	Logistics
	Future Numbers
	Distance to school
	Siblings Together

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8VC-Q	Logistics
ANON-MK2E-W8VF-T	Fairness
	Siblings Together
ANON-MK2E-W8VK-Y	Property
	Natural Community
	Future Numbers
	Siblings Together
ANON-MK2E-W8VM-1	Travel and Safety
ANON-MK2E-W8VN-2	Property
	Natural Community
	Educational
	Consultation Process
	Siblings Together
ANON-MK2E-W8VP-4	Siblings Together
ANON-MK2E-W8VR-6	Travel and Safety
ANON-MK2E-W8VV-A	Property
	Natural Community
	Educational
	Social and Emotional
ANON-MK2E-W8VW-B	Siblings Together
	Travel and Safety
ANON-MK2E-W8VX-C	Property
	Natural Community
	Future Numbers
	Educational
	Consultation Process
	Travel and Safety
ANON-MK2E-W8VY-D	Siblings Together
	Future Numbers
	Educational
	Siblings Together
ANON-MK2E-W8VZ-E	Logistics
	Travel and Safety
ANON-MK2E-W8W1-6	Fairness
	Distance to school
	Active Lifestyle

Online Questionnaire Reference Number	Category of Issues Raised
	Travel and Safety
ANON-MK2E-W8W3-8	Social and Emotional
	Siblings Together
	Logistics
	Fairness
ANON-MK2E-W8W4-9	Socio-economic
ANON-MK2E-W8W5-A	Fairness
	Distance to school
	Property
ANON-MK2E-W8W7-C	Out of Catchment
ANON-MK2E-W8W8-D	No Sibling Guarantee
	Social and Emotional
ANON-MK2E-W8W9-E	Logistics
	No Sibling Guarantee
ANON-MK2E-W8WD-S	Natural Community
	Future Numbers
	Distance to school
	Social and Emotional
ANON-MK2E-W8WE-T	Logistics
ANON-MK2E-W8WF-U	Siblings Together
ANON-MK2E-W8WG-V	Travel and Safety
ANON-MK2E-W8WJ-Y	Siblings Together
	Future Numbers
	Social and Emotional
ANON-MK2E-W8WN-3	Siblings Together
ANON-MK2E-W8WQ-6	Logistics
	Social and Emotional
ANON-MK2E-W8WR-7	Siblings Together
ANON-MK2E-W8WS-8	Social and Emotional
ANON-MK2E-W8WT-9	Siblings Together
	Logistics
	Future Numbers
ANON-MK2E-W8WU-A	Siblings Together
ANON-MK2E-W8WW-C	Logistics
	Active Lifestyle
	Social and Emotional

Online Questionnaire Reference Number	Category of Issues Raised
ANON-MK2E-W8WX-D	Siblings Together
	Property
	Logistics
	Fairness
	Social and Emotional
ANON-MK2E-W8WY-E	Siblings Together
	Logistics
ANON-MK2E-W8NF-J	Consultation Process
ANON-MK2E-W8HT-T	Siblings Together
ANON-MK2E-W8H1-Q	Siblings Together
ANON-MK2E-W8A8-Q	Consultation Process
ANON-MK2E-W894-B	Distance to School
ANON-MK2E-W84X-A	Siblings Together
BHLF-MK2E-W8CP-H	Logistics
	Property
BHLF-MK2E-W8F2-P	No Sibling Guarantee
	Natural Community
	Future Numbers
	Distance to school
	Consultation Process
	Travel and Safety
BHLF-MK2E-W8F9-W	Property
	Siblings Together
BHLF-MK2E-W8FA-5	Travel and Safety
BHLF-MK2E-W8FD-8	Property
	Active Lifestyle
	Siblings Together
BHLF-MK2E-W8FJ-E	Logistics
	Fairness
	Siblings Together
BHLF-MK2E-W8FN-J	Property
	Fairness
	Consultation Process
	Active Lifestyle
	Siblings Together
BHLF-MK2E-W8FT-R	Siblings Together

Online Questionnaire Reference Number	Category of Issues Raised
BHLF-MK2E-W8FU-S	Siblings Together
	Logistics
BHLF-MK2E-W8FX-V	Natural Community
BHLF-MK2E-W8HF-C	Distance to school
	Consultation Process

### Responses by Email or Letter

All responses which were submitted by email or letter were also assigned a unique reference number which is shown in the table below. The category of the issues raised in each response is also shown in the table. Those responses grouped together in the table below are multiple responses from the same individual (e.g. 1,1a & 1b). As with the responses submitted using the online questionnaire, in section 3 of the main report the categories of issues raised are grouped into appropriate themes and a Council response is provided for each unique issue raised.

Reference Number	Category of Issues Raised
1, 1a & 1b	Consultation Process
	Educational
	Fairness
	Future numbers
	Logistics
	Natural Communities
	Siblings Together
	Social and Emotional
	Travel and Safety
2	Distance to School
	Travel and Safety
3, 3a & 3b	Consultation Process
	Future Numbers
	Travel and Safety
	Active Lifestyles
	Social and Emotional
	other
4	Travel and Safety
	Logistics
	Natural Communities
	Educational

Reference Number	Category of Issues Raised
	Siblings Together
	Social and Emotional
5	Active Lifestyles
	Travel and Safety
	Natural Communities
	Social and Emotional
6	Consultation Process
	Educational
	Future Numbers
	Logistics
	Siblings Together
	Social and Emotional
	Travel and Safety
Fairness	
7 & 7a	Future Numbers
	Siblings Together
	Property
	Travel and Safety
	Natural Communities
	other
8	Consultation Process
	Educational
	Future Numbers
	Logistics
	Siblings Together
	Social and Emotional
	Travel and Safety
Fairness	
9 & 9a	Consultation Process
	Future Numbers
	Siblings Together
	Social and Emotional
	other
10	Consultation Process
	Educational
	Future Numbers

Reference Number	Category of Issues Raised
	Logistics
	Siblings Together
	Social and Emotional
	Travel and Safety
	Fairness
11 & 11a	Consultation Process
	Educational
	Siblings Together
	travel and safety
	Future Numbers
	other
12	Consultation Process
	Educational
	Future Numbers
	Logistics
	Siblings Together
	Social and Emotional
	Travel and Safety
	Fairness
13	Consultation Process
	Distance to School
	Fairness
	Future numbers
	Logistics
	Natural Communities
	No Sibling Guarantee
	other
14	Active Lifestyles
	Fairness
	Future Numbers
	Logistics
	Natural Communities
	Siblings Together
	Travel and Safety
	Social and Emotional
	other

Reference Number	Category of Issues Raised
15	Distance to School
	Educational
	Logistics
	Natural Communities
	Social and Emotional
	Out of Catchment
	Siblings Together
	other
16	other
17	Distance to School
	Educational
	Natural Communities
	Social and Emotional
	Travel and Safety
18 & 18a	Educational
	Future Numbers
	Property
	Siblings Together
	other
19	Consultation Process
	Future Numbers
	Logistics
	Natural Communities
	Travel and Safety
20	Consultation Process
	Future Numbers
	Travel and Safety
	other
21	Consultation Process
	Future Numbers
	Siblings Together
	Travel and Safety
22	Active Lifestyles
	Distance to School
	Travel and Safety



## **Appendix 4 – Pupil and Staff Consultation**

At each the four schools significantly affected by the options in the statutory consultation a Quality Improvement Officer from Children and Families using large maps which showed the options to carry out sessions with a range of children from different year groups throughout the school to gather their opinions about the different options. A summary of the discussion at each school and the feedback from staff is provided below.

### **Brunstane Primary School**

1. *What are the most important features about belonging to Brunstane Primary School?*
  - Feel safe at Brunstane, nice place to run about and play.
  - iPads for each P6 and P7, can take them home.
  - Special teachers - nice, look after us.
  - Play with friends in the park or playground.
  - We can learn on the computer.
2. *From what you have heard about the options, what worries would you have?*
  - Worries about P1 coming across the busy road.
  - In case brothers or sisters were split up and couldn't see each other till they go home.
3. *What opportunities do you see with the options?*
  - They can make friends that stay close to them.
  - If there's not enough classes at Towerbank, at Brunstane there's more room.
  - Opportunities to run about and play with friends - football, basketball, rugby, street dance and lots of opportunities and sports on offer.
4. *Which option do you prefer and why?*
  - All six children expressed a preference for Option 4.

### **Duddingston Primary School**

1. *What are the most important features about belonging to Duddingston Primary School?*
  - A lot of clubs to sign up for.
  - A lot of people let you join in and be their friend.
  - Really good facilities and equipment - lots of playground toys.
  - A big space to play and have sports day on.

- Very nice teachers and LAs - lots of pencils etc, guitars.
  - A small car park but can fit a lot of cars.
  - Get a chance to play lots instruments, flute etc.
2. *From what you have heard about the options, what worries would you have?*
- Children from nursery - not in catchment might not get into school.
  - Possible parking issues “exacerbated”.
3. *What opportunities do you see with the options?*
- Meet new people and make them feel welcome - include them.
  - Make more friends - play with lots more people.
  - Introduce new people to class.
  - Make new friends - a new club.
  - New children could feel more confident through reading buddies.
4. *Which option do you prefer and why?*
- Of the eight children, one expressed a preference for option 3, five for option 4 and two did not express a preference.

### **The Royal High Primary School**

1. *What are the most important features about belonging to The Royal High Primary School?*
- The Wildlife and Nature garden.
  - Traditional Song - Vivas Schola Regia.
  - Three choices of school dinners.
  - Golden Rules for everyone to follow - shared ideas.
  - Lunchtime - eat lunchtime in Quad.
  - Having two halls is great - we don't eat where people are sweaty.
2. *From what you have heard about the options, what worries would you have?*
- Option 2 - loads going to Brunstane. More to Duddingston, would this become too full as well?
  - Option 1, 2 and 3 don't have sibling guarantee.
3. *What opportunities do you see with the options?*
- It might be better if Option 4 because shared amongst all four schools and sibling guarantee.
  - Reading Buddy - more P1s will mean a reading buddy for all P5 children.

- In Option 4 - more children out of Towerbank which would help them more.

4. *Which option do you prefer and why?*

- All eight children expressed a preference for Option 4.

### **Towerbank Primary School**

1. *What are the most important features about belonging to Towerbank Primary School?*

- Being a big family;
- A friendly school; near the sea;
- The teachers and pupils are really kind;
- When they made the extension they made quiet spots (the children had asked for this, they were listened to).
- Reps for Committees; the Fairtrade; Eco; take care of outdoors.

2. *From what you have heard about the options, what worries would you have?*

- That younger sibling would not be in school and you wouldn't see them.
- Siblings wouldn't be in the same playgrounds - it would be sad.
- Would we all go to the same high school? Yes (explained).

3. *What opportunities do you see with the options?*

- It's a bit too small.
- Option 4 - sibling guarantee is a very good idea - (a pupil who was separated from sibling previously) was late for school frequently.
- With smaller numbers we could go on more trips or have a better playground because there wouldn't be so many pupils to consider.
- Other schools would get very nice pupils.

4. *Which option do you prefer and why?*

- Of the eight children, one expressed a preference for option 3 and seven for option 4.

5. *Any other comments?*

- Would the numbers drop rapidly if the P1s go elsewhere?
- If a parent sends a child into P1 and there's no guarantee would this put you off?

### **Views of Staff**

The Head Teachers at each school discussed the proposals with staff and a summary of the main opportunities and concerns raised is as follows:

1. *What opportunities do you see with the options?*

- More balanced catchments.
- More staff.
- Raising aspirations.
- More parental involvement.
- The Royal High Primary School - We view that this might enable the school to return to a 14 class organisation. A 14 class organisation ensures that planning and organisation is neat. It may also bring more balance to the catchment/non-catchment issue. We have a high percentage of non-catchment pupils and the revised Towerbank catchment would place these children in The Royal High catchment.
- The opportunity to work even more collegiately as a cluster particularly if children are spread across 2 schools. Schools would have to plan their parent appointments/open days/curriculum events/sports days very carefully together to make sure parents felt they were experiencing 'equity' in terms of being able to attend events in both school environments.

2. *From what you have heard about the options what concerns would you have?*

- Non-catchment children currently in school missing out on a place.
- Negative views about joining our school.
- That families may end up being spread across 2 schools and that school staff could potentially have to constantly deal with the negativity of feeling from parents who just want their "kids at Towerbank."
- Positive Action funding being lost.
- Road safety issues.

## **Appendix 5 – Education Scotland Report**

### **Report by Education Scotland addressing educational aspects of the proposal by The City of Edinburgh Council to change the catchment area of Towerbank Primary School.**

#### **1. Introduction**

1.1 This report from Education Scotland has been prepared by HM Inspectors in accordance with the terms of the *Schools (Consultation) (Scotland) Act 2010* and the amendments contained in the *Children and Young People (Scotland) Act 2014*. The purpose of the report is to provide an independent and impartial consideration of The City of Edinburgh Council's proposal to change the catchment area of Towerbank Primary School. Section 2 of the report sets out brief details of the consultation process. Section 3 of the report sets out HM Inspectors' consideration of the educational aspects of the proposal, including significant views expressed by consultees. Section 4 summarises HM Inspectors' overall view of the proposal. Upon receipt of this report, the Act requires the council to consider it and then prepare its final consultation report. The council's final consultation report should include a copy of this report and must contain an explanation of how, in finalising the proposal, it has reviewed the initial proposal, including a summary of points raised during the consultation process and the council's response to them. The council has to publish its final consultation report three weeks before it takes its final decision. Where a council is proposing to close a school, it needs to follow all legislative obligations set out in the 2010 Act, including notifying Ministers within six working days of making its final decision and explaining to consultees the opportunity they have to make representations to Ministers.

1.2 HM Inspectors considered:

- the likely effects of the proposal for children and young people of the school; any other users; children and young people likely to become pupils within two years of the date of publication of the proposal paper; and other children and young people in the council area;
- any other likely effects of the proposal;
- how the council intends to minimise or avoid any adverse effects that may arise from the proposal; and
- the educational benefits the council believes will result from implementation of the proposal, and the council's reasons for coming to these beliefs.

1.3 In preparing this report, HM Inspectors undertook the following activities:

- attendance at public meetings held on 21 May 2015 and 1 June 2015 in connection with the council's proposals;

- consideration of all relevant documentation provided by the council in relation to the proposal, specifically the educational benefits statement and related consultation documents, written and oral submissions from parents and others; and
- visits to the sites of Towerbank Primary School, Brunstane Primary School, Craigentenny Primary School, Duddingston Primary School, The Royal High Primary School, Leith Academy and Portobello High School, including discussion with relevant consultees.

## **2. Consultation Process**

2.1 The City of Edinburgh Council undertook the consultation on its proposals with reference to the *Schools (Consultation) (Scotland) Act 2010* and the amendments in the *Children and Young People (Scotland) Act 2014*.

2.2 This proposal arises from the significant projected increase in the number of school age children living in the catchment area of Towerbank Primary School. In the immediate future, the school will not be able to accommodate all of these children. The consultation considers four options to make the school's catchment area smaller so that fewer children live in it.

2.3 In March 2015, the council ran informal consultations at each of the four directly affected primary schools (Towerbank, Brunstane, Duddingston and The Royal High). In addition to the views expressed at these sessions, 48 representations were received from parents, guardians, carers and residents. Options 3 and 4 were developed as a result of this informal consultation process.

2.4 The council proposes four options for reducing the size of the catchment area of Towerbank Primary School. Options 1, 2 and 3 transfer varying parts of the current catchment area to neighbouring primary schools. These options offer current catchment area families within the proposed transfer areas priority places for younger brothers and sisters in any year, up to 2022, if there are still P1 places available after catchment needs are met. This would only apply if, when entering P1, they continued to be resident in the parts of the Towerbank Primary School catchment from which transfer had previously been approved and an elder sibling remains at the school. Option 4 transfers a larger proportion of the current catchment area to neighbouring primary schools. It offers a guaranteed place at Towerbank Primary School to the younger siblings of current pupils as long as they are born by the time of any final council decision and, by the time they enter P1, continue to be resident in the parts of the Towerbank Primary School catchment from which transfer had previously been approved and an elder sibling remains at the school. This has been generally referred to as the 'sibling guarantee'.

2.5 If catchment changes are approved by the council, it is proposed that the changes would take immediate effect and the placing procedures for P1 pupils for the start of the 2016/17 school session would be conducted on the basis of the revised catchment areas.

2.6 The consultation period ran from 8 May 2015 to 22 June 2015. A copy of the consultation document was placed on The City of Edinburgh Council website. Public meetings were held in Towerbank Primary School on 21 May 2015, Brunstane Primary School on 25 May 2015, Duddingston Primary School on 1 June 2015 and The Royal High Primary School on 3 June 2015. Written responses could be made by email or through completion of an online response form, available on the council website.

2.7 The council received 406 responses to the online response form, 390 expressed a preference for one of the options and 307 people made further comment on why they selected a particular option. Option 1 was preferred by 28 (6.9%), Option 2 by 66 (16.3%), Option 3 by 28 (6.9%) and Option 4 by 268 (66%). Sixteen of those who responded (3.9%) favoured none of the four options. Twenty-two people also sent emails to the council, expressing their views. Option 1 was preferred by two of those who responded (9.1%), Option 2 by four (18.2%), Option 3 by two (9.1%) and Option 4 by ten (45.4%). Four of those who responded (18.2%) favoured none of the four options.

2.8 Council officers consulted groups of pupils at each of the four directly affected schools. None of the pupils favoured Options 1 or 2. 6.7% were in favour of Option 3, 86.7% were in favour of Option 4 and 6.7% were unsure.

### **3. Educational Aspects of Proposal**

3.1 The council asserts that a reduction in the number of pupils eligible to attend Towerbank Primary School will improve the learning and teaching environment and outcomes for children. This assertion is reasonable as the school does not have the capacity to accommodate all children residing within its existing catchment area over the coming years. In addition, the school is currently very short of space, requiring classes of children to have differing arrival, departure and lunch times. Due to its current roll, the school does not have space to prepare school lunches on site, nor host a library or a digital learning area, despite recent extensions to the school.

3.2 The council acknowledges that children affected by the proposed catchment change are likely to have a longer walk to school and may follow a route which includes busier roads. It also notes that Options 1, 2 and 3 may result in some families having children who do not all attend the same primary school which could present logistical problems for parents.

3.3 The council has continued to discuss proposed routes to schools with parents potentially affected by proposed catchment changes. The route which still concerns some parents is along Milton Road East to Brunstane Primary School, although it is the opinion of the council that this is still a safe route. Council officers have walked this route with parents and discussed measures which could be taken to enhance the route for pedestrians. They have identified that one potential improvement is the introduction of a pedestrian crossing near the junction of Milton Road East and the A1.

3.4 This proposal has the potential to address the current capacity issue in Towerbank Primary School. To ensure this potential benefit is realised it will be

important for senior managers and staff to continue to discuss possible arrangements with children and their parents as plans for the reduction of the catchment area are developed.

3.5 The majority of staff, parents and children who spoke to HM Inspectors have a preference for Option 4, as they consider the 'sibling guarantee' to be the fairest solution to a difficult problem.

#### **4. Summary**

There is overall educational benefit to the proposal to reduce the size of the catchment area of Towerbank Primary School. Parents, staff, children and young people at all schools affected by the proposal realise the importance of addressing the issue of over-capacity which will affect Towerbank Primary School. Overall, Option 4 and its 'sibling guarantee' has most support. Parents and children feel that this is the fairest solution for families with children who currently attend the school. The council has indicated at all public meetings its intention to continue to involve all stakeholders as the proposal is being developed. In its final consultation report, scheduled for October 2015, the council should also ensure that concerns relating to safe routes to school are fully explored and addressed.

**HM Inspectors  
Education Scotland  
August 2015**



## **Appendix 6 – Safe Routes to Schools**

The issue of safe routes to schools was one of the major concerns expressed during the statutory consultation process and during the public consultation meetings. Whilst it was confirmed at every meeting that all the routes proposed were considered to be safe, officers from Children and Families committed to carry out further investigation of the routes proposed and consider if there was a potential for any further improvements.

A detailed description of all of the walking routes proposed in the statutory consultation is available [online](#); the four routes are as follows:

1	From the Baileyfield area to the Royal High School
2	From the Brighton Place/Rosefield area to Duddingston Primary School
3	From the Brunstane Road area to Brunstane Primary School
4	From the Eastfield/East Milton Road area to Brunstane Primary School

The greatest concern expressed was with regard to the route along Milton Road East to Brunstane Primary School (options 2, 3 and 4) and the proposed route from Brunstane Road to Brunstane Primary School (options 1, 2 and 4). Part of the further investigation included a commitment to walk these routes with parents and their children and a representative from the Council's Road Safety Team.

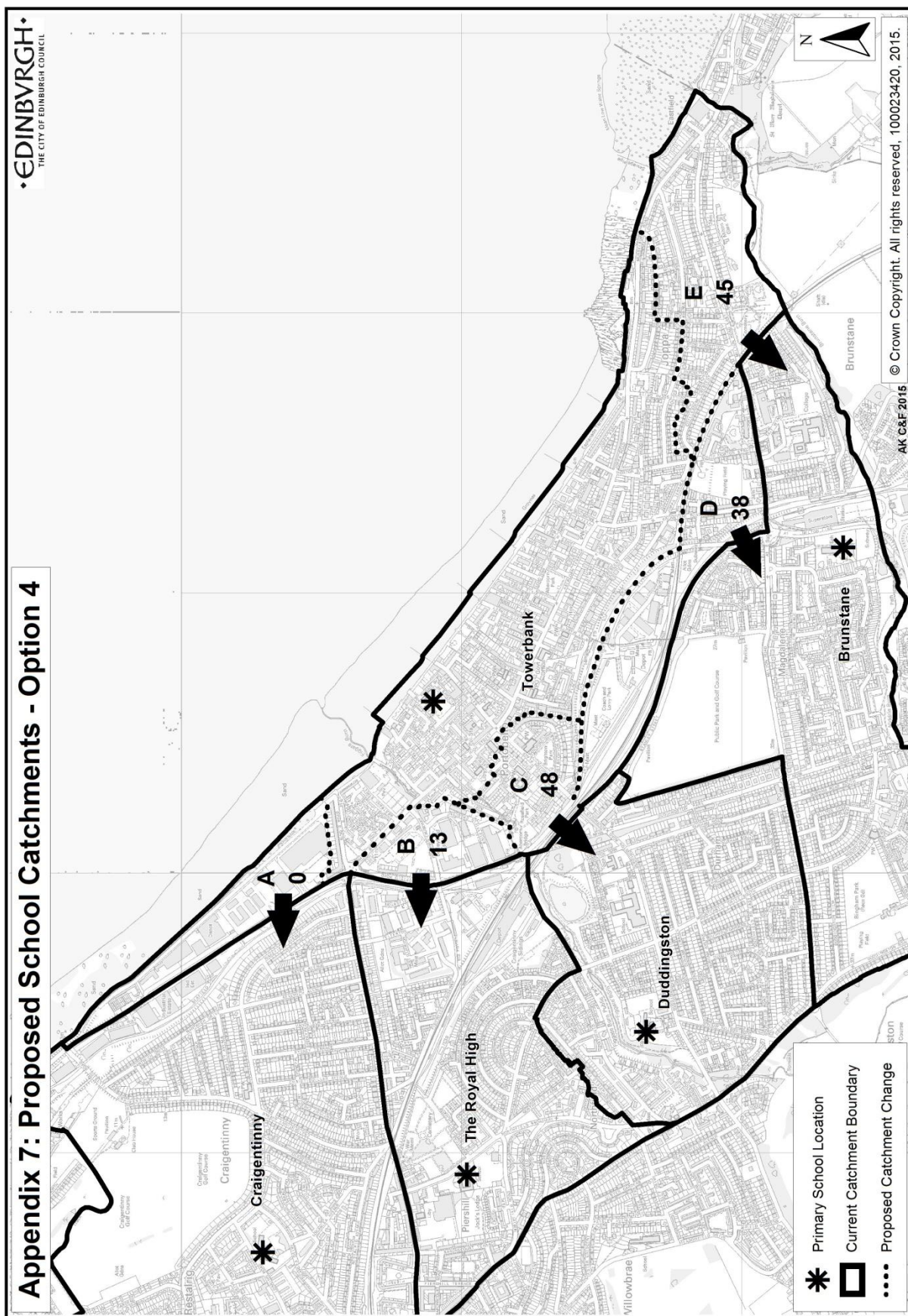
This walk was carried out on Friday, 19 June 2015 and several suggested issues were recorded as requiring further investigation. During a subsequent site visit a Children and Families representative discussed all the improvement opportunities identified with the Area Roads Manager and potential improvement actions were agreed. A summary of this process and the resulting outcomes is provided in the following table:

<b>Issue identified</b>	<b>Outcome of discussion with Area Roads Manager</b>	<b>Recommendation</b>
Junction between Eastfield and Milton Road East - sun filter at traffic lights (green man) requires to be fixed.	This will be repaired.	No further action required
Bus stop shelter adjacent to cemetery entrance – can it be changed to cantilever style in order to block less of the pavement?	This bus shelter is due to be replaced as part of the ongoing programme and a request will be made to the project manager for a cantilever style bus stop to be implemented at this location.	No further action required

Issue identified	Outcome of discussion with Area Roads Manager	Recommendation
Junction Crossing at Brunstane Bank – build out of pavement on east side of junction would improve visibility.	Drop kerbs have already been installed. Single yellow line will be progressed on Milton Road East (heading East) to improve visibility.	No further action required
Entrance to hotel – newest entrance created for the Gym requires cars to cross pavement with no proper drop kerb or demarcation.	Give way marking at hotel exit suggested.	Children and Families to discuss with hotel following Outcomes of Consultation report being considered by Council on 22 October 2015
Bus stop shelter to west of college entrance – can it be turned around?	Not possible at this location.	No further action required
Brunstane Drive crossing – recent work done, is crossing point in the correct location?	Yes. All lining will be refreshed this year.	No further action required
Brunstane Road South – can double yellow lines be extended on east side of junction? Crossing point needs repainted.	A Traffic Regulation Order for extension of double yellow lines already in progress. All lining will be repainted. Paint no longer used for crossing points but red chip surface will be put down. Brunstane Road South will become a 20 mph zone.	No further action required
Crossing of Milton Road East to the East of Brunstane Road junction – can this be improved?	This is a possibility but further technical analysis would be required. Controlled crossing (toucan), if it can be implemented, would also be of benefit for cyclists.	Following consideration of the Outcomes of Consultation report by Council on 22 October 2015 if required Children and Families will work with road colleagues to progress the required technical analysis and design.
Underpass – clean graffiti and cuts trees back.	Trees cut back annually. Graffiti will be cleaned up now and checked again in summer 2016.	No further action required

An assessment of the other routes proposed in the statutory consultation was also carried out with colleagues in the Road Safety Team. In terms of the routes proposed in the statutory consultation, the only other suggested improvements were minor signage upgrades on the route between Baileyfield and The Royal High Primary School. As this route is included in all options it is recommended that the proposed improvements are implemented where possible. Children and Families would work with colleagues in the Area Roads Team to determine how best to deliver the required infrastructure.

**Appendix 7 - Proposed School Catchments under Option 4**



## **Appendix 8 – List of Affected Addresses/Properties (including all flats and subdivisions) Under Option 4**

### **Area B: To The Royal High Primary School**

Baileyfield Crescent 1 to 12 (odd/even)

Baileyfield Road 2 to 25 (odd/even)

Fishwives Causeway 3 to 17 (odd)

Portobello High Street 1 to 21 (odd)

### **Area C: To Duddingston Primary School**

Adelphi Place 31 to 57 (odd)

Adelphi Place 36 to 70 (even)

Brighton Place 3 to 37 (odd)

Brighton Place 6 to 52 (even)

East Brighton Crescent 1 to 14 (odd/even)

Lee Crescent 1 to 29 (odd /even)

Rosefield Avenue 7 to 19 (odd)

Rosefield Avenue 18 to 30 (even)

Rosefield Avenue Lane 1 to 10 (odd/even)

Rosefield Place 1 to 21 (odd)

Rosefield Place 2 to 16 (even)

Rosefield Street 1 to 16 (odd/even)

West Brighton Crescent 1 to 19 (odd)

West Brighton Crescent 2 to 12 (even)

Sandford Gardens 3 to 9 (odd/even)

### **Area D and Area E: To Brunstane Primary School**

A1 Industrial Pk, Sir Harry Lauder Rd 200-248 (even)

Ashton Villas, Brunstane Road 1 to 2

Brunstane Road 45 to 83 (odd)

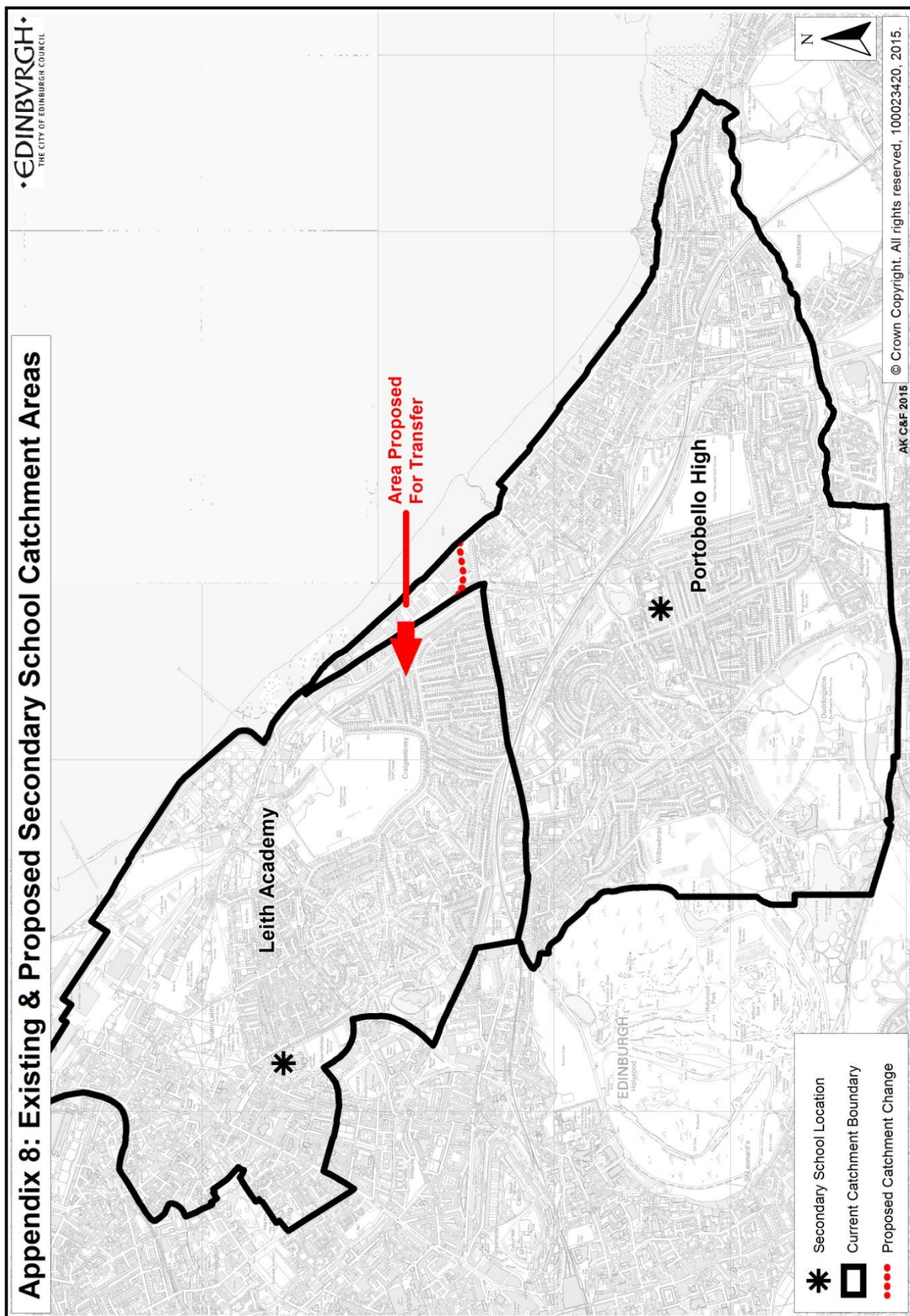
Brunstane Road 28 to 88 (even)

Brunstane Gardens 1 to 15 (odd)

Brunstane Gardens 2 to 20 (even)

Brunstane Garden Mews 1 to 2  
Brunstane Mill Road 1 to 17 (odd/even)  
Coillesdene Avenue 67 to 127 (odd)  
Coillesdene Avenue 38 to 104 (odd)  
Coillesdene Crescent 1 to 43 (odd)  
Coillesdene Crescent 2 to 48 (even)  
Coillesdene Gardens 1 to 15 (odd)  
Coillesdene Gardens 2 to 14 (even)  
Coillesdene Terrace 1 to 9 (odd)  
Coillesdene Terrace 2 to 10 (even)  
Coillesdene Loan 1 to 14 (odd/even)  
Duddingston Crescent 59  
Eastfield Place 1 to 13 (odd)  
Eastfield Place 4 to 10 (even)  
Eastfield Gardens 1 to 5 (odd)  
Eastfield Gardens 2 to 12 (even)  
Eastfield (Musselburgh Road) 1 to 55 (odd/even)  
Milton Drive 1 to 17 (odd)  
Milton Drive 12 to 24 (even)  
Milton Grove 1 to 19 (odd)  
Milton Grove 2 to 8 (even)  
Milton Road East 1 to 307 (odd)  
Milton Road East 200 to 318 (even)  
Milton Terrace 1 to 15 (odd)  
Milton Terrace 2 to 10 (even)  
Queens Bay Crescent 1 to 21 (odd)  
Queens Bay Crescent 2 to 12 (even)  
Sea View Crescent 38 to 72 (even)  
Seaview Terrace (Musselburgh Rd) 99 to 127 (odd/even)  
South Morton Street 3 to 5 (odd)  
South Morton Street 2 to 18 (even)

**Appendix 9 - Existing and Proposed Secondary School Catchment Areas**



# The City of Edinburgh Council

10.00am, Thursday 22 October 2015

## 2016/20 Revenue and Capital Budget Framework - referral report from the Finance and Resources Committee

<b>Item number</b>	8.2
<b>Report number</b>	
<b>Wards</b>	All

### Executive summary

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The Finance and Resources Committee on 24 September 2015 considered a report on a range of proposals that comprised the budget framework to form the basis of public engagement. The report has been referred to the City of Edinburgh Council for approval of savings that were efficiency-related and not otherwise considered material decisions set out in Appendix 2 of the report.

### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report



# Terms of Referral

## 2016/20 Revenue and Capital Budget Framework

### Terms of referral

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- 1.1 As had been well documented in a number of previous reports, setting the annual revenue budget would require increasingly difficult choices to be made in reconciling rising demand and increasing costs of providing services with real-terms reductions in available funding.
- 1.2 Despite this, the Council's approved revenue budget, at some £975 million in 2015/16 remained substantial and provided an on-going opportunity to invest in citizens' and the city's priorities. Within this, £19 million related to corporate, centrally-held budgets, £119 million to loan charges associated with serving debt for expenditure through the capital programme and £26 million to monies provided through the Local Government Finance Settlement for the Council Tax Reduction Scheme (CTRS). The remaining £811 million was spent on a diverse range of services.
- 1.3 The Finance and Resources Committee agreed to:
  - 1.3.1 note the contents of the report in the context of considering the Council's revenue and capital budget framework.
  - 1.3.2 note that the total value of the officer proposals set out in the report provided the potential for a balanced revenue budget to be set.
  - 1.3.3 approve the issuing for public engagement of the proposals listed in Appendix 1 of the report.
  - 1.3.4 note the potential additional capital receipts of £7.9m that might be realised over the period of 2015/20 Capital Investment Programme and the proposal that these be split equally between (i) supplementing planned repairs and maintenance spend through use of the Capital Fund and (ii) providing additional capital investment for priority areas.
  - 1.3.5 authorise Executive Directors to take forward detailed planning and development of the savings proposals contained within the budget framework including, where relevant to a savings proposal, planning, development and consultation in accordance with the Council's Organisational Review procedure.

- 1.3.6 note that additional details of the officer proposals to address the savings requirements for the Business and Support Services (BSS) and Citizens and Localities (C&L) workstreams would be brought back to the Committee during the public engagement period.
- 1.3.7 recognise that the budget framework included a number of proposals that were efficiency-related or not otherwise considered material decisions that required to be the subject of public engagement and thus refer the report to Council on 22 October 2015 to approve the savings set out in Appendix 2 of the report.

## For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the City of Edinburgh Council for approval of the proposals that were efficiency-related or not otherwise considered material decisions as set out in Appendix 2 of the report.

## Background reading / external references

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### Carol Campbell

Head of Legal, Risk and Compliance

Contact: Veronica MacMillan, Committee Clerk

E-mail: [veronica.macmillan@edinburgh.gov.uk](mailto:veronica.macmillan@edinburgh.gov.uk) | Tel: 0131 529 4283

## Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Finance and Resources Committee

10.00am, Thursday 24 September 2015

## 2016/20 revenue and capital budget framework

<b>Item number</b>	7.3
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	

### Executive summary

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Following an extensive period of discussion and elected member consideration, the Capital Coalition has developed a range of proposals comprising the budget framework to form the basis of public engagement. The framework brings together savings from both the transformation and service prioritisation programmes in an integrated plan, setting out how resources available for investment in frontline service priorities will be maximised.

The framework reaffirms the previous requirement to identify at least £107m of recurring annual savings by 2019/20, with the opportunity also taken to provide a sustainable means of addressing expenditure pressures in the Health and Social Care and Corporate Property service areas. A range of proposals to bridge these gaps spanning both the transformation programme and service prioritisation workstreams is set out.

Based on projections of total resources available and assuming approval by Council, the net level of proposals identified would be sufficient to set a balanced budget in each of the first three years of the framework but with a remaining gap in 2019/20 which will require the identification of additional savings proposals once the Council's revised operating model has bedded in.

## 2016/20 revenue and capital budget framework

### Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the contents of this report in the context of considering the Council's revenue and capital budget framework;
  - 1.1.2 note that the total value of the officer proposals set out in this report provides the potential for a balanced revenue budget to be set;
  - 1.1.3 approve the issuing for public engagement of the proposals listed in Appendix 1;
  - 1.1.4 note the potential additional capital receipts of £7.9m that may be realised over the period of 2015/20 Capital Investment Programme and the proposal that these be split equally between (i) supplementing planned repairs and maintenance spend through use of the Capital Fund and (ii) providing additional capital investment for priority areas;
  - 1.1.5 authorise Executive Directors to take forward detailed planning and development of the savings proposals contained within the budget framework including, where relevant to a savings proposal, planning, development and consultation in accordance with the Council's Organisational Review procedure;
  - 1.1.6 note that additional details of the officer proposals to address the savings requirements for the Business and Support Services (BSS) and Citizens and Localities (C&L) workstreams will be brought back to the Committee during the public engagement period; and
  - 1.1.7 recognise that the budget framework includes a number of proposals that are efficiency-related or not otherwise considered material decisions requiring to be the subject of public engagement and thus refer this report to Council on 22 October to approve the savings set out in Appendix 2.

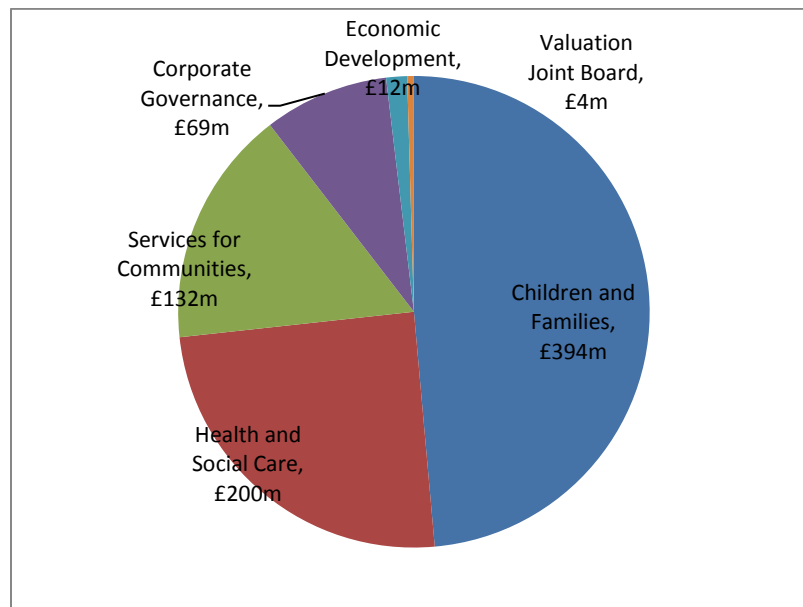
### Background

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#### **Revenue budget and Long-Term Financial Plan overview**

- 2.1 As has been documented in a number of previous reports, setting the annual revenue budget requires increasingly-difficult choices to be made in reconciling rising demand and increasing costs of providing services with real-terms reductions in available funding.
- 2.2 Despite this, the Council's approved revenue budget, at some £975m in 2015/16, remains substantial and provides an on-going opportunity to invest in

citizens', and the city's, priorities. Within this, £19m relates to corporate, centrally-held budgets, £119m to loan charges associated with servicing debt for expenditure through the capital programme and £26m to monies provided through the Local Government Finance Settlement for the Council Tax Reduction Scheme (CTRS). The remaining £811m is spent on a diverse range of services. The chart below shows how budgets are distributed across the current key service areas:



- Children and Families includes the provision of nursery, primary, secondary and special school education and care of vulnerable children;
- Corporate Governance includes culture and sport and the costs of the Council's governance arrangements and other corporate systems;
- Economic Development includes supporting inward investment and helping unemployed people into work or learning;
- Health and Social Care includes services for older people and adults with physical and learning disabilities, mental health services and criminal justice services; and
- Services for Communities includes waste services, parks, libraries, roads, transport and parking, homelessness prevention and planning services.

2.3 The overall savings requirement in any given year need is a complex product of the difference between the financial impact of the increased need to spend (primarily due to inflationary, demographic and legislative factors) and changes in available resources through grant funding, Non-Domestic Rates, Council Tax and fees and charges.

- 2.4 As members will be aware, the Council is one of relatively few in Scotland to make explicit provision for the costs of demographic change in its budget, with an additional £9.8m allocated within the Long-Term Financial Plan in 2015/16. Following Committee's approval in June to increase by £2.1m the level of demographic-related funding included within the budget baseline (in turn reflecting further pressures identified within the Children and Families service over and above previous estimates), a total of £12.2m of additional provision is now included in the 2016/17 budget, with further sums incorporated in subsequent years.
- 2.5 As noted in subsequent sections of this report, there is a risk that even these sums are insufficient. Given on-going reductions in overall funding availability, however, there remains a more fundamental need to consider the affordability of this strategy, and wherever possible, re-direct funding towards transformational and / or more preventative approaches to manage rising demand more effectively. This management of demand relates to all services but is particularly important as part of re-establishing financial sustainability within the Health and Social Care service.
- 2.6 The long-term financial plan also continues to include sums for the impact of inflation on provision of the Council's services, whether directly through pay awards or indirectly through increases in energy costs, non-domestic rates or contractual uplifts. The combined additional cost of these factors in 2015/16 alone is £13m and the incremental level of pressure is expected to increase in the medium-term as inflation rates move towards the Office for Budgetary Responsibility's 2% target.
- 2.7 The combination of an anticipated cash-terms reduction in grant funding, continuing demographic-led demand and changes in pensions-related legislation (resulting in the loss of the current contracted-out employer's National Insurance rebate from April 2016, increasing the Council's annual staffing costs by some £10m) make the position for 2016/17 particularly challenging; net savings of £30m require to be identified before pressures elsewhere in the budget are factored in.

## Main report

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### Revenue budget – overall position

- 3.1 Members of the Committee have received a number of updates in recent months setting out the Council's estimated overall savings requirement over the five-year period from 2015/16 to 2019/20, the most recent of which was included as part of the Council's [Financial Strategy](#) considered by the Finance and Resources Committee on 4 June 2015. This assessment pointed to a requirement, including savings approved as part of setting a balanced budget for 2015/16, to identify at least £107m of recurring annual savings by 2019/20.
- 3.2 With the exception of the formal incorporation of on-going pressures affecting the Health and Social Care and Corporate Property services outlined below, this position remains essentially unchanged and, as such, members' attention is

drawn to the overview of assumptions on both expenditure and income set out within the Financial Strategy and the earlier [Revenue Budget Framework Update](#) considered by the Committee on 13 May 2015.

- 3.3 The need to maintain financial sustainability over the medium- to longer-term is the Council's primary aim. With this in mind, the financial strategy approved in June comprises four distinct elements, namely:
- Controlling overspends within the Health and Social Care and Corporate Property areas and returning them, in due course, to a sustainable financial footing;
  - Implementing and delivering in full the savings approved as part of previous years' budget motions;
  - Implementing, and delivering the savings associated with, the Council's transformation programme; and
  - Delivering the remaining savings requirement through use of service prioritisation, focusing resources on the areas that make the biggest contribution to the Council's, and its citizens', priority outcomes.
- 3.4 Each of these objectives is crucial to developing a sustainable overall plan explicitly linked to delivery of the Council's key outcomes.
- 3.5 The assumptions within the Long-Term Financial Plan (LTFP) are based on the best-available information but nonetheless subject to a number of risks, particularly with regard to funding levels. The UK Government Spending Review will be announced somewhat later than usual on 25 November, meaning that the size of the Scottish Block will not be known until that time.
- 3.6 The Scottish Government then requires to allocate this overall sum, taking into account as appropriate existing and newly-devolved income-raising powers, across the main sectors of health, local and central government. While this will provide the total level of grant funding for local government, this quantum then requires to be allocated amongst authorities according to a complex series of distribution formulae. The output of this process has, in recent years, been subject to a formal checking process by local authority representatives to ensure its accuracy. Taken together, council-specific allocations are therefore unlikely to be confirmed until just before Christmas at the earliest but with the risk that these are not available until early January. While this undoubtedly constitutes a risk, existing assumptions are considered prudent and will be reviewed as soon as the quantum of the Local Government block is confirmed.
- 3.7 The LTFP also assumes that 2016/17 will be the last year of the current Council Tax freeze, reflecting the Scottish Government's previous intimation that the policy would be maintained for its full parliamentary term. Beyond this period, a 3% year-on-year increase is being assumed. The whole area of local taxation is currently the subject of the jointly-chaired Commission on Local Tax

Reform, recommendations from which are anticipated in the autumn. By definition, this makes future years' projections more speculative and, as such, they will be reviewed as additional details of any intended changes become apparent.

- 3.8 A number of other areas are recognised as risks but not explicitly factored in to the Council's overall spending requirements at this time. These are:
- (i) **Demography** – the review of the current level of provision included within the LTFP reported to the Committee in June identified additional potential cumulative pressures of £1.4m/£3.9m/£7.0m, particularly within services currently comprising Children and Families, over the period from 2017/18 to 2019/20 inclusive. At this stage, pending development of more detailed savings proposals to support this level of additional investment, these sums are not reflected in the net saving requirement shown at 3.21 below;
  - (ii) **Local Development Plan** – anticipated running costs of additional infrastructure required as a result of the plan, particularly in Children and Families, have also been identified. These costs, estimated at £3m by 2019/20, are not reflected in the above expenditure projections. There is also a significant risk that the Council will require to support additional borrowing associated with the LDP but, pending greater certainty over the quantum and profile of this requirement, no specific provision is included at this stage;
  - (iii) **City Deal** – the Council may incur additional borrowing costs or require short-term cash flow funding in taking forward the City Deal for the Edinburgh and South East of Scotland Region. Details will be factored in to the plan as the quantum and profile of any requirement become clearer; and
  - (iv) **National Minimum Wage** – following the Chancellor of the Exchequer's announcement of a staged increase in the level of the national minimum wage to £9 per hour by April 2020, initial modelling work has been undertaken. While the direct impact upon the Council is not anticipated to be significant given the current payment of the Living Wage of £7.85 per hour, the annual financial impact in the area of purchased care (where average pay rates are currently below this level) could potentially exceed current levels of provision within the LTFP by around £9m by 2019/20; and
  - (v) **Tram extension** – is it anticipated that a further report with associated cost implications will be presented to Council in October.

As set out later in the report, the framework makes provision, however, for £10m in 2016/17 and £15m from 2017/18 that could be used to make a contribution to some or all of the issues above.



- 3.9 There is also the potential for additional pressures arising from further welfare and/or pension reform to emerge and relevant details will be incorporated once proposals are clarified.

#### **Health and Social Care**

- 3.10 Progress in addressing the underlying pressures within the Health and Social Care budget has been the subject of monthly progress reports to the Committee, with the report elsewhere on today's agenda setting out current-year pressures of £16.3m offset by green-assessed mitigating actions of £5.5m. Following the ratification by Council of one-off corporate measures to a total value of £9.8m, the Chief Social Work Officer has, on behalf of the service, been instructed to deliver a further £1m of savings to bring the Council's overall 2015/16 budget position back in to balance.
- 3.11 In acknowledging the financial challenges arising from continuing increases in demand, the budget framework therefore provides an additional £10m to support the service on an on-going basis. This revised level of resourcing, adjusted for net changes arising from provision for pay awards, other inflation, demographic change and applied savings targets, will inform the annual level of resources transferred to the Integrated Joint Board to the Council from April 2016.

#### **Corporate Property**

- 3.12 Material pressures are also apparent in the area of Corporate Property, with provision for an additional £10m (gross) therefore incorporated within the framework. In order to address an element of this pressure, it is proposed to apply the majority of the capital receipt generated from the sale of the Atria to pay off debt associated with the building's construction. Any additional receipt beyond that assumed in the financial framework will be available for Council priorities. When compared against rental income foregone, this will reduce the net pressure by £3.5m /£2m/£1m/£1m respectively over the period from 2016/17 to 2019/20. These pressures are both incorporated in the updated cumulative funding gap shown at 3.21 below; the analysis takes as its starting point the assumptions set out in the Council's Budget Strategy considered by the Committee on 4 June.

## Transformation Programme

- 3.13 Some £22m of net savings were approved by Council as part of setting the 2015/16 budget in February 2015. Members were provided with a progress update on the various workstreams comprising the transformation programme at the Committee's last meeting on 27 August. Following a review of the content of the framework, both the level and associated timescales for delivery of savings targeted through the Business and Support Services (BSS) and Citizens and Localities (C&L) workstreams have been reviewed, with the net level of savings now assumed in the framework set out below.

Transformation workstream (savings shown on cumulative basis)	Savings 2016/17 £m	Savings 2017/18 £m	Savings 2018/19 £m	Savings 2019/20 £m
Citizens and Localities (15% savings in frontline services and 27% in management by April 2017)	22.7	44.4	44.4	44.4
Business and Support Services (26% overall savings by April 2017; includes Channel Shift)	7.2	18.4	18.9	18.9
Property and Asset Management Strategy (Option B)	(1.5)	(2.8)	5.8	6.2
Payments to Third Parties	2.2	4.4	4.4	4.4
Transformation programme costs	(2.4)	(1.5)	(0.5)	(0.5)
<b>Cumulative savings - Transformation Programme</b>	<b>28.2</b>	<b>62.9</b>	<b>73.0</b>	<b>73.4</b>

- 3.14 The savings now targeted through the review of the services within the scope of the Business and Support Services workstream amount to some 26% by April 2017, with those within the scope of the Citizens and Localities subject to an assumed 27% management and 15% non-management savings requirement over the same period. Realisation of savings on this scale requires a wholesale review of the current range and means of service delivery and, with this in mind, respective Executive Directors are currently examining options for delivery of savings to the level required with a view to bringing these to Committee during the engagement period.
- 3.15 Given the intrinsic link between the underlying rationale of the Channel Shift business case and release of staff from face-to-face customer contact roles, relevant savings have now been integrated alongside those for Business and Support Services. For Payments to Third Parties, the target saving remains 10% of in-scope expenditure and the figure shown above will be kept under review as firm plans are developed across all service areas.
- 3.16 At this stage, it is not possible to quantify the precise impact on staffing resulting from realisation of necessary savings. Given that employee costs represent some 40% of the Council's gross expenditure, however, it is inevitable that the changes will result in fewer posts, albeit these will be partially offset by higher numbers in areas subject to increased, demographic-led demand. Additional details will be provided during the consultation period as part of the update on

identification of specific options to realise savings in the Business and Support Services and Citizens and Localities workstream.

- 3.17 Proposals in respect of the Property and Asset Management Strategy (PAMS) workstream are included elsewhere on today's agenda. The report outlines two potential options for consideration by members but, in the interests of prudence, the budget framework reflects the broad (lower savings) profile of the "Plan B" model at this time, pending confirmation of Council's decision.
- 3.18 In addition to savings proposals developed through the transformation programme, a number of specific options have been developed by officers and these are shown in Appendix 1. Subject to approval of this report's recommendations, the proposals will be the subject of public engagement.
- 3.19 Consideration, delivery and tracking of the subsequent delivery of these savings will be considered as part of the integrated plan. As outlined in the previous transformation programme report on 27 August, this will allow realisation of the required savings to be aligned to the Council's strategic planning framework, simplify execution and increase transparency, with bi-monthly reporting to the Finance and Resources Committee.
- 3.20 The net impact of the changes in expenditure assumptions and savings proposals outlined in this report is summarised in the table below. The framework includes specific provision to recognise that an element of the savings from the transformation programme proposals will likely accrue to the Housing Revenue Account and/or reduce the element of income received by the Council and thus not be admissible against the overall General Fund savings target. In addition, a contingency is included to recognise that, given the scale of savings required, an element of these will not be accepted. The provision may alternatively, or additionally, be used to provide for further investment in key priorities or the risks and potential commitments listed in 3.8.

3.21 Members will note that the framework as set out gives the potential to set a balanced budget for each of the next three years. It is important to emphasise, however, that committing additional expenditure on a recurring basis in 2017/18 will serve only to reduce the level of surplus (or increase the deficit) in subsequent years. Given the paramount importance of sustainability to the Council's budget, any proposals for additional expenditure in 2017/18 should therefore be of a non-recurring nature.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Estimated cumulative funding gap ( <i>June 2015</i> )	52.2	66.8	86.1	106.9
Corporate Property deficit ( <i>net</i> )	6.5	8.0	9.0	9.0
Health and Social Care deficit	10.0	10.0	10.0	10.0
<b>Updated cumulative funding gap</b>	<b>68.7</b>	<b>84.8</b>	<b>105.1</b>	<b>125.9</b>
Savings approved 2015/16	(22.0)	(22.0)	(22.0)	(22.0)
Additional Income	(8.5)	(9.5)	(10.5)	(11.5)
Reductions in third party spend, including procurable expenditure	(7.8)	(7.8)	(7.3)	(6.8)
Reductions in service expenditure	(7.3)	(7.4)	(7.4)	(7.4)
Transport and utility savings	(0.2)	(0.3)	(0.3)	(0.3)
Workforce savings:				
- Transformation programme savings, net of costs	(28.2)	(62.9)	(73.0)	(73.4)
- Other workforce savings	(5.5)	(6.9)	(6.9)	(6.9)
<b>Remaining cumulative funding gap</b>	<b>(10.7)</b>	<b>(31.9)</b>	<b>(22.2)</b>	<b>(2.3)</b>
Reduced recharges to HRA or other loss of income	0.0	5.0	5.0	5.0
Provision required to offset option approval risk	10.7	15.0	15.0	15.0
<b>Estimated cumulative funding gap/(surplus)</b>	<b>0.0</b>	<b>(11.9)</b>	<b>(2.2)</b>	<b>17.7</b>

3.22 The framework also indicates that the specific proposals, or broad themes, identified to date are insufficient to deliver a balanced budget in the fourth year. It is therefore proposed that members consider inclusion of an efficiency target in 2019/20, recognising that, by that stage, the Council's revised operating model should be established and further opportunities for savings better able to be identified.

### Early approval of proposals

3.23 As was the case in last year's equivalent report, a number of the proposals contained within the framework are not anticipated to have either a material impact on financial, reputational or operational risk or on service delivery or performance. These proposals are listed in Appendix 2.

- 3.24 In order to facilitate the earlier delivery of savings and/or allow necessary planning to proceed, members of the Committee are asked to remit these proposals to Council for approval on 22 October. Additional details of the proposals concerned, including any potential material equalities and rights and carbon impacts, will be made available to elected members in advance of the Council meeting to inform this consideration.

### **Panmure School**

- 3.25 The use of Panmure School is significantly below budgeted capacity and the Executive Director of Communities and Families would like to investigate alternative methods of delivering this service. Committee is asked to delegate authority to the Executive Director to develop a paper on a consultation process for the re-provision of services at Panmure School. The consultation process which must be followed regarding the closure of a school is prescribed in the Schools (Consultation) (Scotland) Act 2010.

### **Capital budget**

- 3.26 Council approved the five-year capital programme for the period 2015-2020 in February 2015. At a general level, the ability to commit additional investment over and above that included in the current programme remains difficult due to:
- i. reductions in the level of General Capital Grant;
  - ii. the large number of capital receipts underpinning the existing capital programme or approved property rationalisation targets;
  - iii. the on-going lack of “headroom” within the revenue budget to support, on a recurring basis, the additional loans charge expenditure linked to additional borrowing. This remains pertinent given the unbalanced overall position for 2019/20.
- 3.27 At the time of rolling forward the 2015-2020 CIP for approval, the general fund programme was adjusted for current projected capital receipts forecasts underpinning expenditure. The approved 2015-2020 CIP assumes a level of general asset receipts totalling £40.5m.
- 3.28 At its meeting on the 31 October 2013, Finance and Resources Committee approved that future receipts where either ring-fencing or a 20% allocation to services had not already been agreed would now become a corporate resource to meet future capital expenditure requirements. This remains the current policy applied to capital receipts realisation.

### **Current assessment of receipts funding the CIP 2015-2020**

- 3.29 The primary sources of funding for capital projects include capital grant provided by the Scottish Government, capital receipts realised from the disposal of surplus assets and borrowing, with corresponding revenue costs to support the loan charges being included in the revenue budget.

- 3.30 At the time of rolling forward the 2015-2020 CIP for approval, the general fund programme was adjusted for current projected capital receipts forecasts underpinning expenditure.
- 3.31 Finance has carried out an exercise with Corporate Property to review these projections, and update them based on current information and market conditions. Members should note that this excludes the projected additional £8m of receipt income generated from the sale of Boroughmuir High School which has been agreed to fund the site acquisition for a long-term solution to rising rolls in South Edinburgh and the re-provision of facilities at Leith Primary School.
- 3.32 It should be noted that final settlement values can differ from projections, with values increasing or decreasing from that originally envisaged based on prevailing market factors at that time. In addition, estimated dates of settlement can be affected by unforeseen and uncontrollable factors moving realisation of sale proceeds from one financial year to another. Overall, the principle upon which monitoring of capital receipts realisation is based, is consideration of the five year horizon of the CIP rather than just the current in-year position.
- 3.33 Based on the principle described above, current projections suggest that over the five year period of the 2015-2020 CIP, sale of general assets will generate additional income over and above that previously budgeted for of approximately £7.9m.
- 3.34 This projection is based on the level of a small number of receipts being higher than originally envisaged, and also due to the identification of additional asset sales not previously factored in to the approved budget level. The majority of additional capital receipt income is likely to be generated in 2016/17.
- 3.35 It is proposed that the current policy on 100% corporate pooling of capital receipts be revised to ring-fence 50% of any additional income, generated over and above that underpinning the current 2015-2020 CIP, for transfer to the Capital Fund. The transfer to Capital Fund would occur on receipt settlement. It is then proposed that these monies be drawn down from the Capital Fund into the repairs and maintenance revenue budget held by Corporate Property. In doing so, there is potential to generate approximately £3.95m of one-off monies over the next five-year period to be spent on revenue repairs and maintenance / health and safety works across the existing Council property estate.
- 3.36 The remaining 50% of any additional receipt income (potentially £3.95m over the next five-year period) generated over and above that underpinning the current 2015-2020 CIP would be pooled corporately for consideration in funding capital investment priorities for the Council. Final settlement of the majority of relevant receipts is expected in future years, so consideration of how any additional monies should be allocated could form part of roll forward updates once missives are concluded and the actual level / timing of receipts is more certain. As with previous budget processes, members will be asked to consider any allocation of additional funding based on assessment of Council wide service priorities and pressures at that time. The potential for the overall level of receipts assumed to underpin the 2015-2020 CIP to be higher than originally

envisaged will be closely monitored and managed by Corporate Property and Finance.

## Measures of success

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- 4.1 Relevant measures in setting the Council's revenue budget include:
- Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2016/17 and subsequent years to be set as part of a longer-term sustainable framework;
  - Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and
  - Subsequent delivery of the approved savings, particularly where these are linked to additional service investment.

## Financial impact

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- 5.1 Inclusion of any additional revenue investment within the budget framework is contingent upon the development, and subsequent delivery, of corresponding savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

## Risk, policy, compliance and governance impact

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- 6.1 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the anticipated service impacts outlined in the respective budget templates. This process will be further aided by the integration into a single cost reduction plan of savings derived from the respective transformation and service prioritisation programmes.
- 6.2 Recent improvements to the budget monitoring process should also enhance Corporate Leadership Group (CLG) and elected member scrutiny of the management of service pressures and delivery of approved savings.

## Equalities impact

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- 7.1 As in previous years, those proposals comprising the budget framework will be assessed for their corresponding potential equalities and human rights impacts.
- 7.2 Initial work has been undertaken and a summary of those proposals with the potential for significant impacts will be reported to the Committee's meeting on

29 October. This will additionally allow the combined and cumulative impact of the proposals across the transformation programme to be assessed and reported at that time. The results of these assessments will then be referred to Council to ensure that members pay due regard to them in setting the Council's 2016/17 budget.

## Sustainability impact

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- 8.1 The proposals comprising the budget framework will also be subject to an assessment of their likely corresponding carbon impacts.
- 8.2 Initial work has been undertaken and a summary of this assessment will be reported to the Committee's meeting on 29 October. As with the equalities impacts, this will allow the combined and cumulative impact of the proposals across the transformation and prioritisation programme to be assessed and reported at that time. The results of these assessments will then be referred to Council to ensure that members pay appropriate regard to them in setting the Council's 2016/17 budget.

## Consultation and engagement

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- 9.1 As in previous years, draft budget proposals will be the subject to a period of public engagement and consultation, with the feedback received shaping the final budget. In addition, Directors have previously been asked to take explicit account of the priorities of the city's residents as expressed through the budget planner in developing proposals to address residual savings requirements.

## Background reading/external references

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[CEC Transformation Programme: Progress Update](#), Finance and Resources Committee, 27 August 2015

[Financial Strategy 2015/16 to 2019/20](#), Finance and Resources Committee, 4 June 2015

[Revenue Budget Framework 2016/20](#), Finance and Resources Committee, 13 May 2015

[Council's Budget 2015/16 – Risks and Reserves](#), Finance and Resources Committee, 15 January 2015

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## Links

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**Coalition pledges**

**Council outcomes** CO25 the council has efficient and effective services that deliver on objectives.

**Single Outcome Agreement**

**Appendices**

Appendix 1 – Proposals for public engagement

Appendix 2 – Proposals recommended for early approval by Council

<b>BUDGET FRAMEWORK, 2016/17 - 2019/20</b>							
<b>Option Number</b>	<b>Option</b>	<b>Service Area</b>	<b>Division</b>	<b>Savings 2016/17 £m</b>	<b>Savings 2017/18 £m</b>	<b>Savings 2018/19 £m</b>	<b>Savings 2019/20 £m</b>

<b>Additional income</b>							
Inc1	Integrate sports services currently based in Children and Families and Corporate Governance	C&F	Schools and Community Services	0.500	0.500	0.500	0.500
Inc2	Increase in discretionary income - Retail Price Index plus 2%	CW	Council-wide	1.000	2.000	3.000	4.000
Inc3	Increased charges for residential accommodation, telecare and other local authority charges	HSC	Business Services	0.250	0.250	0.250	0.250
Inc4	Increase fee charges for section 109 permits to install pipes and cables in roads and pavements	SfC	Transport	0.016	0.016	0.016	0.016
Inc5	Increase fee for Temporary Traffic Regulation Orders	SfC	Transport	0.054	0.054	0.054	0.054
Inc6	Increase bus station income	SfC	Transport	0.030	0.030	0.030	0.030
Inc7	Review allotment services and increase rents	SfC	Environment	0.021	0.021	0.021	0.021
Inc8	Increase parking permit charges by 5%	SfC	Transport	0.145	0.145	0.145	0.145
Inc9	Increase pay and display charges	SfC	Transport	1.000	1.000	1.000	1.000
<b>Total additional income</b>				<b>3.016</b>	<b>4.016</b>	<b>5.016</b>	<b>6.016</b>

<b>Reductions in third party expenditure</b>							
TP1	Reduce in third party payments for Community Learning and Development services	C&F	Schools & Community Services	0.250	0.250	0.250	0.250
TP2	Reduce grant payment to Festival City Theatre Trust	CG	Culture and Sport	0.100	0.100	0.100	0.100

<b>BUDGET FRAMEWORK, 2016/17 - 2019/20</b>							
<b>Option Number</b>	<b>Option</b>	<b>Service Area</b>	<b>Division</b>	<b>Savings 2016/17 £m</b>	<b>Savings 2017/18 £m</b>	<b>Savings 2018/19 £m</b>	<b>Savings 2019/20 £m</b>
TP3	Reduction in consultant expenditure	CW	Council-wide	2.000	2.000	2.000	2.000
TP4	Review funding arrangements for Winter Festivals	CG	Culture and Sport	0.500	0.500	0.500	0.500
TP5	Additional savings through procurement, including improved contract management	CW	Council wide	1.000	1.000	1.000	1.000
TP6	Review Edinburgh Shared Repairs Service	CG	Corporate Governance	0.500	0.500	0.500	0.500
TP7	Consolidate care and support/care at home pricing levels	HSC	CSWO Branch - Contracts Management Team	0.900	0.900	0.900	0.900
TP8	Reduce spending on block-contracted services by 10%	HSC	CSWO Branch - Contracts Management Team	0.720	0.720	0.720	0.720
TP9	Reduce funding to Police Scotland by a total of £0.5m (includes £0.25m through transformation programme)	SfC	Community Safety	0.250	0.250	0.250	0.250
TP10	Reduce commissioned services - Housing Support (sheltered housing/temporary accommodation)	SfC	Housing and Regeneration	0.500	0.500	0.500	0.500
TP11	Efficiencies in the waste service	SfC	Environment	1.000	1.000	0.500	0.000
TP12	Improve the internal waste haulage service	SfC	Environment	0.030	0.030	0.030	0.030
<b>Total reductions in third party expenditure</b>				<b>7.750</b>	<b>7.750</b>	<b>7.250</b>	<b>6.750</b>

<b>Reductions in service expenditure</b>							
SP1	Renegotiate fees for foster placements for young people aged 18+	C&F	Support to Children and Young People	0.380	0.380	0.380	0.380
SP2	Adoption allowances for young people aged 18+	C&F	Support to Children and Young People	0.077	0.077	0.077	0.077

<b>BUDGET FRAMEWORK, 2016/17 - 2019/20</b>							
<b>Option Number</b>	<b>Option</b>	<b>Service Area</b>	<b>Division</b>	<b>Savings 2016/17 £m</b>	<b>Savings 2017/18 £m</b>	<b>Savings 2018/19 £m</b>	<b>Savings 2019/20 £m</b>
SP3	Review of family and pupil support services	C&F	Support to Children and Young People	0.500	0.500	0.500	0.500
SP4	Greater use of telecare and remodelling Social Care Direct	HSC	Older People's Services	2.000	2.000	2.000	2.000
SP5	Health and Social Care- improve management of service user demand	HSC	Assessment and Care Management	1.300	1.300	1.300	1.300
SP6	Unblock reablement, allowing more people to benefit from improved self-care at lower cost	HSC	Older People's Services	2.000	2.000	2.000	2.000
SP7	Develop local authority trading company and co-operative for care services	HSC	All	0.000	TBC	TBC	TBC
SP8	Reduce gully cleaning service	SfC	Transport	0.110	0.110	0.110	0.110
SP9	New approach to street lighting repairs	SfC	Transport	0.134	0.134	0.134	0.134
SP10	New approach to managing Clarence response service - defect repairs	SfC	Transport	0.185	0.185	0.185	0.185
SP11	Reduce bus stops and shelters maintenance	SfC	Transport	0.025	0.025	0.025	0.025
<b>Total reductions in service expenditure</b>				<b>6.711</b>	<b>6.711</b>	<b>6.711</b>	<b>6.711</b>

<b>Workforce savings</b>							
P1	Prioritise the funding which supports schools in areas of deprivation	C&F	Schools and Community Services	0.118	0.188	0.188	0.188
P2	Change Early Years services	C&F	Schools and Community Services	0.297	0.297	0.297	0.297
P3	Reduce use of employee overtime by 25%	CW	Council-wide	1.667	1.667	1.667	1.667
P4	Reduce use of agency staffing by 20%	CW	Council-wide	2.667	4.000	4.000	4.000
<b>Total workforce savings</b>				<b>4.749</b>	<b>6.152</b>	<b>6.152</b>	<b>6.152</b>

<b>Total - all savings</b>				<b>22.226</b>	<b>24.629</b>	<b>25.129</b>	<b>25.629</b>
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BUDGET FRAMEWORK, 2016/17 - 2019/20							
Option Number	Option	Service Area	Division	Savings 2016/17 £m	Savings 2017/18 £m	Savings 2018/19 £m	Savings 2019/20 £m

Additional income							
EA1	Increase Council Tax collection	CG	Customer Services	0.311	0.311	0.311	0.311
EA2	Increase in Lothian Buses dividend to £6m (£5m now anticipated in 2015/16)	CW	Council-wide	3.000	3.000	3.000	3.000
EA3	Increase in EDI Group dividend	CW	Council-wide	0.500	0.500	0.500	0.500
EA4	Increase funding from external sources	CW	Enterprise and Innovation	0.328	0.328	0.328	0.328
EA5	Begin contribution-based charging for Self-Directed Support and care and support services	HSC	Business Services	0.230	0.230	0.230	0.230
EA6	Increase trade permit income	SfC	Transport	0.100	0.100	0.100	0.100
EA7	Tram advertising income	SfC	Transport	0.500	0.500	0.500	0.500
EA8	Increase Planning and Building Standards application income	SfC	Planning and Building Standards	0.200	0.200	0.200	0.200
EA9	Retain parking income	SfC	Transport	0.300	0.300	0.300	0.300
<b>Total additional income</b>				<b>5.469</b>	<b>5.469</b>	<b>5.469</b>	<b>5.469</b>

Reductions in third party expenditure							
EA10	Prioritise accreditation and memberships	CW	Council wide	0.050	0.050	0.050	0.050
<b>Total reductions in third party expenditure</b>				<b>0.050</b>	<b>0.050</b>	<b>0.050</b>	<b>0.050</b>

Reductions in service expenditure							
EA11	Efficiencies in the revenue implications of infrastructure development	C&F	Resources	0.121	0.171	0.171	0.171
EA12	Balance of Care residual funding	C&F	Support to Children and Young People	0.160	0.160	0.160	0.160
EA13	Savings due to reduced level of adoption allowances required	C&F	Support to Children and Young People	0.100	0.100	0.100	0.100

<b>BUDGET FRAMEWORK, 2016/17 - 2019/20</b>							
<b>Option Number</b>	<b>Option</b>	<b>Service Area</b>	<b>Division</b>	<b>Savings 2016/17 £m</b>	<b>Savings 2017/18 £m</b>	<b>Savings 2018/19 £m</b>	<b>Savings 2019/20 £m</b>
EA14	Uncommitted funding for family based respite care	C&F	Support to Children and Young People	0.085	0.085	0.085	0.085
EA15	Savings from reducing the number of purchased adoptions	C&F	Support to Children and Young People	0.150	0.150	0.150	0.150
<b>Total reductions in service expenditure</b>				<b>0.616</b>	<b>0.666</b>	<b>0.666</b>	<b>0.666</b>

<b>Transport and utility savings</b>							
EA16	Reduce internal transport	SfC		0.150	0.250	0.250	0.250
<b>Total transport and utility savings</b>				<b>0.150</b>	<b>0.250</b>	<b>0.250</b>	<b>0.250</b>

<b>Workforce savings</b>							
EA17	Edinburgh Guarantee	C&F	Schools and Community Services	0.060	0.060	0.060	0.060
EA18	Early Years	C&F	Early Years	0.250	0.250	0.250	0.250
EA19	Conservation costs	C&F	Schools and Community Services	0.250	0.250	0.250	0.250
EA20	Efficiencies from merger of design teams	SfC	Transport	0.143	0.143	0.143	0.143
<b>Total workforce savings</b>				<b>0.703</b>	<b>0.703</b>	<b>0.703</b>	<b>0.703</b>

<b>Total - all savings</b>				<b>6.988</b>	<b>7.138</b>	<b>7.138</b>	<b>7.138</b>
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# The City of Edinburgh Council

10.00am, Thursday 22 October 2015

## The City of Edinburgh Council – Report to those Charged with Governance on the 2014/15 Audit - referral report from the Finance and Resources Committee

<b>Item number</b>	8.3
<b>Report number</b>	
<b>Wards</b>	All

### Executive summary

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The Governance, Risk and Best Value Committee on 23 September 2015 considered a report on the principal findings that arose from the Council's 2014/15 external audit. The report was referred to the Finance and Resources Committee where the annual accounts for 2014/15 were approved. The report has been referred to the City of Edinburgh Council for approval to set aside the £0.162 million increase in the in-year underspend within the Council's Priorities Fund.

### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Terms of Referral

## The City of Edinburgh Council – Report to those Charged with Governance on the 2014/15 Audit

### Terms of referral

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- 1.1 A summary of the principal findings that arose from the Council's 2014/15 external audit was presented. While primarily focused on the review of the financial statements, the audit's scope included wider consideration of the Council's financial position, governance structures, use of resources and arrangements for securing best value.
- 1.2 The report concluded that the Council's financial management arrangements were broadly satisfactory, with actions identified to strengthen control arrangements in areas of particular pressure and plans developed to support medium-to-longer-term financial sustainability. The Council was assessed to have effective governance arrangements in place, including its systems of internal control and internal audit and fraud prevention functions.
- 1.3 The Finance and Resources Committee agreed to:
  - 1.3.1 To approve the Annual Accounts for 2014/15.
  - 1.3.2 To refer the report to The City of Edinburgh Council to set aside the £0.162 million increase in the in-year underspend within the Council Priorities Fund.

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the City of Edinburgh Council for approval to set aside the £0.162 million increase in the in-year underspend within the Council's Priorities Fund.

### Background reading / external references

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#### **Carol Campbell**

Head of Legal, Risk and Compliance

Contact: Veronica MacMillan, Committee Clerk



## Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Finance and Resources Committee

10.00am, Thursday 24 September 2015

## City of Edinburgh Council – Report to those Charged with Governance on the 2014/15 Audit - referral report from the Governance, Risk and Best Value Committee

Item number	7.9
Report number	
Wards	All

### Executive summary

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The Governance, Risk and Best Value Committee on 23 September 2015 will consider a report on the principal findings arising from the Council's 2014/15 external audit. It is anticipated the report, subject to any amendments and/or additions to the recommendations, will be referred to the Finance and Resources Committee for approval of the annual audit and will subsequently be referred to the City of Edinburgh Council for approval to set aside the £0.162 million increase in the in-year underspend within the Council's Priorities Fund. Any amendments and/or additions to the recommendations will be reported verbally at Committee.

### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Terms of Referral

## The City of Edinburgh Council – Report to those Charged with Governance on the 2014/15 Audit

### Terms of referral

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- 1.1 The review of all matters related to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The External Auditor will be attending the Governance, Risk and Best Value Committee on Wednesday 23 September 2015 to provide an overview of the accompanying report and to respond to specific queries members might have on its contents,
- 1.2 Given the Governance, Risk and Best Value Committee's scrutiny function, however, approval of the annual accounts requires referral to the Finance and Resources Committee meeting taking place on 24 September 2014. The external auditor will also attend the Finance and Resources Committee meeting.
- 1.3 The Governance, Risk and Best Value Committee will be asked to:
  - 1.3.1 Note that, following the audit process, an unqualified audit opinion has been issued on the Council's Annual Accounts for 2014/15.
  - 1.3.2 Refer the Annual Accounts for 2014/15 to the Finance and Resources Committee for approval and thereon to Council to set aside the £0.162 million increase in the in-year underspend within the Council Priorities Fund.
  - 1.3.3 Note that, following approval, the Annual Accounts for 2014/15 will be submitted to the External Auditor.
  - 1.3.4 Note the extent of progress made in addressing the improvement actions contained within the previous Best Value report issued in December 2014 and that delivery of the remaining actions set out in the action plan in Appendix IV will be reported to the Committee during the year.

### For Decision/Action

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- 2.1 The Governance, Risk and Best Value Committee, subject to any amendments and/or additions to the recommendations, has been invited to refer the report to the Finance and Resources Committee for approval of the Annual Accounts. It is expected the report will subsequently be referred to the City of Edinburgh

Council for approval to set aside the £0.162 million increase in the in-year underspend within the Council's Priorities Fund.

## Background reading / external references

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[City of Edinburgh Council – Report to those Charged with Governance on the 2014/15 Audit](#)

### **Carol Campbell**

Head of Legal, Risk and Compliance

Contact: Veronica MacMillan, Committee Clerk

E-mail: [veronica.macmillan@edinburgh.gov.uk](mailto:veronica.macmillan@edinburgh.gov.uk) | Tel: 0131 529 4283

## Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Governance, Risk and Best Value Committee

10am, Wednesday, 23 September 2015

## The City of Edinburgh Council – report to those charged with governance on the 2014/15 audit

Item number

Report number

Executive/routine

Wards

### Executive summary

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The report summarises the principal findings arising from the Council's 2014/15 external audit. While primarily focused on the review of the financial statements, the audit's scope included wider consideration of the Council's financial position, governance structures, use of resources and arrangements for securing best value.

An unqualified audit opinion has been issued on the financial statements for the Council but the report notes the failure of one of the Council's Significant Trading Operations (STOs) to break even over a rolling three-year period.

The report further concludes that the Council's financial management arrangements are broadly satisfactory, with actions identified to strengthen control arrangements in areas of particular pressure and plans developed to support medium- to longer-term financial sustainability. The Council is assessed to have effective governance arrangements in place, including its systems of internal control and internal audit and fraud prevention functions.

The report furthermore comments favourably on the extent of progress made in respect of the action points raised in the Best Value report of December 2014, as well as on the Council's performance and public reporting framework.

## The City of Edinburgh Council – report to those charged with governance on the 2014/15 audit

### Recommendations

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- 1.1 Members of the Governance, Risk and Best Value Committee are asked to:
  - 1.1.1 note that, following the audit process, an unqualified audit opinion has been issued on the Council's Annual Accounts for 2014/15;
  - 1.1.2 refer the Annual Accounts for 2014/15 to the Finance and Resources Committee for approval and thereon to Council to set aside the £0.162m increase in the in-year underspend within the Council Priorities Fund;
  - 1.1.3 note that, following approval, the Annual Accounts for 2014/15 will be submitted to the External Auditor;
  - 1.1.4 note the extent of progress made in addressing the improvement actions contained within the previous Best Value report issued in December 2014 and that delivery of the remaining actions set out in the action plan in Appendix IV will be reported to the Committee during the year.

### Background

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- 2.1 The Council submitted its unaudited Annual Accounts to the external auditor on 26 June.
- 2.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The External Auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 24 September. The external auditor will also attend the Finance and Resources Committee meeting.

- 3.1 As in previous years, the External Auditor's report on the annual audit contains four sections:
- Financial statements;
  - Financial management and sustainability;
  - Governance and transparency; and
  - Best Value

- 3.2 The key messages from the audit are presented on pages 4 and 5 of the report (included as Appendix 1), with a number of action points for the Council to address in the coming months also noted. These, together with the responses provided by the Council, are shown on pages 44 to 48.

### **Financial Statements (pages 7 to 13)**

- 3.3 Audit Scotland has provided, by means of a letter issued in accordance with the requirements of ISA260 (Appendix 2), an unqualified opinion on the financial statements, albeit it has been noted that one Significant Trading Operation, Edinburgh Catering Services – Other Catering, failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2014/15 was £66,000, with a cumulative three-year deficit of £94,000, reflecting the impact of a downturn across both in-house catering and external hospitality.
- 3.4 In addition to having implemented a reduction in opening hours and menu rationalisation, the catering service forms part of the Property and Asset Management Strategy (PAMS) workstream, proposals for which will be reported to the Finance and Resources Committee on 24 September 2015.
- 3.5 The auditor's report notes that no issues pertaining to the legality of the Council's financial transactions require to be brought to members' attention. The Council's interest in a number of subsidiaries and associates has also been appropriately reflected in the wider group accounts. An unqualified audit opinion has furthermore been issued on the Council's Charitable Trusts.
- 3.6 The report notes that a small number of presentational and other adjustments have been incorporated in the audited statements, increasing the reported surplus for the year from £0.519m to £0.681m. A reconciliation of this movement is included as Appendix 3. Upon approval of the statements by the Finance and Resources Committee, the report will then be referred to Council for approval to set aside this additional sum within the Council Priorities Fund.
- 3.7 The report notes a number of significant issues which, in the view of the auditor, require to be communicated to members of the Committee (included on pages 10 to 12). In each case, the matter in question has been discussed with Council officers and corresponding actions agreed. None of the matters resulted in any amendment to the accounts.

### **Financial management and sustainability (pages 14 to 23)**

- 3.8 The report notes that current financial management arrangements are broadly satisfactory, with most service areas containing expenditure within budgeted levels in 2014/15. While a significant overspend was incurred in the Health and Social Care service, the report acknowledges that the Council has taken action, by means of commissioning an external review, to identify both the underlying causes of the financial pressures and potential mitigating actions to address them.
- 3.9 The report further concludes that financial governance arrangements are in accordance with the principles of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government, with comprehensive and recently-updated financial rules and regulations, effective scrutiny of budget management by Committee and sound financial planning and monitoring arrangements all in place. While acknowledging progress in the development of plans to address the Council's overall savings requirement, the report notes that, in common with other councils, these will require the taking of further difficult decisions to maintain financial sustainability going forward.

### **Governance and transparency (pages 24 to 31)**

- 3.10 The report concludes that the Council has effective governance arrangements, providing an appropriate framework for organisational decision-making. Effective systems of internal control and satisfactory arrangements for the prevention and detection of fraud and irregularities are also in place. The report furthermore notes that procedures for maintaining standards of conduct and the prevention and detection of corruption are effective.
- 3.11 The report comments favourably on the effectiveness of current decision-making and scrutiny political arrangements. Progress in respect of the statutory repairs service and tram project is also noted.

### **Best Value (pages 32 to 37)**

- 3.12 The extent of progress made in respect of the recommendations contained within the December 2014 Best Value follow-up is noted, with particular emphasis on the development of plans to secure the Council's longer-term financial sustainability through integration of the transformation and service prioritisation work programmes. In addition, the report notes the approval in March 2015 of a workforce strategy, the significant savings anticipated to arise from the recently-signed ICT contract and the favourable assessment of the capability of its procurement function, all of which were highlighted as areas for improvement in the previous report.
- 3.13 The report furthermore notes that the Council's performance management arrangements work well, with significant progress made in the past year in the



range and quality of its public performance reporting. The Council's active scrutiny of Audit Scotland's national performance reports is also highlighted.

## Measures of success

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- 4.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2015.
- 4.2 Actions are undertaken to address the actions within the action plan in accordance with the timescales indicated.

## Financial impact

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- 5.1 There is no direct additional impact arising from the report's contents, although the effectiveness of the Council's current financial management and planning arrangements is noted.
- 5.2 As a result of the audit process, the Council's reported surplus for the year increased by £0.162m. Council approval will be sought to set aside this sum within the Council Priorities Fund, which forms part of the overall General Fund.
- 5.3 The General Fund stood at £117.476m at 31 March 2015, comprising £104.452m earmarked for specific purposes and £13.024m as an unallocated General Fund balance against the likelihood of unfunded risks crystallising.

## Risk, policy, compliance and governance impact

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- 6.1 The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.

## Equalities impact

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- 7.1 No full ERIA is required.

## Sustainability impact

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- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

## Consultation and engagement

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- 9.1 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received no requests for further information under these Regulations.

## Background reading/external references

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[Unaudited Financial Statements 2014/15](#), City of Edinburgh Council, 25 June 2015

### Alastair D Maclean

Deputy Chief Executive

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### Links

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<b>Coalition pledges</b>	P30 – Continue to maintain a sound financial position including long-term financial planning
<b>Council outcomes</b>	CO25 – The Council has efficient and effective services that deliver on agreed objectives
<b>Single Outcome Agreement</b>	SO1 – Edinburgh’s economy delivers increased investment, jobs and opportunities for all SO2 – Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health SO3 – Edinburgh’s children and young people enjoy their childhood and fulfil their potential SO4 – Edinburgh’s communities are safer and have improved physical and social fabric
<b>Appendices</b>	Appendix 1 - City of Edinburgh Council – Report to those charged with governance on the 2014/15 Audit Appendix 2 - ISA260 letter on 2014/15 Financial Statements Appendix 3 - Audited 2014/15 Financial Statements Appendix 4 - Reconciliation of movement in outturn position



# City of Edinburgh Council

Annual audit report to  
Members and the  
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. ([www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac))

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Accounts Commission has appointed Dave McConnell as the external auditor of City of Edinburgh Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of City of Edinburgh Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

## Key contacts

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# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>• Unqualified auditor's report on the 2014/15 financial statements.</li><li>• Explanatory paragraph in the auditor's report on the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective.</li><li>• Unqualified auditor's report on the seven charitable trusts administered by the council.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>• The council's financial management arrangements are broadly satisfactory, with actions identified to strengthen control arrangements in particular areas of financial pressure.</li><li>• The council has developed longer term financial plans to ensure it is sustainable currently and in the foreseeable future.</li><li>• Risks remain around key assumptions and delivery of savings associated with the financial plans (£107 million required by 2019/20), and identification of the savings required to bridge the estimated funding gap.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• The council has effective governance arrangements in place.</li><li>• Systems of internal control operated effectively.</li><li>• The council has an effective internal audit function and sound anti-fraud arrangements.</li></ul>



## Best Value

- The council has made good progress in addressing the issues raised in the Best Value report of December 2014.
- Difficult choices will need to be made around matching future resources to priorities, in order to achieve the level of required savings.
- A well established performance framework is in place, and public performance reporting arrangements are clear and structured.



## Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed for the successful delivery of the council's transformation programme.

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of City of Edinburgh Council (the council). The report is divided into sections which reflect our public sector audit model.
2. The management of City of Edinburgh Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of City of Edinburgh Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that City of Edinburgh Council understands its risks and has arrangements in place to manage these risks. The council and the corporate leadership group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.



# Audit of the 2014/15 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit and issued an unqualified independent auditor’s report.</li> <li>• We have included an explanatory paragraph in the auditor’s report on the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective.</li> </ul>
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>• The financial statements of City of Edinburgh Council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li> </ul>
<p><b>Charitable trusts</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by the council and issued an unqualified independent auditor’s report.</li> </ul>
<p><b>Group accounts</b></p>	<ul style="list-style-type: none"> <li>• The council has accounted for the financial results of two subsidiaries, four associates and two trusts in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £109 million.</li> </ul>
<p><b>Whole of government accounts</b></p>	<ul style="list-style-type: none"> <li>• The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return submitted to the Scottish Government.</li> </ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 26 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, was outlined in our Annual Audit Plan presented to the Governance, Risk and Best Value Committee on 23 April 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved 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.

## The audit of charities financial statements

14. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
15. The council has seven funds which were subject to the full charities financial statements audit for 2014/15.
16. We have given an unqualified opinion on the 2014/15 financial statements of the relevant charities registered by the council.

## Group accounts

17. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
18. City of Edinburgh Council has accounted for the financial results of two subsidiaries, four associates and two trusts in its group accounts for 2014/15. The overall effect of consolidating these

balances on the group balance sheet is to increase total reserves and net assets by £109 million.

## Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of City of Edinburgh Council we set our planning materiality for 2014/15 at £17.2 million for the council and £18.7 million for the group (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £9.5 million for the council and £10.3 million for the group, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality levels.

22. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

23. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
24. A number of minor presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the council and group total expenditure by £0.163 million. Net assets as recorded in the balance sheet have increased by £0.163 million.

## Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - Significant difficulties encountered during the audit
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management

- Written representations requested by the auditor
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

26. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

## Significant findings from the audit

Issue	Resolution
<p><b>Housing Revenue Account rent accounting system</b></p> <p>An unreconciled difference of £0.737 million was identified between the rent debtors balance in financial ledger and the Northgate rent accounting system. Rental income is posted to Northgate on a fortnightly basis and the difference is the cumulative effect of variations between the fortnightly postings to Northgate and the postings to the ledger.</p>	<p>The financial statements currently reflect the rent debtors balance per the financial ledger. As the variation is not material to the financial statements, no adjustment has been made to the accounts. The council is continuing to investigate the reasons for the variance in conjunction with its system supplier and will make any necessary adjustments during the 2015/16 financial year. It is also reviewing its procedures for processing interfaces between the rent accounting system and the ledger.</p>
<p><b>Accounts Receivable reconciliation</b></p> <p>During testing of debtors, we identified that the accounts receivable control account was not fully reconciled to the financial ledger at the year end. A difference of £0.5 million exists between the ledger and system balance. The system reports required for the reconciliation were not produced at the same date as the ledger reports, and system limitations on the accounts receivable system prevent the reports from being produced retrospectively.</p>	<p>The financial statements currently reflect the accounts receivable debtors balance per the financial ledger. As the variation is not material to the financial statements, no adjustment has been made to the accounts. The council will review and re-issue financial statements closedown instructions for 2015/16 with an emphasis on the procedures and timing of these system reports. Replacement of the current accounts receivable system has been prioritised as part of the new ICT contract arrangements.</p>

Issue	Resolution
<p><b>Statutory repairs - debtor</b></p> <p>The financial statements contain a significant total debtor balance of £21.1 million (2013/14 - £30.6 million) relating to statutory notices. The reduction is mainly due to write-offs and amounts recovered from debtors. In 2013/14 there was balance of £19.1 million relating to work carried out but not yet billed. This element of the statutory repairs debt was reduced to £6.7 million by the 2014/15 financial year-end and the council has continued to make progress in addressing this debt at the beginning of 2015/16.</p> <p>The impairment provision for statutory repairs debt has been revised during the year to reflect new information available to the council. This includes levels of written-off debt, recovery rates and increased assurance of recovery around cases that have been reviewed externally. The provision for 2014/15 stands at £8.9 million (2013/14 - £12.6 million) or 42% of the total which is comparable to the level set in 2013/14 (41%).</p>	<p>We reviewed the calculation of the level of provision and we considered the council's approach to estimation to be reasonable. The council will continue to refine the provision as further collection information is gathered.</p>
<p><b>Significant Trading Organisation – achievement of statutory requirement</b></p> <p>The council's trading activity (Edinburgh Catering Services – Other) failed to achieve the statutory obligation to break even over a three year period. The deficit for 2014/15 was £66,000, with a cumulative three year deficit of £94,000.</p>	<p>The failure to achieve a statutory obligation has been reported as a failure to achieve a prescribed financial objective in the Independent Auditor's Opinion. The council has put in place a number of measures address the profitability of the service going forward, including reduced opening hours and menu rationalisation. In addition, the catering service has been included within the scope of the Property and Asset Management strategy which is currently being considered by the council.</p>

Issue	Resolution
<p><b>Annual Governance Statement</b></p> <p>The financial statements include an annual governance statement, which sets out the governance arrangements in place for the council and group, along with a review of effectiveness and issues identified through the process. The format of the governance statement complies with the requirements of CIPFA's <i>Framework for delivering good governance in local authorities</i>. However, there is scope for improving the review of effectiveness narrative by providing detail on the key actions being taken in relation to identified issues.</p>	<p>A meeting will be held with external auditors prior to March 2016 to discuss expectations around the additional proposed narrative content of the statement, and potential for improvement. The outcome of these discussions will be reflected in the preparation of the Annual Governance Statement for 2015/16.</p>

## Future accounting and auditing developments

### Revisions to the Code of Practice

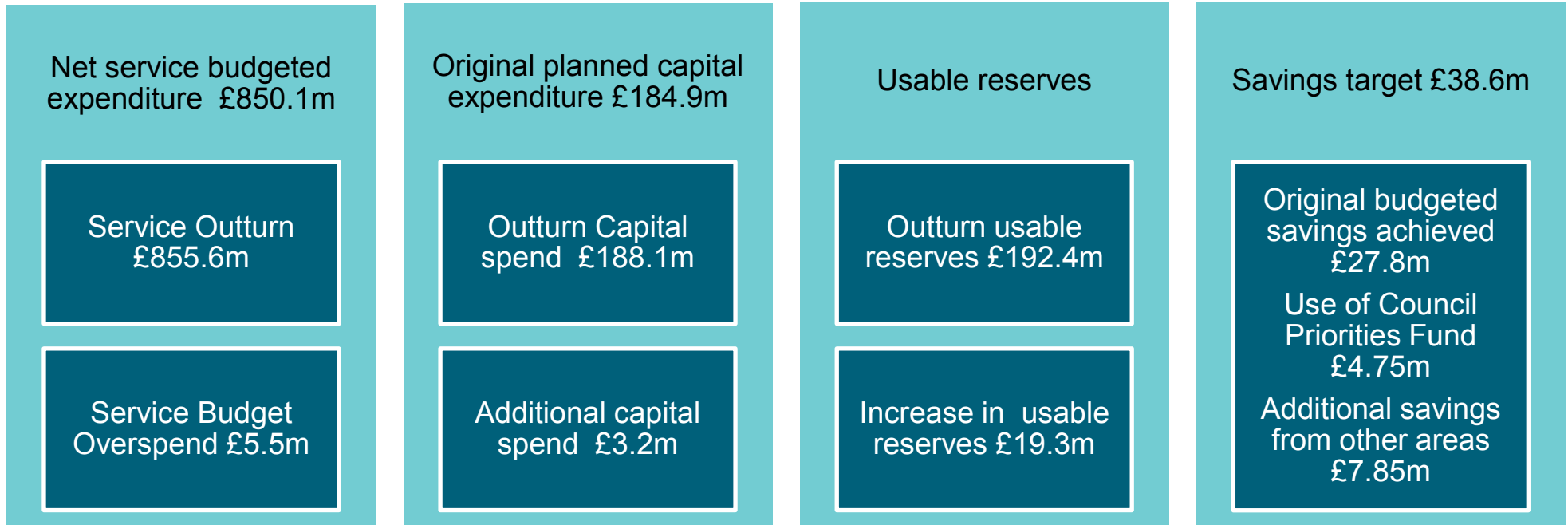
27. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
28. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

29. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

### Health and Social Care Integration

30. From 1 April 2016 Integration Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements. Paragraph 112 of this report provides further detail on the arrangements for Edinburgh Integration Joint Board.

# Financial management and sustainability





## Financial management

31. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
32. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

### Financial outcomes

33. Overall the council reported a net underspend of £0.681 million against budget. The outturn of most general fund services is broadly satisfactory, with four service areas delivered within approved budgets. However the Health and Social Care service was overspent by £5.878 million against budget.
34. The Health and Social Care overspend was a result of demand led pressures within the service. A drawdown of £4.75 million was made against the Council Priorities Fund to address this, with the balance of savings coming from other corporate savings and underspends in the year.
35. The council commissioned an external review to identify the main reasons for this service overspend, and assist in developing enhanced controls and additional savings plans for the current financial year. As of August 2014 unfunded pressures of £16.5

million had been identified for 2015/16, with a range of service and corporate savings plans put in place to address these. The council reported in August 2015 that some of the Health and Social Care service savings plans were not on target to be achieved. Consequently further corporate savings proposals of £4.8 million have been developed which, subject to approval by council, leave a residual overspend of £1.4 million to be dealt with by the service over the remainder of the financial year.

### Recommendation 1

36. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. After making an in-year voluntary debt repayment of £6.1 million, the HRA surplus of £2.5 million for the year was transferred to the Repairs and Renewals Fund. This will be used to fund future capital investment in new homes.

### Financial management arrangements

37. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the proper officer has sufficient status within the council to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the council

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
38. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
39. A review of the council's Financial Services function was completed in July 2014. In addition to contributing to the service's overall budget savings requirement, the resulting staffing and other changes are intended to support wider transformation within the council with increased emphasis on the provision of management information.
40. We reviewed the council's financial regulations, which were updated in April 2015, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
41. Financial monitoring reports, both revenue and capital, are submitted to the Finance and Resources Committee and other executive committees on a quarterly basis. The Governance, Risk and Best Value Committee also consider financial monitoring reports as part of their scrutiny arrangements. Reports to committee

focus on high level monitoring of variances and mitigating actions, and are underpinned by more detailed reporting at Corporate Leadership Group and Senior Management Team level.

42. Previous Best Value reports highlighted scope for improving the summary reporting of the council's financial position and progress against savings plans. As part of its revised governance arrangements around the transformation programme, the council has consolidated the service prioritisation and transformation programme saving plans into one single plan. Progress against this plan is now reported to the Finance and Resources Committee bi-monthly.
43. We attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

### Conclusion on financial management

44. We have concluded that the council's financial management arrangements are broadly satisfactory, with actions identified to strengthen control arrangements in particular areas of financial pressures.

### Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

47. The overall level of usable reserves held by the council at 31 March 2015 was £192.5 million, an increase of £19.5 million compared to the previous year (see exhibit 1).

### Exhibit 1: Usable reserves

Description	31 Mar 2014 (£m)	31 Mar 2015 (£m)
General fund	123.3	117.5
Renewal & repairs fund	21.9	34.8
Capital grants unapplied	2.0	4.3
Capital fund	25.8	35.9
<b>Total usable reserves</b>	<b>173.0</b>	<b>192.5</b>

Source: City of Edinburgh Council 2014/15 financial statements

48. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
49. The general fund balance includes £13 million of unallocated reserves, which equates to 1.36% of the council's annual budgeted net expenditure. The balance of £104 million has been earmarked for specific purposes, including:
- Specific investment - £13.9 million
  - Contingency and workforce management - £17.9 million
  - Dilapidations - £8.8 million
  - Insurance fund - £12.6 million
  - Council tax discount fund - £18.6 million
  - IT transformation - £3.5 million
  - Spend to save initiatives - £4.0 million.

## Financial planning

50. The council approved its 2015/16 budget in February 2015. The 2015/16 budget was set at £949 million and assumes net savings of £22 million to reach a balanced position. The council's long term financial strategy and plan presented to committee in June 2015 set out the high level spending plans and savings requirements over a five year period. Cumulative net savings of £107 million are required by financial year 2019/20 to address the estimated funding gap (see exhibit 2).

**Exhibit 2: 2015/16 – 2019/20 estimated savings requirement**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£ m	£ m	£ m	£ m	£ m
Planned expenditure	949	976	997	1,020	1,046
Total income	(927)	(923)	(930)	(933)	(939)
<b>Cumulative net saving required</b>	<b>22</b>	<b>53</b>	<b>67</b>	<b>87</b>	<b>107</b>
Savings identified	(22)	(33)	(48)	(53)	(56)
<b>Cumulative funding gap</b>	<b>0</b>	<b>20</b>	<b>19</b>	<b>34</b>	<b>51</b>

Source: City of Edinburgh Council - Revenue Budget Framework 2016-2020, Financial Strategy 2016-2020

51. The financial projections included in the long term plan are based on a number of key assumptions, including:
- a 3% annual increase in council tax levels from 2017/18
  - Scottish Government revenue grant funding reduction of 0.5% per annum over the period from 2016/17 to 2018/19
  - annual inflationary assumptions of 2% for long-term contracts and 1.5% for wage awards from 2017/18

- demography continues to be provided based upon existing baseline data.

52. The council has identified a number of potential savings as part of their transformation programme, but a funding gap still exists, with a £20 million gap in 2016/17. Service prioritisation options are currently being developed for an additional £34 million of savings that could be implemented from April 2016. This will provide some flexibility and choice as part of the 2016/17 budget consultation process.
53. The progress made by the council in addressing the financial gap is encouraging, however a number of challenges remain. In addition to risk around the financial assumptions built into the long term budget, and the deliverability of the savings plans, the council is facing further financial pressures in 2015/16 around Health and Social Care spending and estates maintenance and rationalisation which are likely to increase the existing funding gap.

**Recommendation 2**

**Council transformation programme**

54. The council is implementing a transformation programme aimed at building a lean and agile organisation with a focus on individuals and communities. Four core projects around citizens and neighbourhoods, business and support services, channel shift and asset management have been developed and are supported by a number of cross-cutting workstreams. Outline business cases were developed in January 2015 to support the identified savings figures

set out in exhibit 2. Estimated annual savings to be delivered through the programme over the next 5 years include:

- £6 million through the new procured ICT contract
  - £5.3 million as a result of channel shift
  - £9.1 million from the implementation of an integrated business and support services model
  - £20 million from implementation of a locality based service delivery model.
55. A key workstream across the programme is organisational restructuring, with the council implementing a revised locality based structure, focused on front line service delivery. The outline business case presented in January 2015 anticipated a move to this structure would reduce full time equivalent (FTE) staff numbers by over 1,200, with a significant number of these arising from management de-layering. Following review of the programme progress to date, the council intends to accelerate the pace of the core programme around this workstream in order to minimise uncertainty and realise benefits earlier than planned.

### Capital programme 2014/15

56. The council approved its capital programme for 2014/15 in February 2014. Actual spend on the general services capital programme (excluding trams) amounted to £150.8 million, against a planned spend of £141.7 million. Spend on the housing capital programme amounted to £37.3 million against a budget of £45.7 million.

57. The general services expenditure was concentrated on school build, refurbishment and repair, roads and infrastructure work including trams, and developing social housing through the housing development fund. The housing programme focused mainly on investing in new council homes and enhancing existing assets.
58. There was some slippage within certain projects in the general services programme, most notably £2.6 million on the Boroughmuir High School replacement, however this was offset by accelerated spend on asset management works across the council estate. The housing programme has slipped for two main reasons. The workload of individual contractors was controlled during the year to maintain contract performance in relation to customer complaints. In addition, the council introduced a Housing Asset Management framework contract in the summer of 2015, and some major works scheduled in the programme were held back to 2015/16 so they could be packaged into the framework contract.

### Asset Management

59. The council's transformation programme will have significant implications for the council's estate as it moves to a locality based delivery model. An asset management strategy workstream is underway, looking to provide a fit for purpose estate and sustainable delivery organisation.
60. The council approved a revised corporate asset strategy in May 2015. The strategy sets out the council's vision for its property estate and provides a framework for identifying the investment needs in relation to the condition of the estate and service priorities.

61. Current financial projections indicate that property expenditure is likely to exceed the council's affordability baseline by £124 million over the next 10 years unless substantial steps are taken to reconfigure the estate and its management. A business case on this workstream is due to be presented to committee in September 2015.

**Recommendation 3**

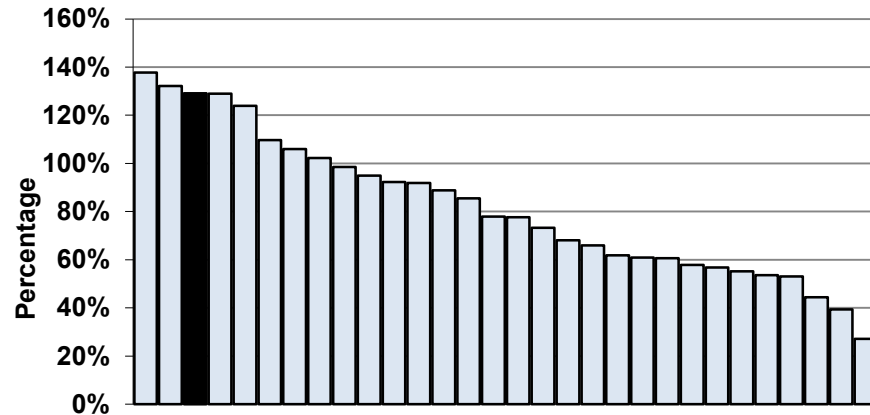
**Workforce Management**

62. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees, particularly through a period of change. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. Previous Best Value reports have commented on the lack of workforce strategy in the council.
63. Following the establishment of the council's transformation programme, a workforce strategy was developed to support the future organisational structure and service delivery arrangements. The strategy focuses on three core areas:
- a skilled and flexible workforce
  - talent and succession planning
  - inclusive leadership.
64. The council has developed a high level workforce implementation plan which, along with a range of employee engagement approaches, it will follow and monitor with the aim of embedding the workforce strategy and achieving workforce related savings.

**Treasury Management**

65. At 31 March 2015 long term borrowing stood at £1,361 million, a decrease of £43 million on the 2014 borrowing level of £1,404 million. During the same period, short term borrowing increased from £58 million to £79 million.
66. This external borrowing position is in line with the council's Treasury Management Strategy for 2014/15, which was to make use of internally generated funds before using long term borrowing facilities. The only external long-term borrowing in the year was an interest free loan of £2 million specifically for energy efficiency street lighting projects.
67. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing as at 31 March 2015 as a percentage of net revenue stream (including HRA income) for the year for all mainland councils in Scotland.

### Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

68. The council has appeared at the top end of the range relative to other Scottish councils for a number of years as a result of borrowings made in relation to a number of significant capital projects in recent years: the completion of the trams project, the purchase of Waverley Court, the acquisition of the assets of EDI and Waterfront Edinburgh. The council does not receive direct income streams in relation to these assets and this therefore increases the council's net debt to net revenue ratio.

### Pension liability

69. The net assets on the council's balance sheet have decreased from £1,786 million in 2013/14 to £1,646 million in 2014/15, a reduction of £140 million. The principal reason for this decrease is the £192 million increase in the pension liability from £535 million to £727 million. This is also reflected in the balance sheet for the group.
70. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation at March 2015 the Lothian Pension Fund was 91.3% funded and had assets of £4.4 billion.
71. Lothian Pension Fund operates a contribution stability mechanism, to provide some certainty of future contribution rates by employers while ensuring appropriate assurance of funding levels to the Fund. The mechanism is in place for 6 years, and is subject to on-going review. Existing contribution rates for the council have been frozen at the rates determined for the 2011 actuarial valuation. Over the longer term it is expected that these contribution rates will increase convergence between the pension liability and the underlying assets.

### Conclusion on financial sustainability

72. The council is containing overall expenditure within annual budgets and has longer term financial plans in place which go some way to addressing the financial challenges it faces in the coming years. However, the council needs to ensure it manages existing financial

pressures within the system, particularly around Health and Social Care and asset management.

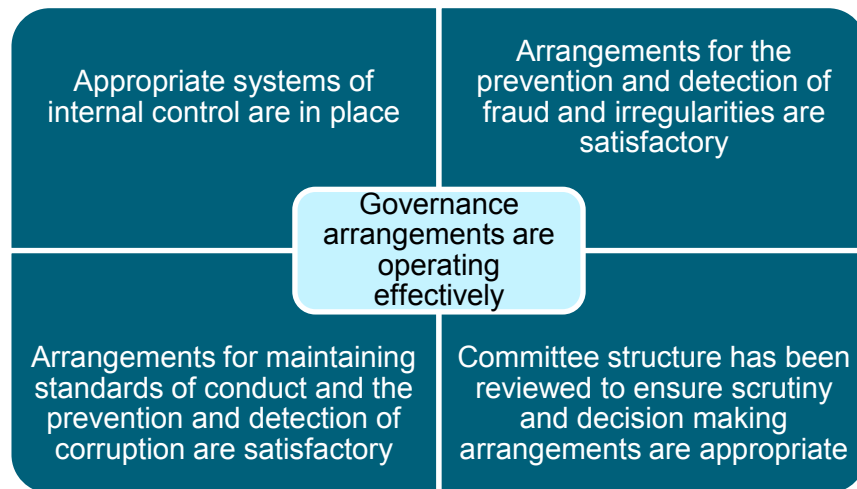
73. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although risks remain around key assumptions and delivery of savings, including the identification of further savings to bridge the funding gap.

## Outlook

74. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.
75. In common with many other councils, City of Edinburgh Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.



# Governance and transparency



76. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

77. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council has appropriate arrangements in place to demonstrate transparency.

## Corporate governance

78. The corporate governance framework in City of Edinburgh Council is centred on the council and supported by nine executive committees, including the Corporate Policy and Strategy Committee and the Governance, Risk and Best Value Committee.

79. Since the introduction of the revised political management arrangements in October 2012, the council has undertaken two reviews to ensure they remain fit for purpose. One significant change took place during the financial year, with the responsibility for policy review and development transferring back to executive committees.

80. Based on our observations and audit work our overall conclusion is that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Local code of corporate governance

81. The council has developed and adopted a corporate governance framework which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The council's self-assessment against the framework is considered annually by the Governance, Risk and Best Value Committee.
82. The council assessed itself as compliant with most areas of the framework for 2014/15. Improvement plans are in place to develop areas such as community engagement and consultation, where the council consider they are only partly compliant with the framework.

## Internal control

83. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
84. We reported our findings to the Governance, Risk and Best Value Committee in August 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. However we did amend our planned financial statements procedures to take account of some system limitations identified during our controls review. Our

findings also included a number of recommendations to enhance the control systems in operation.

## Internal audit

85. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
86. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with the Public Sector Internal Audit Standards. We placed reliance on their work around ICT application security for key financial systems, as well as work on the accounts payable system and procurement card expenditure.

## ICT audit

87. A key part of the council's ICT and Digital Strategy is the procurement of a new ICT contract that provides more flexible, scalable delivery of services at a lower cost base. Following the design and tender phase, a contract was awarded to CGI in August 2015. The transition and transformation phase, involving the transfer of services from BT to CGI has commenced and will continue until 1 April 2016. As part of our ICT work, we considered the high level arrangements the council is putting in place for the transition phase.

88. The council has opted for a gradual transfer of services from late 2015 through to the 1 April 2016 start date, although provision has been made for access to the BT data centre until 1 July 2016 to transition any outstanding services.
89. New services that will be provided include the provision of business intelligence. Council staff will work with CGI to define their respective business intelligence requirements. This approach will allow staff from CGI to work with council representatives, share information, build relations and develop a mutual understanding of the legislative requirements and organisational demands that will need to be met by the contract.
90. During the coming months the council will be preparing for an Enterprise Resource Planning (ERP) system that is scheduled for autumn 2016. The ERP system will be a key organisational initiative that will be delivered as part of the contract. The introduction of ERP systems often requires significant organisational change, and impact on the procedures and processes used across service areas. The council will need to ensure there is sufficient staff capacity and capability during this period to meet the challenge presented when introducing ERP.
91. The overall effectiveness of the CGI contract can only be measured and monitored as systems are transitioned and new solutions are introduced to meet the demands of the council's services. The council needs to ensure robust monitoring and control arrangements are in place for the duration of the contract around areas such as
- governance

- deliverables and contingency
- budget monitoring
- contract and partner management procedures.

#### Recommendation 4

### Statutory repairs service

92. In June 2014, the council established a single corporate project to address legacy issues around the former statutory repairs service, and lead on the development of a new shared repairs service. A dedicated programme board was established with the Director of Corporate Governance appointed as the Senior Responsible Officer.
93. Monthly progress reports are submitted to Finance and Resources Committee, outlining the council's progress on billing of outstanding invoices, debt recovery, and resolution of complaints and settlements.
94. By August 2015, case reviews had been completed on the 414 unbilled projects and 102 complex complaints cases within the scope of project. Invoices have now been issued for these projects, with the exception of a small number of cases where defect work has still to be completed. It is anticipated that these cases will be invoiced in autumn 2015.
95. Alongside this, the council has been progressing the resolution of complaints. A settlement provision of £3.9 million was established at 31 March 2014, to provide for costs that may arise from resolving

complaints. A total of 1,644 settlement letters were issued by July 2015, resulting in 1,142 individual cases being determined by the council as closed. Follow up letters have been issued on the 501 remaining open cases. The total value of settlement offers made by the council to individuals at July 2015 was reported as £2.91 million. Acceptance levels by complainants have been reported as 69%, with other affected owners at 70%.

96. In December 2014, the council considered a blueprint for a new shared repairs service. The key objectives of the proposed service are:
- to maintain the fabric of the city, the conservation of the built heritage and protection of health and safety
  - to support, encourage and enable owners to proactively take responsibility for planning and organising repairs and maintenance
  - to intervene when owners have exhausted all other reasonable means of agreeing and undertaking a repair
  - to effectively manage the council's financial and reputational risk as it carries out its statutory duties and powers.
97. The proposed service will cover four key areas: emergency service, guidance and advice, intervention and enforcement. The council approved the running of a pilot of the new service from September 2015 to March 2016. This pilot will test the practices and procedures set out within the blueprint, in advance of a potential roll-out of the full service from 1 April 2016.

## Edinburgh trams

98. In June 2014, the Scottish Government announced a public inquiry into the delivery of the trams project. A ten stage process has been set out by the inquiry, from announcement of the inquiry through to production of a final report and recommendations. The council is committed to fully participating in the inquiry. However it has decided not to re-establish tie Ltd, the arms length organisation which was responsible for project managing the delivery of the trams project, in order that tie can participate as a separate entity in the inquiry. The council state that they consider this to be an unjustifiable expense to the public purse. The council has advised the inquiry that it will assist the inquiry and provide information to it in relation to the role of tie. Stage 5 of the process, the preliminary hearing, is due to be held shortly.
99. The trams network became operational on May 2014. Almost five million passenger journeys were made in the first full year of operation, around 370,000 ahead of target. Revenue from fares was 3% ahead of the business model target.
100. In June 2015, the council considered an interim report detailing the preliminary findings of an outline business case for extending the trams network to Leith. The report set out four different options, and concluded there was a positive economic case for three of these. However, more detailed analysis of the cashflows was required to verify the financial models, along with consideration of alternative funding options and opportunities. A further report on the business case will be reported back to council in the autumn of 2015.

**101.** We have previously commented that an impairment review on tram vehicles may be required, to reflect that some vehicles may be surplus to requirements given the current network is smaller than planned. In lieu of any decision on extending the network, the council has continued to utilise all tram vehicles evenly across the existing network. We are satisfied that the existing valuation and classification of vehicles is reasonable, and we will reconsider this position following the council's further consideration of the outline business case later this year.

## Arrangements for the prevention and detection of fraud

**102.** Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

## National Fraud Initiative in Scotland

**103.** The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

**104.** During 2014/15 we reviewed the progress being made by the council in following up NFI data matches. Our work identified that

- the council's overall arrangements and progress have improved compared to our previous assessments, although there was some scope for improvement in the monitoring and reporting of progress
- the introduction of the corporate fraud team has resulted in an improved focus on progressing the NFI exercise this year, although constraints remain within service areas around resourcing the exercise
- there has been a conscious decision to focus on the recommended matches, as outcomes previously have been limited
- the council have commissioned their own data matching to focus on areas where they feel they now get more of a return than the existing NFI process.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

**105.** The arrangements for the prevention and detection of corruption in City of Edinburgh Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Correspondence referred to the auditor by Audit Scotland

**106.** One of the roles of the local auditor is to follow up, where appropriate, items of correspondence received from members of the public who express concerns over council activities. We received a number of items of correspondence during the year, particularly around statutory repairs. We have considered these in relation to our statutory responsibilities as auditors and responded to correspondence as matters are addressed.

## Transparency

**107.** Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.

**108.** Through our audit approach we gave consideration to:

- the clarity and presentation of the council's committee papers, budget monitoring reports and financial statements
- the frequency with which the council excludes the press or public from agenda items under the Local Government (Scotland) Act, 1973
- the council's approach to public performance reporting
- the accessibility of information via the council website.

**109.** Overall we concluded that the council has appropriate arrangements in this area.

## Freedom of Information/Environmental Impact Regulations requests

**110.** The total number of freedom of information/environmental impact regulations (FOI/EIR) requests received by the council during the year was 2,753 (2,767 in 2013/14). The council responded to 90% of these within the 20 working day target for responses, an improvement on the previous year (87% in 2013/14).

**111.** The council has taken a number of steps during the year to enhance its FOI arrangements, including applying the Scottish Information Commissioner's self-assessment toolkit, approving and implementing an FOI policy and toolkit, and introducing mandatory training for all areas of information governance. Following the issue of a revised Code of Practice by Scottish Ministers in December 2014, the council has also assessed its arrangements against the updated Code.

## Integration of health and social care

**112.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

**113.** The integration scheme for the Edinburgh Integration Joint Board (EIJB) was approved by Scottish Government in May, and the EIJB was established by Scottish Parliament on 27 June 2015. It is estimated the combined budget for the 2015/16 transition year of the EIJB will be around £560 million, with around £200 million coming from council funds.

114. The council is progressing a number of workstreams in advance of the planned formal delegation of functions and resources to the EIJB on 1 April 2016. At its first meeting on 17 July, the EIJB appointed additional members to supplement the council and NHS Lothian membership, and approved a draft strategic plan for consultation. The EIJB intends to approve a final version of its strategic plan by December 2015. A process is also underway to appoint the Chief Officer of the EIJB, with the successful candidate likely to be in post in early 2016.

### Recommendation 5

## Welfare Reform

115. The council continues to demonstrate commitment to monitoring and minimising the impact that changes to the UK welfare system could have on the City of Edinburgh and its residents, and is managing the challenges within allocated resources.
116. The council intends to review its strategic plan, *Delivering Social Security in Edinburgh – a strategic response to Welfare Reform*, to ensure it provides effective management of welfare reform in the city. Alongside this, new governance arrangements are being introduced to strengthen the management of welfare reform through existing council and partner arrangements, with group projects now reporting through the Welfare Reform Working Group.
117. The phased implementation of Universal Credit (UC) for new single claimants in Edinburgh commenced on 9 March 2015, with 1,190 claims for UC made in the period to 28 May 2015. The council has established a Delivery Partnership Agreement (DPA) with the Department for Work and Pensions (DWP), to support citizens in the transition to the new UC system. The DPA operational group, which includes council, DWP and registered social landlord representatives, meets regularly to agree processes and address emerging issues from the implementation of UC.
118. The DWP has confirmed that funding arrangements for the Council Tax Reduction Scheme (CTRS) will continue into 2015/16. The settlement and distribution group continue to consider the distribution of CTRS funding and will advise local authorities accordingly of any adjustment to funding levels. The council's spend on CTRS is monitored monthly, with an annual spend of £25.6 million in 2014/15, representing 96% of the agreed funding level.
119. Scottish Welfare Fund (SWF) and Discretionary Housing Payment (DHP) awards in 2014/15 were contained within funding levels of £2.2 million and £4.8 million respectively for the year. The SWF underspend of £0.1 million has been carried over to supplement 2015/16 grants. For 2015/16, the council is currently projecting DHP spend at 98% of the £3.9 million allocated budget.
120. The council reported housing rent arrears of £4.3 million in 2014/15, an increase of £0.3 million from 2013/14. In line with the Housing Revenue Account (HRA) business plan, full provision has been made for these arrears in the 2014/15 accounts (76% in 2013/14), to help manage the potential impact of welfare reform on HRA.

## Housing and council tax benefits performance audit

121. Our 2012 risk assessment of the council's benefits services identified a number of risks in relation to performance monitoring and the speed of processing new benefits claims and changes of circumstances.
122. In 2013/14, the council reported improved processing performance, and our 2014/15 benefits risk assessment confirmed that the council has put in place appropriate processes to improve the other outstanding issue around its risk based approach to data checking.

## Following the Public Pound

123. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).
124. In 2012, the council instigated an operational governance review, which included consideration of existing ALEOs. In our July 2014 review of the council's ALEOs we concluded that the revised governance arrangements being put into place were in line with good practice outlined in Audit Scotland's 2011 national study on ALEOs.
125. At the time of the review the time we were unable to test whether member scrutiny of performance had been fully implemented, as

some ALEOs had still to complete their annual reporting cycle. We have since confirmed that the annual reports for both Marketing Edinburgh and Festival City Theatres Trust have been scrutinised at the appropriate committee of the council.

126. By autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

## Local scrutiny plan

127. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to City of Edinburgh Council in April 2015.
128. In the LSP we highlighted a number of on-going scrutiny risks that we reported in our December 2014 follow-up to the 2013 Best Value report on City of Edinburgh Council. These areas included:
  - the delivery of required financial savings
  - management capacity within the council
  - the development of a comprehensive workforce strategy.
129. Our assessment of the council's progress in addressing these identified risks is included in the Best Value section of this report. A more detailed progress report will be issued by the Controller of

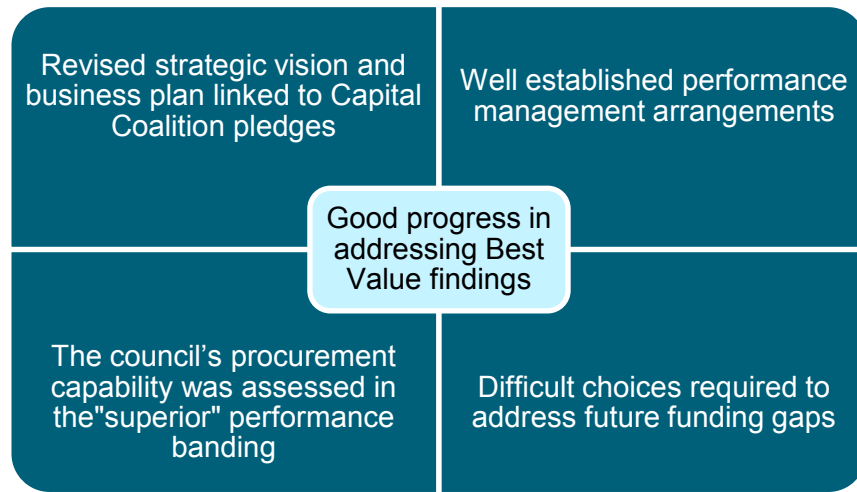


Audit and considered by the Accounts Commission by the end of this year.

## Outlook

- 130.** Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.
- 131.** Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an on-going focus on governance and assurance to ensure that the council's priorities are being achieved.

# Best Value



**132.** Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Best Value audit

**133.** In December 2014, the Accounts Commission made findings on the extent to which the City of Edinburgh Council was meeting its statutory duties on Best Value. This considered the progress made in addressing the issues raised in the initial report in May 2013. The Accounts Commission acknowledged the good progress made by

the council in scrutiny and risk management. Improvements in service performance and in communications with staff were also noted.

**134.** Major concerns, however, remained about the council's financial position and the growing scale of the savings needed to resolve this. The savings that had still to be identified in order to provide a balanced budget by 2017/18 had increased from £17 million to £67 million. The council was addressing this issue, particularly through the development of an ambitious transformation programme. But it was too early to assess the effectiveness of this initiative. Significant concerns were also expressed about the lack of a workforce strategy and the need to improve ICT arrangements.

**135.** Audit work was carried out during July and August 2015 to assess the progress made by the council since the publication of last year's follow-up report.

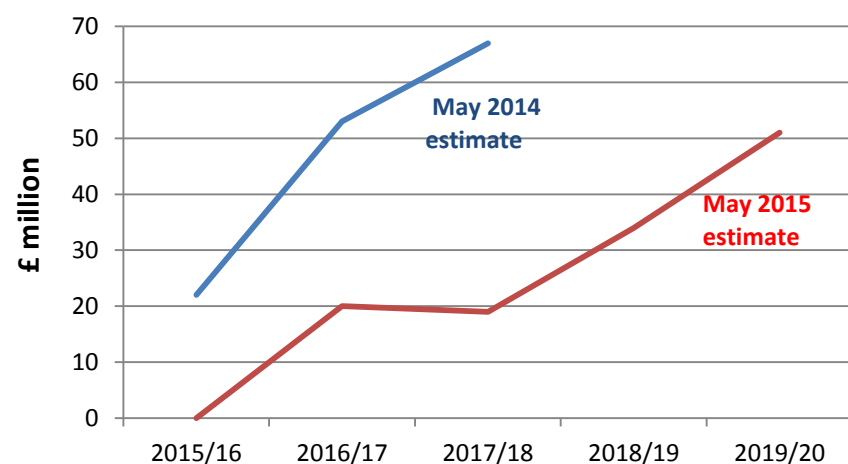
**136.** There is clear evidence to show that the council has had some success in addressing its financial position. It continues to face increasing demands on its services and continuing uncertainty about future funding levels. Despite these pressures, however, the council was able to:

- achieve its overall planned savings of £39 million for 2014/15,
- underspend its revenue budget by £0.7 million, and
- maintain its level of unallocated reserves.

**137.** Perhaps even more importantly, there is also evidence to show that the council has improved its longer-term position. The previous audit

report had expressed particular concern at the increasing level of savings that the council needed to identify for the coming years. As shown in exhibit 4, the level of these unidentified savings has now reduced. At the time of our last report, the council still needed to identify £67 million of additional savings by 2017/18. This has now fallen to £19 million. Despite this encouraging progress, however, the council continues to face significant pressures in future years, with a further £51 million of savings needing to be identified by 2019/20.

#### Exhibit 4: Additional savings requirements



Source: 'Council transformation programme and improvement plan F&R Committee', May 2015

**138.** This progress is largely due to the growing impact of the council's various improvement projects, such as Better Outcomes through

Leaner Delivery (BOLD), Organise to Deliver and Channel Shift. These have now been consolidated into a single Transformation Programme, to help avoid the double-counting of planned savings and to present clearer choices for elected members.

**139.** Most of the progress made over the past year, both in terms of identifying new savings plans and in delivering actual savings, has come from four main initiatives:

- **Workforce strategy** - A workforce strategy was approved in March 2015. This sets out planned reductions in staffing levels, particularly in middle managers. There are early signs of progress in this area, with a two per cent reduction in staffing levels in the second half of 2014/15, saving around £7 million per year. The council plans to make the remaining reductions in Tier 2 and Tier 3 management levels before the end of 2015.
- **ICT contract** - A new ICT contract was signed with CGI in August 2015. The council projects that this will deliver savings of at least £45 million over the next six years. In our view these projections are achievable, given the terms and flexibility of the new contract.
- **Channel Shift** - The council is currently redesigning many of its customer care services, simplifying them and, where possible, moving to online transactions. This is planned to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact, with 40 transactions already available online and savings of £355K over the past year.

- **Organise to Deliver** - The council has created four Localities to help delegate operational decision-making and integrate the delivery of local services. This initiative forms part of the drive to reduce staffing levels and costs. There is clearly merit in these proposals but, in our view, they need to be developed more to provide compelling evidence that they will deliver predicted savings of £20 million.
140. The council has made encouraging progress, but it still faces some significant challenges. With an increasing population, particularly amongst children and the elderly, it continues to face increasing demands on its services. The social care budget for 2014/15, for example, was overspent by £6 million and the underlying pressures have still to be fully resolved. Moreover, the council still has to decide where it can make further savings across all of its areas of activity. It has made good progress, with the level of unidentified savings needed to achieve a balanced budget for 2017/18 reduced from £67 million to £19 million. But, with continuing pressures on services, the council estimates that it will need to identify recurring savings of £51 million in order to balance its budget by 2019/20.
141. The council is trying to take a more strategic approach to these issues, with elected members taking increasing ownership of the transformation programme. For the first time, for example, it is aiming to agree a balanced budget for the next four years. But, in order to achieve the level of savings that are needed, the council knows that it needs to go beyond efficiencies in support services and make some difficult choices to match resources to priorities. Proposals are currently being developed on rationalising the

council's estate and working more closely with partners for some of the related support functions. The council is also starting to consider services which might be reduced or even stopped. Elected members are expected to decide on these proposals by the end of 2015.

142. A more detailed progress report will be issued by the Controller of Audit and considered by the Accounts Commission around the end of this year. This will be based on the audit work already completed, but it will also provide an opportunity to highlight the extent of any additional progress by the council over the next few months.

## Procurement

143. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council reported a 2014 PCA assessment score of 76% (59% in 2013) against the average score across Scottish councils of 62%.
144. The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised

but it is anticipated they will be conducted between January and June 2016.

## Collaborative working

- 145. The council is a member of the Scottish Cities Alliance, a collaborative group of local authorities and Scottish Government which aims to create conditions for economic growth and attract inward investment.
- 146. Following a review by the Alliance in 2014 of possible funding models to support growth, the council has been developing proposals with other Lothian and South East Scotland authorities to secure £1 billion of infrastructure funding across the region. It is hoped that this funding will generate up to £3.2 billion of private investment. A bid was submitted to the Scottish and UK governments in September 2015.

## Performance management

- 147. The council has a well established performance framework that links its business plan to the political outcomes set out in the Capital Coalition Pledges, as well as to the partnership and operational outcomes set out in the Edinburgh Partnership Single Outcome Agreement and the council's operational plans.
- 148. To ensure it remains fit for purpose, the 2015 business plan has been updated to reflect the strategic vision set out in the council transformation programme. Existing corporate dashboard indicators

have been re-aligned to the themes and priorities described in the revised business plan.

- 149. An annual planning and performance report on the council's strategic planning framework is reported to the Corporate Policy and Strategy Committee, along with six-monthly performance against dashboard indicators. Six monthly performance reports on the relevant dashboard indicators are also presented to the appropriate executive committees.
- 150. The council also participates in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

## Overview of performance targets in 2014/15

- 151. The council assesses achievement of its high level commitments through a set of 53 Capital Coalition pledges. Achievement of these pledges is linked to a range of detailed dashboard and operational performance indicators.
- 152. The most recent progress report highlighted that as at April 2015, 43 pledges were either achieved or on track for delivery (39 at April 2014). Within this, two pledges around partnership working in drug and alcohol treatment, and festival and event development were reassessed as "on track" rather than achieved. This change of status was made to recognise that further work is required to meet these commitments over the longer term.

153. The council has assessed that eight of the remaining pledges, whilst not achieving certain key milestones within target, are still on target for delivery overall. Only one pledge, around the possible introduction of low emission zones, has been categorised as still under development. A further updated report will be presented to committee in November 2015.

### Statutory performance indicators (SPIs)

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

155. For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

156. Overall we concluded that the council's arrangements were satisfactory.

157. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's

Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for City of Edinburgh Council was issued to the Leader and Chief Executive in July 2015.

158. The assessment of the council's approach to public performance reporting concluded that it fully met requirements in 18 of the 26 PPR categories, which is a significant improvement from the previous year's assessment. The council demonstrated a clear, structured approach to PPR, with a good level of compliance in relation to corporate and service performance information being reported. The assessment identified some scope for improving existing arrangements including:

- increased consistency of reporting across the organisation
- reporting improvement actions taken
- clearer demonstration of public consultation and its outcomes
- increased accessibility through targeted reporting of performance to the public.

### National performance audit reports

159. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in **appendix III**. City of Edinburgh Council has processes in place to ensure that

all national reports and their impact on the council are considered by members.

## Equalities

- 160.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 161.** The council's progress report on its frameworks for advancing equality and rights, and tackling poverty and inequality, was published on its website in April 2015, and considered by the Communities and Neighbourhoods Committee in May 2015. The report noted that 15 of the 23 defined equality and rights outcomes were assessed as being met in full, with 6 partially met. The remaining 2 outcomes will be reviewed in the coming months to establish whether there is sufficient data to measure the outcomes and they remain fit for purpose.

## Outlook

- 162.** In common with other councils, City of Edinburgh Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Longer term savings plans have been developed, but there is continuing uncertainty around future funding levels. The transformation programme to deliver a community focused

operating model will result in service delivery with a redesigned and reduced workforce. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

# Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Income</b></p> <p>The council receives a significant amount of income in addition to SG funding.</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> <li>• Assessment of systems of internal control</li> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>	<p>We reviewed control arrangements and undertook detailed testing of income streams. No frauds were identified.</p>
<p><b>Management override of controls</b></p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates for bias</li> <li>• Evaluating significant transactions that are outside the normal course of business.</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.</p>



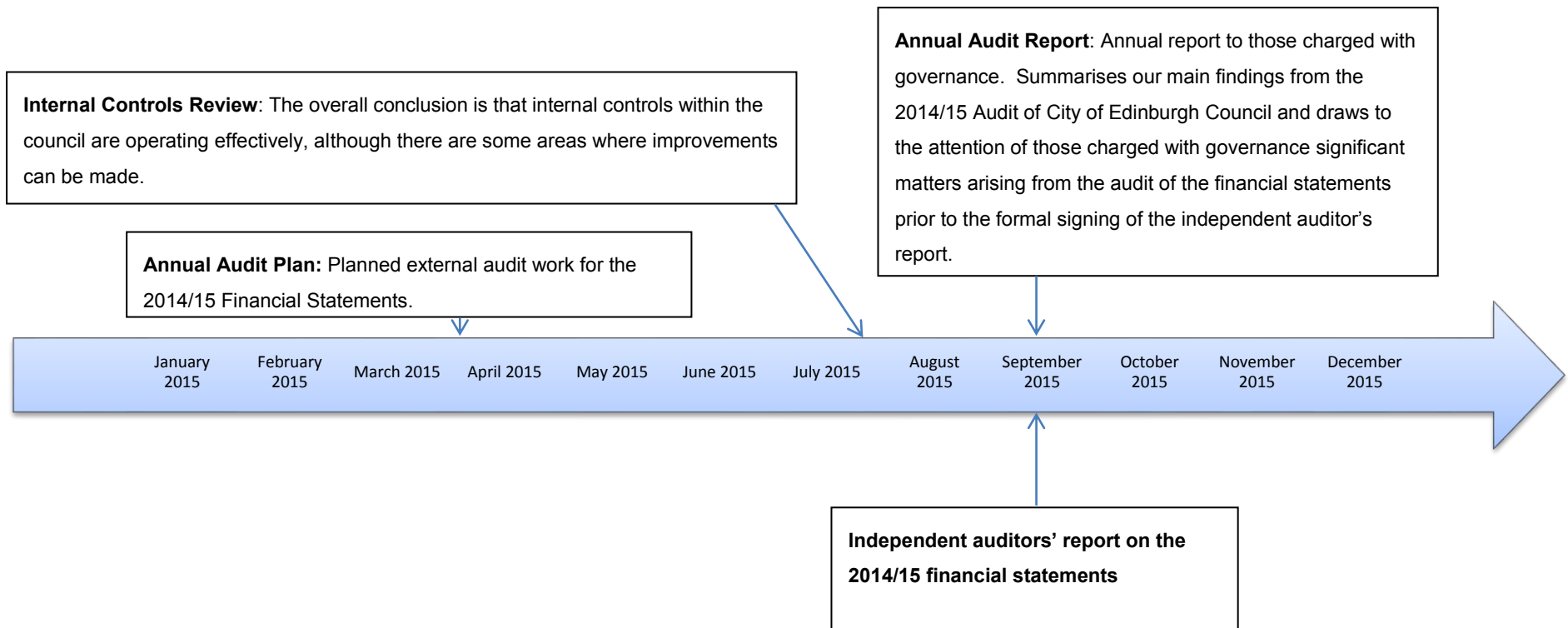
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Tram project expenditure</b></p> <p>The council incurred revenue costs during 2014/15 in relation to preparing for tram operations, giving rise to a risk of misclassification of expenditure between capital and revenue.</p>	<ul style="list-style-type: none"> <li>• Review of reports and papers on project expenditure</li> <li>• Discussion with council officers</li> <li>• Substantive testing of a sample of revenue costs</li> </ul>	<p>We reviewed council reports on tram expenditure and undertook substantive testing on tram expenditure. No mis-classification was identified.</p>
<p><b>Trams valuation</b></p> <p>Tram vehicles will transfer from assets under construction to operational assets in the 2014/15 financial statements.</p> <p>There is a risk that they may not be reflected at an appropriate fair value within the financial statements.</p>	<ul style="list-style-type: none"> <li>• Discussion with council officers</li> <li>• Review of committee papers and reports on potential extension of the tram network</li> <li>• Review of papers and other appropriate evidence on valuation</li> </ul>	<p>We reviewed council reports on decisions on future development of the network. We considered the valuation of the trams in the financial statements and concluded that it was appropriate.</p>
<p><b>Statutory repairs</b></p> <p>Although progress has been made in dealing with unbilled work, the delays to date mean that the debt has aged further, increasing the risk of non-recovery.</p>	<ul style="list-style-type: none"> <li>• Review of reports and papers on progress of billing and collections (including bad debts) and complaints resolution</li> <li>• Discussion with council officers</li> <li>• Review of statutory repairs balances and provision within the financial statements along with supporting evidence</li> </ul>	<p>We reviewed reports to members and related papers on statutory repairs billing progress, and discussed the position with officers. We reviewed the bad debt provision included in the financial statements and concluded that it was appropriate based on the information available.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Group structure</b></p> <p>The council did not formally document its group boundary assessment after changes to the group structure in 2013/14 and there may be further changes to the group structure in 2014/15 as a result of new group accounting standards within the Code. There is a risk that the council’s group accounts do not comply with new accounting standards.</p>	<ul style="list-style-type: none"> <li>• Review of reports and papers on progress of review of group structure</li> <li>• Discussion with officers</li> <li>• Liaison with external auditors of group companies</li> </ul>	<p>We reviewed the council’s assessment of the group boundary for 2014/15. We met with component auditors to discuss matters arising from the audit of group companies.</p> <p>We concluded that the group boundary was appropriate.</p>
<p><b>Significant Trading Organisations (STOs)</b></p> <p>In our 2013/14 independent auditor’s report we drew attention to the fact that the council’s significant trading operation, Edinburgh Catering Services – Other Catering, failed to break even, on a cumulative basis, over the three year period ending 31 March 2014. There is a risk that the action plan implemented by the council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003.</p>	<ul style="list-style-type: none"> <li>• Monitor the on-going financial position reported to committee</li> <li>• Review the outturn position and cumulative break even as part of financial statements audit</li> <li>• Substantive testing of income and expenditure streams as part of financial statements audit</li> </ul>	<p>We reviewed reports to committee on the financial position of the STO and the planned action to address the deficit. We tested income and expenditure streams as part of our wider testing strategy. No material misstatements were identified.</p>
<p><b>Valuations</b></p> <p>The financial statements of City of Edinburgh Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• Completion of ‘review of the work of an expert’ for the professional valuer</li> <li>• Focused substantive testing of key areas</li> </ul>	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. No material misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Finance restructuring</b></p> <p>An organisational review of finance services was completed during the financial year, resulting in a number of staff changes in key posts. There is a risk that these changes could impact on the delivery of the 2014/15 accounts timetable.</p>	<ul style="list-style-type: none"> <li>• Monitoring developments</li> <li>• Scheduling of audit work to take account of timetable and availability of staff</li> <li>• Progress meetings with Principal Accountant and Senior Accountant</li> </ul>	<p>We agreed a financial statements timetable with officers, and scheduled progress meetings on a regular basis to ensure the planned delivery timescales were met.</p>
<p><b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b></p>		
<p><b>Managing financial pressures</b></p> <p>The council continues to face a challenge in balancing the gap between its planned expenditure and the estimated level of income it will receive through government grants, non-domestic rates and council tax.</p> <p>There is a risk that savings targets are not met and the on-going need to deliver savings may have an impact on services and the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> <li>• Local audit work supplemented by Best Value follow up audit work, including review of monitoring reports and delivery of savings programme</li> </ul>	<p>We followed up on the local Best Value work of 2014 and considered the longer term financial planning arrangements of the council, and progress towards delivering savings plans. We concluded that the council is making good progress in bridging the identified funding gap.</p>

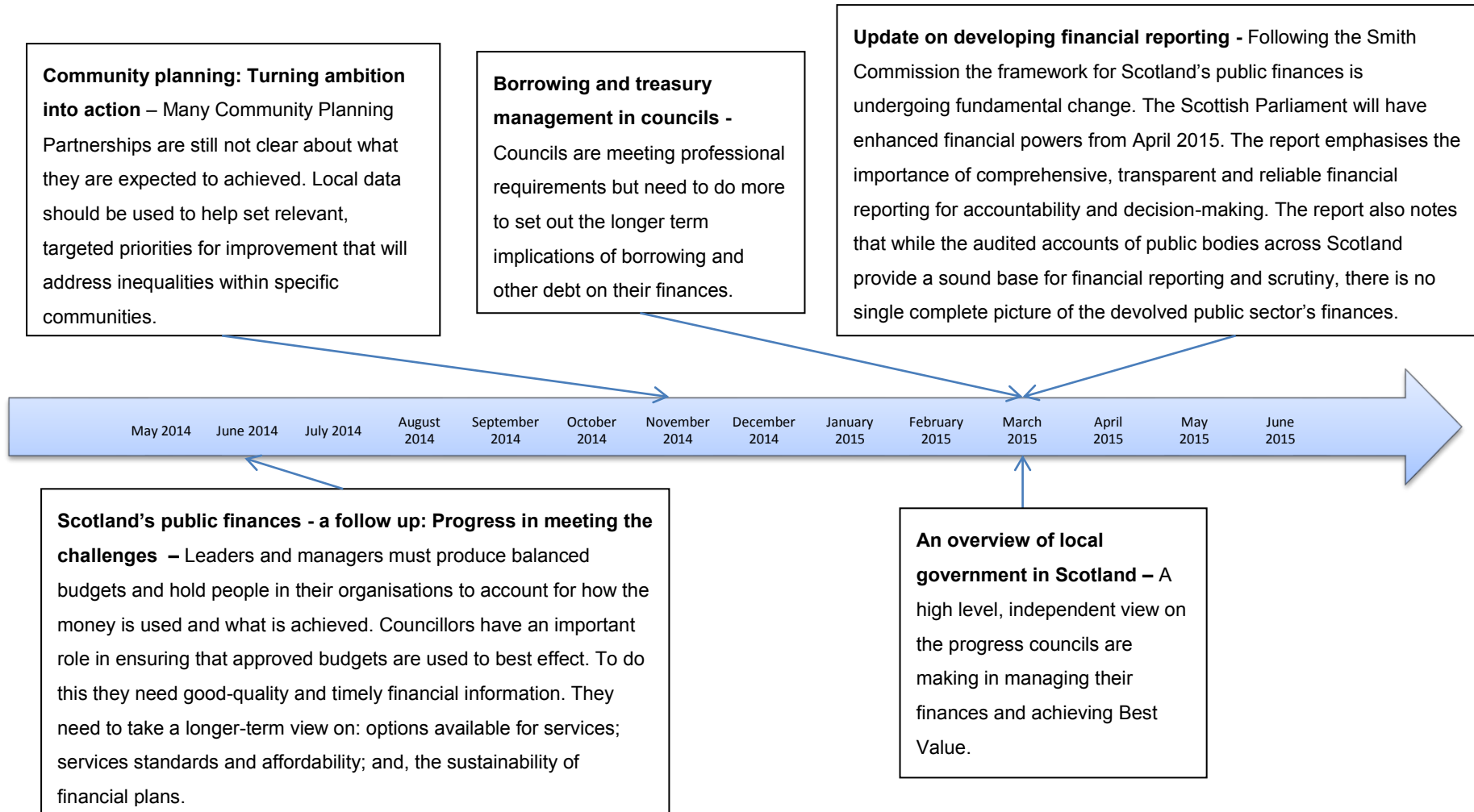
# Appendix II – Summary of local reports 2014/15

## Summary of City of Edinburgh Council local audit reports 2014/15



# Appendix III – Summary of National Reports 2014/15

## Summary of Audit Scotland national reports 2014/15



# Appendix IV – Action Plan

## Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 15/35	<p><b>Health and Social Care overspend</b></p> <p>The council has identified £16.45 million of funding pressures within the Health and Social Care budget for 2015/16. A mix of corporate and service measures were identified to address the shortfall, however the service savings plan has slipped, requiring further saving proposals to be identified.</p> <p><b>Risk</b></p> <p>The council does not achieve its budget for 2015/16 due to continued non-delivery of savings plans.</p> <p><b>Recommendation</b></p> <p>Delivery of savings plans is closely monitored to allow early mitigating actions to be taken where necessary.</p>	<p>Service Directors have a responsibility, as set out in the Council's Financial Regulations, to review their budgets on an on-going basis, including tracking the delivery of approved savings and, where appropriate, identifying additional mitigating actions to maintain expenditure within approved levels.</p> <p>Progress in delivering approved savings is regularly considered at Council Leadership Group and on an at-least quarterly basis by the Finance and Resources and relevant Executive Committees.</p>	All Directors	On-going

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 18/53	<p><b>Future funding gaps</b></p> <p>The council has made progress in addressing the longer term financial challenge through its long term financial strategy and associated savings plans. However a funding gap still exists over the coming years, and this is likely to increase due to current financial pressures around Health and Social Care and asset management.</p> <p><b>Risk</b></p> <p>The council may not be able to generate sufficient efficiencies and savings to bridge the funding gap.</p> <p><b>Recommendation</b></p> <p>The council should continue to keep its long term financial strategy under review, and build flexibility into future budget exercises.</p>	<p>The Council reviews the expenditure, income and savings assumptions underpinning its long-term financial plan on an on-going basis and reports on an at-least quarterly basis to the Finance and Resources Committee.</p> <p>The draft budget framework to be issued for public engagement in September 2015 will provide for a degree of flexibility in the specific savings options and proposals that are considered by elected members.</p>	Head of Finance	On-going

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 20/61	<p><b>Asset management</b></p> <p>The council's current estate requires significant investment to maintain it at a serviceable quality. The property requirement under the council's planned locality based service delivery model is unlikely to match this existing estate.</p> <p><b>Risk</b></p> <p>The council's property estate is not fit for purpose in relation to condition and configuration. Expenditure is not targeted and prioritised on appropriate assets.</p> <p><b>Recommendation</b></p> <p>The council should expedite plans to ensure the council's estate is appropriate and aligned with its service delivery plans.</p>	<p>The Finance and Resources Committee on 24 Sept 2015 will consider a report on a Property and Asset Management Strategy, that will introduce a number measures to release more revenue and capital investment into the Council's estate coupled with a significant rationalisation programme.</p>	<p>Head of Corporate Property</p>	<p>On-going</p>



No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 25/91	<p><b>ICT</b></p> <p>The council has procured a new ICT contract which provides for flexible and scalable service delivery from April 2016. The contract includes new and existing service provision, and the council aims generate savings of £6 million per annum over present costs.</p> <p><b>Risk</b></p> <p>Monitoring and control arrangements do not support the overall effectiveness of the contract.</p> <p><b>Recommendation</b></p> <p>The council should ensure robust control and performance arrangements that support effective monitoring are developed to cover continuing and new service arrangements.</p>	<p>Governance arrangements will be signed off by the Deputy Chief Executive (Programme Sponsor) and in place by 1<sup>st</sup> of November</p> <p>Programme reporting controls will be in place for early monitoring of the transition programme</p> <p>Further monitoring of the service will be signed off by the CIO and be in place for service go</p>	Chief Information Officer	<p>November 2015</p> <p>Completed September 2015</p> <p>April 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p><b>5</b> <b>29/114</b></p>	<p><b>Edinburgh Integration Joint Board</b></p> <p>The Edinburgh Integration Joint Board is currently consulting on its strategic plan for the integration of Health and Social Care in Edinburgh. The draft plan focuses on high level arrangements. More detailed financial and operational plans to direct service delivery will be required prior to the formal delegation of services from the council to EIJB on 1 April 2016.</p> <p><b>Risk</b></p> <p>There are delays in the commencement of the Integration Joint Board and achieving the desired outcome of improved services to those in need of care</p> <p><b>Recommendation</b></p> <p>The council continues to work jointly with Lothian Health Board in finalising the arrangements for the integration of health and social care.</p>	<p>The current Integration Governance arrangements will continue until the EIJB takes on responsibility for the delegated functions. The Edinburgh Integration Joint Board was established in law at the end of June 2015. It is now operating in its transition year to prepare for delegation of functions.</p> <p>An interim Chief Financial Officer has been appointed to undertake due diligence for the EIJB. The EIJB will be having a development session on financial matters in December (provisional) in support of the strategic plan delivery.</p> <p>Discussions with the Scottish Government are on-going on bridging funding arrangements.</p>	<p>Chief Social Work Officer along with relevant officials from NHS Lothian.</p> <p>Head of Finance along with relevant officials from NHS Lothian</p>	<p>March 2016</p>

## Appendix 2

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Governance, Risk and Best Value Committee, City of  
Edinburgh Council, and the Controller of Audit

23 September 2015

### City of Edinburgh Council Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
  2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 24 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
  3. In presenting this report to the Governance, Risk and Best Value Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
  4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. A number of presentational and monetary adjustments were identified and discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the council and group total expenditure by £0.163 million. Net assets as recorded in the balance sheet have increased by £0.163 million.
-

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

## **APPENDIX A: Proposed Independent Auditor's Report**

### **Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of City of Edinburgh Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statement, Comprehensive Income and Expenditure Statements, Balance Sheets and Cash Flow Statements, the authority-only Housing Revenue Account, Council Tax Income Account, Non-Domestic Rates Income Account, the Common Good Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **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 circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
  - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
  - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
-

## **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have the following to report in respect of these matters.

## **Failure to achieve a prescribed financial objective**

Whilst it has not been necessary to qualify my opinion in respect of the following matter, I am required to report it to you.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2015 in respect of their Edinburgh Catering Services - Other Catering significant trading operation.

David McConnell, MA, CPFA  
Assistant Director of Audit  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow G2 1BT

September 2015

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## Appendix B: ISA 580 - Letter of Representation

David McConnell, MA, CPFA  
Assistant Director of Audit  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow G2 1BT

Dear David

### City of Edinburgh Council

#### Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of City of Edinburgh Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of City of Edinburgh Council and its group, as at 31 March 2015 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Corporate Leadership Group, the following representations given to you in connection with your audit of City of Edinburgh Council and its group for the year ended 31 March 2015.

#### General

3. I acknowledge my responsibility and that of City of Edinburgh Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by City of Edinburgh Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
  4. The information given in the Annual Accounts, including the Management Commentary and Remuneration Report, presents a balanced picture of City of Edinburgh Council and is consistent with the financial statements.
  5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).
-

## **Financial Reporting Framework**

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of City of Edinburgh Council and its group for the year ended 31 March 2015.

## **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

## **Going Concern**

10. The council has assessed City of Edinburgh Council's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed in the financial statements any material uncertainties that have arisen as a result.

## **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

## **Events Subsequent to the Balance Sheet Date**

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
  13. Other than as noted in the financial statements, there have be no events or transactions since the Balance Sheet date which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.
-



## **Corporate Governance**

14. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2015, which require disclosure.

## **Fraud**

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

## **Assets**

17. The assets shown in the Balance Sheet at 31 March 2015 were owned by City of Edinburgh Council, other than assets which have been purchased under operating leases and except for certain heritage assets which are held on long term loan to the council. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
18. As noted in the accounting policies to the financial statements, it has not been possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore the balance sheet may hold elements of heritage assets that belong to other entities.

## **Liabilities**

19. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2015.

## **Carrying Value of Assets and Liabilities**

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

## **Provisions**

21. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2015 and of which City of Edinburgh Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2015.
  22. The council has progressed the review and billing of outstanding statutory repairs work and during 2014/15 has written off £5.2 million in relation to irrecoverable debts. A bad debt provision
-

of £8.9 million exists at 31 March 2015 for non-collectability of the remaining billed and unbilled statutory repairs work. The levels of provision are based on the most recent information on collectability. In addition to this bad debt provision, a provision of £3.7 million exists at 31 March 2015 in relation to potential settlements arising from the process of resolving outstanding statutory repairs complaints. These provisions are estimates based on the best information available, and are kept under regular review.

Yours sincerely

**Hugh Dunn, Head of Finance**  
**Section 95 Officer**

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Appendix 3



**2014/2015**

**AUDITED ANNUAL ACCOUNTS**

# The City of Edinburgh Council

## Annual Accounts

Year to 31 March 2015

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# MANAGEMENT COMMENTARY

## Basis of Accounts

The Audited Annual Accounts presents the financial position and performance of the Council, together with the financial position of the wider Council Group for the year to 31 March 2015.

The Annual Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice.

## Statutory Background

The City of Edinburgh Council was constituted under the Local Government, etc. (Scotland) Act 1994 and became the unitary local authority to Scotland's capital city in April 1996. The Council brought together most of the services delivered by the previous regional and district councils, with its primary current frontline functions being the provision of education to school-age children within the city, social care services, economic development, a range of community-based services such as roads maintenance, street lighting and refuse collection and quality of life functions such as libraries, culture, recreation and parks. Services are delivered to just under half a million citizens across the 102 square mile Council area.

Comprehensive further detail of the services provided by the Council is included on its website and within the annual Key Facts and Figures publication.

The Council currently has 58 Councillors representing 17 wards within the city.

Political representation as of September 2015 was as follows:

Labour Party	21 members
Scottish National Party	17 members
Conservative Party	11 members
Scottish Green Party	5 members
Liberal Democrats	3 members
Independent	1 member

The Labour and Scottish National Party groups together form the Capital Coalition for the City of Edinburgh, which is made up of 38 of the 58 Councillors.

The Capital Coalition leads the Council and fills the roles of Lord Provost, Leader of the Council and most committee convenerships.

The Full Council meets once a month and also delegates decisions to committees which meet regularly throughout the year.

Details of the senior councillors' remuneration and committee roles are disclosed in the Remuneration Report from page 136 of these financial statements.

# MANAGEMENT COMMENTARY

## Corporate Strategy

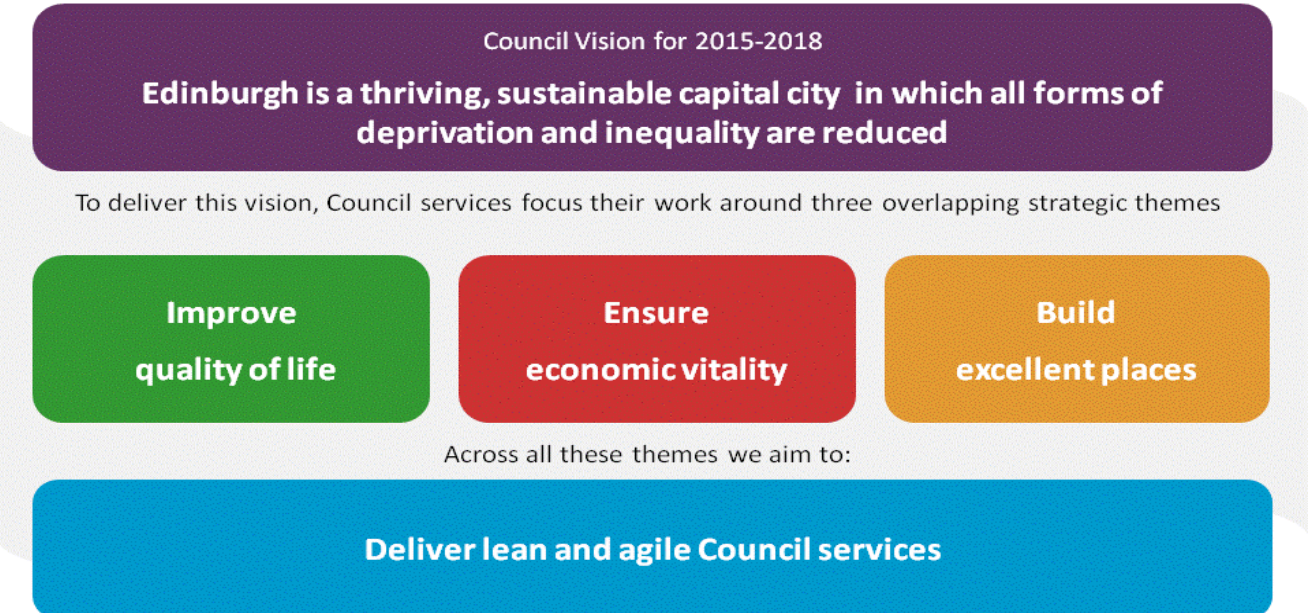
The current Council Strategic Plan was first developed in 2012 and outlines priorities for the period 2012-17. The plan forms the central part of the Council's planning and performance management framework and is reviewed and updated each year to take consideration of new developments, emerging priorities and actions.

To meet this commitment, the 2015 review of the Council Strategic Plan builds on the strategic direction set out in the Council Transformation Programme and the 'Organise to Deliver' reports to refresh the approach the plan takes to communicating the Council's vision and purpose. This refresh is proposed in order to ensure the plan remains fit for purpose through a period of change and promotes staff and customer engagement. The plan seeks to embody clearly and promote the Council values of putting the customer first, being forward-thinking, working together and being honest and transparent. The framework is also intended to demonstrate a clear line of sight to the Capital Coalition pledges, Edinburgh Partnership Community Plan, the Corporate Transformation Programme and more operational delivery plans spanning the Council's service areas.

The draft Council Business Plan for 2015/18 therefore adopts a single vision for the city, shared with all Council partners. To deliver this vision, the plan sets out overlapping strategic themes common to the work of all service areas. These themes set out a commitment for the Council to:

- Improve quality of life
- Ensure economic vitality, and
- Build excellent places.

Across all of these themes, the plan sets out a further common commitment to provide best value and to deliver lean and agile Council services.



Within these themes, the plan also provides an overview of key priority outcomes for the Council, linked to priorities set out in existing service plans and strategies and to key priorities emerging from customer consultation and engagement work.

# MANAGEMENT COMMENTARY

## Risks and Uncertainty

In 2012, an external review of the Council's risk management arrangements concluded that they were inadequate for an organisation of its size, nature and complexity. The co-sourcing arrangements for the internal audit and risk management service subsequently put in place by the Director of Corporate Governance therefore sought to enhance the Council's capacity and capability in this area and the extent of improvement has been noted in successive external assessments.

Robust risk management ensures that the Council's agreed outcomes, pledges, objectives and service delivery are achieved more effectively and efficiently and that performance will be improved through better-informed decision-making and reduced uncertainty. To this end, a Risk Management Policy and Framework was approved by the Governance, Risk and Best Value Committee in March 2015. This policy sets out the Council's approach to risk management and the activities and responsibilities required to ensure that risk management is embedded comprehensively and consistently across the Council.

Robust risk management is based on a cycle of regular review and update which should be evidenced in risk registers held and maintained by the Corporate Leadership Group (CLG), Service Area senior management teams (SMTs) and, below this, in teams as required by the SMT. Every quarter, service area and CLG risk committees review and challenge the issues and risks arising and update their risk registers appropriately. The CLG and Chief Risk Officer also report on risks and risk management to the Governance, Risk and Best Value Committee which is charged with monitoring the effectiveness of the Council's risk management arrangements, including monitoring internal financial control, corporate risk management and key corporate governance areas. The most recent such update was considered by the Committee on 5 March 2015, setting out the highest-priority risks of the Council, alongside the key controls in place to mitigate them.

The highest-assessed inherent risks i.e. the most significant risks had there been no plans in place to manage them, were:

- the Council has insufficient resources to structure and maintain a capital portfolio that is fit-for-purpose and meets health and safety standards now and in the future;
- the affordability and delivery of the Adult Social Care service, particularly in light of expected demographic changes, could impact on the outcomes and care for the people of Edinburgh;
- the IT infrastructure is not fit for purpose and does not meet the present or future needs of the Council, impacting on the Council's ability to deliver services as expected;
- the Council's transformational change agenda is not implemented effectively with support from elected members and trade unions, resulting in a failure to meet service delivery outcomes and impacting on cost reductions and staff morale;
- the Council does not generate sufficient savings to meet budget targets in the short and longer term, resulting in under-delivery of key services.

The report therefore also set out a range of current, and proposed further, mitigating actions in assessing the residual level of risk to which the Council is exposed.

## MANAGEMENT COMMENTARY

### Results for the year

While the Council is required by statute to report publicly on its performance across a range of areas set out by the Accounts Commission, a suite of additional measures, aligned to the Council's priorities, continues to be reported on a monthly basis to the Corporate Leadership Group and half-yearly to the Corporate Policy and Strategy Committee and relevant Executive Committees. This thematic reporting is intended to complement financial data in giving a more rounded and informed picture of overall performance. Progress is tracked against around forty key indicators covering the full range of Council services, with both absolute levels and trends in performance analysed to identify areas for remedial action and / or dissemination of best practice. Edinburgh-specific performance data for 2014/15 has also been provided through a range of other channels, including the Edinburgh People Survey, audits and inspections. Performance against a range of local-level, "quality of life" indicators is in addition monitored on a regular basis, with corresponding areas for improvement identified.

### Financial Ratios

Financial ratios relating to Council Tax, debt and borrowing are shown below.

Council Tax		2014/15	2013/14	
In-year collection rate	95.40%	94.70%		This shows the % of Council Tax collected during the financial year that relates to bills issued for that year. It does not include collection of funding relating to previous financial years.
Council Tax income as a percentage of overall funding	24.78%	24.88%		This shows the proportion of total funding that is derived from Council Tax.
<b>Debt and Borrowing - Prudence</b>				
Capital Financing Requirement	£1,726.0m	£1,728.5m		The capital financing requirement represents the underlying need to borrow to fund expenditure on assets. Financing costs are provided for within the Council's Long-Term Financial Plan. Further details of the capital financing requirement can be seen in note 39 to the Financial Statements.
External debt levels	£1,677.2m	£1,670.6m		External debt levels include long-term, commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure.  External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
<b>Debt and Borrowing - Affordability</b>				
Financing costs to net revenue stream - General Fund	11.94%	11.94%		These ratios show the proportion of total revenue funding that is used to meet financing costs. The ratios exclude any voluntary repayments of debt made during the year.
Financing costs to net revenue stream - HRA	34.43%	36.44%		
Impact of capital investment on Council Tax	0.96%	0.18%		These ratios show incremental impact of financing costs (the increase in financing costs from the previous financial year) as a percentage of Council Tax, in respect of costs payable through the General Fund and house rents for the HRA.
Impact of capital investment on house rents	-0.10%	1.03%		



# MANAGEMENT COMMENTARY

## Financial Performance

### Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 18. This statement has been prepared using International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position on the General Fund and Housing Revenue Account for the year. These are shown in the Movement in Reserves Statement (pages 14 to 16).

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below. Further details have been provided in the report to the Finance and Resources Committee in August 2015, which is available on the Council's website.

	<b>Budget</b>	<b>Actual</b>	<b>(Under)</b>
	<b>2014/15</b>	<b>2014/15</b>	<b>/ Over</b>
	<b>£000</b>	<b>£000</b>	<b>Spend</b>
			<b>£000</b>
General Fund services	850,075	855,609	5,534
Dividend income (net)	(8,000)	(8,437)	(437)
Loans charges / interest on revenue balances	118,165	114,819	(3,346)
Net contribution to earmarked balances	(1,827)	723	2,550
<b>Total expenditure to be funded</b>	<b>958,413</b>	<b>962,714</b>	<b>4,301</b>
Council Tax	(234,591)	(238,696)	(4,105)
Council Tax Reduction Scheme	26,597	25,785	(812)
Total - Council Tax income account	(207,994)	(212,911)	(4,917)
Community Charge income	0	(65)	(65)
General revenue funding	(386,311)	(386,311)	0
Distribution from non-domestic rate pool	(364,108)	(364,108)	0
<b>Funding</b>	<b>(958,413)</b>	<b>(963,395)</b>	<b>(4,982)</b>
<b>Transfer to Council Priorities Fund</b>	<b>0</b>	<b>(681)</b>	<b>(681)</b>

Fees and charges levied by the Council have been offset against the cost of providing services and are included within the actual cost of General Fund Services shown above.

### Budget performance - General Fund

Four of the Council's five main service areas maintained expenditure within approved levels during the year. This was achieved despite on-going increases in demand across a number of areas influenced by demographics and wider social change, including early years and primary school provision and services for at-risk children and older people. While there is clear evidence that the position is improving, economic conditions continue to place additional calls upon welfare-related services whilst also exerting an element of downward pressure on fees and charges income. Recent changes in UK-wide welfare reforms have, in general terms, also increased benefits processing and appeals volumes, as well as contributing to an increase in the overall level of housing rent arrears.

The main variances in the Council's outturn position arose in the following areas:

- An overspend within General Fund services of £5.534m. Within this amount, all services except Health and Social Care returned small underspends against their approved budgets. The additional costs relate mainly to Health and Social Care demand pressures, with these being met from underspends / additional income from other areas of the Council's budget.
- A reduction of £3.346m on loan charges / interest received, mainly as a result of the Council's planned strategy not to undertake borrowing to finance capital investment during the year.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

- Additional Council Tax receipts, compared to budget, of £4.105m, mainly as a result of additional properties on which tax can be levied, and a reduction in exemptions. A further saving of £0.812m compared to budget was achieved on the Council Tax Reduction Scheme (formerly Council Tax Benefit).
- The Council transferred a net sum of £0.723m to reserves during 2014/15. This includes monies returned from the equal pay provision, which have been set aside in the earmarked balance for contingency funding and workforce management, as shown in note 10.1.
- The surplus of £0.681m returned in 2014/15 was transferred to the Council Priorities Fund, which forms part of the earmarked proportion of the General Fund for contingency funding, as detailed in note 10.1.

## Principal Sources of Funding - General Fund

The principal sources of funding used by the Council during the year were:

	<b>£000</b>
Council Tax / Community Charge income (net of Council Tax Reduction Scheme)	212,976
General revenue funding	386,311
Distribution from non-domestic rates pool	<u>364,108</u>
Total	<u><u>963,395</u></u>

## Reconciliation to Amounts Reported for Resource Allocation Decisions

Note 32 to the Annual Accounts shows the amounts reported for resource allocation decisions. The service income and expenditure shown in note 32 can be reconciled back to the total shown for General Fund services as follows:

	<b>Expenditure £000</b>	<b>Income £000</b>	<b>Net Expenditure £000</b>	<b>Budget £000</b>
Children and Families	415,268	(23,875)	391,393	391,393
Corporate Governance	120,903	(39,825)	81,078	81,529
Economic Development	17,589	(5,136)	12,453	12,479
Health and Social Care	285,275	(75,038)	210,237	204,359
Lothian and Borders Valuation Joint Board	3,745	0	3,745	3,745
Services for Communities	385,668	(248,352)	137,316	137,316
Net cost of housing benefits	229,642	(202,248)	27,394	29,580
Other non-departmental specific income and expenditure	15,292	2,486	17,778	16,271
	<u>1,473,382</u>	<u>(591,988)</u>	<u>881,394</u>	<u>876,672</u>
General Fund services (as shown on page 6)			855,609	
Council Tax Reduction Scheme (as shown on page 6)			<u>25,785</u>	
			<u><u>881,394</u></u>	

## Classification of Community Safety Expenditure

In accordance with guidance issued by LASAAC in December 2014, the Council has not reclassified Community Safety expenditure as Housing Services. The following figures which relate to Community Safety are included in Environmental Services within the Comprehensive Income and Expenditure Statement. Relevant expenditure relates to crime reduction (payments to Police Scotland) and CCTV costs.

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Relevant Community Safety expenditure included in Environmental Services	3,437	3,461

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Reserves - General Fund

The Council's General Fund reserves comprise two elements:

- The unallocated General Fund; and
- Balances earmarked for specific purposes.

The unallocated General Fund is held against the risk of unanticipated expenditure and/or reduced income arising in any particular year. The level on this reserve is reviewed annually by the Council as part of the revenue budget process. This review considers the level of balances held, the financial risks which could be realised and the arrangements in place to manage these.

The latest review was in February 2015, as part of the 2015-2016 budget setting process. The unallocated General Fund balance remains at £13.025m, which equates to 1.36% of the annual budgeted net expenditure. There were no planned contributions to the unallocated General Fund for 2014/15.

In addition, the Council has a further £104.452m of balances earmarked for specific purposes. Details can be seen in note 10 to the Financial Statements. These are held for a number of reasons:

- Balances set aside for specific financial risks which are likely to arise in the medium term future. Examples include monies earmarked for equal pay and the insurance fund. The Council holds £56.424m against these future risks.
- Balances set aside, primarily from grant income, due to timing differences between the receipt of the grant income and the planned expenditure thereof. The Council holds £38.705m of income which has been received in advance of planned expenditure.
- Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years. These savings are used, initially, to reimburse the earmarked balances. The Council holds £8.269m of balances for such projects.
- Balances held under the School Board Delegation Scheme (DSM), which permits balances on individual school budgets to be carried forward to the following financial year. The current balance is £1.054m.

In summary, the level of reserves at 31 March 2015, together with the forward strategy, are considered appropriate in view of the financial liabilities and risks likely to face the Council in the short to medium term.

### Housing Revenue Account

The Council has a statutory obligation to maintain a housing revenue account (HRA) which records all income and expenditure for the management of, and investment in, Council homes. All expenditure on homes let by the Council is funded through the rent and related service charges paid by its tenants.

The HRA Business plan supports delivery of the City Housing Strategy by:

- providing high quality housing services to tenants;
- improving the quality of existing homes to meet the Scottish Housing Quality Standard by 2015; and
- building new, energy efficient affordable homes to address the shortage of affordable housing in the city.

Since 2006/07, the HRA has been supported by a rent strategy of annual rent increases to ensure that there was a robust financial framework for delivering the capital investment required to meet the Scottish Housing Quality Standard by 2015. Throughout 2014/15 the Council consulted tenants on their priorities for future investment and rent levels to inform the rent strategy from 2015 onwards.

At the end of 2014/15, the HRA was balanced after making a contribution of £2.503m to the Renewal and Repairs Fund, via the General Fund. These funds are earmarked for future capital investment in new homes through 21st Century Homes and as a contingency to manage the impact of welfare reform. In line with the HRA business plan, an additional £6.1m of debt was paid off in-year.

HRA income pays for housing management services and repairs and maintenance. It also meets the cost of servicing borrowing required for capital investment. Feedback from Council tenants shows a high level of satisfaction with the housing and repairs services, the quality of their homes and the neighbourhoods they live in. Benchmarking shows these results put Edinburgh in the top three Scottish local authority landlords and are as good as, if not better than, the results of other similar sized social landlords across the UK.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Housing Revenue Account - continued

The capital programme supports investment in current homes and funds the construction of new affordable homes. The capital programme is funded mainly through prudential borrowing; however capital receipts, capital funded from current revenue and grants (Home Energy Efficiency Programme Scotland) also contribute to capital investment.

Significant progress was made during 2014/15. The Council now complies with the requirements of the Scottish Housing Quality Standard (SHQS). Around 3,000 homes are currently classed as in abeyance, where tenants or neighbours have not agreed to participate in improvements works, these are being prioritised. Significant progress has also been made in delivering new homes through the 21st Century Homes programme. Over 800 new affordable homes are either under construction or in development and a further 400 affordable homes are planned.

The HRA Business Plan is managing emerging risks for future years by reducing revenue costs where possible and ensuring adequate contingency to manage these risks. Actions to manage risk include:

- Robust performance management and benchmarking to allow for comparisons of costs and performance with similar landlords;
- Build uncommitted contingency over coming years to ensure the HRA can react to and absorb short-term impacts on income reduction from welfare reform and support other unforeseen expenditure;
- Reducing the repairs budget, whilst maintaining performance to generate revenue savings;
- Repaying debt to generate revenue savings; and
- Increasing the provision for rent arrears and bad debt to manage the impact of welfare reform.

### Capital Expenditure

Capital expenditure is controlled through the Prudential Code that provides the framework for investing in infrastructure. In Scotland, local authorities are required by regulation to comply with the Prudential Code under Part 7 of the Local Government (Scotland) Act 2003. The key objectives of the Prudential Code are to ensure that capital plans are affordable, prudent and sustainable and that treasury decisions are taken in accordance with professional guidance and best practice.

In addition, capital plans must be consistent with, and support, local strategic planning, local asset management planning and proper option appraisal.

The outturn position for capital expenditure is summarised below:

	<b>Revised Budget 2014/15 £000</b>	<b>Actual 2014/15 £000</b>	<b>(Slippage) / Acceleration £000</b>
Capital expenditure			
General Fund services	141,735	150,827	9,092
Housing Revenue Account	45,726	37,309	(8,417)
<b>Total capital expenditure</b>	<b>187,461</b>	<b>188,136</b>	<b>675</b>
Capital receipts and other contributions			
- General Fund services	(29,066)	(32,863)	(3,797)
- Housing Revenue Account	(9,872)	(13,228)	(3,356)
Government and other grants			
- General Fund services	(86,949)	(86,989)	(40)
- Housing Revenue Account	(4,219)	(4,260)	(41)
<b>Total capital income</b>	<b>(130,106)</b>	<b>(137,340)</b>	<b>(7,234)</b>
Balance to be funded through borrowing			
- General Fund services	25,720	30,975	5,255
- Housing Revenue Account	31,635	19,821	(11,814)
<b>Total advances from loans fund</b>	<b>57,355</b>	<b>50,796</b>	<b>(6,559)</b>

Expenditure on General Fund services accelerated in total by £9.092m. Accelerated spend related mainly to asset management works projects across the Council estate. Expenditure on the Housing Revenue Account slipped by £8.417m.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Capital Expenditure - continued

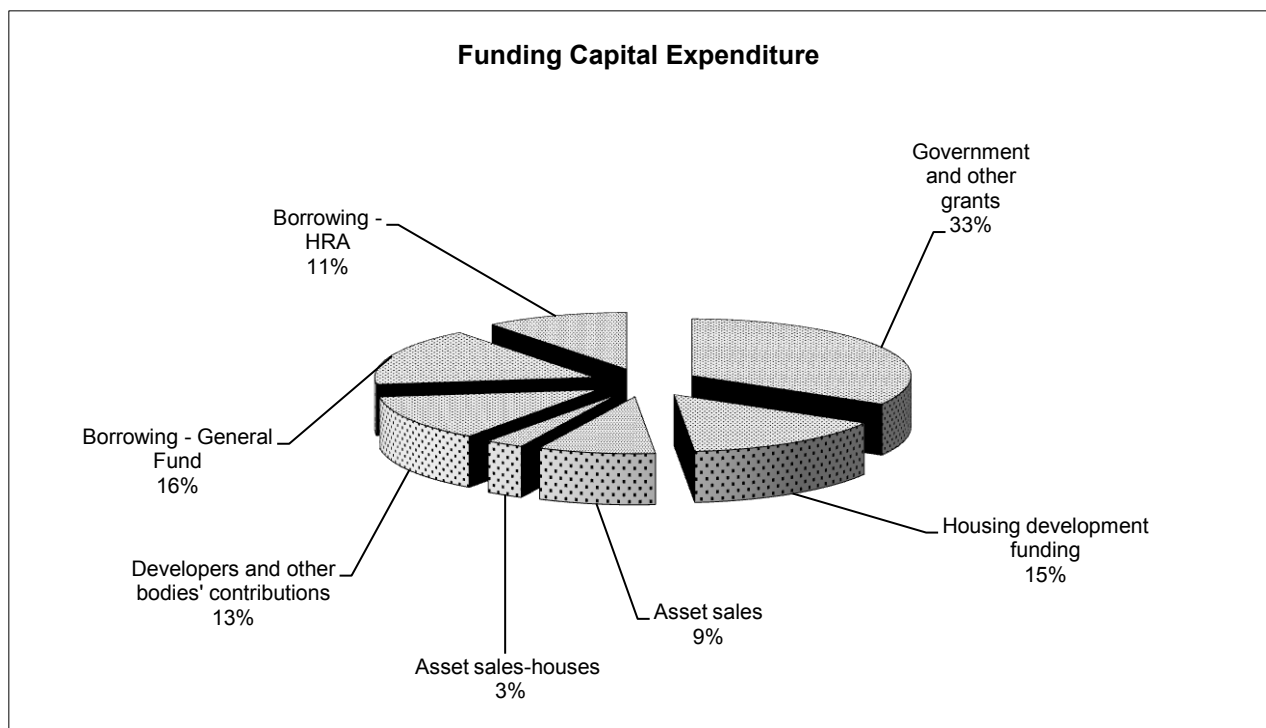
The Council received £57.675m of general capital grant. The support provided through general capital grant enables the Council to direct resources to its own priorities.

Capital expenditure for the year totalled £188.136m. Major capital projects undertaken during the year included:

- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £37.309m;
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £9.696m;
- Social housing through the housing development fund - £28.512m;
- Tram works, roads and other infrastructure - £34.867m;
- Health and Social Care establishments - £5.199m;
- Educational properties - £28.279m; and
- Recreational venues (including libraries, parks and open spaces) - £5.419m.

The economic climate has seen some improvement in the property market and this in turn has positively impacted on the Council's ability to raise income to fund capital projects through the sale of assets.

The chart below shows how the General Fund and HRA capital programmes were funded. As can be seen, 27% of the programme was funded through additional borrowing.



### Group Accounts

The Council's arm's-length companies have also been affected by the economic climate. A number of the companies are involved in the property market and have seen the values of their property portfolios decrease as a direct result of the current economic conditions. In June 2014 the Council agreed a restructuring of its property companies. Waterfront Edinburgh Ltd, Parc Craigmillar Ltd and Shawfair Land Ltd became wholly owned subsidiaries of the EDI Group Ltd to ensure that there is a coherent strategy across the companies and to improve corporate governance.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Group Accounts - continued

Net assets for 2014/15 include a combined group pension liability of £748.313m, as shown in note 43.9. This reflects the inclusion of pension liabilities relating to Council, other employees, including subsidiary companies and the incorporation of Lothian and Borders Valuation Joint Board as an associate within the group. This exceeds the value of distributable reserves held by the Group. It should be noted that this is a snapshot of the position at 31 March 2015. The actuarial valuation, which takes a longer term view, will consider the appropriate employers' contribution rates and these, together with employee contributions and revenues generated from fund investments, will be utilised to meet the financing of these liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of the group financial statements.

### Performance Overview

The Council's Best Value Audit report was published in May 2013 and recognised a range of improvements since the previous assessment in 2007, including good progress in improving outcomes for people and communities. In concluding that the Council's finances were well managed, the report nonetheless highlighted significant risks and uncertainties and, in light of these, the paramount importance of identifying savings that were both achievable and delivered.

A follow-up audit was undertaken in summer 2014, with the Controller of Audit's findings reported to the Council in December.

These findings noted improvements in a number of frontline services that had been highlighted in the May 2013 report, as well as to the Council's wider governance arrangements, risk management and internal audit functions. Despite progress in these areas, the report noted with concern that a means of fully addressing the Council's savings gap remained to be found, as well as the continued lack of a comprehensive workforce strategy and shortcomings in information and communications technology arrangements. Since publication of the follow-up report, the Council has developed its transformation plan which, alongside a greater focus on prioritisation of key services, will address its overall savings requirements going forward. A workforce strategy was approved by the Finance and Resources Committee in March 2015, with work to secure, from April 2016, improvements to the Council's information and communications technology through service reprocurement also well-advanced.

Under Section (1) (1) (a) of the Local Government Act 1992, the Accounts Commission has a statutory power to define the performance information that councils must publish locally in the following financial year with a view to facilitating comparison over time within, and across, authorities. The approach adopted in recent years has been largely non-prescriptive, with councils encouraged to develop their own comprehensive performance data sets, building on the Scotland-wide Local Government Benchmarking Framework to promote performance improvement and the targeting of resources to areas of greatest impact.

Due to the time required for calculation, verification and publication of Scotland-wide figures, provisional 2014/15 data will not be available in sufficient time for inclusion in the unaudited or audited annual accounts. An overview of the Council's 2013/14 performance against the sixty efficiency- and outcome-related indicators comprising the framework and other relevant indicators as they related to the Council's then five strategic themes has, however, been produced, as well as more detailed briefings on the framework's seven elements. These briefings analyse not only existing performance but, more importantly, consider areas for improvement and planned or proposed actions to address these.

Comprehensive detail of both Council-wide and service-specific performance is also available on the Council's website.

Progress in delivering the Capital Coalition's pledges is furthermore reported to Council on a six-monthly basis.

# MANAGEMENT COMMENTARY

## Future Developments

The one notable exception to the overall balanced position in 2014/15 was Health and Social Care, where underlying demand-led pressures contributed to a significant overspend. Urgent action, including commissioning an external review of financial performance, has therefore been instructed with a view to returning the service to a sustainable position in advance of full integration with health services from April 2016. Reconciling increasing service demand with reducing resources more generally remains the Council's main short- to medium-term challenge in delivering its priority outcomes; while expenditure demands are expected to increase by around 15% by 2018/19, overall resources available through Government Grant funding, Non-Domestic Rates and Council Tax are forecast to remain broadly static over this period. As a result, it is estimated that the Council needs to save at least £107m over the five-year period to 2019/20. At the same time, councils are at the centre of a wider public service reform programme, not only in the area of welfare-related changes but also more fundamental structural transformation resulting, for example, from health and social care integration. There is therefore a need to go beyond incremental, efficiency-driven measures (although these are clearly still important) and consider more transformational options for service delivery whilst aligning available resources more closely to the Council's priority outcomes.

To this end, the Council has established a transformation programme, an overview of which was reported to the Corporate Policy and Strategy Committee on 12 May 2015. This programme is geared towards building a lean and agile organisation, centred on customers, services and communities, and underpinned by significant investment to deliver both service benefits and financial savings.

## Health and Social Work Integration

### The Public Bodies (Joint Working) (Scotland) Bill

The Public Bodies (Joint Working) (Scotland) Bill was given Royal Assent by the Public Bodies Act.

The Edinburgh Integration Scheme has been signed off by the Minister and the Order will be laid before the Scottish Parliament before the summer recess.

### Governance

Currently joint National Health Service (NHS) and CEC governance arrangements are the Edinburgh Partnership Board, Edinburgh Partnership Executive and the Health and Social Care Partnership.

Joint Boards chaired by senior officers have also been established below this level and there are a number of steering and project boards supporting Integration.

A pan-Lothian National Health Service Lothian Finance and Resources Group has been established, comprising S95 officers from Lothian councils and senior finance officers in NHS which will consider the financial framework of the new Integrated Joint Board.

### Programme

It is estimated that the new Health and Social Care Partnership will encompass a combined budget of around £400-500 million of which approximately £200 million is currently Council budget. This brings together existing budgets from the Health and Social Care Service in the Council as well as those from NHS Lothian's Community Health Partnership. These budgets will be delegated to the Integrated Joint Board for governance, planning and resourcing purposes. The Strategic (Commissioning) Plan will identify how the resources are to be spent to deliver on the national outcomes and how the balance of care will be shifted from institutional to community-based settings.

Work is progressing on the key steps required to establish the Integrated Joint Board to allow it to get ready for the delegation of functions and resources. This includes a variety of tasks agreed in the Scheme and development of the Strategic Plan.

A detailed risk log is maintained for the Integration Programme and reported through the status reporting process to the Shadow Health and Social Care Partnership and through the Corporate Programmes Office reporting procedure.

ANDREW KERR  
Chief Executive

HUGH DUNN, CPFA  
Head of Finance

ANDREW BURNS  
Council Leader

24 September 2015

24 September 2015

24 September 2015

# STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

## The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs, including group interests, and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Finance and Resources Committee at its meeting on 24 September 2015.

ANDREW BURNS  
Council Leader

24 September 2015

## The Head of Finance's responsibilities

The Head of Finance is responsible for the preparation of the Authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Local Authority Accounting Code (insofar as it is compatible with legislation), except where stated in the Policies and Notes to the Accounts.

The Head of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Annual Accounts

I certify that the financial statements give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2015.

HUGH DUNN, CPFA  
Head of Finance

24 September 2015



## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council and its Group members. Reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation), most of which is already earmarked and other, unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves undertaken by the Council. Group reserves are shown as either usable or unusable reserves.

	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
<b>2014/15</b>				
Balance at 31 March 2014	123,309	0	21,936	0
Movement in reserves during 2014/15				
Surplus or (deficit) on the provision of services	(4,301)	17,476	0	0
Other Comprehensive Income and Expenditure	0	0	0	21,479
<b>Total Comprehensive Income and Expenditure</b>	<b>(4,301)</b>	<b>17,476</b>	<b>0</b>	<b>21,479</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	7,629	(14,973)	0	(21,479)
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<b>3,328</b>	<b>2,503</b>	<b>0</b>	<b>0</b>
Transfer (to) / from other statutory reserves (Note 10.3)	(9,161)	(2,503)	12,868	0
Minority interest and other consolidation adjustments	0	0	0	0
Increase / (decrease) in year	(5,833)	0	12,868	0
<b>Balance at 31 March 2015</b>	<b>117,476</b>	<b>0</b>	<b>34,804</b>	<b>0</b>
	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Council's Total Usable Reserves £000</b>	<b>Group Usable Reserves £000</b>
<b>2014/15</b>				
Balance at 31 March 2014	1,994	25,835	173,074	23,192
Movement in reserves during 2014/15				
Surplus or (deficit) on the provision of services	0	0	13,175	6,350
Other Comprehensive Income and Expenditure	0	11,298	32,777	(27,719)
<b>Total Comprehensive Income and Expenditure</b>	<b>0</b>	<b>11,298</b>	<b>45,952</b>	<b>(21,369)</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	2,355	0	(26,468)	307
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<b>2,355</b>	<b>11,298</b>	<b>19,484</b>	<b>(21,062)</b>
Transfer (to) / from other statutory reserves (Note 10.3)	0	(1,206)	(2)	7,678
Minority interest and other consolidation adjustments	0	0	0	0
Increase / (decrease) in year	2,355	10,092	19,482	(13,384)
<b>Balance at 31 March 2015</b>	<b>4,349</b>	<b>35,927</b>	<b>192,556</b>	<b>9,808</b>

## MOVEMENT IN RESERVES STATEMENT

	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2014/15</b>				
Balance at 31 March 2014	<u>196,266</u>	<u>1,612,466</u>	<u>108,949</u>	<u>1,917,681</u>
Movement in reserves during 2014/15				
Surplus or (deficit) on the provision of services	19,525	0	0	19,525
Other Comprehensive Income and Expenditure	<u>5,058</u>	<u>(185,180)</u>	<u>(1,859)</u>	<u>(181,981)</u>
<b>Total Comprehensive Income and Expenditure</b>	<b>24,583</b>	<b>(185,180)</b>	<b>(1,859)</b>	<b>(162,456)</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	<u>(26,161)</u>	<u>26,468</u>	<u>(307)</u>	<u>0</u>
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<b>(1,578)</b>	<b>(158,712)</b>	<b>(2,166)</b>	<b>(162,456)</b>
Transfer (to) / from other statutory reserves (Note 10.3)	7,676	2	(7,676)	2
Minority interest and other consolidation adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Increase / (decrease) in year	<u>6,098</u>	<u>(158,710)</u>	<u>(9,842)</u>	<u>(162,454)</u>
<b>Balance at 31 March 2015</b>	<b><u>202,364</u></b>	<b><u>1,453,756</u></b>	<b><u>99,107</u></b>	<b><u>1,755,227</u></b>

	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
<b>2013/14 Comparative Data</b>				
Balance at 31 March 2013	<u>105,996</u>	<u>0</u>	<u>30,748</u>	<u>0</u>
Movement in reserves during 2013/14				
Surplus or (deficit) on the provision of services	(27,930)	(18,545)	0	0
Other Comprehensive Income and Expenditure	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,707</u>
<b>Total Comprehensive Income and Expenditure</b>	<b>(27,930)</b>	<b>(18,545)</b>	<b>0</b>	<b>16,707</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	<u>30,290</u>	<u>22,843</u>	<u>0</u>	<u>(16,707)</u>
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<b>2,360</b>	<b>4,298</b>	<b>0</b>	<b>0</b>
Transfer (to) / from other statutory reserves (Note 10.3)	14,953	(4,298)	(8,812)	0
Minority interest and other consolidation adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Increase / (decrease) in year	<u>17,313</u>	<u>0</u>	<u>(8,812)</u>	<u>0</u>
<b>Balance at 31 March 2014</b>	<b><u>123,309</u></b>	<b><u>0</u></b>	<b><u>21,936</u></b>	<b><u>0</u></b>

## MOVEMENT IN RESERVES STATEMENT

	Capital Grants Unapplied Account £000	Capital Fund £000	Council's Total Usable Reserves £000	Restated Group Usable Reserves £000
<b>2013/14 Comparative Data</b>				
Balance at 31 March 2013	<u>7,030</u>	<u>18,873</u>	<u>162,647</u>	<u>8,687</u>
Movement in reserves during 2013/14				
Surplus or (deficit) on the provision of services	0	0	(46,475)	4,505
Other Comprehensive Income and Expenditure	<u>0</u>	<u>8,805</u>	<u>25,512</u>	<u>17,894</u>
<b>Total Comprehensive Income and Expenditure</b>	<u>0</u>	<u>8,805</u>	<u>(20,963)</u>	<u>22,399</u>
Adjustments between accounting basis and funding basis under regulations (Note 9)	<u>(5,037)</u>	<u>0</u>	<u>31,389</u>	<u>252</u>
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<u>(5,037)</u>	<u>8,805</u>	<u>10,426</u>	<u>22,651</u>
Transfer (to) / from other statutory reserves (Note 10.3)	1	(1,843)	1	(8,146)
Minority interest and other consolidation adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Increase / (decrease) in year	<u>(5,036)</u>	<u>6,962</u>	<u>10,427</u>	<u>14,505</u>
<b>Balance at 31 March 2014</b>	<u><b>1,994</b></u>	<u><b>25,835</b></u>	<u><b>173,074</b></u>	<u><b>23,192</b></u>
	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2013/14 Comparative Data</b>				
Balance at 31 March 2013	<u>171,334</u>	<u>1,682,410</u>	<u>(1,306,506)</u>	<u>547,238</u>
Movement in reserves during 2013/14				
Transfer of Police and Fire Services to central government	0	0	1,412,688	1,412,688
Surplus or (deficit) on the provision of services	(41,970)	0	0	(41,970)
Other Comprehensive Income and Expenditure	<u>43,406</u>	<u>(38,554)</u>	<u>697</u>	<u>5,549</u>
<b>Total Comprehensive Income and Expenditure</b>	<u>1,436</u>	<u>(38,554)</u>	<u>1,413,385</u>	<u>1,376,267</u>
Adjustments between accounting basis and funding basis under regulations (Note 9)	<u>31,641</u>	<u>(31,389)</u>	<u>(252)</u>	<u>0</u>
<b>Net (increase) / decrease before transfers to statutory reserves</b>	<u>33,077</u>	<u>(69,943)</u>	<u>1,413,133</u>	<u>1,376,267</u>
Transfer (to) / from other statutory reserves (Note 10.3)	(8,145)	(1)	8,146	0
Minority interest and other consolidation adjustments	<u>0</u>	<u>0</u>	<u>(5,824)</u>	<u>(5,824)</u>
Increase / (decrease) in year	<u>24,932</u>	<u>(69,944)</u>	<u>1,415,455</u>	<u>1,370,443</u>
<b>Balance at 31 March 2014</b>	<u><b>196,266</b></u>	<u><b>1,612,466</b></u>	<u><b>108,949</b></u>	<u><b>1,917,681</b></u>

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover its expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

for the year ended 31 March 2015

2013/14			Gross Expend.	Income	Net Expend.
£000		Notes	£000	£000	£000
	<b>SERVICES</b>				
343,151	Education Services		364,953	(24,502)	340,451
320,540	Social Work		396,772	(73,524)	323,248
1,265	Housing Revenue Account		74,019	(106,849)	(32,830)
36,415	Other Housing Services		298,722	(268,408)	30,314
51,537	Cultural and Related Services		65,738	(16,625)	49,113
70,753	Environmental Services		101,704	(29,414)	72,290
58,121	Roads and Transport		248,709	(185,186)	63,523
33,189	Planning and Development		69,007	(41,748)	27,259
11,540	Corporate and Democratic Core		13,836	(296)	13,540
18,820	Non-Distributed Costs		18,600	0	18,600
8,067	Services to the Public		25,950	(18,366)	7,584
204	Other Income and Expenditure		81,834	(71,794)	10,040
1,724	Associates and Joint Ventures Accounted for on an Equity Basis		23,271	(21,305)	1,966
<u>955,326</u>	<b>COST OF SERVICES</b>		<u>1,783,115</u>	<u>(858,017)</u>	925,098
4,221	Other Operating Expenditure	11.			(4,807)
110,758	Financing and Investment Income and Exp.	12.			91,300
<u>(1,028,335)</u>	Taxation and Non-Specific Grant Income	13.			<u>(1,031,116)</u>
41,970	<b>SURPLUS ON PROVISION OF SERVICES</b>				(19,525)
(49,212)	Surplus on Revaluation of Non-Current Assets			(19,070)	
(25,871)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(204,649)	
86,492	Changes in Financial and Demographic Assumptions / Other Experience			361,397	
<u>(16,958)</u>	Other Unrealised (Gains) / Losses			<u>44,303</u>	
(5,549)	Other Comprehensive Income and Expend.				181,981
<u>36,421</u>	<b>TOTAL COMPREHENSIVE EXPENDITURE</b>				<u>162,456</u>

An analysis of minority interest shares in the Group Comprehensive Income and Expenditure Statement can be seen in note 7.1.

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing Council services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover its expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

for the year ended 31 March 2015

2013/14			Gross Expend.	Income	Net Expend.
£000	SERVICES	Notes	£000	£000	£000
343,151	Education Services		364,953	(24,502)	340,451
320,540	Social Work		396,772	(73,524)	323,248
1,265	Housing Revenue Account		74,019	(106,849)	(32,830)
36,415	Other Housing Services		298,722	(268,408)	30,314
53,643	Cultural and Related Services		61,402	(10,532)	50,870
70,753	Environmental Services		101,704	(29,414)	72,290
68,636	Roads and Transport		123,643	(52,828)	70,815
33,962	Planning and Development		56,196	(23,501)	32,695
11,540	Corporate and Democratic Core		13,836	(296)	13,540
18,820	Non-Distributed Costs		18,600	0	18,600
8,067	Services to the Public		25,950	(18,366)	7,584
(3,636)	Other Income and Expenditure		76,456	(71,323)	5,133
963,156	<b>COST OF SERVICES</b>		<u>1,612,253</u>	<u>(679,543)</u>	932,710
3,652	Other Operating Expenditure	11.			(4,716)
109,910	Financing and Investment Income and Exp.	12.			91,625
(1,030,243)	Taxation and Non-Specific Grant Income	13.			(1,032,794)
46,475	<b>SURPLUS ON PROVISION OF SERVICES</b>				(13,175)
(49,212)	Surplus on Revaluation of Non-Current Assets			(19,070)	
(25,871)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(204,649)	
86,492	Changes in Financial and Demographic Assumptions / Other Experience			361,397	
1,633	Other Unrealised Losses			14,725	
13,042	Other Comprehensive Income and Exp.				152,403
59,517	<b>TOTAL COMPREHENSIVE EXPENDITURE</b>				<u>139,228</u>

### RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		£000
59,517	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)	139,228
(288)	Subsidiary and associate transactions included in the Council's CIES	829
(26,252)	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	15,161
3,444	Associates	7,238
36,421	Group total Comprehensive Expenditure for the year	<u>162,456</u>

## GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net liability of the Group (assets less liabilities) represents the total net loss of the Group. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Group may use to provide services. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the revaluation reserve) where amounts would only become available to provide services if the assets are sold.

<b>31 March 2014 £000</b>		<b>Notes</b>	<b>31 March 2015 £000      £000</b>	
3,292	Intangible Assets	16.		4,954
1,017,351	Council Dwellings		1,029,558	
1,763,693	Other Land and Buildings		1,732,117	
103,377	Vehicles, Plant, Furniture and Equipment		178,127	
941,347	Infrastructure Assets		912,496	
11,347	Community Assets		12,192	
17,150	Surplus Assets		12,624	
79,740	Assets under Construction		50,330	
<u>3,934,005</u>	<b>Property, Plant and Equipment</b>	14.		3,927,444
2,415	Investment Properties	15.		16,304
30,391	Heritage Assets	17.		31,075
17,379	Assets Held for Sale	22.		21,179
821	Available for Sale Financial Assets			794
258	Deferred Tax			297
11,524	Other Long-Term Assets (Pension)			0
5,127	Long-Term Investments			11,553
37,845	Investments in Associates and Joint Ventures			33,771
95,766	Long-Term Debtors	20.		<u>113,146</u>
<u>4,138,823</u>	<b>Long-Term Assets</b>			<u>4,160,517</u>
4,586	Short-Term Investments		0	
2,889	Assets Held for Sale	22.	8,503	
17,220	Inventories	19.	12,057	
123,600	Short-Term Debtors	20.	82,940	
37,467	Cash and Cash Equivalents	21.	<u>95,504</u>	
<u>185,762</u>	<b>Current Assets</b>			199,004
(57,994)	Short-Term Borrowing		(77,787)	
(173,775)	Short-Term Creditors	23.	(169,986)	
(4,977)	Capital Grants Received in Advance		(1,340)	
(19,577)	Provisions	24.	<u>(19,770)</u>	
<u>(256,323)</u>	<b>Current Liabilities</b>			(268,883)

## GROUP BALANCE SHEET

31 March 2014		31 March 2015		
£000		Notes	£000	£000
(1,393,140)	Long-Term Borrowing		(1,351,473)	
(205,184)	Other Long-Term Liabilities		(232,435)	
(9,547)	Deferred Tax		(3,467)	
(5,923)	Liabilities in Associates and Joint Ventures		(9,087)	
<u>(536,787)</u>	Other Long-Term Liabilities (Pensions)		<u>(738,949)</u>	
<u>(2,150,581)</u>	<b>Long-Term Liabilities</b>			<u>(2,335,411)</u>
<u><b>1,917,681</b></u>	<b>Net Assets</b>			<u><b>1,755,227</b></u>
918,790	Revaluation Reserve		911,395	
1,306,580	Capital Adjustment Account		1,339,227	
(51,049)	Financial Instruments Adjustment Account		(49,159)	
(535,498)	Pensions Reserve		(726,969)	
(26,357)	Employee Statutory Adjustment Account		(20,738)	
<u>108,949</u>	Group Unusable Reserves		<u>99,107</u>	
<u>1,721,415</u>	<b>Unusable Reserves</b>	26.		1,552,863
1,994	Capital Grants Unapplied Account		4,349	
25,835	Capital Fund		35,927	
21,936	Renewal and Repairs Fund		34,804	
123,309	General Fund		117,476	
<u>23,192</u>	Group Usable Reserves		<u>9,808</u>	
<u>196,266</u>	<b>Usable Reserves</b>	10.		<u>202,364</u>
<u><b>1,917,681</b></u>	<b>Total Reserves</b>			<u><b>1,755,227</b></u>

The unaudited accounts were issued on 19 June 2015. The audited accounts were authorised for issue on 24 September 2015.

HUGH DUNN, CPFA  
Head of Finance  
24 September 2015

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the revaluation reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

<b>31 March 2014 £000</b>		<b>Notes</b>	<b>31 March 2015 £000      £000</b>	
3,292	Intangible Assets	16.		4,954
1,017,351	Council Dwellings		1,029,558	
1,735,804	Other Land and Buildings		1,704,462	
35,755	Vehicles, Plant, Furniture and Equipment		104,027	
939,723	Infrastructure Assets		911,161	
11,347	Community Assets		12,192	
17,150	Surplus Assets		12,624	
79,740	Assets under Construction		<u>50,330</u>	
<u>3,836,870</u>	<b>Property, Plant and Equipment</b>	14.		3,824,354
2,215	Investment Properties	15.		16,104
30,391	Heritage Assets	17.		31,075
17,379	Assets Held for Sale	22.		21,179
23,335	Long-Term Investments			23,510
<u>99,266</u>	Long-Term Debtors	20.		<u>116,646</u>
<u>4,012,748</u>	<b>Long-Term Assets</b>			<u>4,037,822</u>
4,586	Short-Term Investments		0	
2,889	Assets Held for Sale	22.	8,503	
2,537	Inventories	19.	2,749	
113,602	Short-Term Debtors	20.	69,751	
<u>20,167</u>	Cash and Cash Equivalents	21.	<u>81,948</u>	
<u>143,781</u>	<b>Current Assets</b>			162,951
(57,994)	Short-Term Borrowing		(79,287)	
(151,613)	Short-Term Creditors	23.	(141,325)	
(4,977)	Capital Grants Received in Advance		(1,340)	
<u>(16,752)</u>	Provisions	24.	<u>(17,994)</u>	
<u>(231,336)</u>	<b>Current Liabilities</b>			(239,946)



## BALANCE SHEET

31 March 2014 £000		Notes	31 March 2015	
			£000	£000
(1,403,784)	Long-Term Borrowing	18.	(1,360,607)	
(200,371)	Other Long-Term Liabilities	18.	(226,939)	
<u>(535,498)</u>	Other Long-Term Liabilities (Pensions)	43.3	<u>(726,969)</u>	
<u>(2,139,653)</u>	<b>Long-Term Liabilities</b>			<u>(2,314,515)</u>
<u><b>1,785,540</b></u>	<b>Net Assets</b>			<u><b>1,646,312</b></u>
918,790	Revaluation Reserve		911,395	
1,306,580	Capital Adjustment Account		1,339,227	
(51,049)	Financial Instruments Adjustment Account		(49,159)	
(535,498)	Pensions Reserve		(726,969)	
<u>(26,357)</u>	Employee Statutory Adjustment Account		<u>(20,738)</u>	
<u>1,612,466</u>	<b>Unusable Reserves</b>	26.		1,453,756
1,994	Capital Grants Unapplied Account		4,349	
25,835	Capital Fund		35,927	
21,936	Renewal and Repairs Fund		34,804	
<u>123,309</u>	General Fund		<u>117,476</u>	
<u>173,074</u>	<b>Usable Reserves</b>	10.		192,556
<u><b>1,785,540</b></u>	<b>Total Reserves</b>			<u><b>1,646,312</b></u>

The unaudited accounts were issued on 19 June 2015. The audited accounts were authorised for issue on 24 September 2015.

HUGH DUNN, CPFA  
Head of Finance  
24 September 2015

## GROUP CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

### Year ended 31 March 2015

2013/14 £000		Notes	£000	£000
	<b>Operating Activities</b>			
(212,792)	Taxation		(216,370)	
(1,061,122)	Grants		(1,074,651)	
(86,695)	Housing rents		(90,791)	
(512,828)	Sales of goods and rendering of services		(543,907)	
<u>(4,871)</u>	Interest and investment income received	27.	<u>(11,680)</u>	
(1,878,308)	Cash inflows from operating activities			(1,937,399)
616,610	Cash paid to and on behalf of employees		647,532	
200,368	Housing benefits paid out		202,498	
746,226	Cash paid to suppliers of goods and services		750,951	
2,582	Taxation paid		3,546	
<u>96,806</u>	Interest paid	27.	<u>95,936</u>	
<u>1,662,592</u>	Cash outflows from operating activities			<u>1,700,463</u>
(215,716)	Net cash flows from operating activities			(236,936)
	<b>Investing Activities</b>			
241,291	Net cash flows from investing activities	28.		183,054
	<b>Financing Activities</b>			
<u>31,490</u>	Net cash flows from financing activities	29.		<u>(4,155)</u>
<u>57,065</u>	Net decrease / (increase) in cash and cash equivalents			<u>(58,037)</u>
<u>(94,532)</u>	Cash and cash equivalents at 1 April			<u>(37,467)</u>
<u>(37,467)</u>	Cash and cash equivalents at 31 March	21.		<u>(95,504)</u>

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

### Year ended 31 March 2015

2013/14 £000		Notes	£000	£000
	<b>Operating Activities</b>			
(211,614)	Taxation		(216,284)	
(1,061,122)	Grants		(1,074,651)	
(86,695)	Housing rents		(90,791)	
(370,204)	Sales of goods and rendering of services		(387,101)	
(4,651)	Interest and investment income received	27.	(11,450)	
(1,734,286)	Cash inflows from operating activities			(1,780,277)
540,639	Cash paid to and on behalf of employees		571,736	
200,368	Housing benefits paid out		202,498	
696,889	Cash paid to suppliers of goods and services		695,545	
96,313	Interest paid	27.	95,470	
1,534,209	Cash outflows from operating activities			1,565,249
(200,077)	Net cash flows from operating activities			(215,028)
	<b>Investing Activities</b>			
228,620	Net cash flows from investing activities	28.		159,177
	<b>Financing Activities</b>			
28,993	Net cash flows from financing activities	29.		(5,930)
57,536	Net decrease / (increase) in cash and cash equivalents			(61,781)
(77,703)	Cash and cash equivalents at 1 April			(20,167)
(20,167)	Cash and cash equivalents at 31 March	21.		(81,948)

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

The Annual Accounts for the year ended 31 March 2015 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice. This is to ensure that the accounts 'present a true and fair view' of the financial position and transactions of the Council.

### 1.1 Accruals of Income and Expenditure

- The revenue and capital accounts have been prepared on an accruals basis in accordance with the Code of Practice.
- Provision has been made in the relevant accounts for bad and doubtful debts.

### 1.2 Debt Redemption

- The Council operates a consolidated loans fund under the terms of the Local Government (Scotland) Act 1975. Capital payments made by services are financed from the loans fund and repaid on an annuity basis.
- Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Comprehensive Income and Expenditure Statement in the period during which the repurchase or early settlement is made. Where the repurchase of borrowing is taken with a refinancing or restructuring option, gains or losses are recognised over the life of the replacement borrowing.

### 1.3 Cash and Cash Equivalents

Cash and cash equivalents includes:

- credit and debit funds held in banks; and
- investments maturing within three months of the Balance Sheet date in respect of the Council and two months of the Balance Sheet date in respect of other Group members.

### 1.4 Contingent Assets and Liabilities

Contingent assets are not recognised in the accounting statements. Where there is a probable inflow of economic benefits or service potential, this is disclosed in the notes to the financial statements.

Contingent liabilities are not recognised in the accounting statements. Where there is a possible obligation that may require a payment or transfer of economic benefit, this is disclosed in the notes to the financial statements.

### 1.5 Provisions

The value of provisions is based upon the Council's obligations arising from past events, the probability that a transfer of economic benefit will take place and a reasonable estimate of the obligation.

### 1.6 Employee Benefits

#### • Accruals of Holiday Leave

'Cost of services' within the Comprehensive Income and Expenditure Statement includes a charge for annual leave to which employees are entitled, but have not taken, as at the Balance Sheet date.

The Council is not required to raise Council Tax to cover the cost of accrued annual leave. These costs are a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account balances by way of an adjusting transaction with the employee statutory adjustment account.

#### • Pensions

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

##### • Teachers

This is an unfunded scheme administered by the Scottish Public Pensions Agency. The pension cost charged in the accounts is the contribution rate set on the basis of a notional fund.

##### • Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.6 Employee Benefits - continued

- Pensions - continued

- Other Employees - continued

The Financial Statements have been prepared including pension costs as determined under International Accounting Standard 19 - Employee Benefits (IAS19). The cost of services includes expenditure equivalent to the amount of retirement benefits the Council has committed to during the year. The interest cost on defined benefit obligation and interest income on plan assets have been charged / credited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations is disclosed in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

Pension assets have been valued at bid value (purchase price), as required under IAS19.

Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

### 1.7 Financial Instruments

- Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement (CIES) is the amount payable for the year in the loan agreement.

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

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

- Financial Assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council may make loans to related parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the related party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. For soft loans to subsidiary bodies, the writedown is accounted for as an additional investment in the subsidiary in the Council's Group Accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.7 Financial Instruments - continued

- **Financial Assets - continued**

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited / debited to the Comprehensive Income and Expenditure Statement.

Surplus funds on behalf of the Council and associated bodies and cash monies of Lothian Pension Funds are now managed by the Council under a formal management agreement in a pooled investment arrangement. While the monies continue to be shown as investments in Lothian Pension Funds' accounts, they are no longer shown as both liabilities and investments in the Council's accounts.

- **Available-for-Sale-Financial Instruments**

The Council has a significant financial interest in several companies and trusts which have been set up for specific purposes. Details of these appear in note 7 to the Financial Statements. These financial interests have been assessed under the requirements of IAS39 Financial Instruments: Measurement.

The Council's investments in Transport for Edinburgh, Lothian Buses Limited, CEC Holdings Limited and CEC Recovery Limited (formerly tie Limited) have been assessed as outwith the scope of IAS39.

Unless otherwise stated, the accounts of these companies may be obtained on application to the Head of Finance, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

### 1.8 Government and non-Government Grants and Contributions

- **Revenue**

Revenue grants and contributions have been included in the financial statements on an accruals basis.

Where such funds remain unapplied at the Balance Sheet date, but approval has been given to carry these funds forward to the next financial year, these amounts have been set aside in the General Fund.

- **Capital**

Capital grants and contributions are recognised in the Comprehensive Income and Expenditure Statement except to the extent there are conditions attached to them that have not been met.

Where there are no conditions attached to capital grants and contributions, these funds are a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account, where expenditure has been incurred and the unapplied capital grants account where expenditure has not been incurred.

Where there are outstanding conditions attached to capital grants and contributions that have not been met at the Balance Sheet date, the grant or contribution will be recognised as part of capital grants receipts in advance. Once the condition has been met, the grant or contribution will be transferred from capital grants received in advance and recognised as income in the Comprehensive Income and Expenditure Statement, as above.

### 1.9 Intangible Assets

Intangible fixed assets represent software licences purchased by the Council.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of intangible fixed assets has been capitalised on an accruals basis.

- **Measurement**

Intangible fixed assets are initially measured at cost.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.9 Intangible Assets - continued

- **Depreciation**

Software licences are depreciated over the period of the licence, commencing in the year after acquisition.

### 1.10 Inventories

Inventories are measured at the lower of cost and net realisable value.

Inventories acquired through a non-exchange transaction are measured at their fair value as at the date of acquisition.

Inventories held for distribution at no charge or a nominal charge are measured at the lower of cost and current replacement cost.

### 1.11 Investment Properties

- **Measurement**

Investment properties are initially measured at cost. After initial recognition, investment properties are measured at fair value.

Any gains or losses arising from a change in the fair value of investment properties are recognised in the Comprehensive Income and Expenditure Statement for the period in which they arise.

- **Revaluation**

Investment properties are revalued annually.

- **Depreciation**

Investment properties held at fair value are not depreciated.

- **De-recognition**

Investment properties are de-recognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.

The gain or loss arising from the retirement or disposal of an investment property is recognised in the 'surplus or deficit on provision of services' within the Comprehensive Income and Expenditure Statement in the period of the retirement or disposal.

### 1.12 Leases

- **Finance Leases**

Finance leases, which have substantially transferred to the authority the benefits and risks of ownership of a non-current asset, are treated as if the asset had been purchased outright.

- **Leased-in Assets**

Assets acquired under finance leases are included in non-current assets at the lower of the fair value or the present value of the minimum lease payments. The capital element of the lease is included as obligations under finance leases / creditors.

- **Operating Leases**

Leases that do not meet the definition of a finance lease are accounted for as operating leases.

- **Leased-in Assets**

Rental payments, net of benefits received, under operating leases are charged to the relevant service on a straight line basis over the life of the lease.

- **Leased-out Assets**

Rental income received under operating leases is credited to the relevant service in accordance with the terms specified in the lease agreement.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.12 Leases - continued

- **Finance Leases - continued**
  - **Leased-in Assets - continued**

The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to revenue on a straight line basis over the terms of the lease.

### 1.13 Current and Non-Current Assets Held for Sale

Current assets held for sale are assets that the Council has identified as surplus to requirement, are being actively marketed and it is expected that the sale will be realised within twelve months of the Balance Sheet date.

Non-current assets held for sale are assets that the Council has identified as surplus to requirement, are being actively marketed, but it is not expected that the sale will be realised within twelve months of the Balance Sheet date.

- **Measurement**

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell at the Balance Sheet date. Where the sale is expected to occur in more than twelve months, the cost is measured at present value.

- **Depreciation**

Current and non-current assets held for sale are not depreciated.

### 1.14 Overheads

The costs of support services are allocated to direct services. The allocations are made on a basis appropriate to the service provided, in order to match costs to service usage. Certain support service costs are recovered through direct charges during the year.

### 1.15 Public Private Partnership - School Buildings, Maintenance and Other Facilities

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the non-current assets required to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under this scheme and as ownership of the schools and other facilities will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current assets used under the contracts on its Balance Sheet.

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

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

- fair value of the services received during the year - debited to education services in the Comprehensive Income and Expenditure Statement.
- finance cost - an interest charge of 7.35% (PPP1 scheme) and 5.004% (PPP2 scheme) on the outstanding balance sheet liability - debited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.
- contingent rent - increases in the amount to be paid for the property arising during the contract - debited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the value of the finance lease on the Balance Sheet.
- lifecycle replacement costs - recognised as non-current assets on the Balance Sheet.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.16 Property, Plant and Equipment

- **Categories of Assets**

Property, plant and equipment is categorised into the following classes:

Council dwellings	Other land and buildings
Vehicles, plant, furniture and equipment	Infrastructure assets, e.g. roads and footways
Community assets, e.g. parks	Assets under construction
Surplus assets (assets that are surplus to requirements, but there are no clear plans to sell these at the current time.)	

- **Recognition**

Expenditure on the acquisition, creation or enhancement of non-current assets has been capitalised on an accruals basis. Expenditure lower than £6,000 on individual assets is charged to revenue.

- **Measurement**

Infrastructure, community assets and assets under construction are measured at historical cost.

All other classes of property, plant and equipment are measured at fair value.

- Other land and buildings - fair value is the amount that would be paid for the assets in its existing use.
- Council dwellings - fair value is measured at existing use value - social housing.
- Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low values assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.

- **Depreciation**

Depreciation is provided on all property, plant and equipment, other than freehold land, community assets and assets under construction.

The Council does not depreciate its non-current assets in the year of acquisition. The Council operates a five-year rolling revaluation programme for assets and provides for depreciation on a straight line basis on the opening book value over the remaining useful life of the asset. Thus the charge to the Comprehensive Income and Expenditure Statement for the year is not impacted by changes in asset value during the year arising from either revaluation or enhancements.

Component accounting is applied as part of the revaluation process. As a result, where a building asset is split down into further components for the first time in year, the depreciation charge is based on the opening book value over the opening remaining useful life of the asset rather than subsequent component values and associated lives. The difference is not considered material.

- **Charges to Revenue for use of Non-Current Assets**

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

- depreciation attributable to the assets used by the relevant service.
- impairment losses attributable to the clear consumption of economic benefits on property, plant and equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

The Council is not required to raise council tax to cover depreciation or impairment losses.

Depreciation and impairment losses are therefore a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.16 Property, Plant and Equipment - continued

- **Revaluations**

Where assets are included in the Balance Sheet at fair value, revaluations are carried out at intervals of no more than five years. The Council operates a rolling programme for revaluations. The determination of fair value of land and buildings is undertaken by the Council's Estate Manager (Corporate Property).

- **De-recognition**

An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition of an asset is included in 'surplus or deficit on the provision of services' within the Comprehensive Income and Expenditure Statement when the asset is de-recognised.

The gain or loss on de-recognition of property, plant and equipment assets is a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

- **Components**

Component accounting is applied to all assets that comprise land and buildings. Land and buildings are treated as separate components of an asset and accounted for separately.

The building component of an asset is separated into further components primarily to those with a carrying value of over £5 million approximately. This policy is also applied to buildings with a carrying value of less than £5 million where enhancement expenditure is considered significant in relation to the overall carrying value of the building component.

Where it is necessary to break a building down into further components, the following categories are applied:

- Structural - includes external and internal walls, traditional roofing, doors, etc.
- Non traditional roofing - includes flat roof, non-traditional roof coverings and industrial type roofs.
- Finishes - includes doors, windows and room finishes.
- Mechanical and electrical services - includes water, heat, ventilation, electrical, lifts, fire and communications.
- Fittings and furnishings - includes fittings, furnishings and sanitary appliances.

### 1.17 Heritage Assets

- **Categories of Assets**

Heritage assets comprise the following:

Monuments and statues

Civic regalia and artefacts

Archival collections

Libraries special collections

Museum and gallery collections

Intangible heritage assets represent three private vehicle registration plates.

It has not been practical or possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore, the Council's Balance Sheet may hold elements of heritage assets that belong to other entities.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of heritage assets has been capitalised on an accruals basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.17 Heritage assets - continued

- **Measurement**

Heritage asset valuations may be made by any method that is appropriate and relevant. Furthermore valuations need not be carried out by external valuers and there is no prescribed minimum period between valuations.

The following measurement bases have been applied to heritage assets based on the most relevant and appropriate information available. This is set in the context where it is not practicable to obtain up to date valuations for all heritage assets at a cost which is commensurate with the benefits to users of the Council's financial statements.

- |                                       |  |
|---------------------------------------|--|
| • Monuments and statues               | Historic value   |
| • Civic regalia and artefacts         | Insurance purposes valuation   |
| • Archival collections                | Insurance purposes valuation, based on restoration costs only  |
| • Libraries special collections       | Insurance purposes valuation   |
| • Museum and gallery collections      | Insurance purposes valuation   |
| • Private vehicle registration plates | Cost or current value information is not readily available, therefore these assets have not been recognised on the Council's Balance Sheet |

- **Depreciation**

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

### 1.18 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable reserves.

Usable reserves hold monies that can be applied to fund expenditure or reduce Council Tax.

Unusable reserves cannot be applied to fund expenditure.

- **Usable Reserves**

The Council operates the following usable reserves:

- Capital receipts reserve - this represents capital receipts available to finance capital expenditure in future years.
- Capital grants unapplied account - holds capital grants and contributions that have been received towards specific works that have yet to be completed.
- Capital fund - under Schedule 3 of the Local Government (Scotland) Act 1975, certain receipts derived from the sale of property may also be used to create a capital fund "to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans".
- Renewal and repairs fund - holds monies set aside for the renewal and repair of Council property. This fund is operated under the terms of Schedule 3 to the Local Government (Scotland) Act 1975.
- General Fund - held to mitigate financial consequences of risks and other events impacting on the Council's resources. Monies within the General Fund can be earmarked for specific purposes.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.18 Reserves - continued

#### • Unusable Reserves

The Council operates the following unusable reserves:

- Revaluation reserve - holds unrealised gains arising since 1 April 2007 from holding non-current assets.
- Capital adjustment account - provides a mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.
- Financial instruments adjustment account - provides a mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.
- Pension reserve - represents the net monies which the Council requires to meet its pension liability, as calculated under IAS19, Employee Benefits. The Council operates a pensions reserve fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003.
- Employee statutory adjustment account - represents the net monies which the Council requires to meet its short-term compensated absences for employees under IAS19.

### 1.19 Revenue Expenditure Funded from Capital Under Statute

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'net cost of services' in the Comprehensive Income and Expenditure Statement.

These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

### 1.20 Value Added Tax

Value added tax (VAT) is excluded from the financial statements unless it is not recoverable from HM Revenue and Customs.

### 1.21 Group Account Consolidation

IFRS 10, 'Consolidated Financial Statements', was issued in August 2011 and replaces the guidance on control and consolidation in IAS 27, 'Consolidated and Separate Financial Statements', and in SIC 12, 'Consolidation - Special Purpose Entities', along with other related code changes.

The group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under IFRS 10 than under IAS 27. No differences were found.

Group accounts have been prepared on the following basis:

- Accounting policies for group members have been aligned where possible.
- The following methods of consolidation have been used:
  - Subsidiaries - line-by-line basis;
  - Associates - equity method.
- Transport for Edinburgh Limited's and CEC Holdings Limited's reporting periods are to 31 December. As this is within three months of the Council's reporting period (to 31 March), no consolidation adjustments have been made.
- Inter-company transactions have been eliminated on consolidation.
- Minority interests have been disclosed separately within the Group Balance Sheet and in Note 7.1 to the Financial Statements.
- Group members' financial statements have been prepared on an accruals basis, with the exception of the International Conference Centre Income Trust and International Conference Centre Expenditure Trust, which have been prepared on a cash basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Accounting Standards that have been Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value Measurement
- Amendments to IAS 19 Employee benefits (Defined benefit plans - employee contributions)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 financial statements.

IFRS 13 changes relate to improved consistency in fair value measurements and disclosures. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

### 3. Judgements Made in Applying Accounting Policies

In applying the accounting policies set out in Note 1 to the Financial Statements, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant judgements made in these Financial Statements are detailed below:

#### 3.1 Provision of School Buildings

The Council is deemed to control the services provided under the Public Private Partnership agreements (PPP1 and PPP2) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1) and Axiom Education Limited (PPP2).

The accounting policies for public private partnerships have been applied to these arrangements and the schools (valued at net book value of £557.310m at 31 March 2015) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

#### 3.2 Group Membership

The Council has an interest in a number of subsidiary and associate companies and trusts. Full details of these interests are shown in note 7 to the Financial Statements. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The following table details uncertainties on assumptions and estimates, and outlines the potential effect if actual results differ from the assumptions made.

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. A reduction in spending on repairs and maintenance would bring into doubt the useful lives assigned to the assets.	If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls.  It is estimated that the annual depreciation charge would increase and the carrying value would fall by £13.071m for each year that useful lives were reduced.
Long-Term Contracts	The Council's approved budget provides for inflationary uplifts on long-term contracts.	If inflation were to increase by 1%, this would result in an additional cost of £0.453m per annum.
Provisions	The Council has made a provision of £2.645m in respect of the remainder of anticipated equal pay settlements. This is based on the number of potential claimants and assumes similar settlement terms to those achieved previously. There is uncertainty surrounding both of these assumptions.	Should the settlement values increase by 10% this would have the effect of adding £0.265m to the provision required.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured.
Arrears	At 31 March, the Council had a balance of sundry debtors of £37.522m. A review of significant balances suggested that an impairment of doubtful debts of £6.824m (18%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £6.824m to be set aside as an allowance.
Arrears	In addition, the Council has a further debtor of £6.742m in respect of unbilled works on statutory notices. A review of these suggested that an impairment of doubtful debts of £3.551m was appropriate.	If the Council was unable to recover a further 10% of this amount, it would require to set an additional £0.674m aside as an allowance.
VAT Recovery Status	The Council's accounts are prepared on the assumption that VAT charged on its purchases is fully recoverable and that it will not become partially exempt.	If the Council were to exceed its 5% de minimis level, a minimum repayment of £3.907m would be due to HM Revenue and Customs.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - continued

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Council Tax Arrears	The Council makes an assumption on the level of Council Tax that will be collected over a number of years. The Council currently assumes that 96.64% of Council Tax will be collected. An impairment for doubtful debts of £8.282m has been provided for. In the current economic climate it is not certain that this would be sufficient.	If collection rates were to deteriorate by 1%, the amount to be impaired would require an additional £2.481m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £4.327m. A review of significant balances suggested that an impairment of doubtful debts of £4.326m (99%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There has been a significant increase in arrears and the impairment set aside, which should help protect against additional welfare reforms such as Universal Credit and the reduction in the benefits cap recently announced in the UK government's budget which potentially impact on the level of rent arrears.
Council Dwellings - Housing Stock	Council dwellings are valued using the Beacon Method which aggregates the vacant possession values of each unit of housing stock. The beacon discount factor is determined by applying a capitalisation yield to the gross rental income and comparing this to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The discount factor applied is 48%.	If the discount factor is increased by 1%, this would lead to a corresponding reduction in the total value of council dwellings of £19.484m.  If the discount factor is reduced by 1%, this would lead to a corresponding increase in the total value of council dwellings of £19.484m.

This list does not include assets and liabilities that are carried at fair value based on recently observed market prices.

### 5. Material Items of Income and Expense

The Council used £1.336m of the provision previously set aside for equal pay to offset costs arising during the year. The effect of this decrease is included within 'Other Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

In February 2015 the Scottish Parliament passed the Community Charge Debt (Scotland) Act 2015 bringing to an end the collection of Community Charge debts. The Council wrote off £73m of Community Charge debtors during the year, on the basis of this Bill. A bad debt provision for the full amount of outstanding Community Charge debtors had already been made in the Financial Statements therefore this has been fully drawn down. The effect of this is included in the Comprehensive Income and Expenditure Statement.

### 6. Events After the Balance Sheet Date

Sue Bruce left the Council and was replaced by Andrew Kerr as Chief Executive on 27 July 2015.

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Subsidiaries and Associates

The Council holds shares in various trading companies, either as a controlling or minority shareholder.

The Council is also represented on the Boards of various companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding and management support.

The following entities have a significant impact on the Council's operations and have been consolidated into the Group Accounts:

<b>Subsidiaries:</b>	<b>Shareholding</b>	
• CEC Holdings Limited	100.00%	
• Transport for Edinburgh Limited	100.00%	
<b>Associates:</b>		
• Edinburgh Leisure	33.33%	Board representation
• Festival City Theatres Trust	33.33%	Board representation
• Lothian Valuation Joint Board	61.22%	Funding percentage
• Common Good	100.00%	

#### Trusts:

- International Conference Centre Income Trust
- International Conference Centre Expenditure Trust

The following companies are not consolidated into the Group Accounts. An assessment has been carried out on these companies, their activities and the level of Council control. These companies are not considered to be a material part of the Group and have therefore been excluded from the Group Accounts:

	<b>Shareholding</b>
• Capital City Partnership Limited	100.00%
• CEC Recovery Limited (formerly tie Limited)	100.00%
• Marketing Edinburgh Limited	100.00%

Unless otherwise stated, the accounts of the companies may be obtained on application to the Head of Finance, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

### 7.1 Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement

<b>Attributable shares of income and expenditure</b>	<b>Authority</b>	<b>Minority</b>	<b>Total</b>
<b>2014/15</b>	<b>£000</b>	<b>Interests</b>	<b>£000</b>
		<b>£000</b>	
(Surplus) or Deficit on the Provision of Services	(19,525)	0	(19,525)
Other Comprehensive Income and Expenditure	181,981	0	181,981
	<u>162,456</u>	<u>0</u>	<u>162,456</u>
<b>2013/14 Comparative Data</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
(Surplus) or Deficit on the Provision of Services	41,970	0	41,970
Other Comprehensive Income and Expenditure	(5,549)	0	(5,549)
	<u>36,421</u>	<u>0</u>	<u>36,421</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 7. Subsidiaries and Associates - continued

#### 7.2 Subsidiary Companies

- **Capital City Partnership**

The company is a private company limited by guarantee and is a charitable organisation. From January 2012 the Council became the sole member of the company.

The principal activities of the company are to promote community regeneration, by bringing together key statutory, voluntary, community and private sector bodies.

The most recent audited results of the company are as follows:	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Net assets	858	952
Net (profit) / loss before taxation	(41)	695
Retained profit carried forward	243	517

- **CEC Holdings Limited**

The principal activities of the company are property development and the operation of an international conference centre. The company is wholly owned by the City of Edinburgh Council.

The most recent audited results of the company are as follows:	<b>31.12.14</b>	<b>Restated 31.12.13</b>
	<b>£000</b>	<b>£000</b>
Net assets	17,920	20,088
Net (profit) / loss before taxation	(415)	3,514
Retained loss carried forward	51,716	(54,951)

The Council inherited its interest in CEC Holdings Limited following the local government reorganisation in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

- **CEC Recovery Limited (formerly tie Limited)**

The principal activity of the company was previously the promotion, development, procurement, project management and implementation of certain nominated projects. The company did not actively trade in the year to 31 March 2015 and is actively pursuing the transferral of project documentation to Transport Scotland. The company changed its name from tie Limited to CEC Recovery Limited on 13 May 2013.

The City of Edinburgh Council owns 100% (1,000 shares) of the issued share capital through Transport Edinburgh Limited (a dormant company), the immediate parent company of CEC Recovery Limited. The most recent unaudited results of the company are as follows.

	<b>31.03.15</b>	<b>31.03.14</b>
	<b>0</b>	<b>£000</b>
Net assets	0	0
Net deficit before taxation	0	0
Retained losses carried forward	(1)	(1)

- **Marketing Edinburgh Limited**

The company is a private company limited by guarantee. The Council is the sole member.

The principal activities of the company are to increase economic activity within the Edinburgh area by promoting it as a destination to live, work, study, etc.

The most recent audited results of the company are as follows:	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Net assets	262	300
Net (profit) / loss before taxation	41	42
Retained profit carried forward	259	300

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Subsidiaries and Associates - continued

#### 7.2 Subsidiary Companies - continued

##### • Transport for Edinburgh Limited

The principal activities of the company are as a holding company for the City of Edinburgh Council's interest in public transport companies; Lothian Buses Limited and Edinburgh Trams Limited. The company is wholly owned by the City of Edinburgh Council.

The Council's major shareholding in Lothian Buses of 5,824,139 (91.01%) £1 ordinary shares (fully paid) was transferred to Transport for Edinburgh Limited in 2014.

The Council inherited its interest in Lothian Buses Limited, following the reorganisation of local government in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

Edinburgh Trams Limited commenced a fare paying revenue service on 31 May 2014.

The most recent audited results of the company and its primary subsidiaries are as follows:

	<b>31.12.14</b>	<b>31.12.13</b>
	<b>Restated</b>	<b>Restated</b>
	<b>£000</b>	<b>£000</b>
<b>Transport for Edinburgh Limited (Consolidated Group)</b>		
Net assets	61,825	n/a
Net profit before taxation	(9,579)	n/a
Retained earnings	(11,136)	n/a
Dividend paid	5,000	n/a
<b>Lothian Buses Limited</b>		
Net assets	62,275	81,480
Net profit before taxation	(10,143)	(11,653)
Retained earnings	54,436	68,604
Dividend paid	5,494	3,296
<b>Edinburgh Trams Limited</b>		
Net assets	(449)	n/a
Net loss before taxation	564	n/a
Retained earnings	(449)	n/a
Dividend paid	0	n/a

A copy of the latest accounts can be obtained by writing to the Finance Director, Lothian Buses Limited, Annandale Street, Edinburgh, EH7 4AZ.

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Subsidiaries and Associates - continued

#### 7.3 Associates

- **Edinburgh Leisure**

This is a non-profit-distributing company limited by guarantee and registered as a Charity. Each member has undertaken to contribute an amount not exceeding £1 towards any deficit arising in the event of the company being wound up.

The principal activity of the company is the provision of recreation and leisure facilities.

The City of Edinburgh Council is represented on the company's Board of Directors and contributes a substantial sum to the company towards the cost of operating sport and leisure facilities.

The City of Edinburgh Council leases its sport and leisure centres to the company.

The most recent audited results of the company are as follows:	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Net liabilities	(6,440)	(3,835)
Net operating (profit)/cost	(968)	237
Losses carried forward	6,440	3,835

Although Edinburgh Leisure is included in the Group Accounts, as the nature of its activities is a core part of Council policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of Edinburgh Leisure, based on 33.33% (2013/14 33.33%) Board Representation, is as follows:

	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Incoming resources	(10,092)	(10,183)
Net loss	868	800
Net liabilities	(2,146)	(1,278)
Total usable reserves	2,146	1,278

- **Festival City Theatres Trust**

This is a non-profit-distributing company limited by guarantee and registered as a Charity.

The City of Edinburgh Council is represented on the trust's board of directors and gives substantial financial assistance. The City of Edinburgh Council leases the King's Theatre and the Festival Theatre to the trust.

The most recent audited results of the company are as follows:	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Net assets	4,179	4,446
Net outgoing resources	(197)	(75)
Fund balances carried forward	(4,179)	(4,446)

Although Festival City Theatres Trust is included in the Group Accounts, due to the nature of its activities being a core part of the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of the Festival City Theatres Trust, based on 33.33% (2013/14 33.33%) Board representation, is as follows:

	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
Incoming resources	(3,645)	(4,376)
Net outgoing resources	(89)	(25)
Net assets	1,393	1,482
Total usable reserves	(1,393)	(1,482)

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Subsidiaries and Associates - continued

#### 7.3 Associates - continued

- **Lothian Valuation Joint Board**

The Lothian Valuation Joint Board provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services.

The Board comprises 16 members of whom nine are elected by the City of Edinburgh, three by West Lothian and two each by East and Midlothian Councils.

Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for Council Tax within the areas of each constituent authority.

The group share of the results of the Lothian Valuation Joint Board, based on a 61.22% (2013/14 61.22%) funding percentage is as follows:

	<b>31.03.15</b>	<b>Restated</b>
	<b>£000</b>	<b>31.03.14</b>
		<b>£000</b>
Funding - requisitions	(3,635)	(3,671)
Other income	<u>(1,397)</u>	<u>(979)</u>
Total income	<u>(5,032)</u>	<u>(4,650)</u>
Deficit for the year	<u>307</u>	<u>247</u>
Net liabilities	<u>(6,941)</u>	<u>(4,644)</u>
Usable reserves	0	0
Unusable reserves	<u>6,941</u>	<u>4,644</u>
Total reserves	<u>6,941</u>	<u>4,644</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Subsidiaries and Associates - continued

### 7.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are audited.

### 7.5 Shareholder Support to Council Companies

A number of companies within the group are currently dependent on the continued financial support of the Council. The companies are EICC Limited, a subsidiary of CEC Holdings Limited - (the Council owns 100% of the shares in CEC Holdings Limited), Festival City Theatres Trust and Edinburgh Leisure.

### 7.6 Financial Impact of Consolidation

The effect of inclusion of subsidiaries and associates on the Group Balance Sheet is to increase both reserves and net assets by £108.915m (2013/14 £132.141m) representing the Council's share of the realisable surpluses or deficits in these companies.

## 8. Trusts

### ● International Conference Centre Expenditure Trust

This Trust was set up to hold funds provided by the Council for its development of the Edinburgh International Conference Centre. The balance of unexpended funds held at 31 March 2015 was £4.153m (31 March 2014 £5.890m).

The decrease in the balance of £1.737m relates mainly to the provision of funding to EICC for capital development costs of £1.767m. The Expenditure Trust received interest of £0.03m.

The £1.364m transferred from the Income Trust noted below was transferred to the Council to defray the development and running costs of the new additional function space.

### ● International Conference Centre Income Trust

This Trust was set up to hold funds received from the sale of land at the Edinburgh International Conference Centre site, pending their use for development and other costs of the centre. The balance of unexpended funds held at 31 March 2015 was £3.551m (31 March 2014 £4.915m).

Funds in the Income Trust have reduced by £1.364m during the year, relating mainly to the transfer, noted above, to the International Conference Centre Expenditure Trust. The Income Trust received interest of £0.023m.

## 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2014/15</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	133,556	18,266	0
Movements in the market value of investment properties	(13,889)	0	0
Amortisation and impairment of intangible assets	710	0	0
Capital grants and contributions applied	(64,652)	(4,747)	0
Capital funded from revenue	(25)	(5,649)	0
Revenue expenditure funded from capital under statute	32,641	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(70,285)	(23,123)	0
Capital expenditure charged against General Fund and HRA balances	(32,641)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (Gain) / loss on sale of property, plant and equipment and assets held for sale	(5,023)	307	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(21,479)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,434)	(460)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	95,001	1,081	0
Employer's pension contributions and direct payments to pensioners payable in the year	(60,933)	(426)	0
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(5,397)	(222)	0
<b>Total Adjustments</b>	<b>7,629</b>	<b>(14,973)</b>	<b>(21,479)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2014/15	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(151,822)
Movements in the market value of investment properties	0	0	13,889
Amortisation of intangible assets	0	0	(710)
Capital grants and contributions applied	3,298	0	66,101
Capital funded from revenue	0	0	5,674
Revenue expenditure funded from capital under statute	0	0	(32,641)
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	0	0	93,408
Capital expenditure charged against General Fund and HRA balances	0	0	32,641
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(943)	0	943
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss on sale of property, plant and equipment and assets held for sale	0	0	4,716
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	21,479
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,894
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(96,082)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	61,359
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	5,619
<b>Total Adjustments</b>	<b>2,355</b>	<b>0</b>	<b>26,468</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2013/14 Comparative Data	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	144,120	52,082	0
Movements in the market value of investment properties	0	0	0
Amortisation of intangible assets	288	0	0
Capital grants and contributions applied	(82,023)	(3,301)	0
Capital funded from revenue	(382)	(3,575)	0
Revenue expenditure funded from capital under statute	30,365	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(66,794)	(23,163)	0
Capital expenditure charged against General Fund and HRA balances	(30,365)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and as held for sale	3,118	534	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(16,707)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,263)	(397)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	83,438	1,009	0
Employer's pension contributions and direct payments to pensioners payable in the year	(59,705)	(450)	0
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	9,493	104	0
<b>Total Adjustments</b>	<b>30,290</b>	<b>22,843</b>	<b>(16,707)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2013/14 Comparative Data	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(196,202)
Movements in the market value of investment properties	0	0	0
Amortisation of intangible assets	0	0	(288)
Capital grants and contributions applied	0	0	85,324
Capital funded from revenue	0	0	3,957
Revenue expenditure funded from capital under statute	0	0	(30,365)
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	0	0	89,957
Capital expenditure charged against General Fund and HRA balances	0	0	30,365
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(5,037)	0	5,037
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and as held for sale	0	0	(3,652)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	16,707
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,660
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(84,447)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	60,155
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(9,597)
<b>Total Adjustments</b>	<b>(5,037)</b>	<b>0</b>	<b>(31,389)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves

#### 10.1 Transfers to and from Usable Reserves

This note sets out the amounts set aside in the Group's and the Council's usable reserves and the amounts posted back from these reserves to meet expenditure during the year. Comparative data is included for 2013/14 which has been restated.

	Balance at 01.04.14 £000	Net Transfers Out 2014/15 £000	Net Transfers In 2014/15 £000	Balance at 31.03.15 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
CEC Holdings Limited				
Revenue reserves	(54,951)	3,236	0	(51,715)
Capital grants unapplied account	3,632	0	(419)	3,213
Transport for Edinburgh Limited				
Revenue reserves	61,852	(13,329)	0	48,523
<b>Total Usable Reserves - Subsidiaries</b>	<b>10,533</b>	<b>(10,093)</b>	<b>(419)</b>	<b>21</b>
<b>Associates and Joint Ventures</b>				
Common Good Fund				
Earmarked revenue reserve	1,651	0	1,185	2,836
Edinburgh Leisure				
Earmarked revenue reserve	419	0	157	576
Revenue reserves	(1,697)	0	(1,025)	(2,722)
International Conference Centre Trusts				
Income Trust	4,915	(1,364)	0	3,551
Expenditure Trust	5,890	(3,101)	1,364	4,153
Festival City Theatres Trust				
Earmarked capital reserve	1,606	(149)	0	1,457
Revenue reserves	(125)	0	61	(64)
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>12,659</b>	<b>(4,614)</b>	<b>1,742</b>	<b>9,787</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>23,192</b>	<b>(14,707)</b>	<b>1,323</b>	<b>9,808</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves - continued

#### 10.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.13 £000	Net Transfers Out 2013/14 £000	Net Transfers In 2013/14 £000	Balance at 31.03.14 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
CEC Holdings Limited				
Revenue reserves	(52,595)	(2,356)	0	(54,951)
Capital grants unapplied account	3,815	(183)	0	3,632
Transport for Edinburgh				
Revenue reserves	42,601	0	19,251	61,852
<b>Total Usable Reserves - Subsidiaries</b>	<b>(6,179)</b>	<b>(2,539)</b>	<b>19,251</b>	<b>10,533</b>
<b>Associates and Joint Ventures</b>				
Common Good Fund				
Earmarked revenue reserves	1,615	0	36	1,651
Edinburgh Leisure				
Earmarked revenue reserve	287	0	132	419
Revenue reserves	(765)	(932)	0	(1,697)
International Conference Centre Trusts				
Income Trust	6,134	(1,219)	0	4,915
Expenditure Trust	6,075	(1,404)	1,219	5,890
Festival City Theatres Trust				
Earmarked capital reserve	1,763	(157)	0	1,606
Revenue reserves	(243)	118	0	(125)
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>14,866</b>	<b>(3,594)</b>	<b>1,387</b>	<b>12,659</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>8,687</b>	<b>(6,133)</b>	<b>20,638</b>	<b>23,192</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves - continued

#### 10.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.14 £000	Inter-Fund Transfer 2014/15 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31.03.15 £000
<b>Council's Usable Reserves</b>					
<b>General Fund</b>					
Unallocated General Fund	13,025	0	0	0	13,025
Balances held by schools under Devolved School Management (DSM)	1,273	0	(1,273)	1,054	1,054
Balances set aside for specific inv.	12,028	496	(3,938)	5,303	13,889
Contingency funding, workforce mgmt.	22,832	0	(5,676)	745	17,901
Council Priorities Fund	10,894	0	(8,258)	681	3,317
Dilapidations Fund	8,154	0	(85)	690	8,759
Energy efficiency Fund	983	0	(275)	91	799
Insurance Funds	11,928	0	(1,550)	2,179	12,557
Licensing Income	1,820	0	(447)	29	1,402
Recycling balances	1,464	0	(92)	0	1,372
Revenue grants and contributions received in advance of planned expenditure	16,180	(496)	(6,915)	5,308	14,077
Council Tax Discount Fund	16,335	0	0	2,301	18,636
Spend to Save Fund and similar projects	6,196	0	(2,861)	4,134	7,469
Other earmarked balances	197	0	0	22	219
Strategic Acquisition Fund	0	0	0	3,000	3,000
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	0	(2,503)	2,503	0
<b>Total General Fund</b>	<b>123,309</b>	<b>0</b>	<b>(33,873)</b>	<b>28,040</b>	<b>117,476</b>
<b>Housing Revenue Account Balance</b>	<b>0</b>	<b>0</b>	<b>(2,503)</b>	<b>2,503</b>	<b>0</b>
<b>Renewal and Repairs Fund</b>	<b>21,936</b>	<b>0</b>	<b>0</b>	<b>12,868</b>	<b>34,804</b>
<b>Capital Fund</b>	<b>25,835</b>	<b>0</b>	<b>(1,298)</b>	<b>11,390</b>	<b>35,927</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>0</b>	<b>21,479</b>	<b>(21,479)</b>	<b>0</b>
<b>Capital Grants Unapplied Account</b>	<b>1,994</b>	<b>0</b>	<b>(943)</b>	<b>3,298</b>	<b>4,349</b>
<b>Total Usable Reserves - Council</b>	<b>173,074</b>	<b>0</b>	<b>(17,138)</b>	<b>36,620</b>	<b>192,556</b>
<b>Total Usable Reserves - Group</b>	<b>196,266</b>	<b>0</b>	<b>(31,845)</b>	<b>37,943</b>	<b>202,364</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves - continued

#### 10.1 Transfers to and from Usable Reserves - continued

(re-stated)	Balance at 01.04.13 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31.03.14 £000
<b>General Fund</b>				
Unallocated General Fund	13,025	0	0	13,025
Balances held by schools under DSM	2,649	(2,649)	1,273	1,273
Balances set aside for specific inv.	8,229	(4,632)	8,431	12,028
Contingency funding, workforce mgmt.	18,203	0	4,629	22,832
Council Priorities Fund	2,917	(207)	8,184	10,894
Dilapidations Fund	10,993	(4,375)	1,536	8,154
Energy efficiency Fund	997	(110)	96	983
Insurance Funds	10,675	(1,264)	2,517	11,928
Licensing Income	1,592	0	228	1,820
Recycling balances	1,464	0	0	1,464
Revenue grants and contributions received in advance of planned expend.	17,927	(9,603)	7,856	16,180
Council Tax Discount Fund	13,774	0	2,561	16,335
Spend to Save Fund and similar projects	3,434	(3,226)	5,988	6,196
Other earmarked balances	117	(13)	93	197
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	(4,298)	4,298	0
<b>Total General Fund</b>	<u>105,996</u>	<u>(30,377)</u>	<u>47,690</u>	<u>123,309</u>
<b>Housing Revenue Account Balance</b>	<u>0</u>	<u>(4,298)</u>	<u>4,298</u>	<u>0</u>
<b>Renewal and Repairs Fund</b>	<u>30,748</u>	<u>(13,207)</u>	<u>4,395</u>	<u>21,936</u>
<b>Capital Fund</b>	<u>18,873</u>	<u>(1,911)</u>	<u>8,873</u>	<u>25,835</u>
<b>Capital Receipts Reserve</b>	<u>0</u>	<u>(16,707)</u>	<u>16,707</u>	<u>0</u>
<b>Capital Grants Unapplied Account</b>	<u>7,030</u>	<u>(5,036)</u>	<u>0</u>	<u>1,994</u>
<b>Total Usable Reserves - Council</b>	<u>162,647</u>	<u>(71,536)</u>	<u>81,963</u>	<u>173,074</u>
<b>Total Usable Reserves - Group</b>	<u>171,334</u>	<u>(77,669)</u>	<u>102,601</u>	<u>196,266</u>

The General Fund useable reserves categorisations have been restated for 2013/14 to better reflect the strategic classification of funds.

#### 10.2 Devolved School Management

A net credit balance of £1.054m (2013/14 £1.273m) is held within the General Fund in accordance with the Devolved School Management scheme.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves - continued

#### 10.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves

<b>2014/15</b>	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(33,873)	(2,503)	0	21,479
Transfers in	28,040	2,503	12,868	(21,479)
Total movements in fund	<u>(5,833)</u>	<u>0</u>	<u>12,868</u>	<u>0</u>
Recognised in Comprehensive Income and Expenditure Statement	3,328	2,503	0	0
Minority interest and other consol. adjusts.	0	0	0	0
Transfers to other earmarked reserves	(9,161)	(2,503)	12,868	0
Total movements in fund	<u>(5,833)</u>	<u>0</u>	<u>12,868</u>	<u>0</u>
	<b>Capital Grants Unapplied £000</b>	<b>Capital Fund £000</b>	<b>Group Usable Reserves £000</b>	<b>Total £000</b>
Transfers out	(943)	(1,298)	(14,707)	<b>(31,845)</b>
Transfers in	3,298	11,390	1,323	<b>37,943</b>
Total movements in fund	<u>2,355</u>	<u>10,092</u>	<u>(13,384)</u>	<u><b>6,098</b></u>
Recognised in Comprehensive Income and Expenditure Statement	2,355	11,298	(21,062)	<b>(1,578)</b>
Minority interest and other consol. adjusts.	0	0	0	<b>0</b>
Transfers to other earmarked reserves	0	(1,206)	7,678	<b>7,676</b>
Total movements in fund	<u>2,355</u>	<u>10,092</u>	<u>(13,384)</u>	<u><b>6,098</b></u>
	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
<b>2013/14 Comparative Data</b>				
Transfers out	(30,377)	(4,298)	(13,207)	(16,707)
Transfers in	47,690	4,298	4,395	16,707
Total movements in fund	<u>17,313</u>	<u>0</u>	<u>(8,812)</u>	<u>0</u>
Recognised in Comprehensive Income and Expenditure Statement	2,360	4,298	0	0
Minority interest and other consol. adjusts.	0	0	0	0
Transfers to other earmarked reserves	14,953	(4,298)	(8,812)	0
Total movements in fund	<u>17,313</u>	<u>0</u>	<u>(8,812)</u>	<u>0</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Usable Reserves - continued

#### 10.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves - continued

2013/14 Comparative Data	Capital Grants Unapplied £000	Capital Fund £000	Group Usable Reserves £000	Total £000
Transfers out	(5,036)	(1,911)	(6,133)	<b>(77,669)</b>
Transfers in	0	8,873	20,638	<b>102,601</b>
Total movements in fund	<u>(5,036)</u>	<u>6,962</u>	<u>14,505</u>	<u><b>24,932</b></u>
Recognised in Comprehensive Income and Expenditure Statement	(5,037)	8,805	22,651	<b>33,077</b>
Minority interest and other consol. adjusts.	0	0	0	<b>0</b>
Transfers to other earmarked reserves	1	(1,843)	(8,146)	<b>(8,145)</b>
Total movements in fund	<u>(5,036)</u>	<u>6,962</u>	<u>14,505</u>	<u><b>24,932</b></u>

### 11. Other Operating Expenditure

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
(Gains) / losses on the disposal of non-current assets	(4,807)	(4,716)	4,221	3,652
	<u>(4,807)</u>	<u>(4,716)</u>	<u>4,221</u>	<u>3,652</u>

### 12. Financing and Investment Income and Expenditure

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Interest payable and similar charges	94,064	93,657	95,122	94,649
Interest cost on defined benefit obligation	118,313	103,245	112,865	99,411
Interest receivable and similar income	(11,312)	(11,144)	(5,118)	(4,936)
Interest income on plan assets	(95,508)	(79,991)	(91,933)	(79,047)
Income / expend. in relation to investment properties and changes in their fair value	(14,208)	(14,208)	64	(212)
Net (surplus) / deficit from trading activities	<u>(49)</u>	<u>66</u>	<u>(242)</u>	<u>45</u>
	<u>91,300</u>	<u>91,625</u>	<u>110,758</u>	<u>109,910</u>

### 13. Taxation and Non-Specific Grant Income

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Council Tax income	(212,976)	(212,976)	(207,925)	(207,925)
Non-domestic rates	(364,108)	(364,108)	(334,630)	(334,630)
Non-ring fenced government grants	(386,311)	(386,311)	(402,364)	(402,364)
Capital grants and contributions	(69,399)	(69,399)	(85,324)	(85,324)
Taxation expenses	1,678	0	1,908	0
	<u>(1,031,116)</u>	<u>(1,032,794)</u>	<u>(1,028,335)</u>	<u>(1,030,243)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment

#### 14.1 Depreciation

No depreciation is provided in the year of the asset's purchase. Assets in the course of construction are not depreciated until they are brought into use. Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

Council dwellings	50 years
Buildings	50 years (assets not subject to component accounting)
Buildings - structural	50 years
Buildings - non-traditional roofing	35 years
Buildings - finishes	25 years
Buildings - mechanical and electrical	20 years
Buildings - fittings and furnishings	15 years
PPP Schools	40 years (PPP1 schools) and 35 years (PPP2 schools)
Infrastructure assets	20 years
Vehicles, plant, furniture and equipment	5 years to 10 years, to reflect estimated useful life 3 years to 15 years, Group Companies

#### 14.2 Capital Commitments

At 31 March 2015, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £64.920m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2014 were £25.432m.

	£000	Expected Completion Date
Portobello New High School	28,300	Aug-16
Boroughmuir New High School	25,800	Oct-16
Kirkliston Primary School extension	3,000	Aug-16
NEP term contract	2,500	2 years
HRA - External Fabric Improvement Term Contract	1,715	1 year
HRA - Gas Heating Term Contract	1,200	1 year
Water of Leith Phase 2 (Mains diversion) - Scottish Gas Networks	1,080	1 year
Zero Waste - Site Construction	690	1-2years
New Autism Day and Respite Centre retention	400	Apr-15
Other capital commitments	235	1 year
	64,920	

In November 2014, Lothian Buses Limited entered into an agreement to purchase 20 hybrid vehicles for £4.80m. These are expected to be delivered during mid 2015.

CEC Holdings Limited has contractual commitments of £0.0m (2013/14 £0.640m).



## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.3 Movements on Balances - Group Accounts Movements in 2014/15

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2014	1,017,560	1,854,171	215,260	1,316,428
Additions	33,769	31,861	29,195	34,332
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,299	(16,956)	3,725	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	48	(16,657)	0	0
Derecognition - disposals	(7,525)	(5,241)	(2,878)	0
Derecognition - other	0	0	(8,632)	0
Assets reclassified (to) / from held for sale	0	(5,816)	0	0
Other movements in cost or valuation	0	155	63,949	0
At 31 March 2015	<u>1,047,151</u>	<u>1,841,517</u>	<u>300,619</u>	<u>1,350,760</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2014	(209)	(90,478)	(111,883)	(375,081)
Depreciation charge	(17,746)	(47,658)	(17,731)	(63,183)
Depreciation charge written out to Revaluation Reserve	231	20,671	0	0
Depreciation written out to the Surplus on the Provision of Services	4	5,830	0	0
Derecognition - disposals	127	2,181	2,593	0
Derecognition - other	0	0	5,793	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(1,264)	0
Other movements in cost or valuation	0	54	0	0
At 31 March 2015	<u>(17,593)</u>	<u>(109,400)</u>	<u>(122,492)</u>	<u>(438,264)</u>
<b>Net book value</b>				
At 31 March 2015	<u>1,029,558</u>	<u>1,732,117</u>	<u>178,127</u>	<u>912,496</u>
At 31 March 2014	<u>1,017,351</u>	<u>1,763,693</u>	<u>103,377</u>	<u>941,347</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.3 Movements on Balances - Group Accounts Movements in 2014/15

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>				
At 1 April 2014	11,347	17,243	79,740	4,511,749
Additions	1,164	89	34,694	165,104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	(894)	0	(10,826)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(319)	(1,906)	0	(18,834)
Derecognition - disposals	0	(850)	0	(16,494)
Derecognition - other	0	0	0	(8,632)
Assets reclassified (to) / from held for sale	0	(1,048)	0	(6,864)
Other movements in cost or valuation	0	0	(64,104)	0
At 31 March 2015	<u>12,192</u>	<u>12,634</u>	<u>50,330</u>	<u>4,615,203</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2014	0	(93)	0	(577,744)
Depreciation charge	0	(66)	0	(146,384)
Depreciation charge written out to Revaluation Reserve	0	0	0	20,902
Depreciation written out to the Surplus on the Provision of Services	0	114	0	5,948
Derecognition - disposals	0	0	0	4,901
Derecognition - other	0	0	0	5,793
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	(1,264)
Other movements in cost or valuation	0	35	0	89
At 31 March 2015	<u>0</u>	<u>(10)</u>	<u>0</u>	<u>(687,759)</u>
<b>Net book value</b>				
At 31 March 2015	<u>12,192</u>	<u>12,624</u>	<u>50,330</u>	<u>3,927,444</u>
At 31 March 2014	<u>11,347</u>	<u>17,150</u>	<u>79,740</u>	<u>3,934,005</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.4 Movements on Balances - Group Accounts 2013/14 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2013	1,107,677	1,821,734	204,314	1,225,857
Additions	39,115	31,979	19,578	90,571
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(60,972)	17,302	98	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(62,981)	(31,548)	0	0
Derecognition - disposals	(5,298)	(10,537)	(5,239)	0
Derecognition - other	0	0	(3,492)	0
Assets reclassified (to) / from held for sale	19	(698)	0	0
Other movements in cost or valuation	0	25,939	1	0
At 31 March 2014	<u>1,017,560</u>	<u>1,854,171</u>	<u>215,260</u>	<u>1,316,428</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2013	(62,533)	(93,459)	(100,530)	(316,173)
Depreciation charge	(18,186)	(44,974)	(18,489)	(58,668)
Depreciation charge written out to Revaluation Reserve	50,601	43,337	13	0
Depreciation written out to the Surplus on the Provision of Services	29,538	4,078	0	0
Derecognition - disposals	371	501	4,319	0
Derecognition - other	0	0	3,492	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(688)	(240)
Other movements in cost or valuation	0	39	0	0
At 31 March 2014	<u>(209)</u>	<u>(90,478)</u>	<u>(111,883)</u>	<u>(375,081)</u>
<b>Net book value</b>				
At 31 March 2014	<u><u>1,017,351</u></u>	<u><u>1,763,693</u></u>	<u><u>103,377</u></u>	<u><u>941,347</u></u>
At 31 March 2013	<u><u>1,045,144</u></u>	<u><u>1,728,275</u></u>	<u><u>103,784</u></u>	<u><u>909,684</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.4 Movements on Balances - Group Accounts 2013/14 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>				
At 1 April 2013	11,263	19,814	95,306	4,485,965
Additions	1,079	131	10,871	193,324
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	(1,391)	0	(44,963)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(1,492)	(1,621)	0	(97,642)
Derecognition - disposals	0	0	0	(21,074)
Derecognition - other	0	0	0	(3,492)
Assets reclassified (to) / from held for sale	0	310	0	(369)
Other movements in cost or valuation	497	0	(26,437)	0
At 31 March 2014	<u>11,347</u>	<u>17,243</u>	<u>79,740</u>	<u>4,511,749</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2013	0	(31)	0	(572,726)
Depreciation charge	0	(99)	0	(140,416)
Depreciation charge written out to Revaluation Reserve	0	0	0	93,951
Depreciation written out to the Surplus on the Provision of Services	0	37	0	33,653
Derecognition - disposals	0	0	0	5,191
Derecognition - other	0	0	0	3,492
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	(928)
Other movements in cost or valuation	0	0	0	39
At 31 March 2014	<u>0</u>	<u>(93)</u>	<u>0</u>	<u>(577,744)</u>
<b>Net book value</b>				
At 31 March 2014	<u><u>11,347</u></u>	<u><u>17,150</u></u>	<u><u>79,740</u></u>	<u><u>3,934,005</u></u>
At 31 March 2013	<u><u>11,263</u></u>	<u><u>19,783</u></u>	<u><u>95,306</u></u>	<u><u>3,913,239</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.5 Movements on Balances - City of Edinburgh Council Movements in 2014/15

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2014	1,017,560	1,796,454	94,409	1,309,758
Additions	33,769	31,623	13,955	34,332
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,299	(16,956)	3,725	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	48	(16,657)	0	0
Derecognition - disposals	(7,525)	(5,127)	(206)	0
Derecognition - other	0	0	(8,632)	0
Assets reclassified (to) / from held for sale	0	(5,816)	0	0
Other movements in cost or valuation	0	155	63,949	0
At 31 March 2015	<u>1,047,151</u>	<u>1,783,676</u>	<u>167,200</u>	<u>1,344,090</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2014	(209)	(60,650)	(58,654)	(370,035)
Depreciation charge	(17,746)	(47,186)	(9,089)	(62,894)
Depreciation charge written out to Revaluation Reserve	231	20,671	0	0
Depreciation written out to the Surplus on the Provision of Services	4	5,830	0	0
Derecognition - disposals	127	2,067	41	0
Derecognition - other	0	0	5,793	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(1,264)	0
Other movements in cost or valuation	0	54	0	0
At 31 March 2015	<u>(17,593)</u>	<u>(79,214)</u>	<u>(63,173)</u>	<u>(432,929)</u>
<b>Net book value</b>				
At 31 March 2015	<u>1,029,558</u>	<u>1,704,462</u>	<u>104,027</u>	<u>911,161</u>
At 31 March 2014	<u>1,017,351</u>	<u>1,735,804</u>	<u>35,755</u>	<u>939,723</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.5 Movements on Balances - City of Edinburgh Council Movements in 2014/15

<b>Cost or Valuation</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property Plant and Equipment £000</b>	<b>PPP Assets £000</b>
At 1 April 2014	11,347	17,243	79,740	<b>4,326,511</b>	558,965
Additions	1,164	89	34,694	<b>149,626</b>	23,151
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	(894)	0	<b>(10,826)</b>	(9,629)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(319)	(1,906)	0	<b>(18,834)</b>	0
Derecognition - disposals	0	(850)	0	<b>(13,708)</b>	0
Derecognition - other	0	0	0	<b>(8,632)</b>	0
Assets reclassified (to) / from held for sale	0	(1,048)	0	<b>(6,864)</b>	0
Other movements in cost or valuation	0	0	(64,104)	<b>0</b>	54
<b>At 31 March 2015</b>	<b>12,192</b>	<b>12,634</b>	<b>50,330</b>	<b>4,417,273</b>	<b>572,541</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2014	0	(93)	0	<b>(489,641)</b>	(12,055)
Depreciation charge	0	(66)	0	<b>(136,981)</b>	(12,887)
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>20,902</b>	9,711
Depreciation written out to the Surplus on the Provision of Services	0	114	0	<b>5,948</b>	0
Derecognition - disposals	0	0	0	<b>2,235</b>	0
Derecognition - other	0	0	0	<b>5,793</b>	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	<b>(1,264)</b>	0
Other movements in cost or valuation	0	35	0	<b>89</b>	0
<b>At 31 March 2015</b>	<b>0</b>	<b>(10)</b>	<b>0</b>	<b>(592,919)</b>	<b>(15,231)</b>
<b>Net book value</b>					
<b>At 31 March 2015</b>	<b>12,192</b>	<b>12,624</b>	<b>50,330</b>	<b>3,824,354</b>	<b>557,310</b>
<b>At 31 March 2014</b>	<b>11,347</b>	<b>17,150</b>	<b>79,740</b>	<b>3,836,870</b>	<b>546,910</b>

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.6 Movements on Balances - City of Edinburgh Council 2013/14 Comparative Data

<b>Cost or Valuation</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
At 1 April 2013	1,107,677	1,768,939	85,844	1,219,187
Additions	39,115	31,835	12,191	90,571
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(60,972)	17,302	98	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(62,981)	(31,548)	0	0
Derecognition - disposals	(5,298)	(10,537)	(231)	0
Derecognition - other	0	0	(3,492)	0
Assets reclassified (to) / from held for sale	19	(698)	0	0
Other movements in cost or valuation	0	21,161	(1)	0
At 31 March 2014	<u>1,017,560</u>	<u>1,796,454</u>	<u>94,409</u>	<u>1,309,758</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2013	(62,533)	(64,029)	(51,475)	(311,416)
Depreciation charge	(18,186)	(44,576)	(10,041)	(58,379)
Depreciation charge written out to Revaluation Reserve	50,601	43,337	13	0
Depreciation written out to the Surplus on the Provision of Services	29,538	4,078	0	0
Derecognition - disposals	371	501	45	0
Derecognition - other	0	0	3,492	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(688)	(240)
Other movements in cost or valuation	0	39	0	0
At 31 March 2014	<u>(209)</u>	<u>(60,650)</u>	<u>(58,654)</u>	<u>(370,035)</u>
<b>Net book value</b>				
At 31 March 2014	<u>1,017,351</u>	<u>1,735,804</u>	<u>35,755</u>	<u>939,723</u>
At 31 March 2013	<u>1,045,144</u>	<u>1,704,910</u>	<u>34,369</u>	<u>907,771</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.6 Movements on Balances - City of Edinburgh Council 2013/14 Comparative Data

	Community Assets £000	Surplus Assets £000	Total Assets Under Construction £000	Total Property Plant and Equipment £000	PPP Assets £000
<b>Cost or Valuation</b>					
At 1 April 2013	11,263	19,814	90,818	<b>4,303,542</b>	551,161
Additions	1,079	131	10,579	<b>185,501</b>	146
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	(1,391)	0	<b>(44,963)</b>	17,759
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(1,492)	(1,621)	0	<b>(97,642)</b>	(10,101)
Derecognition - disposals	0	0	0	<b>(16,066)</b>	0
Derecognition - other	0	0	0	<b>(3,492)</b>	0
Assets reclassified (to) / from held for sale	0	310	0	<b>(369)</b>	0
Other movements in cost or valuation	497	0	(21,657)	<b>0</b>	0
At 31 March 2014	<u>11,347</u>	<u>17,243</u>	<u>79,740</u>	<u><b>4,326,511</b></u>	<u>558,965</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2013	0	(31)	0	<b>(489,484)</b>	(43,097)
Depreciation charge	0	(99)	0	<b>(131,281)</b>	(11,334)
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>93,951</b>	40,575
Depreciation written out to the Surplus on the Provision of Services	0	37	0	<b>33,653</b>	1,801
Derecognition - disposals	0	0	0	<b>917</b>	0
Derecognition - other	0	0	0	<b>3,492</b>	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	<b>(928)</b>	0
Other movements in cost or valuation	0	0	0	<b>39</b>	0
At 31 March 2014	<u>0</u>	<u>(93)</u>	<u>0</u>	<u><b>(489,641)</b></u>	<u>(12,055)</u>
<b>Net book value</b>					
At 31 March 2014	<u>11,347</u>	<u>17,150</u>	<u>79,740</u>	<u><b>3,836,870</b></u>	<u>546,910</u>
At 31 March 2013	<u>11,263</u>	<u>19,783</u>	<u>90,818</u>	<u><b>3,814,058</b></u>	<u>508,064</u>

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings'.



## NOTES TO THE FINANCIAL STATEMENTS

### 14. Property, Plant and Equipment - continued

#### 14.7 Council Dwellings, Other Land and Buildings and Investment Properties

The Council carries out a rolling programme of revaluations that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out under the direction of the Council's Estate Manager (Projects), S. Sladdin RICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

The significant assumptions applied in estimating fair value are:

- Unless otherwise stated, all properties with a greater than de minimis value were assumed to be in a reasonable state of repair and have a life expectancy of more than fifty years.
- The valuations were prepared using information from the Council's internal records, together with the valuation roll produced by Lothian Valuation Joint Board.
- Not all properties were inspected.

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of property, plant and equipment.

<b>Council assets</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
Carried at historical cost	29,119	59,968	98,551	1,344,090
Valued at fair value as at:				
31 March 2015	1,425	271,816	67,674	0
31 March 2014	1,013,882	450,255	125	0
31 March 2013	392	683,147	850	0
31 March 2012	0	238,880	0	0
31 March 2011	2,333	79,610	0	0
<b>Total cost or valuation</b>	<b>1,047,151</b>	<b>1,783,676</b>	<b>167,200</b>	<b>1,344,090</b>

<b>Council assets</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
Carried at historical cost	12,192	51	50,330	1,594,301
Valued at fair value as at:				
31 March 2015	0	1,175	0	342,090
31 March 2014	0	0	0	1,464,262
31 March 2013	0	5,008	0	689,397
31 March 2012	0	0	0	238,880
31 March 2011	0	6,400	0	88,343
<b>Total cost or valuation</b>	<b>12,192</b>	<b>12,634</b>	<b>50,330</b>	<b>4,417,273</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Investment Properties

#### 15.1 Income and Expenses on Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Rental income from investment properties	(387)	(387)	(212)	(212)
Direct operating expenses arising from investment property	68	68	0	0
	<u>(319)</u>	<u>(319)</u>	<u>(212)</u>	<u>(212)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal.

#### 15.2 Movement in Fair Value

The following table summarises the movement in the fair value of investment properties over the year.

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	2,415	2,215	2,640	2,215
Additions:				
- Subsequent expenditure	0	0	51	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	13,889	13,889	(276)	0
Transfers	0	0	0	0
- (to) / from Inventories	0	0	0	0
- (to) / from Property, Plant and Equipment	0	0	0	0
- (to) / from Assets Held for Sale	0	0	0	0
Value at 31 March	<u>16,304</u>	<u>16,104</u>	<u>2,415</u>	<u>2,215</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Intangible Assets

Intangible assets mainly represent purchased software licences.

Software is given a finite useful life based on the period of the licence purchased.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.710m in 2014/15 (2013/14 £0.257m) was charged to the following services.

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Education services	56	44
Cultural and related services	0	32
Social Work	12	168
Services to the Public	642	13
Total amortisation	<u>710</u>	<u>257</u>

The movement on intangible asset balances during the year is as follows:

	<b>2014/15</b>		<b>2013/14</b>	
	<b>Group</b>	<b>Council</b>	<b>Group</b>	<b>Council</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April				
Gross carrying amount	6,185	6,185	3,049	3,049
Less: Accumulated amortisation	<u>(2,893)</u>	<u>(2,893)</u>	<u>(2,636)</u>	<u>(2,636)</u>
Net carrying amount at 1 April	3,292	3,292	413	413
Additions during the year				
- Purchased intangible assets	2,372	2,372	3,167	3,167
Impairment during the year	0	0	(31)	(31)
Amortisation for the period	<u>(710)</u>	<u>(710)</u>	<u>(257)</u>	<u>(257)</u>
Net carrying amount at 31 March	<u>4,954</u>	<u>4,954</u>	<u>3,292</u>	<u>3,292</u>
Comprising:				
Gross carrying amounts	8,557	8,557	6,185	6,185
Accumulated amortisation	<u>(3,603)</u>	<u>(3,603)</u>	<u>(2,893)</u>	<u>(2,893)</u>
Net carrying amount at 31 March	<u>4,954</u>	<u>4,954</u>	<u>3,292</u>	<u>3,292</u>

The following items of capitalised software are individually material within intangible assets.

	<b>Carrying Amount</b>		<b>Remaining</b>
	<b>2014/15</b>	<b>2013/14</b>	<b>Amortisation</b>
	<b>£000</b>	<b>£000</b>	<b>Period</b>
Master data management software	887	717	31.03.15 4 years
Web-based solution software, including web forms	953	683	4 years
Integration engine software	846	633	4 years
Customer relationship management solutions	1,687	631	4 years
Security management software	285	357	4 years

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Heritage Assets

#### 17.1 Reconciliation of the Carrying Value of Heritage Assets Movements in 2014/15

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 2014	576	2,047	6,797
Additions	44	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(7)	0	0
At 31 March 2015	<u>613</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2014	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2015	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2015	<u>613</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2014	<u>576</u>	<u>2,047</u>	<u>6,797</u>
	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2014	1,675	19,296	30,391
Additions	0	0	44
Revaluation increases / (decreases) recognised in the Revaluation Reverse	300	347	647
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	(7)
At 31 March 2015	<u>1,975</u>	<u>19,643</u>	<u>31,075</u>
<b>Accumulated Impairment</b>			
At 1 April 2014	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2015	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2015	<u>1,975</u>	<u>19,643</u>	<u>31,075</u>
At 31 March 2014	<u>1,675</u>	<u>19,296</u>	<u>30,391</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Heritage Assets - continued

#### 17.1 Reconciliation of the Carrying Value of Heritage Assets - continued 2013/14 Comparative Data

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 2013	423	2,047	6,797
Additions	153	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
At 31 March 2014	<u>576</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2013	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2014	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2014	<u>576</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2013	<u>423</u>	<u>2,047</u>	<u>6,797</u>
	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2013	1,675	19,296	30,238
Additions	0	0	153
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
At 31 March 2014	<u>1,675</u>	<u>19,296</u>	<u>30,391</u>
<b>Accumulated Impairment</b>			
At 1 April 2013	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2014	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2014	<u>1,675</u>	<u>19,296</u>	<u>30,391</u>
At 31 March 2013	<u>1,675</u>	<u>19,296</u>	<u>30,238</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Heritage Assets - continued

### 17.2 Details of Heritage Assets

- Monuments and Statues are valued on an historic basis and valuations are carried out under the direction of the Council's Estate Manager (Projects).
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.
- Libraries special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.
- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.
- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.
- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.
- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these.

## 18. Financial Instruments

### 18.1 Categories of Financial Instruments

The following categories of financial instrument are carried on the Council's Balance Sheet

	Long-Term		Current	
	31.03.15	31.03.14	31.03.15	31.03.14
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	0	0	99,286	40,077
Unquoted equity investment at cost	23,511	23,335	0	0
Total investments	23,511	23,335	99,286	40,077
<b>Debtors</b>				
Loans and receivables	4,374	3,500	37,522	29,892
Total debtors	4,374	3,500	37,522	29,892
<b>Borrowings</b>				
Financial liabilities (principal amount)	(1,351,533)	(1,394,588)	(64,341)	(41,495)
Accrued interest	0	0	(17,856)	(18,293)
Cost of amortisation	(9,074)	(9,196)	13	0
Total borrowings	<u>(1,360,607)</u>	<u>(1,403,784)</u>	<u>(82,184)</u>	<u>(59,788)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Financial Instruments - continued

#### 18.1 Categories of Financial Instruments - continued

	Long-Term	
	31.03.15	31.03.14
	£000	£000
<b>Other Long-Term Liabilities</b>		
PPP and finance lease liabilities	(226,589)	(200,021)
Deferred liability	<u>(350)</u>	<u>(350)</u>
Total other long-term liabilities	<u><u>(226,939)</u></u>	<u><u>(200,371)</u></u>

Further detail on the finance lease and PPP liabilities can be seen in notes 40 and 41.

	Current	
	31.03.15	31.03.14
	£000	£000
<b>Creditors</b>		
Financial liabilities at amortised cost	(18,597)	(11,141)
PPP and finance leases due within 1 year	<u>(10,736)</u>	<u>(8,821)</u>
Total creditors	<u><u>(29,333)</u></u>	<u><u>(19,962)</u></u>

Lothian Regional Council entered into an agreement for the disposal of Norton Park Annex to the Tudor Trust. The terms of the disposal included the creation of a Title Company with share capital of 100 ordinary shares, held by the Tudor Trust, and 350,000 £1 preference shares held by City of Edinburgh Council. The preference shares carry rights that, in the event of the company being wound up or the property sold, the Council will receive the first £0.35m of the sale proceeds. This is reflected in the Balance Sheet as 'Other Long-term Liabilities' of £0.35m, as shown above and as a long-term investment.

#### 18.2 Income, Expenses, Gains and Losses

	Financial Liabilities: Measured at Amortised Cost £000	Financial Assets: Loans and Receivables £000	Total £000
Interest expense	76,522	13	76,535
Impairment losses	<u>0</u>	<u>(43)</u>	<u>(43)</u>
Total expense in Surplus on the Provision of Services	<u>76,522</u>	<u>(30)</u>	<u>76,492</u>
Interest income	<u>0</u>	<u>684</u>	<u>684</u>
Net gain for the year	<u><u>76,522</u></u>	<u><u>654</u></u>	<u><u>77,176</u></u>

In addition to the above interest expense, £1.887m (2013/14 £1.877m) was charged to the loans pool from the financial instruments adjustment account during the year, but not reflected in the Comprehensive Income and Expenditure Statement. It also excludes £0.279m (2013/14 £0.317m) of loans fund expenses charged to the Council.

#### 18.3 Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- the fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWL) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Financial Instruments - continued

#### 18.3 Fair Value of Assets and Liabilities - continued

- for loans and receivables, the prevailing benchmark market rates have been used to provide the fair value.
- no early repayment of impairment is recognised.
- where no instrument will mature in the next twelve months, carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31.03.15		31.03.14	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	(1,128,116)	(1,562,608)	(1,156,294)	(1,414,394)
European Investment Bank	(1,813)	(1,813)	0	0
Market debt	(293,496)	(508,695)	(293,515)	(315,636)
Temporary borrowing	(16,469)	(16,469)	(11,969)	(11,969)
Other bodies	(2,876)	(2,876)	(1,793)	(1,793)
Other long-term liabilities	(350)	(350)	(350)	(350)
Trade creditors	(18,597)	(18,597)	(11,141)	(11,141)
Finance Leases	<u>(237,325)</u>	<u>(237,325)</u>	<u>(208,842)</u>	<u>(208,842)</u>
Financial liabilities	<u>(1,699,042)</u>	<u>(2,348,733)</u>	<u>(1,683,904)</u>	<u>(1,964,125)</u>

The fair value is higher than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31.03.15		31.03.14	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments</b>				
Loans and receivables	99,286	99,286	40,077	40,077
Unquoted equity investment at cost	23,511	23,511	23,335	23,335
<b>Debtors</b>				
Loans and receivables	4,374	4,374	3,500	3,500
Other trade debtors	<u>37,522</u>	<u>37,522</u>	<u>29,892</u>	<u>29,892</u>
Total Investments	<u>164,693</u>	<u>164,693</u>	<u>96,804</u>	<u>96,804</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 19. Inventories Movements in 2014/15 and 2013/14

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
<b>Fuel Stocks</b>				
Balance at 1 April	591	165	389	170
Purchases	26,043	2,771	27,174	2,997
Recognised as an expense in the year	(26,134)	(2,822)	(26,972)	(3,002)
Balance at 31 March	500	114	591	165
<b>Gift Stock and Community Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	831	831	742	742
Purchases	2,906	2,906	2,031	2,031
Held by a third party	33	33	27	27
Recognised as an expense in the year	(2,605)	(2,605)	(1,969)	(1,969)
Balance at 31 March	1,165	1,165	831	831
<b>Construction and Other Raw Materials</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	1,424	1,242	1,494	1,200
Purchases	23,433	8,081	24,371	8,013
Recognised as an expense in the year	(23,466)	(8,168)	(24,441)	(7,971)
Balance at 31 March	1,391	1,155	1,424	1,242
<b>Items held for sale</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	89	89	79	79
Purchases	329	329	321	321
Recognised as an expense in the year	(326)	(326)	(310)	(310)
Stock written off	(1)	(1)	(1)	(1)
Balance at 31 March	91	91	89	89
<b>Work in Progress</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	14,081	6	9,933	8
Purchases	0	0	4,173	23
Recognised as an expense in the year	(5,395)	(6)	(25)	(25)
Balance at 31 March	8,686	0	14,081	6
<b>Clothing and Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	79	79	74	74
Purchases	273	273	199	199
Recognised as an expense in the year	(262)	(262)	(194)	(194)
Balance at 31 March	90	90	79	79
<b>Catering Stocks</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	125	125	113	113
Purchases	2,630	2,630	2,570	2,570
Recognised as an expense in the year	(2,621)	(2,621)	(2,558)	(2,558)
Balance at 31 March	134	134	125	125

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Inventories - continued

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Total				
Balance at 1 April	17,220	2,537	12,824	2,386
Purchases	55,614	16,990	60,839	16,154
Held by a third party	33	33	27	27
Recognised as an expense in the year	(60,809)	(16,810)	(56,469)	(16,029)
Stock written off	(1)	(1)	(1)	(1)
Balance at 31 March	<u>12,057</u>	<u>2,749</u>	<u>17,220</u>	<u>2,537</u>

### 20. Debtors

#### 20.1 Long-term Debtors

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	34,865	34,865	35,629	35,629
Other local authorities	1,142	1,142	0	0
NHS bodies	97	97	0	0
Public corporations and trading funds	0	0	0	0
Other entities and individuals	<u>190,604</u>	<u>194,104</u>	<u>239,230</u>	<u>242,730</u>
Total long-term debtors before provision for impairment	226,708	230,208	274,859	278,359
Less: Provision for impairment	<u>(113,562)</u>	<u>(113,562)</u>	<u>(179,093)</u>	<u>(179,093)</u>
Total net long-term debtors	<u>113,146</u>	<u>116,646</u>	<u>95,766</u>	<u>99,266</u>

#### 20.2 Analysis of Long-term Debtors

Long-term debtors comprise the following elements:

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Capital advances				
Police Scotland	18,262	18,262	20,351	20,351
Fire Scotland	3,192	3,192	4,467	4,467
Council Tax	91,519	91,519	86,448	86,448
Community Charge	0	0	72,458	72,458
Non-Domestic Rates	1,757	1,757	1,590	1,590
CEC Holdings	0	3,500	0	3,500
Edinburgh Marketing loan	0	0	9	9
NHT Loans (see note 34.3)	45,665	45,665	35,969	35,969
House rents	3,194	3,194	3,528	3,528
Car loan scheme	146	146	150	150
Other debtors	<u>62,973</u>	<u>62,973</u>	<u>49,889</u>	<u>49,889</u>
	<u>226,708</u>	<u>230,208</u>	<u>274,859</u>	<u>278,359</u>

Long-term debtors include £18.262m (2013/14 £20.351m) and £3.192m (2013/14 £4.467m) for sums recoverable from Police Scotland and Fire Scotland respectively. These sums relate to monies advanced to the former joint boards for capital expenditure.

The Community Charge Debt (Scotland) Act 2015 was passed on 19 February 2015, bringing to an end the collection of Community Charge in Scotland. The Council has written off the Community Charge debtor in full during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Debtors - continued

#### 20.3 Current Debtors

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	30,932	28,645	51,465	49,860
Other local authorities	3,682	2,836	6,845	6,250
NHS bodies	1,645	1,645	989	989
Public corporations and trading funds	86	86	2,493	2,493
Other entities and individuals	137,260	127,204	153,649	145,843
Total current debtors before provision for impairment	173,605	160,416	215,441	205,435
Less: Provision for impairment	(90,665)	(90,665)	(91,841)	(91,833)
Total net current debtors	82,940	69,751	123,600	113,602

#### 20.4 Provision for Impairment

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
<b>Long-term provision for impairment</b>				
Community charge	0	0	(72,459)	(72,459)
Council tax	(87,720)	(87,720)	(82,863)	(82,863)
Non-Domestic rates	(1,362)	(1,362)	(1,208)	(1,208)
Sundry debtors	(24,480)	(24,480)	(22,563)	(22,563)
Total long-term provision for impairment	(113,562)	(113,562)	(179,093)	(179,093)
<b>Current provision for impairment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Community charge	0	0	(30)	(30)
Council tax	(80,090)	(80,090)	(79,410)	(79,410)
Non-Domestic rates	(190)	(190)	(342)	(342)
Sundry debtors	(10,385)	(10,385)	(12,059)	(12,051)
Total current provision for impairment	(90,665)	(90,665)	(91,841)	(91,833)

### 21. Cash and Cash Equivalents

The balance of cash and cash equivalents comprises the following elements. Investments maturing within three months of the balance sheet are deemed to be cash and cash equivalents.

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Cash held	385	385	389	389
Bank current accounts	(4,167)	(17,723)	1,588	(15,712)
Short-term deposits:				
With banks or building societies	65,007	65,007	25,432	25,432
With other local authorities	0	0	0	0
With money market fund	29,131	29,131	8,234	8,234
With treasury bills	2,565	2,565	1,824	1,824
Other	2,583	2,583	0	0
	95,504	81,948	37,467	20,167

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Assets Held for Sale

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
<b>22.1 Non-Current Assets</b>				
Balance at 1 April	17,379	17,379	19,551	19,551
Additions	95	95	78	78
Revaluation gains/(losses) recognised in the revaluation reserve	8,200	8,200	450	450
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(537)	(537)	0	0
Assets reclassified as held for sale: Property, Plant and Equipment	5,585	5,585	180	180
Assets sold	(2,697)	(2,697)	(2,571)	(2,571)
Transfers from non-current to current	(6,846)	(6,846)	(309)	(309)
Balance at 31 March	<u>21,179</u>	<u>21,179</u>	<u>17,379</u>	<u>17,379</u>

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
<b>22.2 Current Assets</b>				
Balance at 1 April	2,889	2,889	5,273	5,273
Additions	22	22	24	24
Revaluation gains/(losses) recognised in the revaluation reserve	149	149	(226)	(226)
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	0	0	(2)	(2)
Assets reclassified as held for sale: Property, Plant and Equipment	1,190	1,190	150	150
Assets sold	(2,593)	(2,593)	(2,639)	(2,639)
Transfers from non-current to current	6,846	6,846	309	309
Balance at 31 March	<u>8,503</u>	<u>8,503</u>	<u>2,889</u>	<u>2,889</u>

### 23. Creditors

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	(21,683)	(18,393)	(25,157)	(20,518)
Other local authorities	(15,305)	(14,296)	(11,419)	(12,544)
NHS bodies	(660)	(660)	(620)	(614)
Public corporations and trading funds	(2,426)	(2,426)	(3,528)	(3,528)
Other entities and individuals	(129,912)	(105,550)	(133,051)	(114,409)
	<u>(169,986)</u>	<u>(141,325)</u>	<u>(173,775)</u>	<u>(151,613)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Provisions

Provision has been made within the Group Financial Statements for outstanding payments of £19.769m (2013/14 £19.577m).

Of this amount, £17.993m (2013/14 £16.752m) relates to the Council. These include estimates of settlements on outstanding equal pay, compensation, insurance and other claims, land acquisition costs for the tram project and Council Tax discounts that require to be set aside for housing projects. The precise amount of these payments is unknown, however, provision has been made in the accounts, as summarised below, based on the Council's assessment of the costs.

	<b>Trams £000</b>	<b>Equal Pay Claims £000</b>	<b>Council Tax Discounts £000</b>
Balance at 1 April 2014	(4,418)	(4,679)	(1,766)
Additional provisions made during the year	(119)	0	0
Amounts used during the year	314	1,336	0
Transferred to debtor impairments	0	0	0
Unused amounts reversed during the year	594	698	254
Balance at 31 March 2015	<u>(3,629)</u>	<u>(2,645)</u>	<u>(1,512)</u>
	<b>Housing Benefit Subsidy £000</b>	<b>Insurance Claims £000</b>	<b>Other Provisions £000</b>
Balance at 1 April 2014	(170)	(120)	(5,599)
Additional provisions made during the year	(170)	(173)	(4,836)
Amounts used during the year	170	116	558
Transferred to debtor impairments	0	0	0
Unused amounts reversed during the year	0	0	16
Balance at 31 March 2015	<u>(170)</u>	<u>(177)</u>	<u>(9,861)</u>
	<b>Total Council Provisions £000</b>	<b>Group Provisions £000</b>	<b>Total Provisions £000</b>
Balance at 1 April 2014	(16,752)	(2,825)	(19,577)
Additional provisions made during the year	(5,298)	0	(5,298)
Amounts used during the year	2,494	1,049	3,543
Transferred from other long-term liabilities	0	0	0
Unused amounts reversed during the year	1,562	0	1,562
Balance at 31 March 2015	<u>(17,994)</u>	<u>(1,776)</u>	<u>(19,770)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Usable Reserves

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 14 to 16) and Note 10.

### 26. Unusable Reserves

#### 26.1 Summary of Unusable Reserves

	Balance as at:	
	31 March 2015 £000	31 March 2014 £000
Revaluation Reserve	911,395	918,790
Capital Adjustment Account	1,339,227	1,306,580
Financial Instruments Adjustment Account	(49,159)	(51,049)
Pensions Reserve	(726,969)	(535,498)
Employee Statutory Adjustment Account	<u>(20,738)</u>	<u>(26,357)</u>
Total Council Unusable Reserves	1,453,756	1,612,466
Subsidiaries, Associates and Joint Ventures	<u>99,107</u>	<u>108,949</u>
Total Group Unusable Reserves	<u><u>1,552,863</u></u>	<u><u>1,721,415</u></u>

#### 26.2 Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

	2014/15 £000	2013/14 £000
Balance at 1 April	918,790	901,436
Upward revaluation of assets	49,478	98,837
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	<u>(30,408)</u>	<u>(49,625)</u>
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service	19,070	49,212
Difference between fair value depreciation and historical cost depreciation	(19,524)	(19,541)
Accumulated gains on assets sold	<u>(6,941)</u>	<u>(12,317)</u>
Amount written off to the capital adjustment account	(26,465)	(31,858)
Balance at 31 March	<u><u>911,395</u></u>	<u><u>918,790</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Unusable Reserves - continued

#### 26.3 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council to finance the costs for acquisition, construction and enhancement of non-current assets. The account also holds accumulated gains and losses on investment properties and evaluation gains accumulated on property, plant and equipment prior to 1 April 2007.

Note 9 provides details of the source of the transactions posted to this account, except those involving the revaluation reserve.

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	1,306,580	1,301,035
<u>Reversal of items relating to capital expenditure debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	(135,488)	(129,145)
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(13,577)	(63,992)
Amortisation of intangible assets	(710)	(288)
Capital funded from revenue	5,674	3,957
Revenue exp. funded from capital under statute	(32,641)	(30,365)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,716	(3,652)
	<u>(172,026)</u>	<u>(223,485)</u>
Adjusting amounts written out of the revaluation reserve	26,465	31,858
	<u>(145,561)</u>	<u>(191,627)</u>
Net written out amount of the costs of non-current assets consumed in the year		
<u>Capital financing applied in the year:</u>		
Use of the capital receipts reserve to finance new capital expenditure	21,479	16,707
Capital grants and contributions credited to the CIES that have been applied to capital financing	66,101	85,324
Application of grants from the capital grants unapplied account / capital fund	943	5,037
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	90,653	86,891
Capital expenditure charged against the General Fund and HRA balances	32,641	30,365
	<u>211,817</u>	<u>224,324</u>
Movements in the market value of investment properties credited to the CIES	13,889	0
Other unrealised losses debited to the CIES	<u>(47,498)</u>	<u>(27,152)</u>
Balance at 31 March	<u><u>1,339,227</u></u>	<u><u>1,306,580</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Unusable Reserves - continued

#### 26.4 Financial Instruments Adjustment Account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund and Housing Revenue Account. This account also holds the equivalent interest rate adjustment on lender option / borrower option loans.

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(51,049)	(52,716)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,877	1,876
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	18	(216)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements	1,895	1,660
Difference between actual interest paid and interest rate assumed in equivalent interest rate calculation on transition	(5)	7
Balance at 31 March	<u>(49,159)</u>	<u>(51,049)</u>

The Council operates a loans pool on behalf of the General Fund and Housing Revenue Account. With the transfer of responsibility for Police and Fire services to the new national bodies, all movements are now reflected on the Council's Balance Sheet. An element of the cost, however, is recovered through the pooled interest rate and therefore there is no financial impact on the Council.

#### 26.5 Pensions Reserve

The pensions reserve provides a balancing mechanism arising from the different arrangements for accounting for post employment benefits (pension costs) and for funding pensions in accordance with statutory provisions. The Council accounts for pensions in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

Statutory arrangements, however, require benefits to be financed as the Council makes its contributions to Lothian Pension Fund or pays any pensions for which it is directly responsible.

The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits require to be paid.



## NOTES TO THE FINANCIAL STATEMENTS

### 26. Unusable Reserves - continued

#### 26.5 Pensions Reserve - continued

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(535,498)	(450,585)
Actuarial gains or losses on pension assets and liabilities	(156,748)	(60,621)
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	(96,082)	(84,447)
Employer's pension contributions and direct payments to pensioners payable in the year	61,359	60,155
Balance at 31 March	<u>(726,969)</u>	<u>(535,498)</u>

#### 26.6 Employee Statutory Adjustment Account

The employee statutory adjustment account provides a balancing mechanism arising from the different arrangements that would otherwise impact on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year (annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is mitigated by transfers to or from this account.

The amount accrued at the end of the 2014/15 is £5.619m lower than the previous year. This is mainly attributable to policy changes to the amount of unused leave that can be carried forward from year to year.

		<b>2014/15</b>	<b>2013/14</b>
		<b>£000</b>	<b>£000</b>
Balance at 1 April		(26,357)	(16,760)
Settlement or cancellation of accrual made at the end of the preceding year	26,357	16,760	
Amount accrued at the end of the current year	<u>(20,738)</u>	<u>(26,357)</u>	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		5,619	(9,597)
Balance at 31 March		<u>(20,738)</u>	<u>(26,357)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Unusable Reserves - continued

#### 26.7 Unusable Reserves - Group Members

	Balance as at:	
	31 March 2015 £000	31 March 2014 £000
<b>Subsidiaries</b>		
CEC Holdings Limited		
Capital adjustment account	64,465	64,465
Capital contribution	12,267	11,419
Transport for Edinburgh		
Revaluation reserve	6,337	6,477
Non Controlling Interest	5,598	7,325
Other Unusable Reserves	(4,457)	0
	<u>84,210</u>	<u>89,686</u>
<b>Total Unusable Reserves - Subsidiaries</b>		
<b>Associates and Joint Ventures</b>		
Common Good		
Capital adjustment account	(22)	(20)
Revaluation reserve	21,860	23,928
Lothian Valuation Joint Board		
Capital adjustment account	385	351
Employee statutory adjustment account	(59)	(54)
Pension reserve	(7,267)	(4,942)
	<u>14,897</u>	<u>19,263</u>
<b>Total Unusable Reserves - Associates and Joint Ventures</b>		
	<u>99,107</u>	<u>108,949</u>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>		

### 27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Interest received	(3,243)	(3,013)	(1,871)	(1,651)
Interest paid	95,936	95,470	96,806	96,313
Investment income received	<u>(8,437)</u>	<u>(8,437)</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net cash flows from interest and investment income	<u>84,256</u>	<u>84,020</u>	<u>91,935</u>	<u>91,662</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Cash Flow Statement - Investing Activities

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Purchase of property, plant and equipment, investment property and intangible assets	157,496	142,282	225,602	218,468
Other payments for investing activities	60,064	51,133	48,943	42,261
Proceeds from the sale of property, plant and equip., inv. property and intangible assets	(16,766)	(16,499)	(17,566)	(16,495)
Net proceeds from short- and long-term investments	(4,410)	(4,410)	(2,292)	(2,292)
Other receipts from investing activities	<u>(13,330)</u>	<u>(13,329)</u>	<u>(13,396)</u>	<u>(13,322)</u>
Net cash flows from investing activities	<u>183,054</u>	<u>159,177</u>	<u>241,291</u>	<u>228,620</u>

### 29. Cash Flow Statement - Financing Activities

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Cash receipts of short- and long-term borrowing	(48,189)	(47,342)	(13,245)	(11,563)
Other payments for / (receipts) from financing activities	1,263	1,263	1,576	1,576
Cash payments for the reduction of the outstanding liabilities relating to finance leases	12,317	9,695	14,102	9,923
Repayments of short- and long-term borrowing	<u>30,454</u>	<u>30,454</u>	<u>29,057</u>	<u>29,057</u>
Net cash flows from investing activities	<u>(4,155)</u>	<u>(5,930)</u>	<u>31,490</u>	<u>28,993</u>

### 30. Analysis of Change in Financing Activities

	Balance 01.04.14 £000	Cash Trans. £000	Non Cash Trans. £000	Balance 31.03.15 £000
<b>Group</b>				
Debt due within 1 Year	(57,994)	(20,372)	579	(77,787)
Debt due after 1 Year	<u>(1,393,140)</u>	<u>41,654</u>	<u>13</u>	<u>(1,351,473)</u>
Total debt due	(1,451,134)	21,282	592	(1,429,260)
Other liquid resources	83,510	425	0	83,935
Finance leases	<u>(214,599)</u>	<u>(25,862)</u>	<u>1</u>	<u>(240,460)</u>
<b>Total</b>	<u>(1,582,223)</u>	<u>(4,155)</u>	<u>593</u>	<u>(1,585,785)</u>
<b>Council</b>				
Debt due within 1 Year	(57,994)	(21,872)	579	(79,287)
Debt due after 1 Year	<u>(1,403,784)</u>	<u>43,164</u>	<u>13</u>	<u>(1,360,607)</u>
Total debt due	(1,461,778)	21,292	592	(1,439,894)
Other liquid resources	100,088	1,263	0	101,351
Finance leases	<u>(208,841)</u>	<u>(28,485)</u>	<u>1</u>	<u>(237,325)</u>
<b>Total</b>	<u>(1,570,531)</u>	<u>(5,930)</u>	<u>593</u>	<u>(1,575,868)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 31. Reconciliation of Movements in Cash Receipts and Repayments of Short- and Long-Term Borrowing

	Balance 01.04.14 £000	Cash Trans. £000	Non Cash Trans. £000	Balance 31.03.15 £000
<b>Group</b>				
<b>Financing</b>				
Temporary loans	(11,969)	(4,495)	(5)	(16,469)
PWLB	(1,156,294)	27,743	435	(1,128,116)
Market loans	(293,515)	0	19	(293,496)
Other Borrowing	10,644	(1,966)	143	8,821
<b>Net financing</b>	<b>(1,451,134)</b>	<b>21,282</b>	<b>592</b>	<b>(1,429,260)</b>
<b>Council</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financing</b>				
Temporary loans	(11,969)	(4,495)	(5)	(16,469)
PWLB	(1,156,294)	27,743	435	(1,128,116)
Market loans	(293,515)	0	19	(293,496)
Other Borrowing	0	(1,956)	143	(1,813)
<b>Net financing</b>	<b>(1,461,778)</b>	<b>21,292</b>	<b>592</b>	<b>(1,439,894)</b>

Accrued interest is included in the carrying value of investments and loans.

### 32. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service shown in the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocations are taken by the Council on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to departments in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of balances on the revaluation reserves are charged to services in the Comprehensive Income and Expenditure Statement.
- the cost of retirement benefits is based on the payment of employer's contributions to Lothian Pension Fund rather than the current service cost of benefits earned during the year.
- expenditure on support services is budgeted for within the relevant departments that provide the support services and not charged directly to services receiving the support services.

The income and expenditure for the Council's main service areas is shown separately on the following pages. Income and expenditure for the subsidiary, associate and joint venture companies is shown in total.

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.1 Departmental Income and Expenditure

<b>2014/15</b>	<b>Children and Families £000</b>	<b>Economic Dev't. £000</b>	<b>Corporate Governance £000</b>
Fees, charges and other service income	(8,692)	(719)	(23,424)
Government grants and other contributions	(15,183)	(4,417)	(16,401)
<b>Total Income</b>	<b>(23,875)</b>	<b>(5,136)</b>	<b>(39,825)</b>
Employee expenses	260,755	4,516	44,158
Other service expenses	154,513	13,073	76,745
<b>Total Expenditure</b>	<b>415,268</b>	<b>17,589</b>	<b>120,903</b>
<b>Net Expenditure / (Income)</b>	<b>391,393</b>	<b>12,453</b>	<b>81,078</b>

	<b>Health and Social Care £000</b>	<b>Housing Revenue Account £000</b>	<b>Valuation Joint Boards £000</b>	<b>Services for Communities £000</b>
Fees, charges and other service income	(20,736)	(104,564)	0	(213,368)
Government grants and other contributions	(54,302)	(1,586)	0	(34,984)
<b>Total Income</b>	<b>(75,038)</b>	<b>(106,150)</b>	<b>0</b>	<b>(248,352)</b>
Employee expenses	103,675	10,968	0	126,824
Other service expenses	181,600	85,470	3,745	258,064
Support service recharges	0	7,209	0	780
<b>Total Expenditure</b>	<b>285,275</b>	<b>103,647</b>	<b>3,745</b>	<b>385,668</b>
<b>Net Expenditure / (Income)</b>	<b>210,237</b>	<b>(2,503)</b>	<b>3,745</b>	<b>137,316</b>

	<b>Net Cost of Benefits £000</b>	<b>Equal Pay £000</b>	<b>Other Group Members £000</b>	<b>Total £000</b>
Fees, charges and other service income		0	(132,710)	(504,213)
Income from associates		0	(21,304)	(21,304)
Government grants and other contributions	(202,248)	0	(26,851)	(355,972)
<b>Total Income</b>	<b>(202,248)</b>	<b>0</b>	<b>(180,865)</b>	<b>(881,489)</b>
Employee expenses	0	(707)	83,591	633,780
Other service expenses	229,642	0	80,522	1,083,374
Expenditure on associates	0	0	0	0
Support service recharges	0	0	0	7,989
Depreciation, amortisation and impairment	0	0	9,140	9,140
<b>Total Expenditure</b>	<b>229,642</b>	<b>(707)</b>	<b>173,253</b>	<b>1,734,283</b>
<b>Net Expenditure / (Income)</b>	<b>27,394</b>	<b>(707)</b>	<b>(7,612)</b>	<b>852,794</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.1 Departmental Income and Expenditure - continued

<b>2013/14 Comparative Data</b>	<b>Children and Families £000</b>	<b>Economic Dev't. £000</b>	<b>Corporate Governance £000</b>
Fees, charges and other service income	(8,227)	(228)	(23,152)
Government grants and other contributions	(11,462)	(3,093)	(11,710)
<b>Total Income</b>	<b>(19,689)</b>	<b>(3,321)</b>	<b>(34,862)</b>
Employee expenses	258,766	4,156	45,091
Other service expenses	155,957	11,807	68,292
<b>Total Expenditure</b>	<b>414,723</b>	<b>15,963</b>	<b>113,383</b>
<b>Net Expenditure / (Income)</b>	<b>395,034</b>	<b>12,642</b>	<b>78,521</b>

	<b>Health and Social Care £000</b>	<b>Housing Revenue Account £000</b>	<b>Joint Boards £000</b>	<b>Services for Communities £000</b>
Fees, charges and other service income	(18,714)	(99,541)	0	(205,817)
Government grants and other contributions	(53,767)	(1,138)	0	(39,987)
<b>Total Income</b>	<b>(72,481)</b>	<b>(100,679)</b>	<b>0</b>	<b>(245,804)</b>
Employee expenses	98,170	10,411	0	131,781
Other service expenses	174,181	78,589	3,745	241,912
Support service recharges	0	7,381	0	1,914
<b>Total Expenditure</b>	<b>272,351</b>	<b>96,381</b>	<b>3,745</b>	<b>375,607</b>
<b>Net Expenditure / (Income)</b>	<b>199,870</b>	<b>(4,298)</b>	<b>3,745</b>	<b>129,803</b>

	<b>Net Cost of Benefits £000</b>	<b>Equal Pay £000</b>	<b>Other Group Members £000</b>	<b>Total £000</b>
Fees, charges and other service income	0	0	(112,452)	(468,131)
Income from associates	0	0	(19,339)	(19,339)
Government grants and other contributions	(199,568)	0	(24,579)	(345,304)
<b>Total Income</b>	<b>(199,568)</b>	<b>0</b>	<b>(156,370)</b>	<b>(832,774)</b>
Employee expenses	0	(4,598)	77,374	621,151
Other service expenses	228,380	0	40,812	1,003,675
Expenditure on associates	0	0	21,063	21,063
Support service recharges	0	0	0	9,295
Depreciation, amortisation and impairment	0	0	9,323	9,323
<b>Total Expenditure</b>	<b>228,380</b>	<b>(4,598)</b>	<b>148,572</b>	<b>1,664,507</b>
<b>Net Expenditure / (Income)</b>	<b>28,812</b>	<b>(4,598)</b>	<b>(7,798)</b>	<b>831,733</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.2 Reconciliation of Departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statements for the Group and the Council

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Net expenditure in departmental analysis	852,794	860,406	831,733	839,531
Net expenditure of services and support services not included in the dept. analysis	33,053	33,053	19,110	19,110
Amounts in the Comprehensive Income and Expenditure Statement (CIES) not reported to management in departmental analysis	100,676	100,676	164,683	164,715
Amounts included in departmental analysis not included in CIES	(61,359)	(61,359)	(60,155)	(60,155)
Amounts included in the departmental analysis included below Cost of Services in the CIES	(66)	(66)	(45)	(45)
Cost of Services in CIES	<u>925,098</u>	<u>932,710</u>	<u>955,326</u>	<u>963,156</u>

#### 32.3 Reconciliation to Subjective Analysis

Group 2014/15	Dept. Analysis £000	Services not in Analysis £000	Not Reported to Mgmt. £000
Fees, charges and other service income	(504,213)	11,619	2,391
Income from associates and joint ventures	(21,304)	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	(355,972)	9,490	0
Total Income	<u>(881,489)</u>	<u>21,109</u>	<u>2,391</u>
Employee expenses	633,780	116,082	(51,856)
Other service expenses	1,083,374	(104,138)	(2,391)
Expenditure on associates and joint ventures	0	0	0
Support service recharges	7,989	0	0
Depreciation, amortisation and impairment	9,140	0	152,532
Total Expenditure	<u>1,734,283</u>	<u>11,944</u>	<u>98,285</u>
Net Expenditure / (Income)	<u>852,794</u>	<u>33,053</u>	<u>100,676</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

<b>Group 2014/15</b>	<b>Not Included in CIES £000</b>	<b>Reported Below Cost of Services £000</b>	<b>Allocation of Recharges £000</b>
Fees, charges and other service income	0	1,297	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	0	0	0
<b>Total Income</b>	<b>0</b>	<b>1,297</b>	<b>0</b>
Employee expenses	(61,359)	(701)	3,352
Other service expenses	0	(662)	4,637
Expenditure on associates and joint ventures	0	0	0
Support service recharges	0	0	(7,989)
Depreciation, amortisation and impairment	0	0	0
<b>Total Expenditure</b>	<b>(61,359)</b>	<b>(1,363)</b>	<b>0</b>
<b>Net Expenditure / (Income)</b>	<b>(61,359)</b>	<b>(66)</b>	<b>0</b>

<b>Group 2014/15</b>	<b>Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges and other service income	(488,906)	(15,573)	(504,479)
Income from associates and joint ventures	(21,304)	0	(21,304)
Interest and investment income	0	(106,820)	(106,820)
Income from Council Tax	0	(212,976)	(212,976)
Government grants and other contributions	(346,482)	(819,818)	(1,166,300)
<b>Total Income</b>	<b>(856,692)</b>	<b>(1,155,187)</b>	<b>(2,011,879)</b>
Employee expenses	639,298	701	639,999
Other service expenses	980,820	2,293	983,113
Expenditure on associates and joint ventures	0	0	0
Support service recharges	0	0	0
Depreciation, amortisation and impairment	161,672	0	161,672
Interest payments	0	212,377	212,377
Gain on disposal of assets	0	(4,807)	(4,807)
<b>Total Expenditure</b>	<b>1,781,790</b>	<b>210,564</b>	<b>1,992,354</b>
<b>Net Expenditure / (Income)</b>	<b>925,098</b>	<b>(944,623)</b>	<b>(19,525)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

<b>Council 2014/15</b>	<b>Dept. Analysis £000</b>	<b>Services not in Analysis £000</b>	<b>Not Reported to Mgmt. £000</b>
Fees, charges and other service income	(371,503)	11,619	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	(329,121)	9,490	0
<b>Total Income</b>	<b>(700,624)</b>	<b>21,109</b>	<b>0</b>
Employee expenses	550,189	116,082	(51,856)
Other service expenses	1,002,852	(104,138)	0
Support service recharges	7,989	0	0
Depreciation, amortisation and impairment	0	0	152,532
<b>Total Expenditure</b>	<b>1,561,030</b>	<b>11,944</b>	<b>100,676</b>
<b>Net Expenditure / (Income)</b>	<b>860,406</b>	<b>33,053</b>	<b>100,676</b>

<b>Council 2014/15</b>	<b>Not Included in CIES £000</b>	<b>Reported Below Cost of Services £000</b>	<b>Allocation of Recharges £000</b>
Fees, charges and other service income	0	1,297	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	0	0	0
<b>Total Income</b>	<b>0</b>	<b>1,297</b>	<b>0</b>
Employee expenses	(61,359)	(701)	3,352
Other service expenses	0	(662)	4,637
Support service recharges	0	0	(7,989)
Depreciation, amortisation and impairment	0	0	0
<b>Total Expenditure</b>	<b>(61,359)</b>	<b>(1,363)</b>	<b>0</b>
<b>Net Expenditure / (Income)</b>	<b>(61,359)</b>	<b>(66)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

<b>Council 2014/15</b>	<b>Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges and other service income	(358,587)	(15,573)	(374,160)
Income from associates and joint ventures	0	0	0
Interest and investment income	0	(91,135)	(91,135)
Income from Council Tax	0	(212,976)	(212,976)
Government grants and other contributions	(319,631)	(819,818)	(1,139,449)
<b>Total Income</b>	<b>(678,218)</b>	<b>(1,139,502)</b>	<b>(1,817,720)</b>
Employee expenses	555,707	701	556,408
Other service expenses	902,689	730	903,419
Support service recharges	0	0	0
Depreciation, amortisation and impairment	152,532	0	152,532
Interest payments	0	196,902	196,902
Gain on disposal of assets	0	(4,716)	(4,716)
<b>Total Expenditure</b>	<b>1,610,928</b>	<b>193,617</b>	<b>1,804,545</b>
<b>Net Expenditure / (Income)</b>	<b>932,710</b>	<b>(945,885)</b>	<b>(13,175)</b>

<b>Group 2013/14 Comparative Data</b>	<b>Dept. Analysis £000</b>	<b>Services not in Analysis £000</b>	<b>Not Reported to Mgmt. £000</b>
Fees, charges and other service income	(468,131)	9,388	2,679
Income from associates and joint ventures	(19,339)	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	(345,304)	16,305	0
<b>Total Income</b>	<b>(832,774)</b>	<b>25,693</b>	<b>2,679</b>
Employee expenses	621,151	102,462	(31,776)
Other service expenses	1,003,675	(109,045)	(2,711)
Expenditure on associates and joint ventures	21,063	0	0
Support service recharges	9,295	0	0
Depreciation, amortisation and impairment	9,323	0	196,491
<b>Total Expenditure</b>	<b>1,664,507</b>	<b>(6,583)</b>	<b>162,004</b>
<b>Net Expenditure / (Income)</b>	<b>831,733</b>	<b>19,110</b>	<b>164,683</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

<b>Group</b>	<b>Not</b>	<b>Reported</b>	<b>Allocation</b>
<b>2013/14 Comparative Data</b>	<b>Included</b>	<b>Below</b>	<b>of</b>
	<b>in CIES</b>	<b>Cost of</b>	<b>Recharges</b>
	<b>£000</b>	<b>Services</b>	<b>£000</b>
Fees, charges and other service income	0	1,355	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	0	0	0
<b>Total Income</b>	<b>0</b>	<b>1,355</b>	<b>0</b>
Employee expenses	(60,155)	(742)	3,769
Other service expenses	0	(658)	5,526
Expenditure on associates and joint ventures	0	0	0
Support service recharges	0	0	(9,295)
Depreciation, amortisation and impairment	0	0	0
<b>Total Expenditure</b>	<b>(60,155)</b>	<b>(1,400)</b>	<b>0</b>
<b>Net Expenditure / (Income)</b>	<b>(60,155)</b>	<b>(45)</b>	<b>0</b>

<b>Group</b>	<b>Cost of</b>	<b>Corporate</b>	<b>Total</b>
<b>2013/14 Comparative Data</b>	<b>Services</b>	<b>Amounts</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>	
Fees, charges and other service income	(454,709)	(1,567)	(456,276)
Income from associates and joint ventures	(19,339)	0	(19,339)
Interest and investment income	0	(97,051)	(97,051)
Income from Council Tax	0	(207,925)	(207,925)
Government grants and other contributions	(328,999)	(822,318)	(1,151,317)
<b>Total Income</b>	<b>(803,047)</b>	<b>(1,128,861)</b>	<b>(1,931,908)</b>
Employee expenses	634,709	742	635,451
Other service expenses	896,787	2,555	899,342
Expenditure on associates and joint ventures	21,063	0	21,063
Support service recharges	0	0	0
Depreciation, amortisation and impairment	205,814	0	205,814
Interest payments	0	207,987	207,987
Gain on disposal of assets	0	4,221	4,221
<b>Total Expenditure</b>	<b>1,758,373</b>	<b>215,505</b>	<b>1,973,878</b>
<b>Net Expenditure / (Income)</b>	<b>955,326</b>	<b>(913,356)</b>	<b>41,970</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

<b>Council 2013/14 Comparative Data</b>	<b>Dept. Analysis £000</b>	<b>Services not in Analysis £000</b>	<b>Not Reported to Mgmt. £000</b>
Fees, charges and other service income	(355,679)	9,388	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	(320,725)	16,305	0
<b>Total Income</b>	<b>(676,404)</b>	<b>25,693</b>	<b>0</b>
Employee expenses	543,777	102,462	(31,776)
Other service expenses	962,863	(109,045)	0
Support service recharges	9,295	0	0
Depreciation, amortisation and impairment	0	0	196,491
<b>Total Expenditure</b>	<b>1,515,935</b>	<b>(6,583)</b>	<b>164,715</b>
<b>Net Expenditure / (Income)</b>	<b>839,531</b>	<b>19,110</b>	<b>164,715</b>

<b>Council 2013/14 Comparative Data</b>	<b>Not Included in CIES £000</b>	<b>Reported Below Cost of Services £000</b>	<b>Allocation of Recharges £000</b>
Fees, charges and other service income	0	1,355	0
Income from associates and joint ventures	0	0	0
Interest and investment income	0	0	0
Income from Council Tax	0	0	0
Government grants and other contributions	0	0	0
<b>Total Income</b>	<b>0</b>	<b>1,355</b>	<b>0</b>
Employee expenses	(60,155)	(742)	3,769
Other service expenses	0	(658)	5,526
Support service recharges	0	0	(9,295)
Depreciation, amortisation and impairment	0	0	0
<b>Total Expenditure</b>	<b>(60,155)</b>	<b>(1,400)</b>	<b>0</b>
<b>Net Expenditure / (Income)</b>	<b>(60,155)</b>	<b>(45)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. Amounts Reported for Resource Allocation Decisions - continued

#### 32.3 Reconciliation to Subjective Analysis - continued

Council 2013/14 Comparative Data	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(344,936)	(1,567)	(346,503)
Income from associates and joint ventures	0	0	0
Interest and investment income	0	(83,983)	(83,983)
Income from Council Tax	0	(207,925)	(207,925)
Government grants and other contributions	<u>(304,420)</u>	<u>(822,318)</u>	<u>(1,126,738)</u>
Total Income	<u>(649,356)</u>	<u>(1,115,793)</u>	<u>(1,765,149)</u>
Employee expenses	557,335	742	558,077
Other service expenses	858,686	658	859,344
Support service recharges	0	0	0
Depreciation, amortisation and impairment	196,491	0	196,491
Interest payments	0	194,060	194,060
Gain on disposal of assets	0	3,652	3,652
Total Expenditure	<u>1,612,512</u>	<u>199,112</u>	<u>1,811,624</u>
Net Expenditure / (Income)	<u>963,156</u>	<u>(916,681)</u>	<u>46,475</u>

### 33. Trading Operations

The following services continue to meet the definition of significant trading operations under the terms of the Local Government in Scotland Act 2003, as amended.

#### 33.1 Edinburgh Catering Services - Other Catering

Edinburgh Catering Services - Other Catering is a quality accredited trading operation providing a catering service to staff and the public across seven Council buildings which includes civic hospitality in Waverley Court and the City Chambers.

Civic hospitality which includes external customers accounts for approximately 45% of the business turnover within this contract.

	2014/15 £000	2013/14 £000	2012/13 £000	Cumulative £000
Turnover	1,297	1,355	1,210	n/a
(Deficit) / Surplus	(66)	(45)	17	(94)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period, due to a downturn in turnover of both in-house catering and external hospitality. Reduced opening hours and menu rationalisation, along with investment in cheaper and more efficient equipment are planned to ensure cost reduction going forward.

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 33. Trading Operations - continued

#### 33.2 Refuse Collection, including Trade Waste

This trading operation provides refuse collection services for over 239,000 households, with the majority of these properties being served by a containerised waste collection system. Trade waste provides a collection and disposal service to producers of commercial waste throughout the city. In addition the service provides uplifts of bulky household refuse.

	2014/15 £000	2013/14 £000	2012/13 £000	Cumulative £000
Turnover	17,155	17,319	17,048	n/a
Surplus / (deficit)	2,279	2,997	878	6,154

Refuse Collection achieved its statutory obligation to break even over the three-year period.

Refuse Collection has implemented a number of service improvements and these have contributed to the improved financial position.

The results of Refuse Collection / Trade Waste are included within 'Environmental Services' in the Comprehensive Income and Expenditure Statement.

### 34. Financial Support and Guarantees

#### 34.1 Loans and guarantees

The Council has made loans to the following organisations at less than market interest rates (soft loans).

	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000
	Transport for Edinburgh Ltd.	Transport for Edinburgh Ltd.	Spartan Community Football Academy	Spartan Community Football Academy
Opening Balance	-	-	50	49
New Loans	1,000	-	-	-
Increase in the Discounted Amount	20	-	4	4
Fair Value Adjustment	(196)	-	-	-
Loan Repayment	-	-	(3)	(3)
Balance Carried Forward	<u>824</u>	<u>-</u>	<u>51</u>	<u>50</u>
Nominal Value Carried Forward	<u>1,000</u>	<u>-</u>	<u>108</u>	<u>111</u>

Adjustments have been made under the requirements of IAS 39 as required by the Code.

The Transport for Edinburgh loan relates to two £500,000 loans to Transport for Edinburgh Ltd. to provide a loan facility to Tramco for Tramco's general working capital purposes and funding Tramco's business and activities.

The Spartans loan relates to the lease of an area of ground lying immediately to the west of Ainslie Park Leisure Centre, Pilton Drive, Edinburgh. The original outstanding payment was £120,000, with £3,000 to be paid on or before 31 March each year for ten consecutive years from 31 March 2012 and £9,000 to be paid for ten consecutive years on or before 31 March from 31 March 2022.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. Financial Support and Guarantees - continued

#### 34.2 Shared Equity Scheme

In 2010/11, the Council approved a pilot scheme for a Council-backed shared equity scheme to help buyers purchase homes from PARC (a subsidiary of CEC Holdings Limited) and support the regeneration of Craigmillar. The Council provided assistance to sixteen purchasers, at a cost of £0.484m. No further assistance has been provided since 2012/13.

The monies are required to be repaid to the Council either on sale of the property or after twenty years, whichever occurs earlier.

Interest for the period up to the first five years is charged to PARC and thereafter to the purchasers.

#### 34.3 National Housing Trust

The National Housing Trust (NHT) is a housing initiative developed by the Scottish Government, in partnership with the Scottish Futures Trust (SFT) and local authorities. The aim is to deliver new homes for mid-market rent while at the same time stimulating the housing market.

The Scottish Government has granted the Council permission to borrow up to £55m for phase 1 to purchase homes from developers. The scheme is underwritten by the Scottish Government, by way of a guarantee against the borrowing and associated interest costs.

The Council worked with the Scottish Government and the SFT to procure private developers to build up to 600 homes for mid market rent and enter into joint ventures with the Council, by way of Limited Liability Partnerships (LLPs), through the NHT initiative. Four contracts were awarded and all sites are complete, as of June 2014. A total of 422 new homes have been delivered at a cost of £45.67m.

Phase 2 of NHT home building was approved by Council in June 2014. Approval was granted to award the contract to Forth Ports Ltd for the delivery of up to 96 new affordable housing units. Investment totalling £11.92m will be required from the Council with the project starting in January 2016. Expenditure of £2.98m is forecast for 2015/16 with the remaining balance of £8.94m forecast for 2016/17.

A third phase of NHT has been approved and will deliver an additional 413 mid market rent (MMR) homes across four separate sites. Permission has been granted to borrow an additional £55m in support of this phase.

The Council has advanced the following sums under the NHT scheme:

<b>Developer</b>	<b>Development Site</b>	<b>Total No. of Flats</b>	<b>2014/15 £000</b>	<b>Prior Years £000</b>
Places for People	Lochend North	126	0	13,323
Places for People	Lighthouse Court	62	0	6,492
Teague Homes Limited	Salamander Place / Leith Links	145	9,696	5,855
Miller Homes	Telford North	89	0	10,299
			9,696	35,969

These sums are included within Long-term Debtors, as detailed in note 20.1.

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Comprehensive Income and Expenditure Statement. The main activities were:

	2014/15 £000	2013/14 £000
<b>Expenditure</b>		
Payments to other local authorities in respect of:		
Area waste project	279	607
Educational services for children	1,842	2,297
Care services for children	1,491	535
Others		
Police officers	2,600	2,616
Police Scotland - cab inspection	299	410
Scottish Cities Alliance Investment Fund (see note 48.)	1,337	889
<b>Total Expenditure</b>	<b><u>7,848</u></b>	<b><u>7,354</u></b>
<b>Income</b>		
Receipts in respect of library services:		
Health Boards	(19)	(18)
Scottish Prison Service	(16)	(16)
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	(1,026)	(945)
Receipts in respect of rates collection services:		
Scottish Water	(1,680)	(1,410)
Midlothian Council	(61)	(58)
Receipts from other local authorities in respect of:		
Criminal justice services	(1,055)	(873)
Educating pupils	(741)	(668)
Pentland Hills Regional Park management	(78)	(76)
Care services for children	(867)	(755)
Risk Factory	(39)	(40)
Social work undertakings	(4,302)	(3,825)
<b>Total Income</b>	<b><u>(9,884)</u></b>	<b><u>(8,684)</u></b>

### 36. Audit Costs

The fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.691m (2013/14 £0.684m). The Council has re-charged £0.048m of the audit fee to Lothian Pension Funds in respect of its audit (2013/14 £0.047m).

In addition, the Council paid audit fees to Scott Moncrieff for the audit of CEC Recovery Limited's accounts (formerly tie Limited). The Council paid £0.002m during 2014/15 (2013/14 £0.004m) for the audit of 2013/14 financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### 37. Grant Income

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2014/15		2013/14	
	£000	£000	£000	£000
<b>Revenue Funding</b>				
<b>Credited to taxation and non-specific grant income</b>				
General revenue funding	(386,311)		(402,364)	
Non-domestic rates	<u>(364,108)</u>		<u>(334,630)</u>	
		(750,419)		(736,994)
<b>Credited to services</b>				
Government grants	(20,594)		(18,209)	
Department for Work and Pensions				
- Housing benefits	(202,325)		(199,568)	
- Other funding	(4,515)		(5,256)	
N.H.S. Lothian	(37,093)		(33,810)	
Other Local Authorities	(3,929)		(3,689)	
International Conference Centre Inc. Trust	(1,627)		(927)	
Edinburgh Leisure	(679)		(679)	
Scottish Prison Service	(489)		(484)	
Lottery funding	(25)		7	
SportScotland	<u>(1,012)</u>		<u>(1,054)</u>	
		(272,288)		(263,669)
<b>Total</b>		<u><u>(1,022,707)</u></u>		<u><u>(1,000,663)</u></u>
<b>Capital Funding</b>				
Scottish Government		(63,942)		(42,316)
Transport Scotland		(42)		(35,994)
Other grants and contributions, including contributions from developers and individuals		(4,422)		(2,773)
Lothian Health Board		0		(964)
Henderson Global		28		(905)
N-Power		0		(581)
Cruden Homes		(242)		(651)
Lothian Buses		0		(412)
Edinburgh Military Tattoo		0		(340)
Historic Scotland		(173)		(145)
Forth Estuary Transport Authority		(235)		(139)
Royal Bank of Scotland		(56)		(56)
Waste Recycling Environmental Grant		0		(45)
International Conference Centre Income Trust		0		(3)
Museum Galleries Scotland		(56)		0
Midlothian Council		(9)		0
Edinburgh Tram Ltd.		(17)		0
Edinburgh Tourist Board		<u>(233)</u>		<u>0</u>
<b>Total</b>		<u><u>(69,399)</u></u>		<u><u>(85,324)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties

During the year, the Council entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, are shown below.

#### 38.1 Subsidiaries and Other Organisations - Revenue Income and Expenditure

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
• <b>Revenue Expenditure</b>		
Capital City Partnership	4,249	4,327
CEC Holdings (including EDI Group, EICC, Waterfront Edinburgh, and PARC)	220	439
Changeworks Recycling	7	3
Edinburgh Festival Theatres	771	778
Edinburgh Leisure Limited		
Revenue funding	9,590	9,559
Other expenditure	303	90
Edinburgh Trams Ltd	2,851	1,595
Edinburgh World Heritage Trust	49	89
Lothian Buses Limited		
Supported bus services	840	465
Other expenditure	3,954	2,042
NHS Bodies	2,398	2,189
Other Local Authorities	2,638	2,393
Scottish Government	171	0
Scottish and Southern Energy	264	536
Subsidiaries / Voluntary Organisations		
Criminal Justice Bodies	747	799
Dean and Calvin Charitable Trust	837	843
Edinburgh International Festival Society	2,506	2,505
Essential Edinburgh	0	298
Festivals Edinburgh Ltd	175	172
Handicab	448	448
Health Projects	156	154
Lifecare Edinburgh	539	538
Marketing Edinburgh	977	1,007
Royal Lyceum Theatre Co Ltd	382	379
<b>Total Revenue Expenditure</b>	<b>35,072</b>	<b>31,648</b>
• <b>Revenue Income</b>		
CEC Holdings Limited (EDI Group Limited)		
Loan interest	(196)	(208)
Edinburgh Festival Theatres	(59)	(72)
Professional services, rents, other grants and funding		
CEC Holdings Limited (including EICC Limited)	(1)	(92)
Edinburgh Leisure	(6)	(679)
Lothian Valuation Joint Board	(5)	(5)
Other Local Authorities	(2,971)	(2,407)
Scottish Government	(588)	(563)
Scottish Court Service	70	(489)
Lothian Health Board		
Change Fund	(2,065)	(3,906)
Resource transfers	(21,077)	(20,682)
Other Grants and Fees	(384)	(386)
<b>Total Revenue Income</b>	<b>(27,282)</b>	<b>(29,489)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

#### 38.1 Subsidiaries and Other Organisations - Revenue Income and Expenditure - continued

	2014/15 £000	2013/14 £000
<ul style="list-style-type: none"> <li>● <b>Joint Board Requisitions</b></li> </ul>		
Lothian Valuation Joint Board	3,745	3,745
SESTRAN	0	0
<b>Total Joint Board Requisitions</b>	<b><u>3,745</u></b>	<b><u>3,745</u></b>
<ul style="list-style-type: none"> <li>● <b>Central Support Income</b></li> </ul>		
Forth Estuary Transport Authority	(109)	(100)
Lothian Valuation Joint Board	(65)	(63)
Pension Funds	(322)	(522)
<b>Total Central Support Income</b>	<b><u>(496)</u></b>	<b><u>(685)</u></b>
<ul style="list-style-type: none"> <li>● <b>Interest on Revenue Balances</b></li> </ul>		
Forth Estuary Transport Authority	(11)	(18)
Lothian Valuation Joint Board	3	3
Pension Funds	22	10
SESTRAN	(1)	(1)
<b>Total Interest on Revenue Balances</b>	<b><u>13</u></b>	<b><u>(6)</u></b>
<ul style="list-style-type: none"> <li>● <b>Loans Charges Recovered</b></li> </ul>		
Further Education Colleges (pre 1996 expenditure)	0	(141)
Lothian and Borders Fire and Rescue Board	(1,503)	(1,746)
Lothian and Borders Police Board	(3,130)	(3,213)
<b>Total Loans Charges</b>	<b><u>(4,633)</u></b>	<b><u>(5,100)</u></b>

#### 38.2 Subsidiaries and Other Organisations - Capital Expenditure

<ul style="list-style-type: none"> <li>● <b>Capital Expenditure</b></li> </ul>		
CEC Holdings (including EDI Group, EICC, Waterfront Edinburgh and PARC)	1,334	2,798
Edinburgh Leisure	165	168
Edinburgh Military Tattoo	0	340
Hubco	4,468	8,345
Other Local Authorities	2,320	0
Scottish Government	261	0
Sport Scotland	151	0
Transport Scotland	0	1,109
<b>Total Capital Expenditure</b>	<b><u>8,699</u></b>	<b><u>12,760</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

#### 38.3 Related Parties - Indebtedness

The following represent material amounts due to / (by) the Council, at 31 March 2015:

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
CEC Holdings Limited (including all subsidiaries)	(169)	(658)
Edinburgh Military Tattoo	0	5
Forth Estuary Transport Authority	509	5,219
Hubco	(770)	(705)
Lothian and Borders Criminal Justice Authority	2,599	2,594
Scottish Fire and Rescue Service	1,228	1,642
Police Scotland	48	(596)
Lothian Valuation Joint Board	(1,233)	(924)
Lothian Buses	0	(48)
NHS Bodies	540	414
Pension Funds	(6,361)	(8,851)
Scottish Government	7,079	8,017
Scottish Water	70	2,418
SESTRAN	1,090	335
SUSTRANS	710	573
Transport Scotland	422	17,468
	<b><u>5,762</u></b>	<b><u>26,903</u></b>
<b>• Other Indebtedness</b>		
HM Revenue and Customs - VAT	8,879	9,524
HM Revenue and Customs - PAYE and NI	(9,397)	(11,301)
	<b><u>(518)</u></b>	<b><u>(1,777)</u></b>
<b>• Investments held on behalf of, and repayable to:</b>		
CEC Holdings	(120)	(196)
Common Good	(2,756)	(1,597)
	<b><u>(2,876)</u></b>	<b><u>(1,793)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 39. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred during the year is shown below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years through charges to revenue (loan charges), capital expenditure results in an increase in the capital financing requirement. This shows the amount of capital expenditure that has yet to be financed. The capital financing requirement is analysed below.

	2014/15		2013/14	
	£000	£000	£000	£000
Opening capital financing requirement		1,728,465		1,700,769
<b>Capital Investment</b>				
Property, plant and equipment	149,626		185,501	
Heritage Assets	44		153	
Assets held for sale	117		102	
Intangible assets	2,372		3,167	
Capital Receipts transferred to Capital Fund	11,298		8,805	
National Housing Trust - Consent to borrow (see note 34.3)	9,696		29,333	
Revenue expenditure funded from capital under statute	32,641		30,365	
Adjustments to PPP schools during the year (reflected in finance leases)	12,610		0	
		<u>218,404</u>		<u>257,426</u>
<b>Sources of Finance</b>				
Capital receipts	(21,479)		(16,707)	
Capital Funded from Current Revenue	(5,674)		(3,957)	
Government grants and other contributions	(99,372)		(120,777)	
Loans fund / finance lease repayments	<u>(94,314)</u>		<u>(88,289)</u>	
		<u>(220,839)</u>		<u>(229,730)</u>
<b>Closing capital financing requirement</b>		<u><u>1,726,030</u></u>		<u><u>1,728,465</u></u>
<b>Explanation of movements in year</b>				
(Decrease) / increase in underlying need to borrow		(37,331)		25,650
Voluntary debt repayment - HRA		(6,123)		(6,000)
Assets acquired under finance leases		7,172		8,046
Assets acquired under PFI/PPP contracts		33,847		0
<b>(Decrease) / Increase in capital financing requirement</b>		<u><u>(2,435)</u></u>		<u><u>27,696</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 40. Leases

#### 40.1 Assets Leased in - Finance Leases

The Council has acquired two buildings and its IT equipment under finance leases. Following in year reassessment, copying equipment is now determined to meet the definition of operating lease and has been reclassified from finance lease to operating lease classification. The assets acquired under these leases are included in property, plant and equipment in the Balance Sheet:

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	13,768	8,011	12,249	3,093
Additions during the year	7,172	7,172	8,046	8,046
Reclassification to operating lease during the year	(2,840)	(2,840)	0	0
Repayments during the year	(5,442)	(2,820)	(6,527)	(3,128)
Value at 31 March	12,658	9,523	13,768	8,011
Other land and buildings	126	126	190	190
Vehicles, plant, equipment and furniture	12,532	9,397	13,578	7,821
Value at 31 March	12,658	9,523	13,768	8,011

The Council is committed to making minimum lease payments under these leases, comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are shown below:

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
Finance lease liabilities:				
Current	5,275	2,816	4,548	1,926
Non-current	7,383	6,707	9,220	6,085
Finance costs payable	751	751	817	817
Minimum lease payments	13,409	10,274	14,585	8,828

The minimum lease payments will be payable over the following periods:

Minimum Finance Lease Repayments	at 31.03.15		at 31.03.14	
	Group £000	Council £000	Group £000	Council £000
Not later than one year	5,495	3,036	4,791	2,169
Later than one year and not later than five years	7,914	7,238	9,790	6,655
Later than five years	0	0	4	4
	13,409	10,274	14,585	8,828
<b>Finance Lease Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	5,275	2,816	4,548	1,926
Later than one year and not later than five years	7,383	6,707	9,216	6,081
Later than five years	0	0	4	4
	12,658	9,523	13,768	8,011

## NOTES TO THE FINANCIAL STATEMENTS

### 40. Leases - continued

#### 40.2 Assets Leased in - Operating Leases

The Group leases in property, vehicles and copying equipment (reclassified from finance lease to operating lease following in year reassessment) financed under the terms of operating leases. The amount charged to the Comprehensive Income and Expenditure Statement under these arrangements and the value of future payments under operating leases is shown below.

The amounts recognised as an expense during the year include £0.277m of contributions paid by employees towards cost of car leasing (2013/14 £0.399m).

Under these operating leases, the Group and Council is committed to paying the following sums, of which £0.362m is recoverable from employees (2013/14 £0.387m):

	2014/15		2013/14	
	Group £000	Council £000	Group £000	Council £000
<b>Future Repayment Period</b>				
Not later than one year	2,146	2,081	4,831	4,554
Later than one year and not later than five years	6,096	5,823	6,633	5,993
Later than five years	6,640	6,164	7,442	7,091
	<b>14,882</b>	<b>14,068</b>	<b>18,906</b>	<b>17,638</b>
<b>Value at 31 March</b>				
Other land and buildings	13,355	13,355	16,750	16,669
Vehicles, plant, equipment and furniture	1,730	713	2,156	969
	<b>15,085</b>	<b>14,068</b>	<b>18,906</b>	<b>17,638</b>
<b>Recognised as an expense during the year</b>	<b>2,675</b>	<b>2,454</b>	<b>5,196</b>	<b>4,899</b>

#### 40.3 Assets Leased Out by the Council - Operating Leases

The Council leases out property and equipment under operating leases for a number of purposes, including:

- for economic development purposes, including regeneration and to provide suitable affordable accommodation for local businesses.
- to arm's length companies for the provision of services such as sport and leisure and theatres.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2014/15 £000	2013/14 £000
Not later than one year	14,116	12,599
Later than one year and not later than five years	41,346	34,356
Later than five years	157,676	164,926
	<b>213,138</b>	<b>211,881</b>

The Council has a number of leases that are agreed for a period of over 100 years, the majority of which relate to land.

# NOTES TO THE FINANCIAL STATEMENTS

## 41. Public Private Partnerships and Similar Contracts

### 41.1 PPP - Education Projects

In 2001, the Council entered into a Public Private Partnership (PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership. This agreement was supplemented by a further agreement in April 2004, which now requires Edinburgh Schools Partnership either to replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to a high standard. When the agreement ends in July 2033 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

In April 2007, the Council entered into a second Public Private Partnership (PPP2) for the provision of school buildings, maintenance and other facilities with Axiom Education Limited. This required Axiom Education Limited to replace six secondary schools and two primary schools and to maintain these schools to a high standard. When the agreement ends in July 2038 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

In December 2013, the Council entered in to an agreement with Hub South East Scotland for the provision of a new building for James Gillespies High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with Hub South East Scotland. Construction of the new facility is phased, with the initial phase (comprising the main teaching block) due for completion in April 2015, and final phases (including sports hall, social / assembly buildings) due for completion in July 2016. The concession is due to terminate in July 2041.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	<b>Payment for Services £000</b>	<b>Reimburse. of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
Payable in 2015/16	15,874	7,920	18,327	42,121
Payable within two to five years	73,035	32,126	73,767	178,928
Payable within six to ten years	113,175	40,677	84,187	238,039
Payable within eleven to fifteen years	131,071	49,200	74,386	254,657
Payable within sixteen to twenty years	125,875	56,493	58,087	240,455
Payable within twenty one to twenty five years	61,670	37,452	26,747	125,869
Payable within twenty six to thirty years	808	3,934	617	5,359
	<u>521,508</u>	<u>227,802</u>	<u>336,118</u>	<u>1,085,428</u>

Payments due under the PPP1 scheme have been inflated by 1.11% per annum and those due under the PPP2 scheme have been inflated by 1.67% per annum, reflecting the terms of the separate contracts.

The amounts disclosed as reimbursement of capital expenditure are included in other long-term liabilities on the Balance Sheet.

The unitary charges paid to the service providers include amounts to compensate the providers for the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the service providers for capital expenditure incurred is as follows:

	<b>2014/15 £000</b>	<b>2013/14 £000</b>
Balance at 1 April	200,831	207,625
PPP unitary charge restatement adjustment	64	0
Additions during the year	33,847	0
Repayments during the year	<u>(6,940)</u>	<u>(6,794)</u>
Balance at 31 March	<u>227,802</u>	<u>200,831</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 41. Public Private Partnerships and Similar Contracts - continued

#### 41.2 Provision of Information Technology services

In 2001 the Council entered into a ten year Public Private Partnership for the provision of information technology services. This contract has now been extended for another five years.

The Council is in the process of tendering a new Information Technology contract, this is expected to be in place by 2016/17.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift at the level shown):

<b>Future Repayment</b>		<b>Inflationary</b>
<b>Period</b>	<b>£000</b>	<b>Uplift</b>
2015/16	<u>28,222</u>	0.9%

The equipment assessed as a finance lease within this contract is included in note 40.1. The above payment includes the elements relating to the finance lease for the equipment.

The cost of information technology is included in overheads and is re-allocated to services.

#### 41.3 Provision of Parking Enforcement

The Council has entered into a five year contract with NSL for the provision of parking enforcement. The contract commenced on 1 October 2014 and ends on 30 September 2019. There is also a five year extension clause at the end of this period.

Under the agreement the Council is committed to paying the following sums in cash terms:

<b>Future Repayment</b>	
<b>Period</b>	<b>£000</b>
2015/16	5,670
2016/17 - 2019/20	<u>19,845</u>
	<u><b>25,515</b></u>

#### 41.4 Waste Disposal

The Council entered into a twenty year contract with Viridor in 2000 to supply waste to their landfill site in Dunbar. The contract requires the Council to supply an agreed tonnage to the landfill site each calendar year. Fees are subject to review twice a year, based on civil engineering indices.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an increase of 2% per annum):

<b>Future Repayment</b>	
<b>Period</b>	<b>£000</b>
2015/16	3,099
2016/17 - 2019/20	13,030
2020/21	<u>1,418</u>
	<u><b>17,547</b></u>

#### 41.5 Other Rolling Contracts

The Council has entered into a number of rolling contracts to provide services, which are mainly care orientated through 'Supporting People'. The annual value of these contracts is £23.573m.

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Pension schemes accounted for as defined contribution schemes

The Scottish Teachers' Superannuation Scheme is an unfunded scheme administered by the Scottish Public Pensions Agency. The scheme is excluded from the accounting requirements of IAS 19 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under IAS 19.

	2014/15		2013/14	
	£000	%	£000	%
Amount paid to Scottish Government in respect of teachers' pension costs	18,335		18,002	
As a percentage of teachers' pensionable pay		14.90		14.90
Amount paid in respect of added years	0		0	
As a percentage of teachers' pensionable pay		0.00		0.00
Capitalised value of discretionary awards entered into prior to 2013/14	21,123		20,949	

At 31 March 2015, creditors include £2.487m (2013/14 £2.653m) in respect of teachers' superannuation.

### 43. Defined Pension Schemes

#### 43.1 Participation in Pension Scheme

The Council makes contributions towards the cost of post-employment benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make payment for those benefits and to disclose them at the time that employees earn their future entitlement.

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to Services in respect of these employees have been calculated under IAS 19 - Employee Benefits.

In terms of this scheme, in 2014/15 the Council paid an employer's contribution of £54.843m (2013/14 £53.537m) into the Lothian Pension Fund, representing 21.3% (2013/14 21.3%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The latest review was in March 2014.

The Fund's Actuary is unable to provide an analysis of IAS19 pension costs by individual service. The charge in the Comprehensive Income and Expenditure Statement applied against each service included in 'Cost of Services' reflects an apportionment of costs in line with the actual cash payments made by the Council to Lothian Pension Fund.

#### 43.2 Transactions Relating to Post-Employment Benefits

The cost of pension benefits, as assessed by the Fund's Actuary and reflected within 'Cost of Services', differed from the cash payment to the Fund charged against Council Tax. The following summarises the entries reflected within the Comprehensive Income and Expenditure Statement in respect of accounting for pensions under IAS19. The amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations is included in the Movement in Reserves Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.2 Transactions Relating to Post-Employment Benefits - continued

	2014/15		2013/14	
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	72,084		62,924	
Past service costs	<u>744</u>		<u>1,159</u>	
		72,828		64,083
<i>Financing and investment income:</i>				
Net interest expense		<u>23,254</u>		<u>20,364</u>
<b>Total post employee benefit charged to the surplus on the provision of services</b>		96,082		84,447
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(204,649)		(25,871)	
Actuarial gains and (losses) arising on changes in financial assumptions	284,632		86,569	
Actuarial gains and (losses) arising on changes in demographic assumptions	103,126		0	
Other experience	<u>(26,361)</u>		<u>(77)</u>	
		<u>156,748</u>		<u>60,621</u>
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		<u>252,830</u>		<u>145,068</u>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(191,471)</u>		<u>(84,913)</u>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		55,002		53,957
Contributions in respect of unfunded benefits		<u>6,357</u>		<u>6,198</u>
		<u>61,359</u>		<u>60,155</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit plan is as follows:

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Fair value of employer assets	2,144,897	1,862,816
Present value of funded liabilities	(2,782,482)	(2,311,390)
Present value of unfunded liabilities	<u>(89,384)</u>	<u>(86,924)</u>
Net liability arising from defined benefit obligation	<u>(726,969)</u>	<u>(535,498)</u>

#### 43.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Opening fair value of scheme assets	1,862,816	1,755,330
Interest income	79,991	79,047
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	204,649	25,871
Contributions from employer	55,002	53,957
Contributions from employees into the scheme	16,416	16,055
Contributions in respect of unfunded benefits	6,357	6,198
Benefits paid	(73,977)	(67,444)
Unfunded benefits paid	<u>(6,357)</u>	<u>(6,198)</u>
Closing fair value of scheme assets	<u>2,144,897</u>	<u>1,862,816</u>

#### Reconciliation of Present Value of the Scheme Liabilities

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Present value of funded liabilities	(2,311,390)	(2,118,412)
Present value of unfunded liabilities	<u>(86,924)</u>	<u>(87,503)</u>
Opening balance at 1 April	(2,398,314)	(2,205,915)
Current service cost	(72,084)	(62,924)
Interest cost	(103,245)	(99,411)
Contributions from employees into the scheme	(16,416)	(16,055)
Re-measurement gain / (loss):		
Change in financial assumptions	(284,632)	(86,569)
Change in demographic assumptions	(103,126)	0
Other experience	26,361	77
Past service cost	(744)	(1,159)
Benefits paid	73,977	67,444
Unfunded benefits paid	<u>6,357</u>	<u>6,198</u>
Closing balance at 31 March	<u>(2,871,866)</u>	<u>(2,398,314)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2014/15 £000	%	2013/14 £000	%
Consumer *	300,827	14	282,290	15
Manufacturing *	252,298	12	254,278	14
Energy and Utilities *	214,314	10	207,286	11
Financial Institutions *	176,717	8	129,756	7
Health and Care *	146,156	7	127,092	7
Information technology *	134,141	6	121,181	7
Other *	<u>96,065</u>	4	<u>82,308</u>	4
Sub-total Equity Securities	<u>1,320,518</u>		<u>1,204,191</u>	
Debt Securities:				
Corporate Bonds (investment grade) *	0	0	60,222	3
Corporate Bonds (non-investment grade) *	0	0	9,058	1
UK Government *	124,200	6	63,394	3
Other *	<u>52,894</u>	3	<u>1,590</u>	0
Sub-total Debt Securities	<u>177,094</u>		<u>134,264</u>	
Private Equity				
All *	0	0	15,180	1
All	<u>248,710</u>	12	<u>210,795</u>	11
Sub-total Private Equity	<u>248,710</u>		<u>225,975</u>	
Real Estate:				
UK Property	140,297	7	129,788	7
Overseas Property	<u>21,751</u>	1	<u>15,092</u>	1
Sub-total Real Estate	<u>162,048</u>		<u>144,880</u>	
Investment Funds and Unit Trusts:				
Equities *	23,272	1	19,329	1
Equities	0	0	6,922	0
Bonds *	6,161	0	0	0
Bonds	0	0	7,956	1
Commodities *	6,854	0	0	0
Commodities	0	0	6,329	0
Infrastructure *	12,898	1	0	0
Other *	6,933	0	0	0
Other	<u>7,662</u>	0	<u>6,055</u>	0
Sub-total Investment Funds and Unit Trusts	<u>63,780</u>		<u>46,591</u>	
Derivatives:				
Foreign Exchange *	3,289	0	0	0
Other *	<u>0</u>	0	<u>196</u>	0
Sub-total Derivatives	<u>3,289</u>		<u>196</u>	
Cash and Cash Equivalents				
All *	<u>169,458</u>	8	<u>106,719</u>	6
Sub-total Cash and Cash Equivalents	<u>169,458</u>		<u>106,719</u>	
Total Fair Value of Employer Assets	<u>2,144,897</u>	<u>100</u>	<u>1,862,816</u>	<u>100</u>

**Scheme assets marked with an asterisk (\*) have quoted prices in active markets.**

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2015 were those from the beginning of the year (i.e. 31 March 2014) and have not been changed during the year. The main assumptions in the calculations are:

#### Investment returns

Actual return for period from 1 April 2014 to 31 December 2014	10.10%
Estimated return for period from 1 April 2014 to 31 March 2015	17.20%

#### Average future life expectancies at age 65:

		31.03.15	31.03.14
Current pensioners	male	22.1 years	20.4 years
Current pensioners	female	23.7 years	22.8 years
Future pensioners	male	24.2 years	22.6 years
Future pensioners	female	26.3 years	25.4 years

Period ended	Weighted Average Duration			31.03.14
	Short 31.03.15	Medium 31.03.15	Long 31.03.15	
Pension increase rate	2.1%	2.4%	2.5%	2.8%
Salary increase rate (see below)	4.0%	4.3%	4.4%	5.1%
Discount rate	3.1%	3.2%	3.3%	4.3%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2015 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

For example, to quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption and changes in some of the assumptions may be interrelated.

Change in assumptions at 31 March 2015	Approximate % Increase to Employer	Approximate Monetary Amount £000
0.5% decrease in Real Discount Rate	10%	286,599
1 year increase in member life expectancy	3%	86,156
0.5% increase in the Salary Increase Rate	3%	98,188
0.5% increase in the Pension Increase Rate	6%	181,425

#### 43.7 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a contribution stability mechanism with the scheme's actuary until 31 March 2018. Thereafter, for the next actuarial valuation period of three years, rates could vary from this rate by a maximum increase of 0.5% or a maximum decrease of (0.5%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.8 Information about the defined benefit obligation

	Liability Split		Duration
	£000	%	
Active members	1,482,169	53.3	23.1
Deferred members	335,701	12.1	22.4
Pensioner members	<u>964,612</u>	<u>34.6</u>	<u>11.9</u>
Total	<u>2,782,482</u>	<u>100.0</u>	<u>18.3</u>

The above figures are for funded obligations only and do not include the unfunded pensioner liabilities. The durations are effective as at the previous formal valuation as at 31 March 2014.

The unfunded pensioner liability at 31 March 2015 comprises approximately £68.261m in respect of LGPS unfunded pensions and £21.123m in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2015, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

#### 43.9 Pension Reserves - Group Position

The pension reserves shown in the Group Balance Sheet relate to the Council. Pension reserves for the Valuation Joint Board are included in unusable reserves. Local government legislation provides that local authorities have an obligation to meet the expenditure of the joint boards of which they are constituent members. As a consequence, the City of Edinburgh Council has obligations to meet the liabilities arising from the joint board pension deficits as they fall due. Pension reserves for other companies in the group are included in usable reserves. The value of the pension reserves is shown separately below.

	2014/15 Pension Reserve (Injuries) £000	2013/14 Pension Reserve (Injuries) £000
<b>Unusable Reserves</b>		
Council	(726,969)	(535,498)
Lothian Valuation Joint Board	<u>(7,267)</u>	<u>(4,942)</u>
	<u>(734,236)</u>	<u>(540,440)</u>
<b>Usable Reserves</b>		
CEC Holdings	(1,289)	(1,289)
Festival City Theatres Trust	(122)	(100)
Edinburgh Leisure	(2,169)	(2,169)
Transport for Edinburgh Ltd	<u>(10,497)</u>	<u>10,488</u>
	<u>(14,077)</u>	<u>6,930</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2016

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Current service cost	0	(81,608)	(81,608)	(31.2%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(81,608)	(81,608)	(31.2%)
Interest income on plan assets	68,446	0	68,446	26.2%
Interest cost on defined benefit obligation	0	(92,020)	(92,020)	(35.2%)
Total Net Interest Cost	68,446	(92,020)	(23,574)	(9.0%)
Total included in Profit or Loss	68,446	(173,628)	(105,182)	(40.2%)

The Council's estimated contribution to Lothian Pension Fund for 2015/16 is £55.638m.

#### 43.11 Strain on the Pension Fund

Lothian Pension Fund has the right to require the Council to make additional payments to the pension fund to reflect the extra cost to the pension fund of immediate payment of benefits to employees who retire early on efficiency, redundancy or voluntary grounds. This amounted to £2.705m, including accrued payments (2013/14 £2.936m).

#### 43.12 Further Information

Further information on Lothian Pension Fund can be found in the Council's Pension Fund's Annual Report which is available upon application to the Investments and Pensions Service Manager, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX

### 44. Contingent Liabilities

#### 44.1 Contingent Liabilities

- There may be outstanding liability claims or claims to be submitted against the Council in relation to insured and uninsured losses or incidents. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims.
- The provision for equal pay claims includes an estimate of the costs for all staff with unsettled equal pay claims against the Council as at 31 March 2015. Additional equal pay liabilities may arise if further eligible claims are made. This potential additional liability will be confirmed only by further eligible claims being lodged and its amount cannot be estimated with reasonable accuracy. Consequently, no provision has been made in the financial statements in respect of this.
- Whilst the Council has made an impairment provision for statutory repairs debtors, there may also be further liability claims against the Council in relation to works carried out under statutory repair notices served by the Council. The actual cost of these claims cannot be estimated with reasonable accuracy. It is also not possible to estimate precisely when these claims could become due.
- There may be claims submitted against the Council in relation to a decision by the European Court of Justice under the Working Time Directive. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims.



# NOTES TO THE FINANCIAL STATEMENTS

## 45. Nature and Extent of Risks Arising from Financial Instruments

### 45.1 Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code and has adopted the CIPFA Treasury Management in the Public Services Code of Practice. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures in the maturity structure of its debt;
- by selecting investment counterparties in compliance with the Council's Treasury Policy Statement.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 12 March 2015 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2015/16 has been set at £1.771bn. This is the maximum limit for external borrowings and other long term liabilities.
- The operational boundary for 2015/16 has been set at £1.750bn. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 75% of the Council's net debt respectively.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council.

### 45.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### 45.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund, the Forth Estuary Transport Authority and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.3 Credit Risk - continued

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31st March 2015, the Council had no short term investments. Of the net Cash and Cash Equivalents, 2.6% were UK Government Treasury Bills, and a further 29.3% was held in two AAA rated Money Market Funds. All of the monies held on deposit at 31 March 2015 was in call or near call accounts with banks, with the exception of £2.5m held in the form of a Certificate of Deposit from Rabobank, a £2.5m fixed deposit with an Australian Bank and £2.5m held in two fixed term deposits with a UK building society.

The Council has reviewed its investment arrangements in light of the changes to the creditor hierarchy in the event of the insolvency of a bank. The Council has amended its cash Treasury Policy Statement to allow greater investment in collateralised instruments, such as covered bonds, which provide the Council with a greater level of protection in the event of an insolvency.

Excluding loans and receivables of £2.88m which are also shown in Creditors, the Council's own cash holding under its treasury management arrangements at 31 March 2015 was £96.4 million (31 March 2014: £38.3m). This was held with the following institutions:

	Standard and Poors Rating	Principal Outstanding 31.03.15 £000	Carry Value 31.03.15 £000	Fair Value 31.03.15 £000	Carry Value 31.03.14 £000
<b>Summary</b>					
Money Market Funds					
Deutsche Bank AG, London	AAA	14,146	14,152	14,152	5,043
Goldman Sachs	AAA	14,130	14,135	14,135	2,823
Bank Call Accounts					
Bank of Scotland	A	9,105	9,108	9,108	3,483
Royal Bank of Scotland	A-	1,278	1,278	1,278	1,313
Santander UK	A	8,836	8,839	8,839	3,603
Barclays Bank	A	9,226	9,238	9,238	3,514
Svenska Handelsbanken	AA-	14,368	14,373	14,373	5,415
Clydesdale Bank	AA-	3,736	3,736	3,736	0
HSBC Bank Plc	AA-	14,057	14,061	14,061	5,224
Floating Rate Note					
Rabobank	A+	2,491	2,509	2,509	0
Building Society Fixed Term Deposits					
Nationwide Building Society	A	2,490	2,491	2,491	1,743
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see Note 1)	n/a	0	0	0	4,381
UK Government Treasury Bills	AAA	2,490	2,490	2,490	1,742
		<u>96,353</u>	<u>96,410</u>	<u>96,410</u>	<u>38,284</u>

The Council's maximum exposure to credit risk in relation to its direct investments in banks and building societies of £65.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but the Council takes a low risk approach to investment. Despite continuing concerns over the European Sovereign Debt crisis and the effects that this might have on the banking system, there was no evidence at 31 March 2015 that this risk was likely to crystallise.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.3 Credit Risk - continued

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council has never had any exposure to Icelandic banks and had no investment in the sector at that time.

In line with the Investment Regulations governing local authorities introduced in 2010, the Council approved an annual investment strategy and treasury policy statement for both the Council and the Cash Fund at its March 2015 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2015 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2015. This is available on request from the Council's Treasury Section - Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

All Council invoices become due for payment on issue. Excluding pre-payments of £1.767m (2013/14 £2.634m), trade debtors past due date can be analysed by age as follows:

	2014/15	2013/14
	£000	£000
Less than two months	18,283	14,108
Two to four months	2,008	1,312
Four to six months	2,066	507
Six months to one year	2,849	2,040
More than one year	11,093	11,925
Total	<u>36,299</u>	<u>29,892</u>

Collateral – During the reporting period the Council held no collateral as security.

#### 45.4 Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. It is anticipated that some short to medium term borrowing is likely to be required within the next financial year to meet cashflow and working capital requirements. This will be managed as part of the Council's short- and medium-term cashflow monitoring as required.

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

#### 45.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 45.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.5 Re-financing and Maturity Risk - continued

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. However, with the increase in borrowing rates announced in the Government's Comprehensive Spending Review in October 2010, it is now unlikely that there will be much scope for any substantial debt rescheduling.

The maturity analysis of the principal outstanding on the Council's financial liabilities is as follows:

	<b>2014/15</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Less than one year	(75,077)	(50,315)
Between one and two years	(65,227)	(58,204)
Between two and five years	(188,310)	(182,328)
Between five and ten years	(260,587)	(274,586)
More than ten years	<u>(1,063,998)</u>	<u>(1,079,491)</u>
Financial Liabilities	<u>(1,653,199)</u>	<u>(1,644,924)</u>

All trade and other payables are due to be paid in less than one year and trade creditors of £18.597m (2013/14 £11.141m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £17.854m (2013/14 £18.293m) nor net equivalent interest rate (EIR) adjustments of £9.041m (2013/14 £9.196m) to the carrying amounts of market debt shown in the financial liabilities are included.

The only investments which the Council has with a maturity of greater than one year is £3.5m in EDI loan stock.

#### 45.6 Market risk

##### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

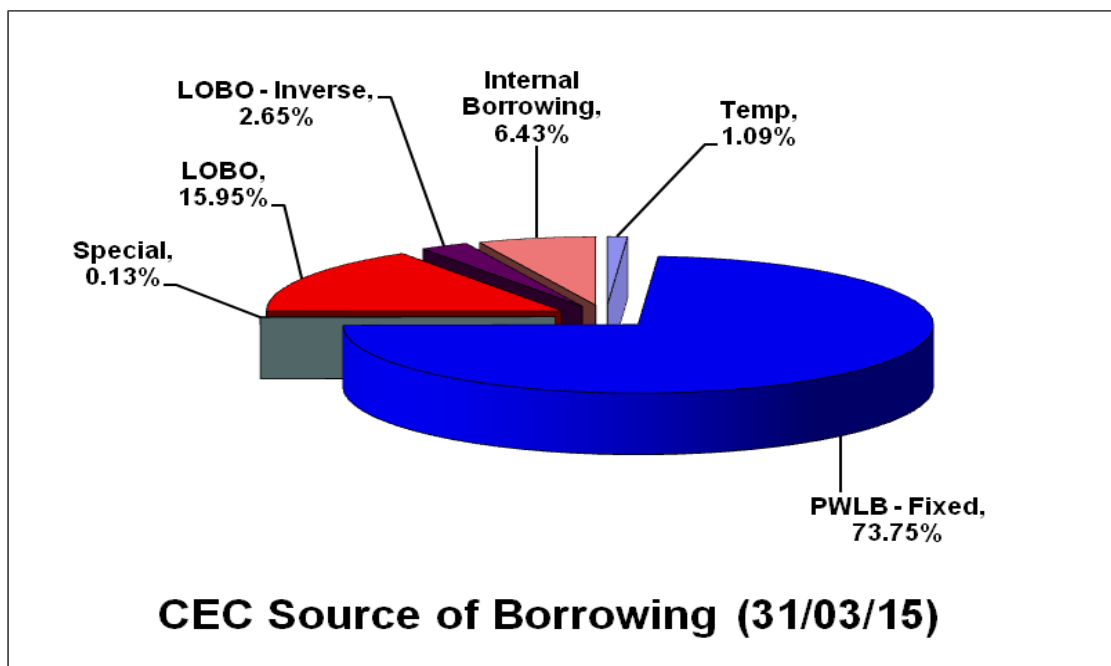
The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.6 Market risk - continued

The following chart shows the source of the Council's borrowing. Most of the Council's borrowings are from the Government by way of the Public Works Loans Board (PWLB). As interest rates are historically low, none of the PWLB borrowing was variable rate.



#### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to a value of £23.335m (2013/14 £23.335m) in a number of Council owned Companies and joint ventures. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

#### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

### 46. Business Improvement District Scheme

The Council acts as the Billing Authority for a number of Business Improvement Districts (BID). The Council collects a levy from the business rate payers on behalf of the BID bodies, Essential Edinburgh, Greater Grassmarket and Queensferry Ambition.

	2014/15	2013/14
	£000	£000
Monies to be recovered from ratepayers at 1 April	29	5
BID Levy Income	2,389	1,147
Less: Payments made / due to schemes	<u>(2,228)</u>	<u>(1,123)</u>
Monies still to be recovered from ratepayers at 31 March	<u>190</u>	<u>29</u>

The monies raised through the BIDs are used to fund activities around similar key themes, including:

- area promotion - advertising, marketing and events
- clean and attractive area - cleaning teams, floral displays, street décor, cleanliness surveys
- safe and secure area - CCTV, improved lighting, transport marshals
- accessibility - pedestrian friendly environment, parking promotions, signage; and
- business initiatives - grants, skills partnerships, start up advice

## NOTES TO THE FINANCIAL STATEMENTS

### 47. The City of Edinburgh Council Charitable Funds

The City of Edinburgh Council administers a number of charitable funds. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to seven. In 2011/12, 28 charities were consolidated into one new charity, the Edinburgh Education Trust.

#### 47.1 Purpose, and financial position, of the largest of the charitable funds

- **Jean F. Watson Bequest (Scottish Charity Reg. No. SC018971)**

The purpose of the fund is to purchase works of art by artists who have connections with the city.

	<b>31.03.15</b>	<b>(re-stated)</b> <b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(25)	(21)
Expenditure	1	0
Assets	6,198	4,805
Liabilities	0	0

- **Surplus Fire Fund (Scottish Charity Reg. No. SC018967)**

The purposes of the fund are to offer relief to persons that have suffered as the result of a fire and to recognise meritorious service in connection with fires. In both cases the fire must have occurred in the Edinburgh area.

A decision was made to transfer the Surplus Fire Fund (SFF) to the Edinburgh Voluntary Organisations Trust (EVOT) by the Pension and Trusts Committee on 6 December 2011. The transfer was agreed subject to a safeguard in the deed of appointment which ensures that the Surplus Fire Fund operates as a restricted fund within EVOT and that the Fire Brigades Union will have the right to send up to two representatives to meetings where Surplus Fire Fund business is considered. The transfer required new legislation to be passed which successfully progressed through the Scottish Parliament in April 2014. As a result, the transfer was successfully completed in 2014/15.

	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(10)	(30)
Expenditure	1	38
Assets	0	1,289
Liabilities	0	(6)

- **Lauriston Castle (Scottish Charity Reg. No. SC020737)**

The purpose of the fund is for the advancement of arts, heritage and culture linked to Lauriston Castle.

	<b>31.03.15</b>	<b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(1)	(1)
Expenditure	1	1
Assets	7,041	7,038
Liabilities	0	0

- **Edinburgh Education Trust (Scottish Charity Reg No SC042754)**

The purposes of the Trust include the advancement of education, citizenship and community development, and the organisation of recreational activities.

	<b>31.03.15</b>	<b>(re-stated)</b> <b>31.03.14</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(21)	(14)
Expenditure	5	9
Assets	886	815
Liabilities	0	0

## NOTES TO THE FINANCIAL STATEMENTS

### 47. The City of Edinburgh Council Charitable Funds - continued

#### 47.2 The main funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value	(re-stated)
		31.03.15 £000	Market Value 31.03.14 £000
Lauriston Castle	SC020737	7,041	7,038
Jean F. Watson	SC018971	6,198	4,805
Surplus Fire Fund	SC018967	n/a	1,283
Edinburgh Education Trust	SC042754	886	815
Nelson Halls	SC018946	224	209
Boyd Anderson	SC025067	120	123
Usher Hall Appeal	SC030180	70	72
Royal Scots Memorial Trust	SC018945	33	29
Total market value		<u>14,572</u>	<u>14,374</u>

These funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

#### 47.3 Financial Position of the Scottish Registered Charity Funds

2013/14 £000	Income and Expenditure Account	Note	2014/15 £000
	<b>Income</b>		
(72)	Investment income		(64)
<u>0</u>	Other non-investment income		<u>0</u>
(72)			(64)
	<b>Expenditure</b>		
(14)	Prizes, awards and other expenses	1.	10
<u>14</u>	Governance Costs		<u>9</u>
<u>0</u>			<u>19</u>
<u>(72)</u>	Surplus for the year		<u>(45)</u>

#### Notes

- The negative expenditure shown against Prizes, Awards and Other Expenses in 2013/14 relates to the reversal of accruals made in respect of awards agreed by the Boyd Anderson Trust. The potential creditors were not able to meet the conditions set for payment of the awards.

## NOTES TO THE FINANCIAL STATEMENTS

### 47. The City of Edinburgh Council Charitable Funds - continued

#### 47.3 Financial Position of the Scottish Registered Charity Funds - continued

2013/14 Balance Sheet £000	2014/15 £000
<b>Long-Term Assets</b>	
3,008 Investments	1,940
3,928 Artworks - Jean Watson Trust	5,232
<u>7,020</u> Heritable property	<u>7,020</u>
<b>13,956 Total Long-Term Assets</b>	<b>14,192</b>
<b>Current Assets</b>	
<u>478</u> Cash and bank	<u>413</u>
478	413
<b>Current Liabilities</b>	
<u>(60)</u> Creditors	<u>(33)</u>
<u>(60)</u>	<u>(33)</u>
<b><u>14,374</u> Total Assets less Liabilities</b>	<b><u>14,572</u></b>
<b>Funds at 1 April 2014</b>	
4,160 Capital at 1 April 2014	4,301
72 Surplus for the year	45
69 Realised and unrealised gains on investments	140
(1) Realised and unrealised losses on investments	0
<u>0</u> Surplus Fire Fund Transfer to EVOT	<u>(1,292)</u>
4,300	3,194
<u>10,074</u> Revaluation reserve	<u>11,378</u>
<b><u>14,374</u> Funds at 31 March 2015</b>	<b><u>14,572</u></b>

At the request of the Office of the Scottish Charity Regulator, a separate Trustee's Report and Accounts have been prepared which give further information on the Scottish registered charities in the trusteeship of the Council. A copy of this document may be obtained from the Council's Finance Division - Business Centre 2.6, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.



## NOTES TO THE FINANCIAL STATEMENTS

### 47. The City of Edinburgh Council Charitable Funds - continued

#### 47.4 Financial Position of Other Funds

<b>2013/14</b>	<b>Income and Expenditure Account</b>	<b>2014/15</b>
<b>£000</b>	<b>Income</b>	<b>£000</b>
<u>(1)</u>	Investment income	<u>0</u>
(1)		0
	<b>Expenditure</b>	
<u>1</u>	Administrative expenses	<u>1</u>
1		1
<u>0</u>	(Surplus) / Deficit for the year	<u>1</u>
<u>0</u>		<u>1</u>
<b>2013/14</b>	<b>Balance Sheet</b>	<b>2014/15</b>
<b>£000</b>	<b>Current Assets</b>	<b>£000</b>
<u>48</u>	Cash and bank	<u>48</u>
48		48
	<b>Current Liabilities</b>	
<u>(1)</u>	Balance with City of Edinburgh Council	<u>(2)</u>
(1)		(2)
<u>47</u>	<b>Total Assets less Liabilities</b>	<u>46</u>
47		46
<u>47</u>	<b>Capital at 1 April</b>	<u>47</u>
0	Deficit for the year	(1)
<u>0</u>	Compensation fund paid	<u>0</u>
0		0
<u>47</u>	<b>Capital at 31 March</b>	<u>46</u>
47		46

### 48. Scottish Cities Alliance

The Scottish Cities Alliance was created in 2012 to promote collaboration between Scotland's cities and the Scottish Government to grow city economies, create jobs and deliver benefits across the country. Total Scottish Government investment funding of £7m has been provided to take forward a range of relevant initiatives. The Council undertakes, on an agency basis, the associated financial administration. During the year, £1.337m was paid out to the respective lead authorities of the projects concerned.

	<b>2014/15</b>		<b>2013/14</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance as at 1 April		6,045		6,909
Contribution from Scottish Government		90		0
Investment income		21		25
Less: Payments made:				
Aberdeen City Council	(64)		(42)	
City of Edinburgh Council	(749)		(340)	
Dundee City Council	(140)		(49)	
Glasgow City Council	(367)		(280)	
Highland Council	(15)		(148)	
Perth and Kinross Council	(2)		(10)	
Stirling Council	0		(20)	
		<u>(1,337)</u>		<u>(889)</u>
Balance as at 31 March		<u><b>4,819</b></u>		<u><b>6,045</b></u>

As of April 2015, the Alliance had approved total project funding allocations of £3.96m (£2.65m April 2014), covering a range of initiatives spanning the areas of sustainability, digital connectivity and city promotion.

The funding to the Scottish Council for Development and Industry will be paid on receipt of authorisation from the Scottish Government.

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments

49.1 The following prior period adjustments have been made. The changes are adopted retrospectively for the prior period 2013/14, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

#### Group Account Changes

- The 2013/14 Group Accounts included the results of Lothian Buses. The Council's major shareholding in Lothian Buses was transferred to Transport for Edinburgh Limited in 2014. The comparative figures have been restated to show the results of Transport for Edinburgh.
- Lothian Valuation Joint Board audit adjustment in 2013/14 audited accounts for losses on disposal of non-current assets.
- CEC Holdings Ltd has restated the 2013/14 accounts to reclassify land.

### 49.2 Impact on Financial Statements

<b>Movement in Reserves Statement</b>	<b>2013/14 Statements £000</b>	<b>Transport for Edinburgh £000</b>	<b>CEC Holdings £000</b>	<b>Lothian Valuation Board £000</b>	<b>2013/14 Re-stated £000</b>
<u>Balance at 31 March 2013</u>					
Group usable reserves	1,347	5,227	2,113	0	8,687
Group unusable reserves	1,311,895	(5,457)	68	0	1,306,506
<u>Surplus on the provision of services</u>					
Group usable reserves	5,247	(2)	(735)	(5)	4,505
<u>Other comprehensive income and expenditure</u>					
Group usable reserves	17,896	2	(4)	0	17,894
Group unusable reserves	698	0	(1)	0	697
<u>Adjustments between accounting basis and funding basis under regulations</u>					
Group usable reserves	247	0	0	5	252
Group unusable reserves	(247)	0	0	(5)	(252)
<u>Transfer to / (from) other statutory reserves</u>					
Group usable reserves	142	(8,288)	0	0	(8,146)
Group unusable reserves	(142)	8,288	0	0	8,146
<u>Minority interest and other consolidation adjustments</u>					
Group usable reserves	(2,475)	2,475	0	0	0
Group unusable reserves	12	(5,836)	0	0	(5,824)
<u>Balance at 31 March 2014</u>					
Group usable reserves	22,404	(588)	1,376	0	23,192
Group unusable reserves	101,114	7,907	(67)	(5)	108,949

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments - continued

#### 49.2 Impact on Financial Statements - continued

##### Group Comprehensive Income and Expenditure Statement

	2013/14 Statements £000	Transport for Edinburgh £000	CEC Holdings £000	Lothian Valuation Board £000	2013/14 Re-stated £000
Planning and Development Services	31,690	0	1,499	0	33,189
Other Operating Income and Expenditure	111	0	93	0	204
Associates and joint ventures	1,719	0	0	5	1,724
Cost of Services	953,729	0	1,592	5	955,326
Financing and Investment Income / Expenditure					
- Net (surplus) / deficit from trading activities	(148)	0	(94)	0	(242)
Taxation and Non-Specific Grant Income					
- Taxation expenses	2,669	2	(763)	0	1,908
Deficit on Provision of Services	41,228	2	735	5	41,970
Other unrealised losses	(16,961)	0	3	0	(16,958)
Total Comprehensive Expenditure	35,676	2	738	5	36,421

##### Group Balance Sheet

	2013/14 Statements £000	Transport for Edinburgh £000	CEC Holdings £000	Lothian Valuation Board £000	2013/14 Re-stated £000
Long-term assets					
- Long-term investments	5,125	0	2	0	5,127
Current assets					
- Assets held for sale	7,389	0	(4,500)	0	2,889
- Inventories	14,220	0	3,000	0	17,220
- Short-term debtors (net of impairment)	122,809	31	760	0	123,600
- Cash and cash equivalents	37,270	197	0	0	37,467
Current liabilities					
- Short-term creditors	(175,592)	(230)	2,047	0	(173,775)
- Provisions	(19,577)	0	0	0	(19,577)
Long-term liabilities					
- Liabilities in associates and joint ventures	(5,918)	0	0	(5)	(5,923)
Net assets	1,916,379	(2)	1,309	(5)	1,917,681
Group unusable reserves	101,114	7,907	(67)	(5)	108,949
Group usable reserves	22,404	(588)	1,376	0	23,192
Total group reserves	1,909,058	7,319	1,309	(5)	1,917,681
Minority interests	7,321	(7,321)	0	0	0
Total reserves	1,916,379	(2)	1,309	(5)	1,917,681

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments - continued

#### 49.2 Impact on Financial Statements - continued

Group Cash Flow Statement	2013/14 Statements £000	Transport for Edinburgh £000	CEC Holdings £000	2013/14 Re-stated £000
<b>Operating activities</b>				
- Taxation	(213,050)		258	(212,792)
- Sales of goods and rendering of services	(512,304)	(631)	107	(512,828)
Cash inflows from operating activities	(1,878,042)	(631)	365	(1,878,308)
- Cash paid to suppliers of good and services	746,329	434	(537)	746,226
- Interest paid	96,786	0	20	96,806
Cash outflows from operating activities	1,662,675	434	(517)	1,662,592
Net Cash flows from operating activities	(215,367)	(197)	(152)	(215,716)
<b>Investing activities</b>				
Purchase of property, plant and equipment, investment property and intangible assets	225,525	0	77	225,602
Other payments for investing activities	48,919	0	24	48,943
Proceeds from the sale of property, plant and equip., inv. property and intangible assets	(17,617)	0	51	(17,566)
Cash equivalents at 1 April	(94,532)	0	0	(94,532)
Cash equivalents at 31 March	(37,270)	(197)	0	(37,467)

#### 49.3 Presentational Adjustments

The presentation of the current and prior year reserves has been amended throughout the financial statements to aid understanding. The figures have been inverted to present increases and balances held as positive values and reductions as negative values.

# HOUSING REVENUE ACCOUNT

## INCOME AND EXPENDITURE STATEMENT for the year ended 31 March 2015

The Housing Revenue Account (HRA) Income and Expenditure Statement shows in more detail the income and expenditure on HRA services included in the Council's Comprehensive Income and Expenditure Statement.

<b>2013/14</b>		<b>2014/15</b>	
<b>£000</b>	<b>EXPENDITURE</b>	<b>£000</b>	<b>£000</b>
24,713	Repairs and maintenance	27,256	
20,012	Supervision and management	21,453	
52,082	Depreciation and impairment of non-current assets	18,266	
4,406	Other expenditure	5,719	
1,210	Impairment of debtors *	<u>1,325</u>	
<u>102,423</u>			74,019
	<b>INCOME</b>		
(85,504)	Dwelling rents	(90,840)	
(457)	Non-Dwelling rents (gross)	(377)	
<u>(15,197)</u>	Other income *	<u>(15,632)</u>	
<u>(101,158)</u>			<u>(106,849)</u>
1,265	Net expenditure / (income) for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(32,830)
533	HRA share of corporate and democratic core		319
137	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		72
<u>1,935</u>	Net expenditure / (income) for HRA Services		<u>(32,439)</u>
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
534	Loss on sale of HRA fixed assets	307	
18,940	Interest payable and similar charges	18,936	
2,556	Interest cost on defined benefit obligation ( <i>pension-related</i> )	2,434	
(87)	Interest and investment income	(81)	
(2,032)	Interest income on plan assets ( <i>pension-related</i> )	(1,886)	
<u>(3,301)</u>	Capital grants and contributions	<u>(4,747)</u>	
<u>16,610</u>			<u>14,963</u>
<u>18,545</u>	Deficit / (surplus) for the year on HRA services		<u>(17,476)</u>

\* See HRA Note 2 on Page 124

# HOUSING REVENUE ACCOUNT

## MOVEMENT ON THE HRA STATEMENT

2013/14 £000		2014/15 £000
0	Balance on the HRA at the end of the previous year	0
(18,545)	Surplus / (deficit) for the year on the HRA Income and Exp Account	17,476
22,843	Adjustments between accounting basis and funding basis under statute	(14,973)
<u>4,298</u>	<b>Net increase before transfers to reserves</b>	<u>2,503</u>
<u>(4,298)</u>	Contribution to renewal and repairs fund, via the General Fund	<u>(2,503)</u>
<u><u>0</u></u>	<b>Balance on the HRA at the end of the current year</b>	<u><u>0</u></u>

## Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	<b>Adjustments primarily involving the Capital Adjustment Account</b>	
	<b>Reversal of items debited or credited to the Income and Expenditure Statement</b>	
52,082	Charges for depreciation and impairment of non-current assets	18,266
(3,301)	Capital grants and contributions applied	(4,747)
	<b>Insertion of items not debited or credited to the Income and Expenditure Statement</b>	
(23,163)	Statutory provision for the financing of capital investment	(23,123)
(3,575)	Capital funded from revenue	(5,649)
	<b>Adjustments primarily involving the Capital Receipts Reserve</b>	
534	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	307
	<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>	
(397)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(460)
	<b>Adjustments primarily involving the Pensions Reserve</b>	
1,009	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	1,081
(450)	Employer's pension contributions and direct payments to pensioners payable in the year	(426)
	<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>	
104	Amount by which officer remuneration charged to the Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(222)
<u>22,843</u>		<u>(14,973)</u>

# HOUSING REVENUE ACCOUNT

## Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2015 are as follows:

Types of Houses	2015		2014	
	Number	Annual Average Rent (£)	Number	Annual Average Rent (£)
<b>Main provision Council dwellings</b>				
1 Apartment	302	3,653.00	302	3,446.00
2 Apartment	5,473	4,100.00	5,470	3,868.00
3 Apartment	10,184	4,752.00	10,245	4,483.00
4 Apartment	3,458	5,473.00	3,456	5,163.00
5 Apartment	521	5,891.00	525	5,558.00
6 Apartment	9	5,924.00	9	5,589.00
7 Apartment	4	5,739.00	4	5,414.00
8 Apartment	1	5,739.00	1	5,414.00
<b>Mid-market rent dwellings</b>				
2 Apartment	6	5,337.00	6	5,337.00
3 Apartment	39	6,878.00	39	6,878.00
4 Apartment	7	7,924.00	7	7,924.00
	<u>20,004</u>		<u>20,064</u>	

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units.

2. The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £4.327m (£3.967m 2013/14) against which a provision amounting to £4.326m (£3.002m 2013/14), has been created in respect of non collectable debts.

\* Presentational amendment to reflect movement in bad debt providing enhanced disclosure.

3. Significant non-residential income includes ground rent at Broomhouse Drive of £0.160m per annum.

4. The total value of uncollectable void rents for main provision properties was £0.545m (2013/14 £0.644m). This has been netted against rental income.

## COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement.

for the year ended 31 March 2015

2013/14 £000		2014/15 £000	£000
(295,075)	Gross council tax levied and contributions in lieu		(297,767)
48,500	Less: - Exemptions and other discounts	48,938	
8,602	- Provision for bad debts	8,333	
27,021	- Council Tax Reduction Scheme	25,785	
2,866	- Other reductions	2,107	
<u>86,989</u>		<u>85,163</u>	
(208,086)			(212,604)
<u>189</u>	Previous years' adjustments		<u>(307)</u>
<u><b>(207,897)</b></u>	<b>Total transferred to General Fund</b>		<u><b>(212,911)</b></u>

### Notes to the Council Tax Income Account

The in-year collection rate for Council Tax was 95.4% (2013/14 94.7%).

Each household or occupied dwelling is allocated to a Council Tax band by the Assessor. The charge per Council Tax band is calculated as a proportion of band D - these proportions are determined by legislation.

A Council Tax bill is reduced by 25% where a dwelling has only one occupant or, with certain exceptions, 10% where the property is a second home. Unoccupied properties are eligible for 10% discount for up to 12 months, from the date the property was last occupied, thereafter 100% additional charge, with certain exceptions. For Council Tax purposes, students and certain other categories of people are not regarded as occupants. Reductions in Council Tax payable are also granted for physically disabled people.

Charges in respect of water and sewerage are the responsibility of Scottish Water. The Council collects both water and sewerage charges and makes payment to the Water Authority.

### Calculation of the Council Tax Base 2014/15

Band	Number of Properties	Disabled Relief	Exemptions	Discounts	Effective Properties	Ratio to Band D	Band D Equivalents	Charges per Band
A Up to £27,000	23,160	81	(3,172)	(3,273)	16,796	6/9	11,197	£779.33
B £27,001 - £35,000	46,915	69	(3,712)	(6,475)	36,797	7/9	28,620	£909.22
C £35,001 - £45,000	43,716	(30)	(3,220)	(5,070)	35,396	8/9	31,463	£1,039.11
D £45,001 - £58,000	37,534	67	(2,911)	(3,778)	30,912	9/9	30,912	£1,169.00
E £58,001 - £80,000	39,700	(30)	(3,412)	(3,311)	32,947	11/9	40,269	£1,428.78
F £80,001 - £106,000	24,003	(29)	(1,265)	(1,788)	20,921	13/9	30,219	£1,688.56
G £106,001 - £212,000	20,650	(101)	(554)	(1,142)	18,853	15/9	31,422	£1,948.33
H Over £212,000	3,847	(27)	(134)	(164)	3,522	18/9	7,044	£2,338.00
							211,146	
							533	
							-7,112	
							<u><b>204,567</b></u>	



## NON-DOMESTIC RATES INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

for the year ended 31 March 2015

2013/14 £000		2014/15 £000	£000
(418,354)	Gross rates levied and contributions in lieu		(428,072)
68,484	Less: - Reliefs and other deductions	71,611	
4,859	- Uncollectable debt written off and provision for impairment	4,588	
73,343			76,199
(345,011)			(351,873)
19,901	Previous years' adjustments		7,684
<b>(325,110)</b>	<b>Net Non-Domestic Rates Income</b>		<b>(344,189)</b>
	Allocated to:		
(325,563)	Contribution to National Non-Domestic Rates Pool		(344,628)
453	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		439
<b>(325,110)</b>			<b>(344,189)</b>

### Notes to the Non-Domestic Rates Income Account

#### Rateable Values as at 1 April 2014

	Number	Rateable Value £000
Shops, offices and other commercial subjects	13,905	644,941
Industrial and freight transport	2,717	75,054
Telecommunications	8	15
Public service subjects	345	47,219
Miscellaneous	2,741	142,389
	19,716	909,618

#### Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £344.628m (2013/14 £325.563m) is the non-domestic rates contributed by the Council through the pooling arrangements for government grant purposes. The amount distributed to the Council under these pooling arrangements was £364.108m (2013/14 £334.630m).

With effect from 2011/12, authorities retain in full the income raised locally up to the baseline level assumed in the Local Government Financial Settlement. Any variation from this assumed level is then met by means of a corresponding transfer of funds to or from the Scottish Government.

#### Poundage

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Edinburgh. The non-domestic rate poundage is determined by the Scottish Ministers, and was 47.1 per £ in 2014/15 (2013/14 46.2p per £).

Properties with a rateable value greater than £35,000 (2013/14 £35,000) had their rate charges calculated using the poundage of 48.2p per £ (2013/14 47.1p per £).

From 1 April 2008, the Scottish Government introduced the Small Business Bonus Scheme. Business properties with a rateable value of £18,000 or less may have received relief as set out below:

100% Relief	below	£10,000
50% Relief	£10,001 to	£12,000
25% Relief	£12,001 to	£18,000
Upper limit for combined rateable value		£35,000

## COMMON GOOD FUND

The Common Good Fund stands separate from the Council's accounts and has been described as "the ancient patrimony of the community". It was originally derived from the grants by the Sovereigns of Scotland at various times. The present fund is an amalgam of the funds of the City and Royal Burgh of Edinburgh and the Royal Burgh of South Queensferry.

A report on the (Edinburgh) Common Good prepared by the Town Clerk and City Chamberlain in 1905 set out the historical background of the fund and listed its then assets in some detail. The report also stated a "General Principle" that the Fund should be administered "for the purpose of upholding the dignity and suitable hospitality of the City; performing the duties incumbent upon a Royal Burgh ..... maintaining the municipal establishment and managing the municipal affairs; vindicating or extending the corporate rights of the community and defending its interests; acquiring additional land or property for the corporate benefit, or improving existing corporation property, and generally for any purpose which, in the bona fide judgement of the Town Council, is for the good of the community as a whole, or in which the inhabitants at large may share, as distinct from the separate interests or benefit of any particular individual or class, however deserving or needy. The purpose must be limited to those which concern the City and its interests".

The Local Government etc. (Scotland) Act 1994 confirms this interpretation that use of the Fund shall "have regard to the interests of all the inhabitants" of the area.

During 2014/15, the Council generated two capital receipts for the Common Good. Air rights above Common Good land in the Grassmarket were sold for £35,000 which was credited to the Common Good Fund. There has been no reduction in the value of the Common Good assets.

The sale of East Market Street garage as part of package of properties was also completed in 2014/15. The Common Good account was credited with a receipt of £1,182,950. The receipt, net of costs associated with the disposal, was transferred to an earmarked reserve pending reconsideration by the Council of its previous decision on 14 November 2002 to transfer the receipt from the sale of the site to the Council to assist with the funding of the rationalisation of office accommodation.

During 2014-15 HM Treasury advised of their intention to redeem the War Stock and Conversion Stock bonds held by the Common Good Fund at face value. The redemption of the War Stock bond was completed in March 2015. The market value of the remaining bond was restated in the accounts at its face value of £340 as at 31 March 2015.

## COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

	Common Good Fund £000	FFF Earmarked Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2014/15 Movements</b>					
Balance at 31 March 2014	1,650	0	(20)	23,928	25,558
Movement in reserves during 2014/15					
Surplus on the provision of services	1,186	0	0	0	1,186
Revaluation Reserve	0	0	0	(885)	(885)
<b>Total Comprehensive Income and Expenditure</b>	1,186	0	0	(885)	301
Adjustments between accounting basis and funding basis under regulations:	0	0	(2)	(1,183)	(1,185)
<b>Net increase / decrease before transfers to earmarked reserves</b>	1,186	0	(2)	(2,068)	(884)
Transfer to / from earmarked reserves	(1,182)	1,182	0	0	0
Increase / decrease in year	4	1,182	(2)	(2,068)	(884)
<b>Balance at 31 March 2015</b>	1,654	1,182	(22)	21,860	24,674

## COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

	Common Good Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2013/14 Comparative Data</b>				
Balance at 31 March 2013	1,615	(20)	24,085	25,680
Movement in reserves during 2013/14				
Surplus on the provision of services	35	0	0	35
Revaluation Reserve	0	0	(157)	(157)
<b>Total Comprehensive Income and Expenditure</b>	35	0	(157)	(122)
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	35	0	(157)	(122)
Transfer to / from earmarked reserves	0	0	0	0
Increase / decrease in year	35	0	(157)	(122)
<b>Balance at 31 March 2014</b>	<u>1,650</u>	<u>(20)</u>	<u>23,928</u>	<u>25,558</u>

## COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Re-stated 2013/14 £000	2014/15 £000	£000
11 Common Good Fund	44	
<u>(38) Income from Sale of Fixed Assets</u>	<u>(1,218)</u>	
<b>(27) COST OF SERVICES</b>	<b>(1,174)</b>	
Financing and Investment Income		
0 Income from redemption of investment bonds	(2)	
<u>(8) Interest and investment income</u>	<u>(10)</u>	
<b>(35) SURPLUS ON PROVISION OF SERVICES</b>		<b>(1,186)</b>
157 Deficit on revaluation of non-current assets	885	
<u>0 Other unrealised gains</u>	<u>0</u>	
<u>157 Other Comprehensive Income and Expenditure</u>		<u>885</u>
<b>122 TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE</b>		<b>(301)</b>

The 2013/14 figures have been restated to include an omission of the deficit on revaluation of non-current assets.

## COMMON GOOD FUND - BALANCE SHEET

31 March 2014 £000		31 March 2015 £000	£000
<u>23,824</u>	Community Assets	<u>21,757</u>	
<u>23,824</u>	<b>Property, Plant and Equipment</b>		21,757
104	Heritage Assets	103	
<u>2</u>	Long-term Investments	<u>0</u>	
<u>106</u>	<b>Long-term Assets</b>		103
183	Short-Term Investments	2,756	
<u>1,445</u>	Cash and Cash Equivalents	<u>58</u>	
<u>1,628</u>	<b>Current Assets</b>		<u>2,814</u>
<u><b>25,558</b></u>	<b>Net Assets</b>		<u><b>24,674</b></u>
23,928	Revaluation Reserve	21,860	
<u>(20)</u>	Capital Adjustment Account	<u>(22)</u>	
<u>23,908</u>	<b>Unusable Reserves</b>		21,838
1,650	Common Good Fund	1,654	
<u>0</u>	Earmarked Reserve	<u>1,182</u>	
<u>1,650</u>	<b>Usable Reserves</b>		<u>2,836</u>
<u><b>25,558</b></u>	<b>Total Reserves</b>		<u><b>24,674</b></u>

The unaudited accounts were issued on 19 June 2015. The audited accounts were authorised for issue on 24 September 2015.

HUGH DUNN, CPFA  
Head of Finance  
24 September 2015

# COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

## 1. Property, Plant and Equipment and Heritage Assets

### 1.1 Movements on Balances

	Community Assets £000	Total Property, Plant and Equipment £000	Heritage Assets £000
<b>Cost or Valuation</b>			
At 1 April 2014	23,824	23,824	104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(2,067)	(2,067)	(1)
At 31 March 2015	<u>21,757</u>	<u>21,757</u>	<u>103</u>
<b>Accumulated Depreciation</b>			
At 1 April 2014	0	0	0
At 31 March 2015	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Book Value</b>			
At 31 March 2015	<u>21,757</u>	<u>21,757</u>	<u>103</u>
At 31 March 2014	<u>23,824</u>	<u>23,824</u>	<u>104</u>
<b>Cost or Valuation</b>			
At 1 April 2013	23,981	23,981	104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(157)	(157)	0
At 31 March 2014	<u>23,824</u>	<u>23,824</u>	<u>104</u>
<b>Accumulated Depreciation</b>			
At 1 April 2013	0	0	0
At 31 March 2014	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Book Value</b>			
At 31 March 2014	<u>23,824</u>	<u>23,824</u>	<u>104</u>
At 31 March 2013	<u>23,981</u>	<u>23,981</u>	<u>104</u>

### 1.2 Information on Assets Held

Assets owned by the Common Good Fund at 31 March 2015 include:

Monuments and statues	20
Parks and open spaces and other properties	31
Shops, industrial units and other commercial lettings	17

## 2. Usable Reserves

Movements in the Common Good's usable reserves are detailed in the Movement in Reserves Statement (on page 128).

## COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

### 3. Unusable Reserves

#### 3.1 Revaluation Reserve

The revaluation reserve contains the gains made by the Common Good Fund arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

	2014/15		2013/14	
	£000	£000	£000	£000
Balance at 1 April		23,928		24,085
Upward revaluation of assets	412		0	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(1,297)		(157)	
Deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Service		(885)		(157)
Derecognition of asset disposals		(1,183)		0
Balance at 31 March		<u>21,860</u>		<u>23,928</u>

#### 3.2 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis).

The account also holds revaluation gains accumulated on property, plant and equipment prior to 1 April 2007, the date the revaluation reserve was created to hold such gains.

	2014/15	2013/14
	£000	£000
Balance at 1 April	(20)	(20)
Adjustment for revaluation of Government investment bonds	<u>(2)</u>	<u>0</u>
Balance at 31 March	<u>(22)</u>	<u>(20)</u>

# ANNUAL GOVERNANCE STATEMENT

## Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these responsibilities, Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement explains how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement explains how the Council has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 37 of the Accounts.

## The Group's Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Group is directed and controlled. It also describes the way it engages with, accounts to and leads its communities. It enables the Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and considered by the Governance, Risk & Best Value Committee. The rest of the Group observes the principles of the code.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Strategy and Governance manager reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. The framework meets the principles of effective governance.

The key elements of the Council's corporate governance framework are set out below:

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2015-2018.
- The Edinburgh Partnership Community Plan 2015-2018 sets out the shared objectives of the Council and its community planning partners and details their vision, strategic priorities and intended outcomes for the Edinburgh area, its citizens and service users. The Edinburgh Partnership Community Plan 2015-2018 has been agreed by the Council and community planning partners.
- Governance arrangements for the Edinburgh Partnership Community Plan include the Edinburgh Partnership Board to lead the Partnership and be responsible for its effectiveness; a Partnership Executive to act as a vehicle for wider advice, consultation, involvement and communication; and designated strategic partnerships for delivery of intervention and prevention areas.
- Formal local community planning arrangements to support and engage with community planning groups and Community Councils; ensuring that service needs and priorities of local communities are identified and can influence Council policy and services.
- The Council's long term financial plan underpins the revenue budget and strategic planning frameworks, enabling it to manage expected future costs and service demands, aligning service delivery to the Council's Transformation and Improvement Plan to address these demands and deliver best value from available resources.

# ANNUAL GOVERNANCE STATEMENT

The key elements of the Council's corporate governance framework - continued

- The Corporate Programme Office provides a single and central structure with oversight of all significant Council projects.
- A performance management framework, incorporating internal and public performance reporting, enables the Council to regularly report performance in achieving its key corporate objectives.
- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and internal audit, to the Corporate Leadership Group, Governance, Risk and Best Value Committee and Council, where appropriate, supports effective scrutiny and service improvement activities.
- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.
- The Chief Executive has overall responsibility to Council, as head of paid service, for all aspects of operational management.
- The Director of Corporate Governance has overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Chief Finance Officer has overall responsibility for ensuring appropriate advice is given to the Council and Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control.
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee on the adequacy of the Council's internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.
- The Council's Strategy and Governance Manager has responsibility for advising the Council on corporate governance arrangements.
- The Governance, Risk and Best Value Committee provides the Council with independent assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides independent scrutiny of the Council's financial and non-financial performance, approves and monitors the progress of the Internal Audit risk based plan, and monitors performance of the internal audit service.
- The risk management policy and framework set out the responsibilities of Elected Members, the Governance, Risk and Best Value Committee, management and staff for the identification and management of risks to key corporate priorities.
- The Community Risk Register, Council Risk Register and Service area risk registers identify risks and proposed treatment or actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Group and Governance, Risk and Best Value Committee for scrutiny and challenge.
- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.
- Senior management and Heads of Service have formal objectives, with performance reviewed by the appropriate chief officer. Officers have personal work objectives, and receive feedback on their performance through the Council-wide performance review and development process.
- An Elected Members' remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors' Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of Elected Members' salaries, allowances and expenses is published on the Council's website.
- The Council's Strategy and Governance Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members.
- Codes of Conduct that set out the standards of behaviour expected from Elected Members and officers are in place.



# ANNUAL GOVERNANCE STATEMENT

The key elements of the Council's corporate governance framework - continued

- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations.
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others.
- A Register of Members' Interests and Registers of Officers' interests are maintained and available for public inspection.

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Group's objectives.

## Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Strategy and Governance Manager has reviewed the effectiveness of the Code and reported the result to the Governance, Risk and Best Value Committee in August 2015.

The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit. The Section undertakes an annual work programme based on agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal, Risk and Compliance but had free access to the Chief Executive, all directors and Elected Members along with reporting directly to the Governance, Risk and Best Value Committee.

The Chief Internal Auditor and Council's Strategy and Governance Manager have provided an assurance statement on the effectiveness of the system of internal control, which was informed by:

- The work of the Corporate Leadership Group which develops and maintains the governance environment;
- The certified annual assurance statements provided by all directors;
- The certified assurance statements provided by the Chief Executives and Directors of Finance of the Council's group companies.
- Council officers' management activities;
- The Chief Internal Auditor's annual report and internal audit reports, risk-based, across a range of Council services;
- An annual review by the Council's Strategy and Governance Manager of the Council's compliance with the Local Code of Corporate Governance, reported to the Governance, Risk and Best Value Committee;
- Reports from the Council's external auditor; and
- reports by external, statutory inspection agencies.

In compliance with standard accounting practice, the Head of Finance has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2015. It is the Head of Finance's opinion that reasonable assurance can be placed upon its effectiveness.

Each service director has reviewed the arrangements in his / her service area and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered any relevant third party reviews and recommendations. Reliance has also been placed on each organisation's most recent audited accounts together with the Council's detailed knowledge of these organisations as a consequence of their continued involvement with these companies.

# ANNUAL GOVERNANCE STATEMENT

These reviews have identified that we need to continue to develop:

By the Council:

- mitigating risks associated with the Council's transformation process, including structural and operating model changes;
- the Best Value audit actions: transformational change, corporate working, workforce, ICT, risk and scrutiny, staff engagement and budget;
- the Council's asset management strategy;
- the processes to ensure compliance with policies and procedures;
- the processes to ensure compliance with health and safety legislation, regulations and guidance;
- the implementation of action plans agreed with external inspection agencies;
- the implementation of all other actions identified by service directors in statements of assurance; and
- the planning for and implementation of health and social care integration.

By the Group:

- long-term financial planning and links to outcomes; and
- embedding and building on recent structural changes and improvements in governance arrangements to take advantage, as appropriate, of the emerging signs of economic recovery.

The proposed improvements do not indicate any significant gaps or weaknesses in the existing governance framework.

## **Certification**

It is our opinion that in light of the foregoing, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group's systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively and the Council and its Group comply with the Local Code of Corporate Governance in all significant respects.

ANDREW KERR  
Chief Executive

24 September 2015

ANDREW BURNS  
Council Leader

24 September 2015

ALASTAIR MACLEAN  
Deputy Chief Executive

24 September 2015

# REMUNERATION REPORT

The Council is required under statute to provide information on the remuneration of each senior officer and each senior elected member, together with any other officer not otherwise included whose remuneration is over £150,000 per annum. In addition, the Council is required to provide information for the most senior employee within each of its subsidiary companies, together with all other employees whose remuneration exceeds £150,000 per annum.

All information disclosed in the tables on pages 136 to 146 in this remuneration report has been audited by Audit Scotland. The other sections of the remuneration report will be reviewed by Audit Scotland to ensure that they are consistent with the Financial Statements.

## Remuneration Arrangements

### Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183) as amended by the Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2015. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head (the Lord Provost), senior councillors or councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for Councillors, the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory non-departmental public body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority Councillors.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2014/15, the remuneration for the Leader of the City of Edinburgh Council was £49,683. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum remuneration that may be paid to the Civic Head (the Lord Provost). For 2014/15 this was £37,262. The Council's policy is to pay the Lord Provost at the national maximum.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have (24 for the City of Edinburgh Council). The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of Senior Councillors shall not exceed £645,873. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their remuneration within these maximum limits. The Council's current policy is summarised below. Posts in italics were remunerated until the dates shown.

	Number of Posts	% of amount payable to Leader of the Council
Depute Leader of the Council	1	75%
Depute Convener	1	50%
Conveners of Culture and Sport, Economy, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Health, Social Care and Housing Committees	8	65%
Convener of Licensing Board	1	60%
Convener of Governance, Risk and Best Value	1	50%
Convener of Communities and Neighbourhoods	1	45%
Convener of Police and Fire Scrutiny	1	40%
Vice-Conveners of Culture and Sport, Economy, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Health, Social Care and Housing Committees	8	45%
Opposition Group Leaders - Conservative and Green Groups	2	50%

# REMUNERATION REPORT

## Councillors - continued

In addition, the Council remunerated the Conveners and Vice Conveners of Joint Boards. The Council has an arrangement with the Joint Boards to reimburse the Council for the additional costs for councillors that arise from their being a Convener or Vice Convener of the Joint Boards.

## Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for Chief Executives of Scottish local authorities. Circular CO/146 set the amount of salary for the Chief Executive of the City of Edinburgh Council for the period April 2013 to March 2015. Circular CO/147 provides a revised Scheme of Salaries and Conditions of Service for Chief Officials.

There is no formal percentage relationship for salaries between the Chief Executive and other chief officers. The national salary points to be applied to Corporate Directors and Head of Service posts are determined using the Hay job evaluation method. The decision on whether there is to be an annual pay increase applied to the national salary points, and at what level, for Chief Executive and Chief Officer posts is made by the SJNC for local authority services and thereafter applied locally by the Council.

The Director of Health and Social Care is a joint appointment and the terms and conditions, including pay for the post, are those set by NHS Lothian, who employ the post holder directly.

The Council's role in determining the remuneration policies for its companies is currently under review.

## Remuneration Paid

The following tables provide details of the remuneration paid to the Council's Senior Councillors, Senior Employees and the remuneration paid to the Chief Executive (or the most senior manager of that body) of each of the Council's subsidiary bodies. Details on roles held by Councillors are set out on pages 137 and 138. Where a Councillor has held more than one post during the year, he/she is only included once within the following table. Salary, fees and allowances represents the total amount received during the year, regardless of whether a senior Councillor role was held for the full year.

Council's Leader, Civic Head and Senior Councillors	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits-in-kind £	Total Remun. 2014/15 £	Total Remun. 2013/14 £
A. Burns, Leader of the Council	49,683	0	214	49,897	49,371
D. Wilson, Lord Provost	37,262	0	620	37,882	41,715
S. Cardownie, Depute Leader of the Council ( <i>until 12.03.15</i> )	36,149	0	127	36,276	37,033
S. Howat, Depute Leader of the Council ( <i>from 12.03.15</i> ) and Vice Convener Planning ( <i>until 12.03.15</i> )	23,158	0	715	23,873	23,071
D. Brock, Depute Convener	24,841	0	394	25,235	25,658
R. Lewis, Convener of Culture and Sport	32,294	168	1,665	34,127	32,330
F. Ross, Convener of Economy	32,294	0	2,266	34,560	33,859
P. Godzik, Convener Education, Children and Families	32,294	0	267	32,561	32,710
A. Rankin, Convener Finance and Resources	32,294	0	710	33,004	32,699
R. Henderson, Convener Health, Social Care and Housing	32,294	0	708	33,002	33,283
I. Perry, Convener Planning	32,294	0	187	32,481	32,252
G. Barrie, Convener Regulatory	32,294	0	708	33,002	32,705

# REMUNERATION REPORT

## Remuneration Paid - continued

	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2014/15 £	Total Remun. 2013/14 £
<b>Council's Leader, Civic Head and Senior Councillors</b>					
L. Hinds, Convener Transport and Environment	32,294	0	1,263	33,557	32,895
E. Milligan, Convener Licensing Board	29,809	655	18	30,482	30,310
M. Child, Convener Communities and Neighbourhoods	22,357	0	95	22,452	22,485
J. Balfour, Convener Governance, Risk and Best Value	24,841	0	441	25,282	25,030
M. Chapman, ( <i>remunerated as Petitions Convener until 01.05.13</i> )	n/a	n/a	n/a	n/a	17,614
M. Bridgman, Convener Police and Fire Scrutiny	19,873	555	139	20,567	19,347
<u>Vice-Conveners</u>					
N. Austin-Hart, Vice Convener of Culture and Sport	22,357	0	0	22,357	22,135
G. Munro, Vice Convener of Economy	22,357	0	708	23,065	22,388
C. Fullerton, Vice Convener Education, Children and Families	22,357	0	144	22,501	22,292
B. Cook, Vice Convener Finance and Resources	22,357	0	0	22,357	22,135
C. Day, Vice Convener Health, Social Care and Housing	22,357	13	481	22,851	22,360
A. Blacklock, Vice Convener Regulatory	22,357	0	758	23,115	22,866
A. McVey, Vice Convener Transport and Environment ( <i>from 14.03.14</i> )	22,357	0	708	23,065	17,413
D. Dixon, Vice Convener Planning ( <i>from 12.03.15</i> )	16,872	314	200	17,386	n/a
<u>Former Vice-Conveners</u>					
J. Orr ( <i>from 02.05.13 to 04.03.14</i> )	n/a	n/a	n/a	n/a	22,645
W. Henderson ( <i>until 24.11.13</i> )	n/a	n/a	n/a	n/a	19,267
<u>Opposition Group Leaders</u>					
C. Rose, Conservative Group Leader	24,841	0	99	24,940	24,596
S. Burgess, Green Group Leader	24,841	0	933	25,774	25,435
P. Edie, ( <i>remunerated as Liberal Democrat Group Leader until 01.05.13</i> )	n/a	n/a	n/a	n/a	16,792
<b>Councillors</b>					
N Work, Convener Lothian Valuation Joint Board ( <i>Note 1</i> )	20,702	0	968	21,670	20,496

### Notes:

1. The amount recharged to Lothian Valuation Joint Board in 2014/15 was £4,142 (2013/14 £4,101). Expenses relate to Councillor role.

## REMUNERATION REPORT

### Remuneration Paid - continued Members' Salaries and Expenses

The Council paid the following amounts to members of the Council during the year (these sums include the totals shown above):

	2014/15 £	2013/14 £
Salaries	1,266,880	1,252,631
Expenses		
Claimed by councillors	2,486	2,062
Paid directly by the Council	28,732	33,925
Total	<u>1,298,098</u>	<u>1,288,618</u>

### Remuneration paid to Senior Officers

	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2014/15 £	Total Remun. 2013/14 £
<b>Council's Senior Officers</b>				
S. Bruce, Chief Executive	161,741	0	161,741	160,207
G. Tee, Director Children and Families	143,505	0	143,505	142,083
A. Maclean, Director Corporate Governance	134,760	0	134,760	133,425
P. Gabbitas, Director Health and Social Care	65,202	0	65,202	63,431
M. Turley, Director Services for Communities ( <i>until 30.06.14</i> ) ( <i>full year equivalent</i> )	39,118	30,000	69,118	135,570
			134,760	
J. Bury, Acting Director Services for Communities ( <i>from 08.05.14</i> ) ( <i>full year equivalent</i> )	120,994	0	120,994	n/a
			134,760	
G. Ward, Director of Economic Development ( <i>from 24.10.13</i> ) ( <i>full year equivalent</i> )	99,747	0	99,747	43,275
				97,782
M. Miller, Chief Social Work Officer	99,747	0	99,747	98,760
H. Dunn, Head of Finance	105,003	0	105,003	103,962
Total	<u>969,817</u>	<u>30,000</u>	<u>999,817</u>	<u>880,713</u>

### Notes:

1. Remuneration shown above excludes any fees payable in respect of returning officer or other election duties. S. Bruce waived all fees in respect of 2014/15 for returning officer duties - the authorised amount was £16,423 for returning officer duties relating to the European Parliamentary Election and £16,777 for counting officer duties relating to the Scottish Independence Referendum.
2. J. Bury was appointed Acting Director in May 2014. Salaries shown for J. Bury and M. Turley relate to the responsibilities as shown.
3. P. Gabbitas is employed by NHS Lothian and 50% of his salary costs are recharged to the Council. The above figures therefore show the Council's share.

# REMUNERATION REPORT

## Remuneration Paid - continued

### Remuneration paid to Senior Officers - continued

#### Council Subsidiary Companies

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2014 and 2013 respectively.

Council's Subsidiary Companies	Salary, Fees and Allowances £	Bonus £	Other Benefits £	Compensation for Loss of Office £	Total Remun. 2014/15 £	Total Remun. 2013/14 £	
E. Adair, Operations and Finance Director, EDI Group	102,513	0	1,616	0	104,129	102,974	
H. Rissmann, Chief Executive, EICC ( <i>until 31.03.15</i> )	158,034	0	0	0	158,034	156,884	
M. Dallas, Chief Executive, EICC ( <i>from 01.10.14</i> ) ( <i>full year equivalent</i> )	32,500	0	0	0	32,500	0	
<u>Marketing Edinburgh Ltd.</u>						130,000	0
J Donnelly, Chief Executive ( <i>Note 2</i> )	116,600	0	0	0	116,600	88,100	
J. Rafferty, Chief Executive, Capital City Partnership	71,720	0	0	0	71,720	71,015	
<u>Lothian Buses Ltd.</u>							
I Craig, Managing Director	186,349	0	13,177	0	199,526	269,388	
W. Campbell, Operations Director	154,045	0	1,179	0	155,224	197,755	
W. Devlin, Engineering Director	154,045	0	2,128	0	156,173	199,078	
N. Strachan, Finance Director	154,045	0	672	0	154,717	197,793	
G.Hughes, HR Director ( <i>Note 3</i> )	103,530	0	9,000	85,779	198,309	143,064	
<u>Edinburgh Trams Ltd.</u>							
T Norris, Director and General Manager ( <i>from 01.09.13</i> ) ( <i>full year equivalent</i> )	80,000	11,100	735	0	91,835	36,735	
						89,602	
	<u>1,313,381</u>	<u>11,100</u>	<u>28,507</u>	<u>85,779</u>	<u>1,438,767</u>	<u>1,462,786</u>	

#### Notes:

- Other benefits paid relate to car allowance, healthcare and telephone provision, within Lothian Buses Ltd. and personal healthcare within Edinburgh Trams Ltd.
- Marketing Edinburgh Limited entered into two contracts with John P Donnelly Associates Limited for the services of J. Donnelly in the role of Chief Executive. The cost of these contracts is £116,600 in 2014/15, of which £6,600 is VAT (2013/14 £88,100).
- The exit package for G Hughes of £85,779 was paid in February 2015.

## REMUNERATION REPORT

### Remuneration Paid - continued

#### Number of Employees by Pay Band

The total number of Council employees receiving more than £50,000 remuneration for the year (including early retirement / voluntary release costs) is shown below.

	2014/15	2013/14		2014/15	2013/14
£50,000 - £54,999	203	170	£105,000 - £109,999	1	0
£55,000 - £59,999	94	88	£110,000 - £114,999	0	1
£60,000 - £64,999	31	30	£115,000 - £119,999	0	0
£65,000 - £69,999	32	27	£120,000 - £124,999	0	0
£70,000 - £74,999	37	30	£125,000 - £129,999	0	0
£75,000 - £79,999	4	8	£130,000 - £134,999	2	1
£80,000 - £84,999	2	5	£135,000 - £139,999	0	1
£85,000 - £89,999	3	3	£140,000 - £144,999	1	1
£90,000 - £94,999	1	1	£145,000 - £149,999	0	0
£95,000 - £99,999	15	13	£150,000 - £154,999	0	0
£100,000 - £104,999	1	4	£155,000 - £159,999	0	0
			£160,000 - £164,999	1	1
			<b>Total No. of Employees</b>	<b>428</b>	<b>384</b>

#### Exit Packages

The number of exit packages provided for by the Council and the Group during the year, together with the total cost of those packages is shown in the table below. The total cost shown includes pension strain costs and the capitalised value of compensatory added years payments.

Exit package cost band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15 £000	2013/14 £000
£0 - £20,000								
- Council	0	0	32	41	32	41	267	480
- Group companies	2	0	0	0	2	0	6	0
£20,001 - £40,000								
- Council	0	0	29	58	29	58	915	1,662
- Group companies	0	0	0	2	0	2	0	70
£40,001 - £60,000								
- Council	0	0	9	19	9	19	419	955
- Group companies	0	0	0	1	0	1	0	40
£60,001 - £80,000								
- Council	0	0	3	14	3	14	210	1,012
- Group companies	0	0	0	0	0	0	0	0
£80,001 - £100,000								
- Council	0	0	2	9	2	9	181	828
- Group companies	0	0	1	0	1	0	86	0
£100,001 - £150,000								
- Council	0	0	6	9	6	9	702	1,035
- Group companies	0	0	0	0	0	0	0	0
	<b>2</b>	<b>0</b>	<b>82</b>	<b>153</b>	<b>84</b>	<b>153</b>	<b>2,786</b>	<b>6,082</b>



# REMUNERATION REPORT

## Pension Rights

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

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

For local government employees a final salary pension scheme is operated. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

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

The tiers and members' contribution rates for 2014/15 were as follows:

<b>Whole Time Pay</b>	<b>Contribution rate</b>
On earnings up to and including £20,235 (2014 £19,800)	5.50%
On earnings above £20,235 and up to £24,853 (2014 £19,800 to £24,200)	7.25%
On earnings above £24,853 and up to £34,096 (2014 £24,200 to £33,200)	8.50%
On earnings above £34,096 and up to £45,393 (2014 £33,200 to £44,200)	9.50%
On earnings above £45,393 (2014 £44,200)	12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).

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

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

# REMUNERATION REPORT

## Pension Benefits - continued

## Pension Rights - continued

### Council's Leader, Civic Head and Senior Councillors

The pension entitlements of senior councillors for the year to 31 March 2015 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.15 £	For year to 31.03.14 £		As at 31.03.15 £000	Difference from 31.03.14 £000
<b>Council's Leader, Civic Head and Senior Councillors</b>					
A. Burns, Leader of the Council	10,582	10,477	Pension	4	1
			Lump Sum	2	0
D. Wilson, Lord Provost	7,937	7,858	Pension	3	0
			Lump Sum	2	0
<u>Conveners</u>					
R. Lewis	6,879	6,810	Pension	2	2
			Lump Sum	0	0
F. Ross	6,879	6,810	Pension	1	1
			Lump Sum	0	0
P. Godzik	6,879	6,810	Pension	3	1
			Lump Sum	2	0
A. Rankin	6,879	6,810	Pension	2	1
			Lump Sum	0	0
R. Henderson	6,879	6,810	Pension	3	1
			Lump Sum	2	1
I. Perry	6,879	6,810	Pension	3	1
			Lump Sum	2	0
G. Barrie	6,879	6,810	Pension	2	2
			Lump Sum	0	0
L. Hinds	6,879	6,810	Pension	4	0
			Lump Sum	6	0
E. Milligan	6,463	6,286	Pension	3	1
			Lump Sum	2	0
M. Child	4,762	4,759	Pension	7	1
			Lump Sum	15	0
M. Bridgman	4,280	4,095	Pension	4	0
			Lump Sum	2	0

# REMUNERATION REPORT

## Pension Benefits - continued

## Pension Rights - continued

## Council's Leader, Civic Head and Senior Councillors

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.15 £	For year to 31.03.14 £		As at 31.03.15 £000	Difference from 31.03.14 £000
<u>Vice-Conveners</u>					
N. Austin Hart	4,762	4,714	Pension	2	0
			Lump Sum	1	0
G. Munro	4,763	4,610	Pension	2	0
			Lump Sum	1	0
D. Dixon	3,594	0	Pension	1	1
			Lump Sum	0	0
S. Howat	4,933	4,714	Pension	1	1
			Lump Sum	0	0
A. Blacklock	4,762	4,714	Pension	2	0
			Lump Sum	1	0
A. McVey	4,762	3,553	Pension	1	1
			Lump Sum	0	0
<u>Former Vice-Conveners</u>					
J. Orr	n/a	4,577	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Henderson	n/a	3,948	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Opposition Group Leaders</u>					
C. Rose	5,291	5,238	Pension	3	1
			Lump Sum	1	0
P. Edie	n/a	3,551	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Councillors</u>					
N. Work ( <i>including role as Convener of Lothian Valuation Joint Board</i> )	4,410	4,366	Pension	3	1
			Lump Sum	2	0

All senior councillors shown in the above table are members of the Local Government Pension Scheme. Not all senior councillors are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current position.

## REMUNERATION REPORT

### Pension Benefits - continued

### Pension Rights - continued

### Senior Employees

The pension entitlements of senior employees for the year to 31 March 2015 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		Difference from 31.03.14
	For year to 31.03.15 £	For year to 31.03.14 £		As at 31.03.15 £000	
S. Bruce, Chief Executive ( <i>including returning officer role</i> )	34,450	34,110	Pension	80	4
			Lump Sum	191	2
G. Tee, Director Children and Families	30,567	30,264	Pension	75	3
			Lump Sum	181	2
A. Maclean, Director Corporate Governance	28,704	28,240	Pension	15	3
			Lump Sum	0	0
P. Gabbitas, Director Health and Social Care ( <i>Council proportion</i> )	8,859	8,563	Pension	25	2
			Lump Sum	75	5
M. Turley, Director Services for Communities ( <i>until 30.06.14</i> )	99,521	28,876	Pension	58	1
			Lump Sum	139	0
J. Bury, Acting Director Services for Communities ( <i>from 08.05.14</i> )	25,772	17,283	Pension	58	12
			Lump Sum	139	26
G. Ward, Director Economic Development	21,141	21,036	Pension	27	2
			Lump Sum	51	2
M. Miller, Chief Social Work Officer	21,246	21,036	Pension	37	2
			Lump Sum	80	1
H. Dunn, Head of Finance	22,366	22,144	Pension	44	2
			Lump Sum	101	1
Total	<u>292,626</u>	<u>211,552</u>			

All senior employees shown in the previous table above, with the exception of P. Gabbitas are members of the Local Government Pension Scheme. P. Gabbitas is a member of the National Health Service Superannuation Scheme (Scotland). The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government / public service and not just their current appointment. Accrued pension benefits relate to the position as at 31 March 2015, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 142. The contribution rate for P. Gabbitas is 14.7% (2013/14 13.3%).

# REMUNERATION REPORT

## Pension Benefits - continued

### Council's Subsidiary Companies

The pension entitlements of senior employees within the Council's subsidiary bodies for the year to 31 March 2015 are shown below, together with the contribution made to each senior employee's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.15 £	For year to 31.03.14 £		As at 31.03.15 £000	Difference from 31.03.14 £000
E. Adair, Operations and Finance Director, EDI Group	19,753	19,558	Pension	23	2
			Lump Sum	40	0
H. Rissmann, Chief Executive, EICC (until 31.03.15)	20,813	20,630	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M Dallas, Chief Executive, EICC (from 01.10.14)	3,737	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Lothian Buses Ltd.</u>					
I. Craig, Managing Director	38,201	36,311	Pension	24	3
			Lump Sum	19	1
W. Campbell, Operations Director	31,579	30,017	Pension	33	3
			Lump Sum	55	1
W. Devlin, Engineering Director	31,579	30,017	Pension	42	3
			Lump Sum	83	2
N. Strachan, Finance Director	31,579	30,017	Pension	38	3
			Lump Sum	70	2
G.Hughes, HR Director	10,353	10,150	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Edinburgh Trams Ltd.</u>					
T Norris, Director and General Manager (from 01.09.13)	7,400	2,467	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Capital City Partnership</u>					
J. Rafferty, Chief Executive	16,280	16,027	Pension	29	2
			Lump Sum	65	1
Total	<u>211,274</u>	<u>195,194</u>			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2014 and 31 December 2013 respectively.

E. Adair and J. Rafferty are the only members of the Local Government Pension Scheme in the above table. The pension figures shown relate to the benefits that the person has accrued as consequence of their total relevant service and not just their current appointment.

ANDREW KERR  
Chief Executive

ANDREW BURNS  
Council Leader

ALASTAIR MACLEAN  
Deputy Chief Executive

24 September 2015

24 September 2015

24 September 2015

# INDEPENDENT AUDITOR'S REPORT

## Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of City of Edinburgh Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statement, Comprehensive Income and Expenditure Statements, Balance Sheets and Cash Flow Statements, the authority-only Housing Revenue Account, Council Tax Income Account, Non-Domestic Rates Income Account, the Common Good Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### 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 circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

# INDEPENDENT AUDITOR'S REPORT

## Opinion on other prescribed matters

In my opinion;

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have the following to report in respect of these matters.

### Failure to achieve a prescribed financial objective

Whilst it has not been necessary to qualify my opinion in respect of the following matter, I am required to report it to you.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2015 in respect of their Edinburgh Catering Services - Other Catering significant trading operation.

David McConnell, MA, CPFA  
Assistant Director of Audit  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow G2 1BT

September 2015

#### Appendix 4

### Reconciliation of Outturn Position

	£m	£m
Outturn position as shown in the Revenue monitoring 2014/15 outturn report		(0.519)
Changes arising from the audit of the Financial Statements:		
- Increase in accrual for supplier services	0.014	
- Financing adjustments under IAS 39	(0.176)	
	<hr/>	(0.162)
Revised surplus		<hr/> <hr/>



10.00am, Thursday, 22 October 2015

## **Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – Referral from the Pensions Committee**

<b>Item number</b>	8.4
<b>Report number</b>	
<b>Wards</b>	All

### **Executive summary**

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Audit Scotland has undertaken its statutory audit of the Annual Report 2015 of the three pension funds administered by the City of Edinburgh Council. Only minor presentational changes have been made to the unaudited version and the annual report has been agreed by the Pensions Committee. The report is now referred to the Council for information. This is considered best practice given the Council's statutory role as administering authority of the Lothian Pension Funds.

### **Links**

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**Coalition pledges**

**Council outcomes**

**Single Outcome Agreement**

**Appendices**      Appendix – Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – report by the Deputy Chief Executive

# Terms of Referral

## **Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund - Referral from the Pensions Committee**

### **Terms of referral**

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- 1.1 On 30 September 2015 the Pensions Committee considered the audited annual report for the year ended 31 March 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.
- 1.2 Only minor presentational changes have been made to the unaudited version and the accounts were not affected. The annual report was considered and agreed by the Pensions Committee.
- 1.3 The report is now referred to the Council for information. This is considered best practice given the Council's statutory role as administering authority of the Lothian Pension Funds.
- 1.4 The Pensions Committee agreed:
  - 1.4.1 To approve the audited annual report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.
  - 1.4.2 To refer the report to Council for information.

### **For Decision/Action**

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- 2.1 To note the report.

### **Background reading / external references**

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#### **Carol Campbell**

Head of Legal, Risk and Compliance

Contact: Gavin King, Committee Services Manager

Email: [gavin.king@edinburgh.gov.uk](mailto:gavin.king@edinburgh.gov.uk) | Tel: 0131 529 4239

## Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome  
Agreement**

**Appendices**

Appendix – Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – report by the Deputy Chief Executive

# Pensions Committee

2.00 p.m., Wednesday, 30 September 2015

## Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Item number	5.4
Report number	
Executive/routine	
Wards	All

### Executive summary

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The Annual Report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund has now been considered by Audit Scotland. International Standard on Auditing (ISA) 260 requires the External Auditor to communicate his findings to those charged with governance of the Funds. Accordingly, the ISA 260 Report by Audit Scotland is included at Appendix 1, with the Lothian Pension Funds Annual Report 2014 Audited shown at Appendix 2.

External audit's review of the unaudited financial statements concluded that no numerical adjustments are required.

Audit Scotland's findings did highlight an error involving the calculation of the GBP equivalent of investment management expenses which resulted in the understatement of fees by £578k. This was viewed as immaterial and no adjustment was required. This error would not effect the bottom line of the accounts as limited partnership fees are deducted from capital.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

### Recommendations

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- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 Note the audited Annual Report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

### Background

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- 2.1 Pensions Committee approved the Unaudited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund at its meeting on 24 June 2015, with the Council noting this same report at its meeting on 25 June 2015.

### Main report

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#### External Auditor's Report

- 3.1 Under statutory accounting guidance issued by the Scottish Government, Administering Authorities are required to issue a separate Annual Report covering the Local Government Pension Scheme (LGPS) funds that they are responsible for. These Annual Reports are subject to a separate external audit. The external audit is required to comply with the International Standard on Auditing (UK and Ireland) 260 (ISA 260). As part of the standard, the External Auditor is required to communicate to those charged with governance his view of the following:
  - Any significant qualitative aspects within the Funds' accounting practice;
  - Any significant difficulties encountered during the audit;
  - Any material weakness in the design, implementation or operating effectiveness of the system of internal control;
  - Any significant matters arising from the audit discussed with management;

- Any representations that have been requested from management; and
  - Any other matter that is significant.
- 3.2 The findings of the external audit are contained in the ISA 260 report (attached as Appendix 1). Audit Scotland will present the report and answer any questions arising.

### **Audited Annual Report 2015 for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund**

- 3.3 With the completion of the work of the External Auditor, the Audited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2. The Independent Auditor's Report, including certification, can be found on page 105. There are no qualifications to this report.
- 3.4 No numerical adjustments are required to be made on the unaudited financial statements following the Fund's audit. Audit Scotland's findings did highlight an error involving the calculation of the GBP equivalent of investment management expenses which resulted in the understatement of fees by £578k. This was viewed as immaterial and no adjustment was required. This error would not effect the bottom line of the accounts as limited partnership fees are deducted from capital.
- 3.5 It was also noted that although the Fund's governance arrangements comply with best practice, only two Committee members met the Fund's training target of 21 hours during the year.
- 3.6 Some minor presentational changes have also been incorporated.
- 3.7 After consultation with Audit Scotland the Fund has updated the signatories of each section of the Audited Annual Report so as to comply with best practice.

### **Measures of success**

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- 4.1 The prime objective of the Council, as administering authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, is to ensure an unqualified audit opinion of the Annual Report 2015. This has been achieved.

### **Financial impact**

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- 5.1 There are no direct financial implications as a result of this report.

## Risk, policy, compliance and governance impact

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- 6.1 The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and also in compliance with the requirements of the Local Government Scotland Act 1973.

## Equalities impact

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- 7.1 There are no adverse equalities impacts arising from this report.

## Sustainability impact

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- 8.1 There are no adverse sustainability impacts arising from this report.

## Consultation and engagement

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- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.
- 9.2 This report is also being considered by the Pensions Audit Sub-Committee at its meeting on 29 September 2015 and its recommendation(s) will be reported orally.

## Background reading/external references

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None.

### **Alastair D Maclean**

Chief Operating Officer

Deputy Chief Executive

Contact: John Burns, Pensions & Accounting Manager

E-mail: [john.burns@edinburgh.gov.uk](mailto:john.burns@edinburgh.gov.uk) | Tel: 0131 469 3711

## Links

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### **Coalition pledges**

**Council outcomes** CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

### **Single Outcome Agreement**

### **Appendices**

Appendix 1 - ISA 260 Report by Audit Scotland

Appendix 2 - Audited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund



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[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



The Pensions Audit-Sub Committee, Pensions Committee  
and the Controller of Audit

30 September 2015

## Lothian Pension Funds Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
  2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report on 30 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the independent auditor's report.
  3. In presenting this report to the pensions audit sub-committee and the pensions committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
  4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
  5. As part of the completion of our audit we seek written assurances from the Pensions and Accounting Manager on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Pensions and Accounting Manager with the signed financial statements prior to the independent auditor's opinion being certified.
-

## **APPENDIX A: Proposed Independent Auditor's Report**

### **Independent auditor's report to the members of City of Edinburgh Council as administering body for Lothian Pension Funds and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Lothian Pension Funds for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Pensions and Accounting Manager and auditor**

As explained more fully in the Statement of Responsibilities, the Pensions and Accounting Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **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 funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pensions and Accounting Manager; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities;
  - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
  - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
-

### **Opinion on other prescribed matter**

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA  
Assistant Director  
Audit Scotland  
4th Floor South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
GLASGOW  
G2 1BT

Date: September 2015

---

## Appendix B: ISA 580 - Letter of Representation

30 September 2015

David McConnell  
Assistant Director  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Building  
Glasgow  
G2 1BT

Dear David

### Lothian Pension Funds

#### Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of the Lothian Pension Funds for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Lothian Pension Funds for the year ended 31 March 2015.

#### General

3. I acknowledge my responsibility and that of the Lothian Pension Funds for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the funds have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
  4. The information given in the Annual Report to the financial statements and Management Commentary presents a balanced picture of the Lothian Pension Funds and is consistent with the financial statements.
  5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).
-

## **Legality of Financial Transactions**

6. The financial transactions of the funds are in accordance with the relevant legislation and regulations governing its activities.

## **Financial Reporting Framework**

7. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the funds for the year ended 31 March 2015.

## **Accounting Policies & Estimates**

9. All material accounting policies adopted are as shown in the Statement of accounting policies and general notes included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

## **Actuarial Assumptions**

11. The pension assumptions made by the actuary in the IAS19 report on the funds have been reviewed and I can confirm that they are consistent with management's own view.

## **Fraud**

12. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

## **Corporate Governance**

13. I acknowledge, as the officer with responsibility for the proper administration of the funds financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with Delivering Good Governance in Local Government. Also, I have reviewed the Corporate Governance Compliance statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes
-

in the corporate governance arrangements or issues identified, since the 31 March 2015 which require disclosure.

### **Related Party Transactions**

14. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Investment Assets and Current Assets**

15. On realisation in the ordinary course of the funds business the investment and current assets in the net asset statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

### **Investment Liabilities and Current Liabilities**

16. All liabilities have been provided for in the books of account as at 31 March 2015.

### **Contractual commitments**

17. All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2014.

### **Employer / Employee Contributions**

18. A high level analysis is carried out at the year end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contributions received from employers during the year with any unexpected differences followed-up and investigated.

### **Events Subsequent to the Date of the Net Asset Statement**

19. There have been no material events since the date of the net asset statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
20. Since the date of the net asset statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

**John Burns**

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**Pensions and Accounting Manager (Section 95 Officer for pensions)**





# Audited Annual Report and Accounts 2014/15

Lothian Pension Fund  
Lothian Buses Pension Fund  
Scottish Homes Pension Fund





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# Foreword



## Report from the Convener of the Pensions Committee

As Convener of the Pensions Committee with responsibility for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund, I am pleased to introduce the 2014/15 Annual Report and Accounts.

The Local Government Pension Scheme (LGPS) in Scotland changed from a 'Final Salary' scheme to a 'Career Average' scheme on 1 April 2015. I would like to express my appreciation to the staff of the pension fund and our scheme employers who have worked so hard to support the successful implementation of the new scheme on behalf of our members. If you are paying into the scheme now the pension you build up from April 2015 is based on your average earnings until you take your pension. Pension you built up in the scheme before April 2015 will still be based on your final salary. Very importantly, particularly within the LGPS where we have a high proportion of relatively low paid and part time workers, the scheme remains a defined benefit scheme. This guarantees members a stable income in retirement, linked to inflation rates. The LGPS is still a great pensions scheme and ensuring members appreciate the value of their pension continues to be very important for us.

Preparations for governance changes on 1 April 2015 have also been made during the year. The Fund wound up the Consultative Panel, which has made a significant contribution over 2014/15 and in previous years, its members bringing valuable insight to the decision making of the Pensions Committee. A new Pension Board has replaced the Consultative Panel. I and my fellow members of the Pensions Committee look forward to working with the new Pension Board in a similarly constructive manner.

I would like to take this opportunity to record my thanks to my colleagues on the Pension Committee, the Consultative Panel and our advisors for their commitment and support over the last year.

**Councillor Alasdair Rankin**  
**Pensions Committee Convener**  
**The City of Edinburgh Council**  
**30 September 2015**



### Report by the Convener of the Pensions Audit Sub-Committee

The role of the Pensions Audit Sub-Committee is to assess the control of the Funds to provide assurance of effective and efficient operations and to make appropriate recommendations to the Pensions Committee. It consists of three members of the Pensions Committee and it draws on appropriate specialist knowledge, understanding and expertise to scrutinise the operation of the pension funds.

Two members of the Consultative Panel, one member representative and one employer representative and the independent professional observer also attend.

Over the 2014/15 year, the Sub-Committee met three times and considered the 2013/14 accounts which for the first time included details of investment fees which had previously been netted off against capital appreciation. It also reviewed findings from internal and external audits, fraud prevention, recovery of income tax on investment income and the service from the Funds' investment custodian.

The Audit Sub-Committee continues to provide added benefit to the pension funds and ultimately to members and employers.

**Councillor Cameron Rose**  
**Audit Sub Committee Convener**  
**The City of Edinburgh Council**  
**30 September 2015**



### Report by the Independent Professional Observer

My role as an Independent Professional Observer for the pension funds is to assist the Pensions Committee in exercising their governance responsibilities as effectively and as efficiently as possible. My experience as a pension trustee and knowledge of institutional investment help me to undertake the role.

2014-5 was a busy year for the Pensions Committee and the Consultative Panel. As well as overseeing preparations for the introduction of the new scheme in April 2015, they contributed actively to the consultations on the new governance arrangements for the LGPS in Scotland and acted swiftly to amend the governance processes for the Lothian fund once the regulations were finalised. The activities of the Pensions Committee and the Pension Board are now overseen by The Pensions Regulator, and all members have received training on the new governance and regulatory regime. In addition, the Committee has overseen the establishment of two special purpose vehicles to enhance the investment and administration efficiency of the schemes, and ensured that appropriate governance and oversight is in place for this new structure.

The level of debate during Committee meetings is of a consistently high quality. Members of both the Pensions Committee and the Consultative Panel have been very engaged with ensuring that the governance arrangements for the next stage of the funds' lifecycle continue to ensure that the interests of members, employers and taxpayers is paramount in how the funds are run.

**Sarah Smart**  
**Independent Professional Observer**  
**30 September 2015**

# Management commentary

## Introduction



**ALASTAIR MACLEAN**  
**Chief Operating Officer**  
**Deputy Chief Executive**



**CLARE SCOTT**  
**Investment and Pensions Service Manager**

### Scheme Changes

During the year preparations have been made for the significant changes to the Local Government Pension Scheme and the introduction of a career average pension scheme taking effect on 1 April 2015.

We participated in working groups set up by the Scottish Local Government Pensions Advisory Group to develop communications material for the new Scheme, including the new Scheme-wide website [www.scotLGPS2015.org](http://www.scotLGPS2015.org) and videos. Newsletters were also issued to members and we have delivered face-to-face presentations. A communications toolkit was also developed for employers to use for their employees which reinforce the message that the scheme remains a valuable part of remuneration.

As well as reviewing and adapting our internal processes we have also been working with our software providers to develop the new systems required to administer the new scheme.

### Customers

Efforts to speed up the transfer of membership data from employers to the Fund have continued over the year and approximately two-thirds of employers are now submitting membership data to us every month. This enables us to provide a quicker service to members. As a result, the satisfaction of new members improved significantly in 2014/15 with 89% of those surveyed agreeing that our service was excellent. We have continued to warn members of the risk of pension liberation fraud and to try to prevent such fraud. During the year, the Funds, once again, retained the Customer Service Excellence award and achieved specific recognition for our efforts to improve the timeliness of data transferred from employers and our handling of complaints.

## 2014 Actuarial Valuations

The financial position of all three pension funds, and the employer contributions for the coming years, were assessed at the 2014 actuarial valuation.

Lothian Pension Fund's funding level fell from 96.1% at 31 March 2011 to 91.3% at 31 March 2014 valuation and the deficit increased from £142 million to £417 million. Despite strong investment performance over the three years between the valuations, falls in bond yields as well as the improvements in longevity caused the funding level to fall. The Funding Strategy Statement was reviewed during the actuarial valuation. A review of the employer covenant highlighted the fact that a number of employers have very few active members and are therefore close to exit. When the last active member leaves the Fund, a cessation valuation must be carried out to value the employer's liabilities and identify any payment required to cover such liabilities. Cessation valuations can often reveal large pension deficits. In order to improve employers' understanding of cessation valuations, the Actuary provided each employer with the value of their pension liabilities during the valuation. In addition, to address the previous inconsistency between the actuarial and cessation valuations, a new funding approach was adopted for employers close to exiting the Fund to spread the deficit payment over the future working lifetime of the active members. As well as raising awareness of pension deficits, it also reduces the risk of employers being unable to pay deficits when the last active member leaves.

For Lothian Buses Pension Fund, the funding level (on the ongoing basis) rose from 112.4% at 31 March 2011 to 116.7% at 31 March 2014 and the surplus increased from £28 million to £48 million. As the Fund has been closed to new entrants since 1 January 2008, inevitably the liabilities will gradually mature. In this context, the funding level was also measured on a more prudent basis, discounting the liabilities using government bond (gilts) yields. This increased the liabilities by £93 million and reduces the funding level to 88.2%.

The funding level for Scottish Homes Pension Fund at 31 March 2014 was 88.8%, increased from 86.3% from the 2011 actuarial valuation. The funding level remained below the target funding level (91.5% at March 2014) as prescribed in the funding agreement with Scottish Government.

## Funding and Investments over 2014/15

Investment markets performed strongly over the year with most markets delivering returns over 10% as markets continued to respond positively to low interest rates. Lothian Pension Fund produced a return of 16.5% over the year and at 31 March 2015 was valued at over £5 billion. Lothian Buses Pension Fund and Scottish Homes Pension Fund returned 15.1% and 19.7% respectively.

Despite very strong investment markets over the 2014/15 year, the decline in market yields has lead to a deterioration of the funding levels for Lothian Pension Fund and Lothian Buses Pension Fund. The implementation of the investment strategies for the Funds for 2012-17 proceeded at a measured pace as investment opportunities become available and as opportunities were researched.

For the Scottish Homes Pension Fund, the funding level rose over the financial year 2014/15 and as a result the Fund's equity allocation was reduced in favour of bonds in order to reduce risk. The funding level at 31 March 2015 was estimated to be 92.8%. During April 2015, with equity markets having continued to rally, the funding level rose again and the equity allocation was reduced further.

In order to further develop the internal investment capabilities of the Fund, two special purpose vehicles were created to employ certain key internal investment staff and to seek Financial Conduct Authority (FCA) registration.

## Future Challenges

We set out the the future challenges and priorities for the pension funds in our Service Plan each year. The most recent Service Plan, which was agreed by the Pensions Committee in March 2015, is available on our website.

The change to a career average pension scheme means that administration and communication will be more complex. There are also more wide reaching and radical reforms for pensions taking place in the UK, with changes to the State Pension and flexible access to pensions savings under the 'Freedom and Choice' initiative. There is also a risk that members decide to opt-out of the Fund on grounds of affordability or lack of appreciation of the value of pension benefits.

Looking ahead, investors are wondering how long the current positive environment for investment markets can last. Given that the low interest rates and unconventional monetary policy (so-called quantitative easing) are inextricably linked with prices in asset markets, the fear is that this element of support will be withdrawn and interest rates will rise. It appears unlikely that the high returns of 2014/15 will be sustained over the long term. Uncertainty is a constant in the investment market, which creates the opportunities for investors to earn returns higher than those available from risk-free assets. With the benefit of economic growth and advancement over the coming years and decades, the investment strategies of the Funds should deliver the required returns over the long term. The Fund will also seek Financial Conduct Authority (FCA) registration in order to further develop its investment capabilities.

The results of the 2014 actuarial valuation and employer covenant analysis have highlighted the need for different funding and investment options for certain employers. Employers in the Lothian Pension Fund continue to face organisational changes and with increased pressure on employer contributions, increasing numbers of admitted bodies are investigating options to exit the Fund. We are committed to ensuring commitments to the Fund are honoured whilst adopting as flexible an approach as possible to funding.

From April 2015, the Funds will be under greater scrutiny. As well as the increased oversight by the Pensions Regulator, the Funds have a new Pension Board, made up of employers and members and a new (national) Scheme Advisory Board which has been established which will provide advice to Scottish Ministers on desirability of changes to the scheme in the future.

By continuing to use the principles of the Customer Service Excellence award, we will strive to meet our customers' needs.

**ALASTAIR MACLEAN**  
Chief Operating Officer  
Deputy Chief Executive  
The City of Edinburgh Council  
30 September 2015

**CLARE SCOTT**  
Investment and Pensions Service Manager  
The City of Edinburgh Council  
30 September 2015

# How the Funds work

The City of Edinburgh Council acts as administering authority for the Local Government Pension Scheme in the Lothian area. There are three funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

## Pensions Committee and Audit Sub-Committee

The City of Edinburgh Council in its role as administering authority delegates pension matters to the Pensions Committee and Pension Audit Sub-Committee whose members act as 'quasi trustees'.

The Pensions Committee held four meetings during the year and the Audit Sub-Committee met three times. Membership of both Committees is shown below.

### Membership 1 April 2014 to 31 March 2015

#### Pensions Committee

Councillor Alasdair Rankin (Convener)  
 Councillor Maureen Child  
 Councillor Jim Orr  
 Councillor Bill Cook  
 Councillor Cameron Rose  
 John Anzani (nominated by the Consultative Panel)  
 Darren May (nominated by the Consultative Panel)

#### Pensions Audit Sub-Committee

Councillor Cameron Rose (Convener)  
 Councillor Jim Orr  
 Councillor Bill Cook

## Consultative Panel

Membership of the Consultative Panel to 31 March 2015 was made up of six employer and six member representatives who act as a sounding board for, and meet with, the Pensions Committee. The Panel members are shown below.

Consultative Panel membership 1 April 2014 to 31 March 2015		
	Employer	Representing
<b>Employer representatives</b>		
Alan Williamson	Edinburgh College	Colleges/universities
Darren May*	Scottish Water	Other employers
Helen Carter	Scottish Government	Scottish Homes
Eric Adair	EDI	Other employers
Guy Hughes (Resigned 1/2/15)	Lothian Buses	Lothian Buses
Sharon Dalli	Police Scotland	Other employers
<b>Member representatives</b>		

Consultative Panel membership 1 April 2014 to 31 March 2015		
	Employer	Representing
Charlie Boyd	The City of Edinburgh Council	Active members
Eric MacLennan	The City of Edinburgh Council	Unison
Owen Murdoch	Retired member	Unison
John Rodgers	Lothian Buses	Unite
John Anzani*	Midlothian Council	Active members
Vacancy		

\* Members of the Pensions Committee at 31 March 2015

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## Pensions Committee and Consultative Panel training

The Committee and Panel members must attend training as outlined in the Funds' training policy. The policy includes a framework, based on the CIPFA guidance, to assess knowledge and identify training to ensure effective decision making. The training covers key areas including pension legislation, investment, accounting, auditing standards and actuarial practices.

All Committee members undertook training covering key elements of pension legislation and investments. Committee members collectively attended 167.5 hours of training over the year. Panel members undertook 60.5 training hours.

The Committee and Consultative Panel also participated in additional meetings to discuss and agree the governance changes required by new legislation.

---

## Governance changes

On 25 March 2015, the Pensions Committee approved governance changes arising from the requirements of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014 which were required to be implemented by 1 April 2015.

The Consultative Panel was disbanded with effect from 31 March 2015 and was replaced on the 1 April 2015 with a new Pension Board. The role of the Pension Board is to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. Its membership will comprise ten members; five appointed from the employer bodies and five appointed from the trade unions representing the membership in the Fund. The application process to appoint Pension Board members ran from December 2014 to February 2015. The new Pension Board is as follows:



Pension Board from 1 April 2015	
	Appointed by
Employer representatives	
Simon Belfer	Napier University
Darren May	Scottish Water
Rucelle Soutar	The Royal Edinburgh Military Tattoo
Eric Adair	EDI
Linda McDonald	Handicabs
Member representatives	
Jim Anderson	Unison
Catrina Warren	Unison
Graham Turnbull	UCATT
John Rodgers	Unite
Thomas Carr-Pollock	GMB

There is no change to the Pensions Committee and Audit Sub-Committee which continue in their current form although the two non-councillor members are now drawn from the employers and members. The Councillor membership from 1 April 2015 remains unchanged and John Anzani also continues as a member representative. Darren May was replaced by Richard Lamont on 20 April 2015.

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## Investment and Pensions Division

The Investment and Pensions Division of the Corporate Governance Directorate is part of the City of Edinburgh Council and carries out the day-to-day running of all three pension funds. The Division functions include investment, pension administration and payroll, communications and accounting. The investment responsibilities include monitoring and selecting external investment managers and carrying out in-house investment management.

The senior officers are:

Alastair Maclean, Chief Operating Officer and Deputy Chief Executive

Clare Scott, Investment and Pensions Service Manager

Struan Fairbairn, Legal and Risk Manager

Bruce Miller, Investment Manager

John Burns, Pensions and Accounting Manager

Esmond Hamilton, Financial Controller

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## Investment Strategy Panel

The Pensions Committee sets the overall investment strategy with the implementation of that strategy, including investment monitoring, delegated to the Director of Corporate Governance who takes advice from the Investment Strategy Panel. The Investment Strategy Panel meets quarterly and comprises the Director of Corporate Governance, Investment and Pensions Service Manager, Pensions and Accounting Manager, Investment Manager and three independent advisers. The independent advisers are Gordon Bagot, Scott Jamieson and KPMG, represented by David O'Hara.

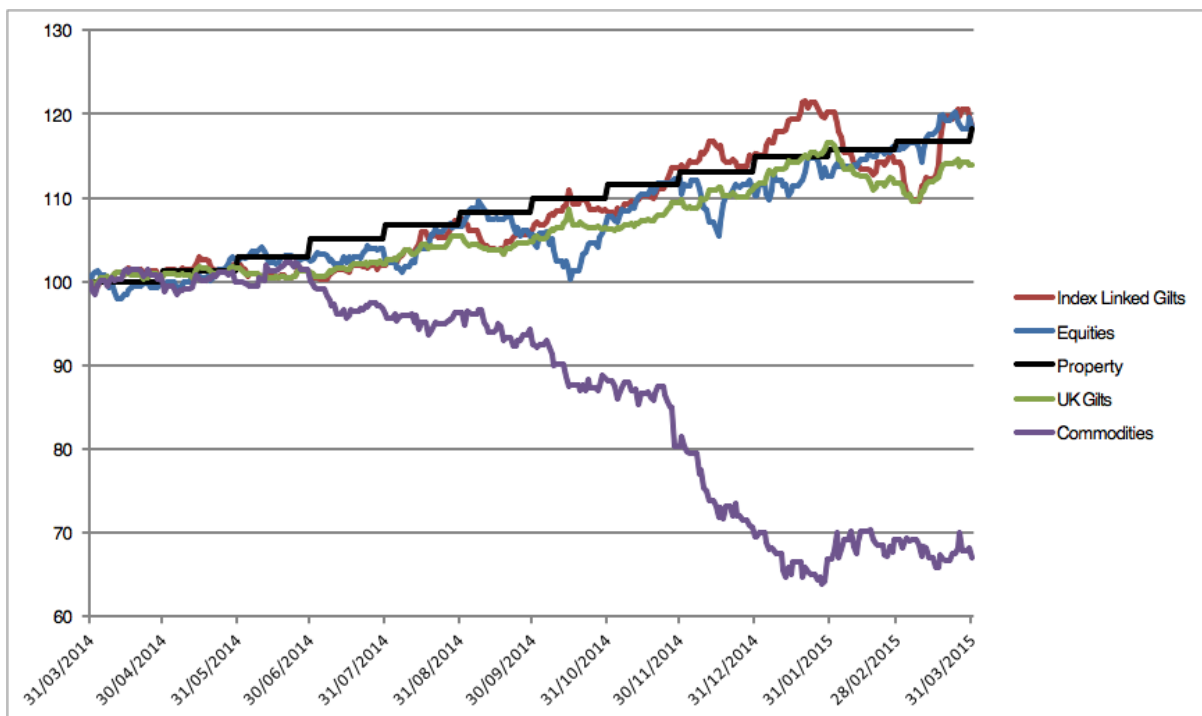
# Investments

## Investment markets

The UK economy has made a solid recovery since the dark days of the global financial crisis in 2008/09. Unemployment has shrunk to 6% from a peak of 8% in 2009, and the employment rate of 73.3% is the highest since records began in 1971. The public sector deficit has halved since 2010. In 2014, the UK economy expanded by 2.8%, although it slowed in the first quarter of 2015. US economic growth has been robust for the last few years, and even laggard countries and regions such as Japan and Europe are now displaying some springtime green shoots of recovery.

Asset markets continue to respond positively to low interest rates and unconventional monetary policies (bond buying by central banks) aimed at stimulating economic growth. Perhaps unsurprisingly, government and corporate bond markets made handsome gains as investors anticipated strong central bank buying support for these assets. Equity markets benefited too. The US equity market is now comfortably in excess of its two previous peaks, Japanese equities continued to perform well and the UK stock market is once again hovering around its historical high point. Even the continental European stock markets have shown signs of reviving, but after a long period in the doldrums, the outstanding equity market performer over 2014/15 was the Shanghai Stock Exchange in China, which soared 56%. Other asset classes, such as property, also made attractive returns. The key feature in currency markets was US dollar strength. The only real disappointment was commodities, where oil and iron ore prices in particular fell sharply.

### One Year Asset Class Returns – Major Markets (rebased to 100)



Looking ahead, investors are wondering how long the current positive environment for asset markets can last. Given that the low interest rates and unconventional monetary policy (so-called quantitative easing) are inextricably linked with prices in asset markets, the fear is that this element of support will be withdrawn and interest rates will rise. This is front and centre of mind in one of the two largest economies in the world, the USA, where wage inflationary pressure could cause the economy to overheat. This is not the case across the globe. The European Central Bank has only recently resorted to stimulating the economy with quantitative easing and the other giant economy in the world, China, seems quite out of sync with the USA, having recently embarked on a policy of cutting interest rates in the face of a slowing economy and low inflationary pressure.

So, the timing of less supportive central bank policies is far from clear (further market gains are quite possible), but that tightening monetary policy will cause increased volatility and declines in bond and equity markets with high valuations is crystal clear. The high returns of 2014/15 cannot be sustained over the long term.

Other than monetary policy, there are a number of issues that will affect asset market returns in an unpredictable way going forward. There are numerous high profile geopolitical risks preying on investors' minds. These include Greek debt, Chinese expansion, the Ukraine conflict, war in Syria and fallout from the lower oil price in producing countries such as Norway, Russia, Venezuela and Saudi Arabia. These geopolitical risks are manageable to the extent that it is in nobody's interests to let them get out of control. Uncertainty is a constant in the investment backdrop and it is the uncertainty which creates the opportunities for investors to earn returns higher than those available from risk-free assets. With the benefit of economic growth and advancement over the coming years and decades, a diversified portfolio of assets should provide that risk premium over the long term.

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## Investment strategies

The review of investment strategies for all three Funds during 2012 concluded that there was scope to reduce investment risk. Given valuations of fixed income markets, the Funds' current focus has been on robust income generation and lower risk from other assets, including equities. The allocations to index-linked gilts provide a good match to liabilities and a measure of diversification for the Funds, but they provide a very low or negative real return.

The Funds have made considerable progress in moving away from market capitalisation benchmarks, which are regarded as sub-optimal, and continue to focus on ways to ensure that the objectives and risk tolerances of individual portfolios are closely aligned with the overall objectives of the Funds as possible. Capital preservation and growth are more important than following an index.

Over 2014/15, both Lothian Pension Fund and Lothian Buses Pension Fund reduced their equity allocations and increased their index-linked allocations modestly and continued to make new commitments to alternative assets, including timber assets and infrastructure investments in Scotland and overseas. Scottish Homes Pension Fund reduced its equity allocation and increased the allocation to index-linked gilts over 2014/15 as result of improvements in the funding level.

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## Responsible investment

We strive to be active shareholders in order to enhance the long-term value of our investments. The Funds consider environmental social and governance issues in the investment process in a manner which is consistent with the fiduciary duty to provide the highest standard of stewardship on behalf of the beneficiaries.

Robust arrangements are in place to ensure that the Funds' shareholdings are monitored and appropriate voting and engagement activity is undertaken with the aim of bringing about positive long term change at companies through a focused and value oriented approach.

We are a signatory to the Principles for Responsible Investment and publish how the Financial Reporting Council UK Stewardship Code requirements, which promote public disclosure of stewardship activities, are met. The Funds undertake voting and engagement activities through Hermes Equity Ownership Service for the majority of the investments. Baillie Gifford, UBS and State Street take direct responsibility for stewardship issues in the investments they manage on the Funds' behalf.

Over the year, we voted at shareholder meetings for the more than 800 companies in which the Funds were invested, voting on over 10,000 resolutions and opposing over 600 of them. Hermes EOS engaged on our behalf with over 130 companies across the world on topics such as board structure, executive compensation, climate change and retail supply chains.

As part of the Funds' responsible investing activities, we undertake class action activity, which typically involves a group of shareholders collectively suing a company in order to recover a loss in share value. During 2014-15, all the cases where the Funds were acting as co-lead plaintiff in class action lawsuits concluded. The potential benefits and risks of active participation in class actions will continue to be assessed on a case by case basis.

Councillor Cameron Rose, a member of the Pensions Committee, is Vice Chair of the Local Authority Pension Fund Forum (LAPFF), which promotes the investment interests of local authority pension funds and seeks to maximise their influence as shareholders. LAPFF has continued its work on accounting standards for the banking industry and has made significant progress. Other recent activity includes engagement on corporate governance, carbon risk and executive pay. Members of the LAPFF executive committee attended a number of company AGMs over the last year, where the boards were challenged on executive pay arrangements and questions were posed to chairmen on corporate carbon management risk, employment standards, customer service, dividends and buybacks.



# Performance against our service plan objectives

The Fund is committed to continuously developing to provide the best possible service to our customers. We set our vision, objectives, key actions and how we will measure success in the our annual service plan. We regularly report our progress to the Pensions Committee and Consultative Panel.

The Fund objectives are:

- to provide excellent customer care
- to support and develop staff
- to continue to be a top performing fund.

In 2014/15, we have delivered the following achievements:

- introduced LGPS2015 and participated in Scotland-wide communications and Regulation changes
- successfully completed Actuarial Valuations for the three pension funds and work continued work on employer covenants
- participated in the debate on governance changes leading to new governance arrangements for Scotland and put in place a new Pension Board with effect from 1 April 2015
- introduced a new internal global equity portfolio after extensive research and transferred approximately £300 million to internal management
- implemented new Customer First team - leading to improved call handling
- reduced our backlog of work - during the year carrying out 25,448 procedures (8,914 key and 23,697 non key)
- introduced investment cost transparency in our Annual Report and Accounts
- created two companies in order to separate some service functions and obtain FCA authorisation
- automated the process for one off benefit payments, creating efficiency and reducing risk.

## Performance against key objectives

Our key performance indicators are split into three main categories in line with our objectives - customers, staff and performance. Our performance targets and actual performance for the year are set out below. The investment performance can be found later in this report under each individual Fund accounts section.

### Service plan objective 1 - To provide excellent customer care

	Target	Actual
Overall satisfaction of employers, active members and pensioners with our services as measured by surveys	86%	89%
Proportion of active members receiving a benefit statement by 30 August 2014	95%	96%
Retain Customer Service Excellence Standard accreditation	Retain	Retained

**CUSTOMER SERVICE EXCELLENCE**



**Service Excellence**

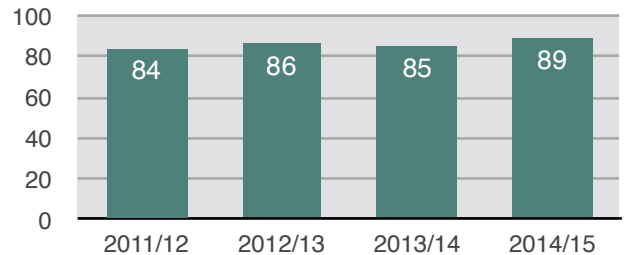
We use the Customer Service Excellence (CSE) framework to maintain our commitment to customer service and ensure we continuously make improvements to our customer services. Our annual external CSE assessment ensures we improve and develop our services on an ongoing basis.

Our assessment in February 2015 saw us retain CSE for another year adding two more Compliance Plus awards for our complaint handling and also working with employers to improve the provision of data in a timely manner. We now hold four Compliance Plus awards. In 2015, the assessor commented in his report that the "service demonstrated that it has continued to provide a very high quality of service to its customers."

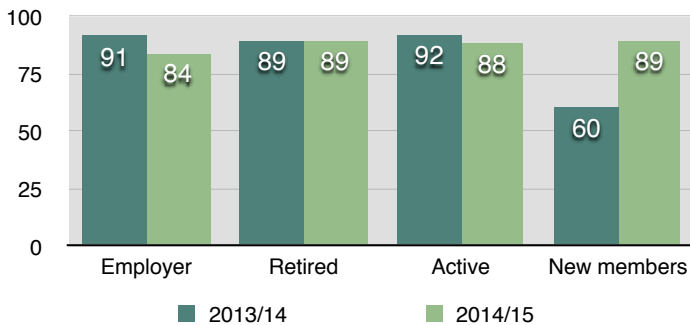
**Surveys**

Our overall customer satisfaction was 89%, above the target of 86%. The satisfaction of our different customer groups (employers, retired, active and new members) is shown.

Overall satisfaction with services - %



Overall satisfaction by survey



The work carried out by the Fund to introduce improvements to the way employers provide their data to us via our employer online system has significantly improved the service for new scheme members. Satisfaction has improved significantly from 60% in 2013/14 to 89% in 2014/15.

**Complaints**

We monitor the complaints we receive on a monthly basis. We respond promptly to any complaints, investigate them and learn from them to improve the service.

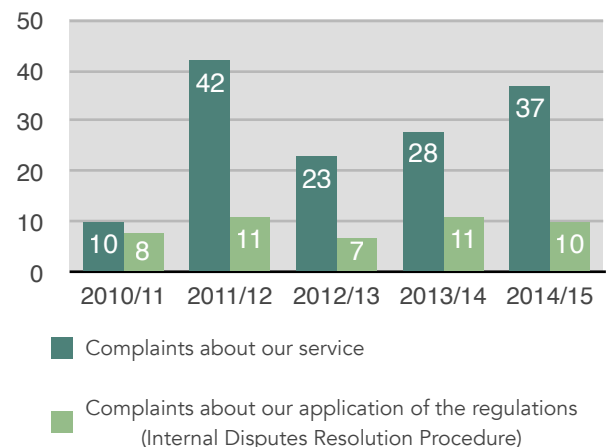
We categorise our complaints in two ways:

Complaints about our service

Complaints about our application of the regulations

The graph shows the number of complaints in each of the categories. These represent less than 0.1% percentage of the procedures (over 25,000) we carried out in 2014/15.

Complaints

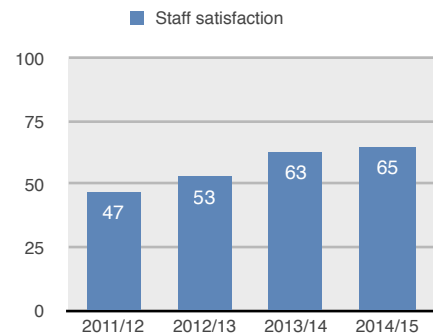


Service plan objective 2 – Support and develop staff

	Target	Actual
Level of sickness absence	4%	2.1%
Staff satisfaction with present job	65%	65%
Minimum number of days training per year for each member of staff	2 days	2 days

Our staff are at the heart of our business and are key to delivering our objectives. Key indicators for staff in 2014/15 were overall staff satisfaction, sickness absence levels and training hours completed. All targets were achieved. The sickness absence rate was low at 2.1% and overall job satisfaction has increased steadily over recent years and was 65% in 2014/15.

Over the last financial year, all our staff have had regular training to ensure they meet the target of at least two days training. As well as attendance at external seminars, we held in-house sessions covering topics such as the new Scheme, annual report, risk, the actuarial valuation and data protection.



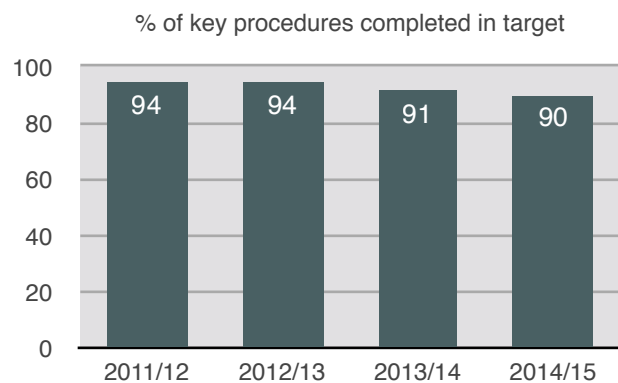
Service plan objective 3 – To continue to be a top performing Fund

	Target	Actual
Percentage of critical pensions administration work completed within standards	90%	90%
Audit of annual financial statements	Unqualified opinion	Yes
Data quality - compliance with best practice as defined by the Pensions Regulator	Fully compliant	Fully compliant
Employer contributions paid within 19 days of month end	98%	98%

**Pensions Administration**

The dedicated in-house team provides pension administration services for the three pension funds. The time it takes to complete our procedures is monitored. Key procedures include processing of retirement and dependent benefits, providing information for new members, transfers and retirement quotes. Performance for these key procedures over the year 2014/15 showed 90% of the work completed was within target.

In 2014/15, the overall volume of work continued to increase and we focused on reducing a backlog of non-key work, whilst also continuing the drive to enhance data quality.



**Data quality**

High quality data is essential for us to provide an excellent service to our members. During the year more than 60 employers started submitting contribution data to us on a monthly basis - leading to cleaner membership data. Along with our employer web portal, introduced to assist with the transfer of data, we have adopted other initiatives to improve member information. These include participation in specialist longevity and data analyses through "Club Vita", a service provided by the Funds' Actuary.

We also carry out quarterly checks with the General Register Office and participate in the National Fraud Initiative. In 2014, we carried out a matching exercise for deferred members where we have lost touch with them. The project is currently being followed up with contact being made where a possible match has been found.

Pension record keeping standards are also measured against The Pension Regulator's best practice guidance and appropriate assurance attained.

The Pensions Regulator data standards	Target	Actual
<b>Common data</b>		
New data (post June 2010)	100%	100%
Old data (pre June 2010)	95%	97%
<b>Conditional and Numerical Data</b>		
Fund specific measurement including date of joining; pensionable remuneration; date of leaving and reasons for leaving etc.	98%	98%

**The Pensions Administration Strategy**

The Funds' Pensions Administration Strategy highlights the duties and performance standards for the Funds and participating employers.

We rely on employers providing prompt information to ensure we can provide timely and accurate services to our members. We monitor employer performance regularly and update employers on their performance both individually and on a fund-wide basis at our employer events. During 2014/15, we continued to meet with our largest employers to discuss performance and worked with them to help us deliver a better service to members. We have also provided training and support to employers to provide monthly contribution information. This process helps identify any missing or incorrect membership data more quickly, improving data quality and hence helping us to deliver a better service to members. This was recognised as part of the assessment for Customer Service Excellence where the assessor noted that 'work undertaken with partners to resolve data quality issues has led to improved pension information for customers'.

Employer performance for 2014/15 and 2013/14 for comparison is shown below:

Case type	Target (working days)	2013/14			2014/15		
		Number received	Number within target	% within target	Number received	Number within target	% within target
New member	20	4,069	2,812	69%	4,741	3,631	77%
Leaver	20	1,006	384	38%	2,430	1,189	49%
Retirement	20	778	374	48%	931	373	40%
Death in service	10	42	23	55%	29	7	24%



In 2014/15, there have been significant increases in the number of leavers and new members and performance has improved in both categories during the year. We have continued to work with employers to deal with outstanding queries regarding leavers from previous years. As more employers supply monthly contribution data for each member, we anticipate that performance will further improve in this area.

In contrast the proportion of cases when we receive information on retirement and death in service from employers within target timescales has worsened over the year. We dealt with nearly 20% more retirement cases during the year, and more than a third of all retirements required some additional consent (for instance ill-health or redundancy retirement). These cases can often be difficult to process in their target timescales.

Efforts to ensure employers send details of membership changes promptly to the Fund will continue, including education of employer contacts at all steps of the retirement process to ensure that employers are aware of the need to provide information promptly.

**Employer contributions**

The Pensions Act 1995 requires employers to pay pension contributions by the 19<sup>th</sup> of the month following the deduction from an employee’s pay. This requirement is highlighted in the Pensions Administration Strategy and to all new employers on joining the Fund.

We monitor this requirement via our key performance indicators to ensure compliance with the Act. The target for 2014/15 of 98% of pension contributions paid in time was achieved.

Of the 1,161 payments made to the Fund in 2014/15, 62 payments were later than the target of the 19th of the month. The number of late payments by employer is provided below.

Employer	Number of late payments
Broomhouse Centre Representative Council	1
Centre for Moving Image	1
Children’s Hearing Scotland	3
Dawn Construction	3
Dean Orphanage	1
Donaldson Trust	2
Edinburgh Cyrenians Trust	1
Edinburgh Festival Society	1
Edinburgh World Heritage	1
Edinburgh College	1
ELCAP	1
Enjoy East Lothian	2
Festival City Theatres Trust	2
First Step	1
Forth & Oban	1
Four Square	4

Employer	Number of late payments
Granton Information Centre	6
Homeless Action Scotland	1
Scottish Fire & Rescue Service (Training College)	1
Police Scotland	1
Midlothian Council	1
North Edinburgh Dementia Care	1
Penumbra	3
Pilton Community Health Project	5
Royal Edinburgh Military Tattoo	2
Scotland’s Learning Partnership	2
Skanska	2
St Columba’s Hospice	1
Stepping Our Project	1
Victim Support Scotland	5
Wester Hailes Land & Property Trust	4

# Funding and Financial Performance

## Funding Strategy Statement

The Funding Strategy Statement sets out how we balance the potentially conflicting aims of affordability and stability of employers' pension contributions whilst taking a prudent long-term view of funding pension liabilities. The Funding Strategy Statement was revised at the 2014 Actuarial Valuation and can be viewed on our website at [www.lpf.org.uk/publications](http://www.lpf.org.uk/publications). The Statement covers the funding strategies of each of the three Funds.

## Administrative expenses

A summary of the Division's administrative expenditure for 2014/15 is shown against the budget approved by Pensions Committee.

The budget focuses on controllable expenditures and therefore excludes all benefit payments and transfers of pensions from the Funds. Similarly, income does not include contributions receivable and pension transfers to the Funds.

The key variances against budget were:

Investment management fees - £1,601k underspend. This saving arose from greater use of in-house investment management expertise, with external fund mandates to Rogge, Baillie Gifford and Invesco being terminated over the year.

Income - £1,499k additional receipts. Securities lending revenue exceeded budget by £1,407k. This resulted primarily from favourable changes in securities lending activity in investment markets, particularly in the United States, and also reflected changes to the underlying asset holdings.

Employees - £261k underspend. This arose from savings from unfilled posts and also the timings of recruitment.

### Administrative expenses (comparison with approved budget)

	Approved budget	Actual outturn	Actual variance
	£000	£000	£000
Employees	2,253	1,992	(261)
Property	77	158	81
Plant and Transport	27	27	-
Supplies and Services	952	805	(147)
Investment Managers Fees - Invoiced	9,453	7,852	(1,601)
Other Third Party Payments	522	654	132
Capital funding - Depreciation	80	87	7
<b>Direct Expenditure</b>	<b>13,364</b>	<b>11,575</b>	<b>(1,789)</b>
Support Costs	281	322	41
Income	(772)	(2,271)	(1,499)
<b>Total net controllable cost to the Funds</b>	<b>12,873</b>	<b>9,626</b>	<b>(3,247)</b>

The budget excluded certain investment management fees relating to pooled investment funds, including private equity, infrastructure and property. This reflected the previous accounting policy, whereby such costs were included within “changes in market value of investments” and “investment income”.

Such costs, together with a reconciliation of the gross costs for 2014/15, are shown below. This is intended to accord with CIPFA guidance “Accounting for Local Government Pension Scheme Management Costs”, dated July 2014, which promotes greater transparency of investment management fees.

	Actual outturn
	£000
Actual outturn on budgeted items above	9,626
Add back securities lending revenue included in income above	2,207
Investment property administration costs	648
Investment transaction costs	2,002
Investment management fees deducted from capital	15,923
<b>Total cost to the Funds (inclusive of full investment management fees)</b>	<b>30,406</b>
<b>Per Fund Accounts</b>	
Lothian Pension Fund	28,721
Lothian Buses Pension Fund	1,432
Scottish Homes Pension Fund	253
<b>Total</b>	<b>30,406</b>

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## Actuarial Valuations 2014

We carry out an actuarial valuation for the pension Funds every three years and the latest was held at 31 March 2014. Below are summaries of the valuation reports which are available on our website: [www.lpf.org.uk/publications](http://www.lpf.org.uk/publications)

### Lothian Pension Fund

The financial position of the Fund at 31 March 2014 saw the value of assets of £4,379 million while the liabilities (estimate of pension benefits to be paid in the future) was £4,796 million. The deficit rose from £142 million as at 31 March 2011 to £417 million which resulted in the funding level falling from 96% in 2011 to 91% in 2014. Overall the Fund's investments performed well and employer contributions have been greater than the cost of new benefits being built up. However, the overall funding level has reduced due to falls in bond yields (used to estimate the current value of future liabilities) as well as improvements in longevity which leads to pensions being paid longer.

### Lothian Buses Pension Fund

Lothian Buses Pension Fund saw an improved funding level, rising from 112% in 2011 to 117% at 31 March 2014. The value of assets rose from £257 million to £337 million. The liabilities at March 2014 were £289 million so the Fund showed a surplus of £48 million on the ongoing valuation basis. Investment returns for the three years to 31 March 2014 were higher than anticipated.

Historically, the funding position of Lothian Buses Pension Fund has been assessed on an ongoing basis. That allows for investment returns in excess of those expected from Government bonds. However, the Fund has been closed to new entrants since 1 January 2008 and the liabilities will therefore gradually mature as members currently paying into the Scheme retire and take their benefits. Therefore, the funding level was also measured on a more prudent basis using government bond (gilts) yields. This increases the liabilities by £93 million and reduces the funding level to 88.2% resulting in a deficit of £45 million on the gilts basis valuation.

### Scottish Homes Pension Fund

The funding strategy for the Scottish Homes Pension Fund is determined by the guarantee agreement with the Scottish Government. The funding level stood at 89% at 31 March 2014 (86% at 2011) which is below the target funding level of 91.5%. As guarantor, the Scottish Government will pay a contribution of £675,000, including administration costs, each year from April 2015 to March 2018.

# Risk Management Statement

The Funds are committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks (not taking account of our controls) faced by the Funds change over time and ongoing management of risk is crucial. The Funds also have a compliance policy and each manager is responsible for ensuring compliance within their area of responsibility.

As at 31 March 2015, the most significant risks (taking account of controls), as assessed by the Investment and Pensions Service Management Team, were as follows:

Description	After controls			
	Impact	Likelihood	Risk score	Risk target
Recruitment and retention of appropriate key staff	5	7	35	16
The collapse of an employer body member, leading to pressure on other employers	4	8	32	21
Adverse movement against non-investment assumptions leading to pressure on employer contributions	5	6	30	20
Receiving services without adequate contractual protection	6	5	30	10
Over reliance on single service provider for core functions	7	4	28	18

## Management commentary approved by:

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<b>COUNCILLOR ALASDAIR RANKIN</b> Pensions Committee Convener The City of Edinburgh Council 30 September 2015	<b>ANDREW KERR</b> Chief Executive The City of Edinburgh Council 30 September 2015	<b>CLARE SCOTT</b> Investment and Pensions Service Manager The City of Edinburgh Council 30 September 2015	<b>JOHN BURNS</b> Pensions and Accounting Manager The City of Edinburgh Council 30 September 2015
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# Lothian Pension Fund

## Membership records

Status	Membership at 31 March 2012	Membership at 31 March 2013	Membership at 31 March 2014	Membership at 31 March 2015
Active	28,337	28,869	30,622	32,273
Deferred	15,392	16,600	16,482	15,916
Pensioners	18,905	20,484	19,972	20,636
Dependants	3,720	4,064	3,770	3,810
<b>Total</b>	<b>66,354</b>	<b>70,017</b>	<b>70,846</b>	<b>72,635</b>

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. These contributions depend on pay and for the year ended 31 March 2015 the contribution rates were as follows:

Full time equivalent pensionable pay (rate of pay on 31/3/2015)	Rate
Less than £20,382	5.50%
Between £20,383 and £26,489	Between 5.6% and 6.0%
Between £26,490 and £33,254	Between 6.1% and 6.5%
Between £33,255 and £46,876	Between 6.6% and 7.5%
Between £46,877 and £52,810	Between 7.6% and 8.0%
Between £52,811 and £70,711	Between 8.1% and 9.0%
Between £70,712 and £106,974	Between 9.1% and 10.0%
Between £106,975 and £245,412	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2015 were based on the actuarial valuation as at 31 March 2011. This valuation resulted in a common contribution rate (i.e. the average of the employers contributions) of 18.0% of pensionable earnings, this includes 1.2% in respect of the past service deficit. In practice, each employer pays contributions at a specific rate that relates to its funding experience. For 2014/15, the rates for the four Council's as major employers ranged from 16.6% to 17.2% for service currently being accrued plus a fixed amount towards the past service deficit.

In December 2013, Lothian Pension Fund introduced a Contribution Stability Mechanism for contribution rates for some employers until March 2021. In developing this proposal, the Fund commissioned, from its Actuary, detailed financial modelling of liability and asset cashflows under a range of scenarios. Membership factors and salary growth assumptions were taken into account. Forecasts were made over the long-term horizon relevant to the Local Government Pension Scheme. Currently, total contributions received by the Lothian Pension Fund remain sufficient to pay pension benefits. The Fund, however, is expected to move to a cashflow negative position in the near future and when / if it does investment income will be used to pay pensions, rather than reinvesting. The Fund continues to regularly monitor its cashflows.

More information on funding can be found in the Actuarial Statement for 2014/15 at the end of this section.

The Fund has recently completed its triennial valuation as at 31 March 2014. The Fund's actuary has calculated the funding level as 91%.

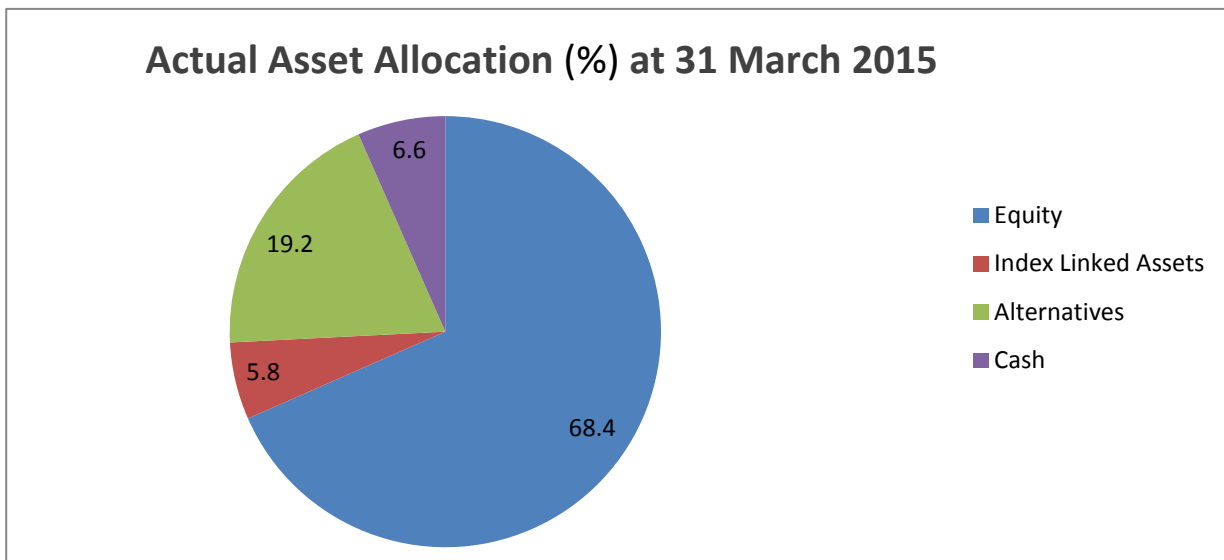
## Investment Strategy

The Pensions Committee approved the Investment Strategy 2012-17 for Lothian Pension Fund in October 2012. The strategy reduces the allocation to equities (including private equity) from 71.5% at the end of 2012 to 65% by the end of 2017 and increases the allocation to index-linked gilts and alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to investments, such as Index-Linked Gilts and Equities, which have a history of protecting or enhancing purchasing power after the effects of inflation have been taken into account.

The investment strategy is set at the broad asset class level of Equities, Index-Linked Assets and Alternatives, which are the key determinants of investment risk and return. The Equities category includes listed and unlisted equities; Index-Linked Assets includes index-linked gilts/bonds and gold; Alternatives include property, infrastructure, timber and fixed income assets, such as corporate bonds and other debt investments.

The long term strategy for 2012-17 is set out in the table below along with the current interim strategy allocation and the asset allocation limits under normal financial conditions.

	Strategic Allocation 31/03/2015 %	Long term Strategy 2012 - 2017 %	Permitted ranges %
Equities	68	65	50 - 75
Index Linked Assets	7	7	0 - 20
Alternatives	24	28	20 - 35
Cash	1	0	0 - 10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>n/a</b>



The implementation of the Investment Strategy 2012-17 continued to proceed at a measured pace over 2014/15 as investment opportunities became available and as research on opportunities was completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.

The most significant change to the Fund over 2014/15 was a further shift from regional to lower risk global equity mandates. Approximately three quarters of the Fund’s equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund’s risk-adjusted returns over the long term. The Fund continues to outsource investment management services for specialist mandates, which complement the portfolio strategies employed internally.

### Investment performance

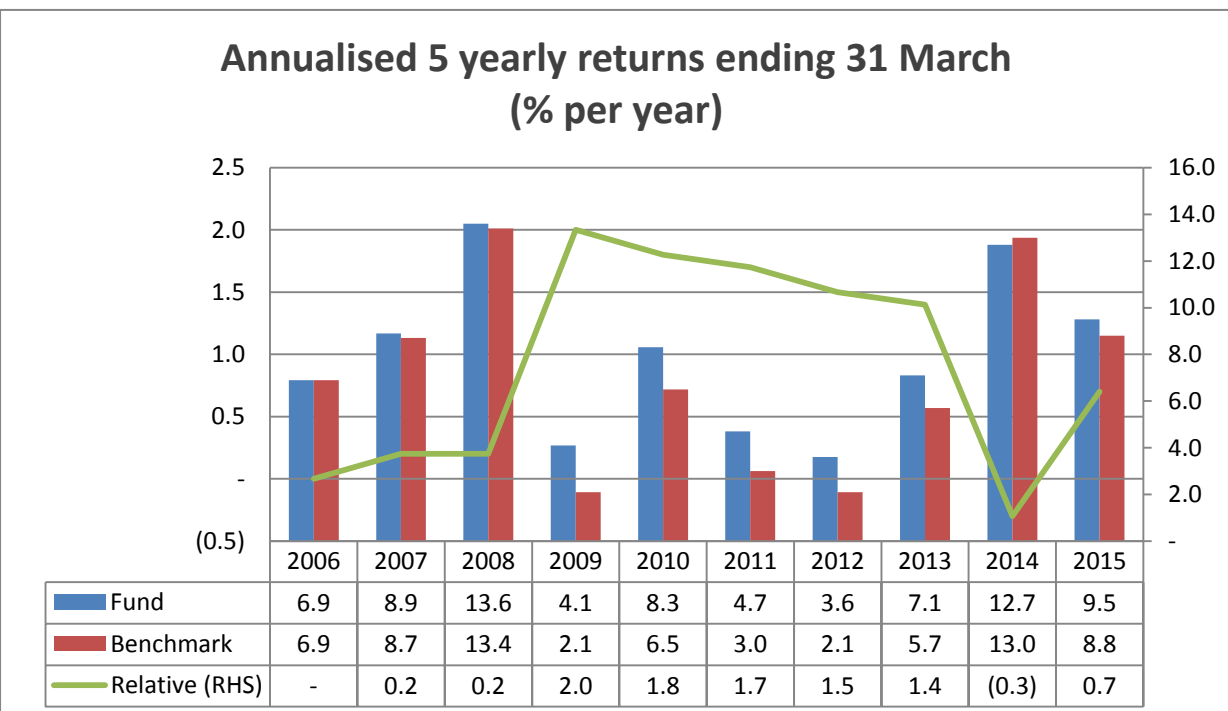
The objectives of the Fund were redefined in December 2012 and are:

- over long-term economic cycles (typically 5 years or more) the achievement of the same return as that generated by the strategic allocation
- over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund has achieved returns in excess of the strategic allocation over the last year and over the longer term timeframes shown in the table. The benchmark return shown in the table is the strategic allocation and comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation. Returns relative to the benchmark over a one year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially the Alternatives. The Fund’s benchmark for Alternatives is inflation plus 3.5% per annum, which makes sense over the long term as the Fund’s liabilities are linked to inflation. However, over shorter periods, there is less information content in the relative returns of the Fund because the development of asset prices is much more volatile than that of UK retail or consumer prices. The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long term objectives of the Fund.

#### Annualised returns to 31 March 2015 (% per year)

	1 year	5 year	10 years
Lothian Pension Fund	16.5	9.5	8.9
Benchmark	14.5	8.8	7.6
Retail Price Index (RPI)	0.9	3.1	3.0
Consumer Price Index (CPI)	(0.1)	2.4	2.5
National Average Earnings	3.3	1.7	2.6





# Lothian Pension Fund

## Fund Account for year ended 31 March 2015

2013/14 £000	Note	2014/15 £000
<b>Income</b>		
140,721	2	142,437
41,363	3	42,343
4,280	4	6,452
186,364		191,232
<b>Less: expenditure</b>		
120,434	5	128,701
34,942	6	31,456
5,331	7	3,593
235		423
186		407
10,392	8	5,580
1,943	9a	1,780
173,463		171,940
12,901	<b>Net additions from dealing with members</b>	19,292
<b>Returns on investments</b>		
124,526	10	122,404
171,440	12a, 13b	613,941
(25,990)	9b	(26,941)
269,976	<b>Net returns on investments</b>	709,404
282,877	<b>Net increase in the Fund during the year</b>	728,696
4,094,659	<b>Net assets of the Fund at 1 April 2014</b>	4,377,536
4,377,536	<b>Net assets of the Fund at 31 March 2015</b>	5,106,232

# Lothian Pension Fund

## Net Assets Statement as at 31 March 2015

31 March 2014		31 March 2015
£000	Note	£000
<b>Investments</b>		
4,349,645	Assets	5,077,632
(6,335)	Liabilities	(5,048)
4,343,310	<i>11, 14</i>	5,072,584
<b>Fixed assets</b>		
397	Computer systems	365
397		365
<b>Current assets</b>		
7,819	The City of Edinburgh Council	6,352
31,734	Cash balances	36,350
11,286	Debtors	9,769
50,839		52,471
<b>Current liabilities</b>		
(17,010)	Creditors	(19,188)
(17,010)		(19,188)
33,829	<b>Net current assets</b>	33,283
4,377,536	<b>Net assets of the Fund at 31 March 2015</b>	5,106,232

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

**JOHN BURNS FCMA CGMA**  
**Pensions and Accounting Manager**  
**30 September 2015**

### Note to the net assets statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

# Notes to the Accounts

## 1 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

## 2 Contributions from employers

The total contributions receivable analysed between the administering authority, other scheduled bodies and admitted bodies were as follows:-

	2013/14 £000	2014/15 £000
<b>By category</b>		
Percentage of pay	107,927	111,692
Fixed deficit contribution	24,756	24,698
Strain costs	7,870	5,131
Cessation contribution	168	916
	<b>140,721</b>	<b>142,437</b>
<b>By employer type</b>		
Administering Authority	56,472	55,795
Other Scheduled Bodies	67,659	67,980
Community Admission Bodies	16,292	18,411
Transferee Admission Bodies	298	251
	<b>140,721</b>	<b>142,437</b>

From 1 April 2012, following the actuarial valuation of 31 March 2011, all employers are required to make a fixed contribution towards the past service deficit that relates to their employees. In previous years only some of the larger employers were required to make a fixed contribution. The deficit recovery period varies depending on the individual circumstances of each employer ranging up to 20 years.

Where an employer makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay a cessation contribution.

## 3 Contributions from members

	2013/14 £000	2014/15 £000
<b>By employer type</b>		
Administering Authority	16,172	16,544
Other Scheduled Bodies	19,433	19,751
Community Admission Bodies	5,686	5,988
Transferee Admission Bodies	72	60
	<b>41,363</b>	<b>42,343</b>

## 4 Transfers in from other pension schemes

	2013/14 £000	2014/15 £000
Group transfers	-	703
Individual transfers	4,280	5,749
	<b>4,280</b>	<b>6,452</b>

## Notes to the Accounts

<b>5 Pensions payable</b>	<b>2013/14</b>	<b>2014/15</b>
<b>By employer type</b>	<b>£000</b>	<b>£000</b>
Administering Authority	62,517	60,636
Other Scheduled Bodies	47,937	56,688
Community Admission Bodies	9,883	11,234
Transferee Admission Bodies	97	143
	<b>120,434</b>	<b>128,701</b>

For 2013/14, the above split was based on an estimated allocation due to limitations of the old pension payroll system. The new payroll system now allows the Fund to identify all expenditure directly to each employer which in turn improves the accuracy of this analysis.

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as “unauthorised payments” by HMRC these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service who granted the benefits.

As “unfunded payments” are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

<b>6 Lump sum retirement benefits payable</b>	<b>2013/14</b>	<b>2014/15</b>
<b>By employer type</b>	<b>£000</b>	<b>£000</b>
Administering Authority	15,131	12,330
Other Scheduled Bodies	17,289	15,783
Community Admission Bodies	2,477	3,301
Transferee Admission Bodies	45	42
	<b>34,942</b>	<b>31,456</b>

<b>7 Lump sum death benefits payable</b>	<b>2013/14</b>	<b>2014/15</b>
<b>By employer type</b>	<b>£000</b>	<b>£000</b>
Administering Authority	2,453	1,191
Other Scheduled Bodies	2,340	2,020
Community Admission Bodies	489	382
Transferee Admission Bodies	49	-
	<b>5,331</b>	<b>3,593</b>

<b>8 Transfers out to other schemes</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Group transfers	5,287	-
Individual transfers	5,105	5,580
	<b>10,392</b>	<b>5,580</b>

## Notes to the Accounts

9a Administrative expenses	2013/14	2014/15
	£000	£000
Employee costs	1,042	985
The City of Edinburgh Council - pension payroll costs	111	-
The City of Edinburgh Council - other support costs	262	134
System costs	197	208
Actuarial fees	75	89
External audit fees	43	44
Legal fees	64	3
Printing and postage	38	94
Depreciation	63	67
Office costs	40	88
Sundry costs less sundry income	8	68
	1,943	1,780

The Investment and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis. Other costs are allocated on the basis of the number of members in each pension fund.

9b Investment management expenses	2013/14	2014/15
	£000	£000
External management fees - invoiced	7,542	7,113
External management fees - deducted from capital	13,318	15,274
Transaction costs	2,805	1,971
Property operational costs	781	648
Employee costs	772	841
Custody fees	206	375
Engagement and voting fees	68	71
Performance measurement fees	56	50
Consultancy fees	40	70
System costs	141	141
Legal fees	109	107
The City of Edinburgh Council - other support costs	104	161
Office costs	16	57
Sundry costs	32	62
	25,990	26,941

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 12a - Reconciliation of movements in investments and derivatives).

The external investment management fees above include £5.258m in respect of performance-related fees (2013/14 £3.056m).

## Notes to the Accounts

9c Management expenses	2013/14 £000	2014/15 £000
Administrative costs	1,744	1,550
Investment management expenses	24,022	25,479
Oversight and governance costs	2,167	1,692
	<b>27,933</b>	<b>28,721</b>

This analysis of costs for the Lothian Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administration and Investment expenses in note 9a and b and splits out the costs to include a third heading covering governance expenditure.

10 Investment income	2013/14 £000	2014/15 £000
Income from fixed interest securities	10,911	4,857
Dividends from equities	84,814	88,527
Unquoted private equity and infrastructure	9,472	7,924
Income from pooled investment vehicles	960	861
Gross rents from properties	19,022	18,754
Interest on cash deposits	617	1,130
Stock lending and sundries	1,345	2,461
	<b>127,141</b>	<b>124,514</b>
Irrecoverable withholding tax	(2,615)	(2,110)
	<b>124,526</b>	<b>122,404</b>

11 Net investment assets	31 March 2014 £000	31 March 2015 £000
Fixed interest securities	318,215	414,330
Equities	2,866,444	3,267,975
Pooled investment vehicles	598,687	633,040
Properties	270,753	316,169
Derivatives		
Futures	304	-
Forward foreign exchange	9,977	29,879
	<b>10,281</b>	<b>29,879</b>
<b>Cash deposits</b>		
Margin balances	894	-
Deposits	257,749	400,497
	<b>258,643</b>	<b>400,497</b>
<b>Other investment assets</b>		
Due from broker	12,553	4,585
Dividends and other income due	14,067	11,157
	<b>26,620</b>	<b>15,742</b>
<b>Total investment assets</b>	<b>4,349,643</b>	<b>5,077,632</b>

## Notes to the Accounts

### 11 Net investment assets (cont)

	31 March 2014 £000	31 March 2015 £000
<b>Investment liabilities</b>		
Derivatives		
Futures	(91)	-
Forward foreign exchange	(268)	(79)
	(359)	(79)
Other financial liabilities - due to broker	(5,974)	(4,969)
<b>Total investment liabilities</b>	<b>(6,333)</b>	<b>(5,048)</b>
<b>Net investment assets</b>	<b>4,343,310</b>	<b>5,072,584</b>

### 12a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2014 £000	Purchases at cost and derivative payments £000	Sale and derivative receipts £000	Change in market value £000	Market value at 31 March 2015 £000
Fixed interest	318,215	325,346	(313,907)	84,676	414,330
Equities	2,866,444	878,347	(860,763)	383,947	3,267,975
Pooled investment vehicles	598,687	76,731	(103,020)	60,642	633,040
Property	270,753	11,375	(2,143)	36,184	316,169
Derivatives - futures	213	(99)	(521)	407	-
Derivatives - fwd foreign exchange	9,709	3,281	(28,068)	44,878	29,800
	4,064,021	1,294,981	(1,308,422)	610,734	4,661,314
<b>Other financial assets / liabilities</b>					
Margin balances	894			-	-
Cash deposits	257,749			3,190	400,497
Broker balances	6,579			17	(384)
Dividends due etc	14,067			-	11,157
	279,289			3,207	411,270
<b>Net financial assets</b>	<b>4,343,310</b>			<b>613,941</b>	<b>5,072,584</b>

## Notes to the Accounts

### 12a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2013 £000	Purchases at cost and derivative payments £000	Sale and derivative receipts £000	Change in market value £000	Market value at 31 March 2014 £000
Fixed interest	326,829	142,683	(136,047)	(15,250)	318,215
Equities	2,718,320	1,826,082	(1,796,521)	118,563	2,866,444
Pooled investment vehicles	582,535	65,326	(68,717)	19,543	598,687
Property	251,480	9,160	(15,822)	25,935	270,753
Derivatives - futures	445	1,007,496	(1,007,306)	(422)	213
Derivatives - fwd foreign exchange	(17,582)	30,266	(33,753)	30,778	9,709
	<b>3,862,027</b>	<b>3,081,013</b>	<b>(3,058,166)</b>	<b>179,147</b>	<b>4,064,021</b>
<b>Other financial assets / liabilities</b>					
Margin balances	1,769			-	894
Cash deposits	187,608			(7,713)	257,749
Broker balances	(547)			6	6,579
Dividends due etc	11,039			-	14,067
	<b>199,869</b>			<b>(7,707)</b>	<b>279,289</b>
<b>Net financial assets</b>	<b>4,061,896</b>			<b>171,440</b>	<b>4,343,310</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

### 12b Analysis of investments (at market value)

	Region	31 March 2014 £000	31 March 2015 £000
<b>Fixed interest securities</b>			
Public sector fixed interest quoted	UK	2,560	-
Public sector index linked gilts quoted	UK	144,621	288,651
Corporate quoted	UK	65,908	-
Public sector quoted	Overseas	9,542	125,679
Commercial quoted	Overseas	95,584	-
		<b>318,215</b>	<b>414,330</b>
<b>Equities</b>			
Quoted	UK	583,053	609,702
Quoted	Overseas	2,283,391	2,658,273
		<b>2,866,444</b>	<b>3,267,975</b>
<b>Pooled investment vehicles</b>			
Private equity, infrastructure and timber funds	UK	137,191	127,587
Private equity, infrastructure and timber funds	Overseas	389,990	436,583
Property funds	UK	55,319	55,035
Other funds	UK	16,187	13,835
		<b>598,687</b>	<b>633,040</b>
<b>Properties</b>			
Direct property	UK	270,753	316,169



## Notes to the Accounts

### Derivatives - futures

Contract type	Contract expires	Economic exposure £000	Market value at	Economic exposure	Market value at
			31 March 2014 £000	£000	31 March 2015 £000
<b>Assets</b>					
	UK Fixed Income	< 1 year	14,458	111	-
	Overseas Fixed Income	< 1 year	(28,605)	193	-
				304	-
<b>Liabilities</b>					
	UK Fixed Income	< 1 year	-	-	-
	Overseas Fixed Income	< 1 year	23,247	(91)	-
				(91)	-
<b>Net asset</b>				213	-

The economic exposure represents the notional value of securities purchased under the futures contract and therefore the value subject to market movements. All futures contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction. The Fund's bond manager had its contract cancelled during the year and were the only manager to transact futures.

### Derivatives - forward foreign exchange

#### Summary of contracts held at 31 March 2015

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			£000	£000	£000	£000
Up to one month	GBP	AUD	87,717	(161,873)	4,465	-
Up to one month	GBP	CAD	75,153	(134,989)	3,359	-
Up to one month	GBP	EUR	262,607	(333,283)	21,427	-
Up to one month	MXN	USD	599	(39)	-	-
One to six months	AUD	USD	1,327	(1,096)	-	(59)
One to six months	USD	AUD	3,296	(3,687)	331	-
One to six months	USD	CHF	18,487	(17,431)	297	(20)
Open forward currency contracts at 31 March 2015					29,879	(79)
<b>Net forward currency contracts at 31 March 2015</b>						29,800

#### Prior year comparative

Open forward currency contracts at 31 March 2014					9,977	(268)
<b>Net forward currency contracts at 31 March 2014</b>						9,709

The above table summarises the contracts held by maturity date, all contracts are traded on an over the counter basis.

## Notes to the Accounts

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

### 12c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014	% of total 31 March 2014	Market value at 31 March 2015	% of total 31 March 2015
		£000	%	£000	%
In-house	UK all cap equities	100,415	2.3	101,918	2.0
In-house	UK mid cap equities	100,553	2.3	103,346	2.0
Total UK equities		200,968	4.6	205,264	4.0
In-house	European ex UK equities	98,404	2.3	102,665	2.0
In-house	US equities	98,265	2.3	118,528	2.3
Baillie Gifford	Pacific equities	152,847	3.5	-	-
Invesco	Pacific equities	140,806	3.2	-	-
Mondrian	Emerging markets	92,455	2.1	104,048	2.1
UBS	Emerging markets	91,186	2.1	121,954	2.4
Total regional overseas equities		673,963	15.5	447,195	8.8
In-house	Global high dividend	642,862	14.8	675,666	13.3
In-house	Global low volatility	744,406	17.1	886,891	17.5
In-house	Global value	-	-	333,310	6.6
Cantillon	Global equities	238,423	5.5	265,575	5.2
Harris	Global equities	175,955	4.1	205,125	4.0
Nordea	Global equities	163,920	3.8	203,667	4.0
Total global equities		1,965,566	45.3	2,570,234	50.7
In-house	Currency hedge	8,771	0.2	29,251	0.6
Total currency overlay		8,771	0.2	29,251	0.6
Total listed equities		2,849,268	65.6	3,251,944	64.1
In-house	Private equity unquoted	190,787	4.4	186,536	3.7
In-house	Private equity quoted	51,480	1.2	57,866	1.1
Total private equity		242,267	5.6	244,402	4.8
Total equities		3,091,535	71.2	3,496,346	68.9
In-house	Index linked gilts	152,699	3.5	296,300	5.8
In-house	Gold	15,412	0.4	15,897	0.3
Total inflation linked bonds and gold		168,111	3.9	312,197	6.2
In-house	Property	59,218	1.4	47,241	0.9
Standard Life	Property	322,037	7.4	382,694	7.5
Total property		381,255	8.8	429,935	8.5

## Notes to the Accounts

### 12c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014		Market value at 31 March 2015	
		£000	% of total 2014	£000	% of total 2015
In-house	Infrastructure unquoted	251,116	5.8	251,099	5.0
In-house	Infrastructure quoted	25,531	0.6	29,932	0.6
In-house	Timber	51,666	1.2	101,826	2.0
Total other real assets		328,313	7.6	382,857	7.5
In-house	Secured loans	17,520	0.4	13,927	0.3
In-house	Treasury bills	-	-	129,614	2.6
Rogge	Corporate bonds	184,569	4.2	-	-
Total other bonds		202,089	4.6	143,541	2.8
In-house	Cash	171,892	3.9	294,537	5.8
In-house	Transition	115	-	13,171	0.3
Total cash and sundries		172,007	3.9	307,708	6.1
Net financial assets		4,343,310	100.0	5,072,584	100.0

### 12d Investments representing more than 5% of the net assets of the Fund or 5% of any investment class

	Market value at 31 March 2014		Market value at 31 March 2015	
	£000	% of class 2014	£000	% of class 2015
<b>Fixed interest</b>				
US Treasury Bill 1.25% 31/10/19	-	-	68,626	16.6
US Treasury Bill 1% 30/11/19	-	-	57,054	13.8
UK Gov 1.25% Index Linked 2055	-	-	23,934	5.8
UK Gov 1.125% Index Linked 22/11/37	19,450	6.1	23,300	5.6
UK Gov 0.5% Index Linked 22/03/50	-	-	21,458	5.2
<b>Pooled funds</b>				
Stafford Elm Inc	35,169	5.9	42,650	6.7
RREEF Pan European Infrastructure Fund	30,638	5.1	31,345	4.9
Macquarie European Infrastructure Fund	33,204	5.5	28,003	4.4
<b>Property</b>				
London, 119-125 Wardour St	20,800	7.7	24,750	7.8
Martlesham Heath, Retail Park	20,500	7.6	24,375	7.7
Sheffield, Bochum Parkway	18,250	6.7	19,600	6.2
London, 100 St John Street	16,450	6.1	20,600	6.5
Exeter, David Lloyd Leisure	14,850	5.5	17,575	5.6
Exeter, Bishops Court	14,675	5.4	15,650	4.9

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

## Notes to the Accounts

### 12e Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2015, £92.1m (2014 £120.9m) of securities were released to third parties. Collateral valued at 107.1% (2014 107.4%) of the market value of the securities on loan was held at that date.

### 12f Property holdings

	2013/14 £000	2014/15 £000
<b>Opening balance</b>	251,480	270,753
Additions	9,160	11,375
Disposals	(15,822)	(2,143)
Net change in market value	25,935	36,184
<b>Closing balance</b>	<b>270,753</b>	<b>316,169</b>

As at 31 March 2015, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. The Fund is not under any contractual obligations to purchase, construct or develop any of these properties. However, the Fund does have the responsibility of repairs and maintenance on any properties that are unlet.

The future minimum lease payments receivable by the Fund are as follows

	2013/14 £000	2014/15 £000
Within one year	18,660	19,140
Between one and five years	68,431	65,238
Later than five years	116,384	103,665
	<b>203,475</b>	<b>188,043</b>

## 13 Financial Instruments

### 13a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

## Notes to the Accounts

	31 March 2014			31 March 2015		
	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>						
<b>Investment assets</b>						
Fixed interest	318,215	-	-	414,330	-	-
Equities	2,866,444	-	-	3,267,975	-	-
Pooled investments	598,687	-	-	633,040	-	-
Property leases	10,706	-	-	9,497	-	-
Derivative contracts	10,281	-	-	29,879	-	-
Margin balances	-	894	-	-	-	-
Cash	-	257,749	-	-	400,497	-
Other balances	-	26,620	-	-	15,742	-
	3,804,333	285,263	-	4,354,721	416,239	-
<b>Other assets</b>						
City of Edinburgh Council	-	4,950	-	-	6,352	-
Cash	-	31,734	-	-	36,350	-
Debtors	-	14,155	-	-	9,769	-
	-	50,839	-	-	52,471	-
Assets total	3,804,333	336,102	-	4,354,721	468,710	-
<b>Financial liabilities</b>						
<b>Investment liabilities</b>						
Derivative contracts	(359)	-	-	(78)	-	-
Other investment balances	(5,974)	-	-	(4,970)	-	-
	(6,333)	-	-	(5,048)	-	-
<b>Other liabilities</b>						
Creditors	-	-	(17,010)	-	-	(19,188)
Liabilities total	(6,333)	-	(17,010)	(5,048)	-	(19,188)
<b>Net assets total</b>	3,798,000	336,102	(17,010)	4,349,673	468,710	(19,188)
<b>Total net financial instruments</b>			4,117,092			4,799,195
Amounts not classified as financial instruments			260,444			307,037
<b>Total net assets</b>			4,377,536			5,106,232

### 13b Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Designated as fair value through fund account	153,378	571,760
Loans and receivables	(7,707)	3,207
Financial liabilities at amortised cost	-	-
<b>Total</b>	145,671	574,967
Gains and losses on directly held freehold property	25,769	38,974
<b>Change in market value of investments per fund account</b>	171,440	613,941

# Notes to the Accounts

## 13c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2015			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Designated as fair value through fund account	3,344,192	414,330	596,199	4,354,721
Loans and receivables	468,710	-	-	468,710
<b>Total financial assets</b>	<b>3,812,902</b>	<b>414,330</b>	<b>596,199</b>	<b>4,823,431</b>
<b>Financial liabilities</b>				
Designated as fair value through fund account	(5,048)	-	-	(5,048)
Financial liabilities at amortised cost	(19,188)	-	-	(19,188)
<b>Total financial liabilities</b>	<b>(24,236)</b>	<b>-</b>	<b>-</b>	<b>(24,236)</b>
<b>Net financial assets</b>	<b>3,788,666</b>	<b>414,330</b>	<b>596,199</b>	<b>4,799,195</b>

# Notes to the Accounts

	31 March 2014			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Designated as fair value through fund account	2,922,624	318,215	563,494	3,804,333
Loans and Receivables	336,102	-	-	336,102
<b>Total financial assets</b>	<b>3,258,726</b>	<b>318,215</b>	<b>563,494</b>	<b>4,140,435</b>
<b>Financial liabilities</b>				
Designated as fair value through fund account	(6,333)	-	-	(6,333)
Financial Liabilities at amortised cost	(17,010)	-	-	(17,010)
<b>Total financial liabilities</b>	<b>(23,343)</b>	<b>-</b>	<b>-</b>	<b>(23,343)</b>
<b>Net financial assets</b>	<b>3,235,383</b>	<b>318,215</b>	<b>563,494</b>	<b>4,117,092</b>

## 14 Nature and extent of risk arising from financial instruments

### Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. The Fund achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

### Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- monitoring market risk and market conditions to ensure risk remains within tolerable levels
- using equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

## Notes to the Accounts

### Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as “volatility” and it differs by asset class. The table sets out the long-term volatility assumptions used in the Fund’s asset-liability modelling undertaken by the Fund’s investment adviser KPMG:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.0%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Timber and Gold	30.0%
Secured Loans	10.0%
Fixed Interest Gilts	10.5%
Index-Linked Gilts	8.5%
Infrastructure	8.0%
Property	13.0%
Cash	1.5%

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset’s change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes do not always move in line with each other. The extent to which assets move together is known as their “correlation”. A lower correlation means that there is less risk of assets losing value at the same time.

The overall Fund benefits from “diversification” because it invests in different asset classes, which don’t all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

Asset type	Value at		Potential Change + / - %	Value on increase £m	Value on decrease £m
	31 March 2015 £m	% of fund %			
Equities - Developed Markets	2,997	59.1	20.0	3,596	2,398
Equities - Emerging Markets	226	4.5	30.0	294	158
Private Equity	244	4.8	30.0	317	171
Timber and Gold	118	2.3	30.0	153	83
Secured Loans	14	0.3	10.0	15	13
Fixed Interest Gilts	130	2.6	10.5	144	116
Index-Linked Gilts	296	5.8	8.5	321	271
Infrastructure	281	5.5	8.0	303	259
Property	430	8.5	13.0	486	374
Cash and forward foreign exchange	337	6.6	1.5	342	332
Total [1]	5,073	100.0	17.7	5,971	4,175
Total [2]			15.0	5,834	4,312
Total [3]			14.5	5,809	4,337

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.



## Notes to the Accounts

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

### Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk is not reflected in market prices.

### Cash deposits

At 31 March 2015, cash deposits represented £436.8m, 8.6% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
<b>Held for investment purposes</b>			
Northern Trust Global Investment Limited - liquidity funds	Aaa	45,480	100,507
Northern Trust Company - cash deposits	A1	80,765	76,374
The City of Edinburgh Council - treasury management	See below	131,504	223,616
<b>Total investment cash</b>		<b>257,749</b>	<b>400,497</b>
<b>Held for other purposes</b>			
The City of Edinburgh Council - treasury management	See below	31,734	36,350
<b>Total cash</b>		<b>289,483</b>	<b>436,847</b>

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

## Notes to the Accounts

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
<b>Money market funds</b>			
Deutsche Bank AG, London	Aaa	21,502	38,167
Goldman Sachs	Aaa	12,037	38,123
<b>Bank call accounts</b>			
Bank of Scotland	A1	14,852	24,567
Royal Bank of Scotland	Baa1	5,600	3,448
Santander UK	A2	15,363	23,840
Barclays Bank	A2	14,983	24,894
Svenska Handelsbanken	Aa3	23,089	38,765
HSBC Bank	Aa3	22,274	37,927
Commonwealth Bank of Australia	Aa2	-	10,079
<b>Floating rate note</b>			
Rabobank	Aa2	-	6,720
<b>Building society fixed term deposits</b>			
Nationwide Building Society	A2	7,431	6,719
<b>UK Pseudo-Sovereign risk instruments</b>			
Other Local Authorities	n/a	18,679	-
UK Government Treasury Bills	Aa1	7,428	6,717
		163,238	259,966

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

### Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaults. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

### Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2015, the Fund was due £29.9m and owed £0.1m on over-the-counter foreign currency derivatives.

### Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund's cash flows.

The majority (estimated to be approximately 85%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

### Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

# Notes to the Accounts

## 15 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

## 16 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £6,663m (2014 £5,483m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March	31 March
	2014	2015
	% p.a.	% p.a.
Inflation / pensions increase rate	2.8	2.4
Salary increase rate*	5.1	4.3
Discount rate	4.3	3.2

\*Salary increases were estimated at 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

### Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		31 March 2015	
	Males	Females	Males	Females
Current pensioners	20.4 years	22.8 years	22.1 years	23.7 years
Future pensioners (assumed to be currently 45)	22.6 years	25.4 years	24.2 years	26.3 years

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

## 17 Debtors

	31 March	31 March
	2014	2015
	£000	£000
Contributions due - employers	8,773	7,373
Contributions due - members	1,900	1,995
Benefits paid in advance or recoverable	16	-
Sundry debtors	325	160
VAT	-	-
Prepayments	272	241
	11,286	9,769

## Notes to the Accounts

### 17 Debtors (cont)

#### Analysis of debtors

	31 March 2014 £000	31 March 2015 £000
Administering Authority	1,993	305
Other Scheduled Bodies	6,794	6,671
Community Admission Bodies	1,964	2,624
Transferee Admission Bodies	99	27
Other Local Authorities	9	7
Central Government Bodies	-	-
Other entities and individuals	427	135
	<b>11,286</b>	<b>9,769</b>

### 18 Creditors

	31 March 2014 £000	31 March 2015 £000
Benefits payable	4,662	3,793
VAT and State Scheme premiums	1,331	1,210
Contributions in advance	8,275	11,899
Miscellaneous creditors and accrued expenses	2,698	2,137
Office - operating lease	44	149
	<b>17,010</b>	<b>19,188</b>

#### Analysis of creditors

	2014 £000	2015 £000
Administering Authority	-	63
Other Scheduled Bodies	8,237	11,890
Community Admission Bodies	38	-
Central Government Bodies	1,331	1,247
Other entities and individuals	7,404	5,988
	<b>17,010</b>	<b>19,188</b>

### 19 Additional Voluntary Contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

	2013/14 £000	2014/15 £000
<b>Total contributions during year for Lothian Pension fund</b>		
Standard Life	441	404
Prudential	1,163	1,369
	<b>1,604</b>	<b>1,773</b>

# Notes to the Accounts

## 19 Additional Voluntary Contributions (cont)

	31 March 2014 £000	31 March 2015 £000
<b>Total value at year end for both Lothian Pension Fund</b>		
Standard Life	6,105	6,342
Prudential	2,051	3,158
	<b>8,156</b>	<b>9,500</b>

## 20 Related party transactions

### The City of Edinburgh Council

The Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the Pension Funds.

The Investment and Pensions Division of the Council is responsible for administering the three Pension Funds. The Division receives an allocation of the overheads of the Council, based on the amount of central services consumed. In turn, the Division allocates its costs to the three Pension Funds. Costs directly attributable to a specific Fund are charged to the relevant Fund; costs that are common to all three Funds are allocated on a defined basis.

The Council is also the single largest employer of members of the Fund and contributed £55.8m to the Fund during the year (2014 £56.5m).

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2014 £000	31 March 2015 £000
<b>Year end balance on holding account</b>		
	<b>7,819</b>	<b>6,352</b>

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2015, the fund had an average investment balance of £204.1m (2014 £115.2m). Interest earned was £950.3k (2014 £603.7k).

	31 March 2014 £000	31 March 2015 £000
<b>Year end balance on treasury management account</b>		
Held for investment purposes	131,504	223,616
Held for other purposes	31,734	36,350
	<b>163,238</b>	<b>259,966</b>

### Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

## Notes to the Accounts

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	1,379	1,379
Recognised as an expense during the year	33	91

The above expense has been allocated across the three Funds, Lothian Pension Fund's share is £83.8k.

### Governance

As at 31 March 2015, all members of the Pensions Committee, with the exception of Councillor Bill Cook, were active members of the Lothian Pension Fund.

Each member of the Pensions Committee is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

### Key management personnel

During the period from 1 April 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. These employees and their financial relationship with the Fund (expressed as cash-equivalent transfer values or CETV) are set out below:

Name	Position held	Accrued CETV as at 31 March 2014 £000	Accrued CETV as at 31 March 2015 £000
		Alastair Maclean*	Chief Operating Officer Deputy Chief Executive
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

\* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

# Notes to the Accounts

## 21 Contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a period of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2014 £000	31 March 2015 £000
Outstanding investment commitments	109,692	146,403

As disclosed in note 20 on related party transactions the Investment and Pensions Division has a commitment to make future payments equivalent to rent in respect office accommodation at 144 Morrison Street. Details of the future payments are provided in that note.

## 22 Contingent assets and liabilities

There were no contingent assets or liabilities at the year end.

## 23 Impairment losses

During the year the Fund recognised a decrease in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £8k. This decreased the impairment to £31.9k at the year end.

# Lothian Pension Fund (“the Fund”)

## Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund
- to ensure the solvency of each individual employers’ share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund’s assets, which at 31 March 2014 were valued at £4,379 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £417 million.

Individual employers’ contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund’s funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2015.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:



Financial Assumption	31 March 2014	
	% p.a. Nominal	% p.a. Nominal
Discount rate	5.00%	2.30%
Pay increases*	5.00%	2.30%
Price inflation/Pension increases	2.70%	-

\*2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	23.7 years
Future Pensioners*	24.2 years	26.3 years

\*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

### Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update as at 31 March 2015 revealed that the Fund's assets were sufficient to meet 84% of the past service liabilities. The decrease in the funding level was largely as a result of a decrease in real bond yields and the subsequent reduction in the net discount rate, which places a higher value on the Fund's liabilities. The resulting deficit as at 31 March 2015 was £973 million.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

**Richard Warden FFA**

**Fellow of the Institute and Faculty of Actuaries**

**For and on behalf of Hymans Robertson LLP**

**1 June 2015**

## List of active employers at 31 March 2015

Employer	Type	Employer	Type
Almond Housing Association Ltd	CAB	ISS UK Ltd	TAB
Barony Housing Association Ltd	CAB	Keymoves	CAB
Baxter Storey	TAB	Lothian Valuation Joint Board	SB
Broomhouse Centre Representative Council	CAB	Melville Housing Association	CAB
Convention of Scottish Local Authorities	CAB	Midlothian Council	SB
Canongate Youth Project	CAB	Mitie PFI	TAB
Capital City Partnership	CAB	Morrison Facilities Services Ltd	TAB
Children's Hearing Scotland	CAB	Edinburgh Napier University	CAB
Children's Hospice Association Scotland	CAB	NSL Ltd	TAB
Citadel Youth Centre	CAB	Newbattle Abbey College	CAB
City of Edinburgh Council (The)	SB	North Edinburgh Dementia Care	CAB
Audit Scotland	CAB	Scotland's Rural College (SRUC)	SB
Compass Chartwell	TAB	Open Door Accommodation Project	CAB
Link In	CAB	Penumbra	CAB
Dawn Group Ltd	TAB	Pilton Equalities Project	CAB
Dean Orphanage and Cauvin's Trust	CAB	Pilton Youth and Children's Project	CAB
Donaldson's Trust	CAB	Police Scotland	SB
Scottish Water	SB	Queensferry Churches Care in the Community Project	CAB
East Lothian Council	SB	Queen Margaret University	CAB
Four Square (Scotland)	CAB	Royal Society of Edinburgh	CAB
Edinburgh Business School	CAB	Scotland's Learning Partnership	CAB
University of Edinburgh (Edin College of Art)	CAB	Homeless Action Scotland	CAB
Edinburgh Cyrenians Trust	CAB	Scottish Mining Museum	CAB
EDI Group Ltd	CAB	Scottish Adoption Agency	CAB
Edinburgh International Festival Society	CAB	Scottish Futures Trust	CAB
Festival City Theatres Trust	CAB	Scottish Legal Complaints Commission	CAB
Edinburgh Woman's Rape & Sexual Abuse Centre	CAB	Museums Galleries Scotland	CAB
Streetwork UK Ltd	CAB	Scottish Police Authority	SB
Edinburgh World Heritage Trust	CAB	SESTRAN	SB
Edinburgh College	SB	Skanska UK	TAB
Edinburgh Leisure	CAB	Scottish Schools Education Research Centre (SSERC)	CAB
ELCAP	CAB	St Columba's Hospice	CAB
Enjoy East Lothian	CAB	St Andrew's Children's Society Limited	CAB
Family Advice and Information Resource	CAB	Stepping Out Project	CAB
Family & Community Development West Lothian	CAB	Royal Edinburgh Military Tattoo	CAB
Scottish Fire and Rescue Service	SB	Centre for Moving Image (The)	CAB
First Step	CAB	Improvement Service (The)	CAB
Forth and Oban Ltd	TAB	Victim Support Scotland	CAB
Forth Estuary Transport Authority	SB	Visit Scotland	SB
Freespace Housing Association	CAB	Edinburgh Development Group	CAB
Pilton Community Health Project	CAB	West Granton Community Trust	CAB
Granton Information Centre	CAB	Waverley Care	CAB
HWU Students Association	CAB	Weslo Housing Management	CAB
Handicabs (Lothian) Ltd	CAB	West Lothian College	SB
Hanover (Scotland) Housing Association	CAB	West Lothian Council	SB
BAM Construction Ltd	TAB	West Lothian Leisure	CAB
Health in Mind	CAB	Wester Hailes Land and Property Trust	CAB
Heriot-Watt University	SB	Young Scot Enterprise	CAB
Homes for Life Housing Partnership	CAB	Youthlink Scotland	CAB
Into Work	CAB		

SB - Scheduled bodies

CAB - Community Admitted Bodies

TAB - Transferee Admitted Bodies

# Lothian Buses Pension Fund

## Membership records

Status	Membership at 31 March 2012	Membership at 31 March 2013	Membership at 31 March 2014	Membership at 31 March 2015
Active	1,407	1,335	1,268	1,196
Deferred	1,179	1,163	1,146	1,131
Pensioners	1,122	1,163	1,191	1,222
Dependants	303	310	320	332
<b>Total</b>	<b>4,011</b>	<b>3,971</b>	<b>3,925</b>	<b>3,881</b>

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. These contributions are payable at a certain rate for a band of earnings. For the year ended 31 March 2015 the contribution rates were as follows:

Full time equivalent pensionable pay (rate of pay on 31/3/2015)	Rate
Less than £20,382	5.50%
Between £20,383 and £26,489	Between 5.6% and 6.0%
Between £26,490 and £33,254	Between 6.1% and 6.5%
Between £33,255 and £46,876	Between 6.6% and 7.5%
Between £46,877 and £52,810	Between 7.6% and 8.0%
Between £52,811 and £70,711	Between 8.1% and 9.0%
Between £70,712 and £106,974	Between 9.1% and 10.0%
Between £106,975 and £245,412	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2015 were based on the actuarial valuation at 31 March 2011. For the 2014/15 financial year the rate was 20.5% of pensionable pay for service currently being accrued.

During the financial year, the actuarial valuation at 31 March 2014 has been undertaken. The funding level on an ongoing basis was calculated by the Fund's actuary to be 117%. At 31 March 2015, the actuary provided an updated estimate of 106%.

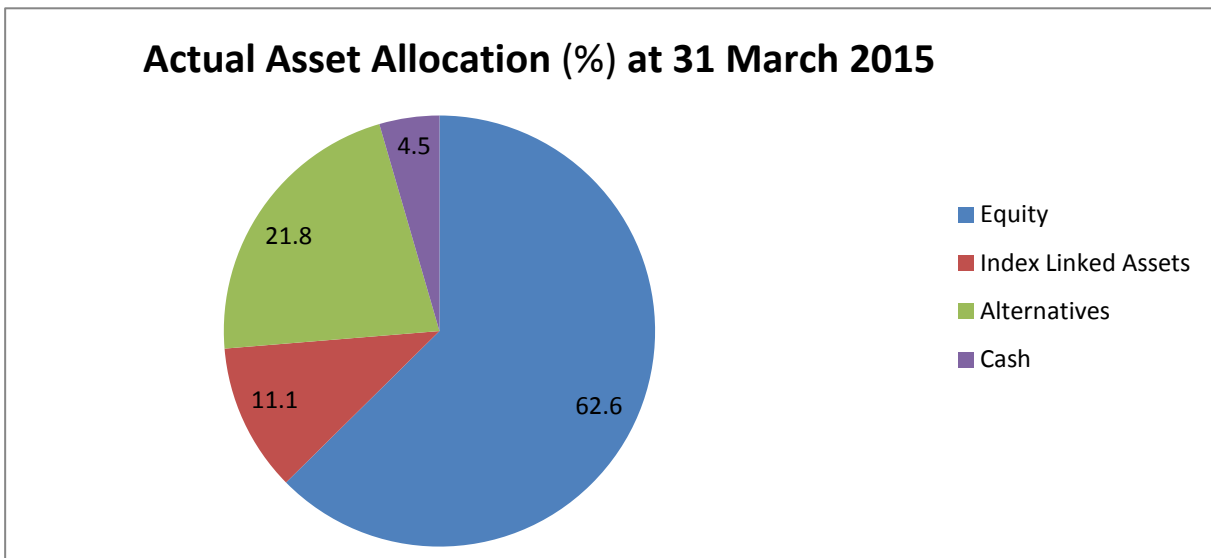
On the more prudent 'gilts basis', the funding levels were 88% and 81% at 31 March 2014 and 31 March 2015 respectively. More information on funding can be found in the Actuarial Statement for 2014/15.

## Investment Strategy

The Pensions Committee approved the Investment Strategy 2012-17 for Lothian Buses Pension Fund in October 2012. The strategy reduces the allocation to equities (including private equity) from 63.5% at the end of 2012 to 55% by the end of 2017 and increases the allocation to index-linked gilts and alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to investments, such as Index-Linked Gilts and Equities, which have a history of protecting or enhancing purchasing power after the effects of inflation have been taken into account.

The investment strategy is set at the broad asset class level of Equities, Index-Linked Assets and Alternatives, which are the key determinants of investment risk and return. The Equities category includes listed and unlisted equities; Index-Linked Assets includes index-linked gilts/bonds; Alternatives include property, infrastructure, timber and fixed income assets, such as corporate bonds and other debt investments. The long term strategy for 2012-17 is set out in the table below along with the current interim strategy allocation and the asset allocation limits under normal financial conditions.

	Strategic Allocation 31/03/2015 %	Long term Strategy 2012 - 2017 %	Permitted ranges %
Equities	60.5	55.0	45 - 65
Index Linked Assets	12.0	15.0	10 - 30
Alternatives	27.5	30.0	10 - 35
Cash	-	-	0 - 10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>n/a</b>



The implementation of the Investment Strategy 2012-17 has continued to proceed at a measured pace as investment opportunities became available and as research on opportunities was completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.

Changes to the underlying structure of the Fund were more modest in 2014/15 following the significant changes implemented in the prior year, notably the move to have approximately half of the Fund's equity exposure managed by the internal team in a low cost, low turnover, high dividend yield strategy.

## Investment performance

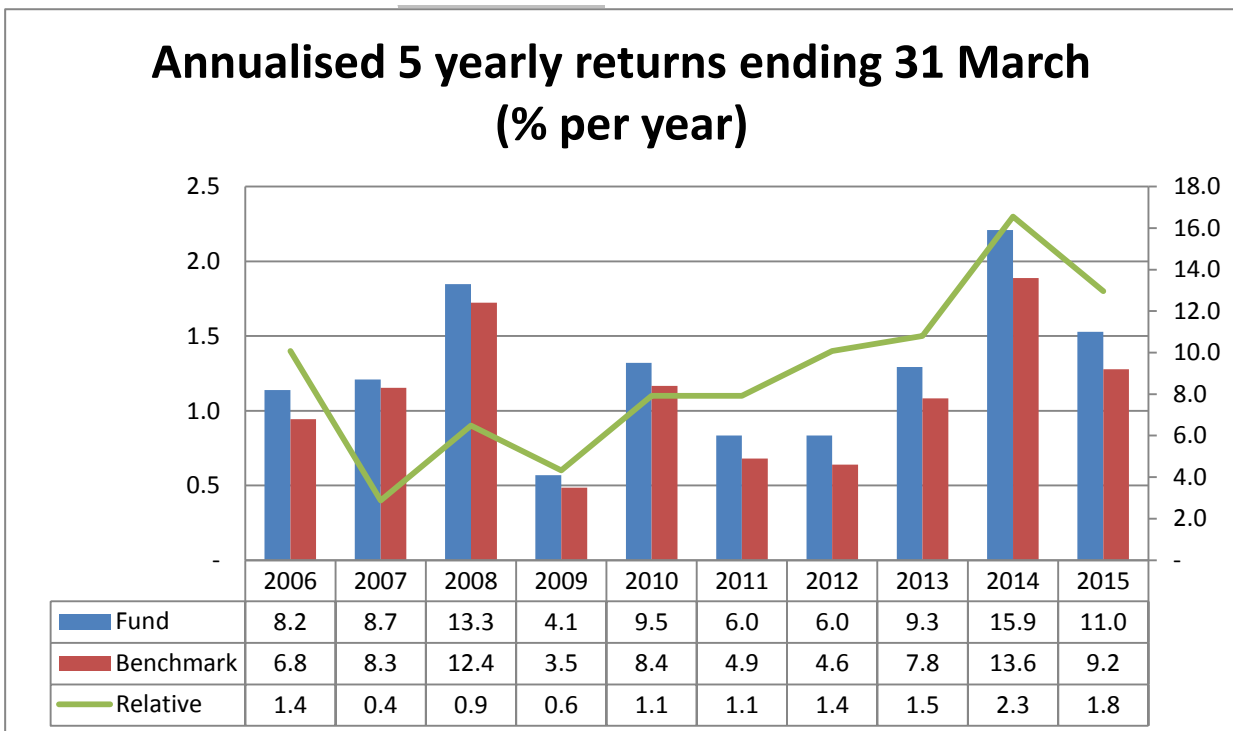
The objectives of the Fund were redefined in December 2012 and are:

- over long-term economic cycles (typically 5 years or more) the achievement of the same return as that generated by the strategic allocation
- over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund has achieved returns in excess of the strategic allocation over the last year and over the longer term timeframes shown in the table. The benchmark return shown in the table is the strategic allocation and comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation. Returns relative to the benchmark over a one year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially the Alternatives. The Fund’s benchmark for Alternatives is inflation plus 3.5% per annum, which makes sense over the long term as the Fund’s liabilities are linked to inflation. However, over shorter periods, there is less information content in the relative returns of the Fund because the development of asset prices is much more volatile than that of UK retail or consumer prices. The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long term objectives of the Fund.

### Annualised returns to 31 March 2015 (% per year)

	1 year	5 year	10 years
Lothian Buses Pension Fund	15.1	11.0	10.3
Benchmark	14.9	9.2	8.8
Retail Price Index (RPI)	0.9	3.1	3.0
Consumer Price Index (CPI)	(0.1)	2.4	2.5
National Average Earnings	3.3	1.7	2.6



# Lothian Buses Pension Fund

## Net Assets Statement as at 31 March 2015

31 March 2014		Note	31 March 2015
£000			£000
	<b>Investments</b>		
337,279	Assets		382,261
(1,934)	Liabilities		(98)
335,345		6, 8	382,163
	<b>Current assets</b>		
422	The City of Edinburgh Council	14	1,113
1,523	Cash balances	8, 14	2,026
912	Debtors	11	726
2,857			3,865
	<b>Current liabilities</b>		
(1,077)	Creditors	12	(244)
(1,077)			(244)
1,780	<b>Net current assets</b>		3,621
337,125	<b>Net assets of the Fund at 31 March 2015</b>	7a, 7c	385,784

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

JOHN BURNS FCMA CGMA  
Pensions and Accounting Manager  
30 September 2015

### Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

# Lothian Buses Pension Fund

## Net Assets Statement as at 31 March 2015

31 March 2014			31 March 2015
£000		Note	£000
	<b>Investments</b>		
337,279	Assets		382,261
(1,934)	Liabilities		(98)
335,345		6, 8	382,163
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# Notes to the Accounts

## 1 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

## 2 Contributions from employer

	2013/14 £000	2014/15 £000
Lothian Buses Plc		
Normal (ongoing contributions)	7,126	7,094
Deficit funding	-	-
Pension strain	-	-
<b>Total</b>	<b>7,126</b>	<b>7,094</b>

The Lothian Buses Pension Fund is a single employer pension fund for employees of Lothian Buses Plc. The Lothian Buses Fund was set up in 1986 under the Local Government Superannuation (Funds) (Scotland) regulations 1986 (SSI 115/1986).

From 2012/13 onwards, no deficit funding was required (as stated in the actuarial valuation of 31 March 2011). For 2014/15 the employer contribution rate was 20.5% of pensionable pay for service currently being accrued.

Where the employer makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to the employer. There were no strain costs during 2014/15.

## 3 Transfers out to other pension schemes

	2013/14 £000	2014/15 £000
Group transfers	-	-
Individual transfers	218	17
	<b>218</b>	<b>17</b>

## 4a Administrative expenses

	2013/14 £000	2014/15 £000
Employee costs	59	53
The City of Edinburgh Council - pension payroll costs	7	-
The City of Edinburgh Council - other support costs	15	7
System costs	11	12
Actuarial fees	9	21
External Audit fees	2	2
Legal fees	-	-
Printing and postage	2	5
Depreciation	3	4
Office costs	2	5
Sundry costs less sundry income	-	3
	<b>110</b>	<b>112</b>

The Investment and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis. Other costs were allocated based on the number of members of each Fund.



# Notes to the Accounts

4b Investment management expenses	2013/14	2014/15
	£000	£000
External management fees - invoiced	2,021	539
External management fees - deducted from capital	568	589
Transaction costs	268	31
Employee costs	59	63
Custody fees	21	36
Engagement and voting fees	5	5
Performance measurement fees	11	17
Investment consultancy fees	3	-
System costs	11	11
Legal fees	3	8
The City of Edinburgh Council - other support costs	8	12
Office costs	1	4
Sundry costs	3	5
	2,982	1,320

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 6a - Reconciliation of movements in investments).

The external investment management fees for 2014/15 include a performance-related element of £0.1m (2013/14 £1.4m).

4c Management expenses	2013/14	2014/15
	£000	£000
Administrative costs	99	84
Investment management expenses	2,763	1,259
Oversight and governance costs	230	89
	3,092	1,432

This analysis of costs for the Lothian Buses Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administration and Investment expenses in note 4a and b and splits out the costs to include a third heading covering oversight and governance.

5 Investment income	2013/14	2014/15
	£000	£000
Fixed income	7	84
Dividends from equities	4,610	6,230
Income from pooled investment vehicles	1,451	1,747
Interest on cash deposits	46	50
Securities lending and sundries	140	320
	6,254	8,431
Irrecoverable withholding tax	(98)	(85)
	6,156	8,346

# Notes to the Accounts

6	Net investment assets	31 March 2014 £000	31 March 2015 £000
	<b>Investment assets</b>		
	Fixed interest	6,511	13,209
	Equities	221,274	242,863
	Pooled investment vehicles	87,978	105,943
	Deposits	19,521	19,174
	<b>Other investment assets</b>		
	Due from broker	1,084	81
	Dividends and other income due	911	991
		1,995	1,072
	<b>Total investment assets</b>	337,279	382,261
	<b>Investment liabilities</b>		
	Other financial liabilities - due to broker	(1,934)	(98)
	<b>Total investment liabilities</b>	(1,934)	(98)
	<b>Net investment assets</b>	335,345	382,163

## 6a Reconciliation of movement in investments

	Market value at 31 March 2014 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2015 £000
Fixed interest	6,511	5,185	(391)	1,904	13,209
Equities	221,274	20,545	(27,165)	28,209	242,863
Pooled investment vehicles	87,978	5,319	(779)	13,425	105,943
	315,763	31,049	(28,335)	43,538	362,015
<b>Other financial assets / (liabilities)</b>					
Cash deposits	19,521			(113)	19,174
Broker balances	(850)			(3)	(17)
Dividends due	911			-	991
	19,582			(116)	20,148
<b>Net financial assets</b>	335,345			43,422	382,163

# Notes to the Accounts

	Market value at 31 March 2013 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2014 £000
Fixed interest	-	6,414	-	97	6,511
Equities	214,633	127,533	(142,769)	21,877	221,274
Pooled investment vehicles	80,844	7,228	(934)	840	87,978
	295,477	141,175	(143,703)	22,814	315,763
<b>Other financial assets / (liabilities)</b>					
Cash deposits	11,850			(405)	19,521
Broker balances	614			2	(850)
Dividends due	824			-	911
	13,288			(403)	19,582
<b>Net financial assets</b>	<b>308,765</b>			<b>22,411</b>	<b>335,345</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

## 6b Analysis of investments (at market value)

	Market value at 31 March 2014 £000	Market value at 31 March 2015 £000
<b>Fixed income</b>		
UK index linked	6,511	13,209
<b>Equities</b>		
UK quoted	42,178	39,225
Overseas quoted	179,096	203,638
	221,274	242,863
<b>Pooled investment vehicles</b>		
UK		
Managed funds - property	29,327	34,201
Managed funds - index linked	23,338	28,449
Managed funds - other bonds	24,039	27,380
Infrastructure and timber	1,703	2,053
Overseas		
Infrastructure and timber	9,571	13,860
	87,978	105,943

# Notes to the Accounts

## 6c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
Baillie Gifford	Global equities	107,901	32.2	120,728	31.7
In-house	Global high dividend	107,435	32	113,824	29.8
In-house	Private equity quoted	3,761	1.1	4,753	1.2
Total equities		219,097	65.3	239,305	62.7
Baillie Gifford	Index linked gilts	23,338	7.0	28,449	7.5
In-house	Index linked gilts	14,106	4.2	13,915	3.6
Total index linked gilts		37,444	11.2	42,364	11.1
Baillie Gifford	Corporate bonds	24,039	7.2	27,380	7.2
In-house	Secured loans	1,421	0.4	530	0.1
Total other bonds		25,460	7.6	27,910	7.3
Standard Life	Property managed fund	29,327	8.7	34,201	8.9
In-house	Infrastructure unquoted	8,627	2.6	7,915	2.1
In-house	Infrastructure quoted	5,739	1.7	7,026	1.8
In-house	Timber	2,647	0.8	6,341	1.7
In-house	Alternatives cash	-	-	1,657	0.4
Total alternative investment		17,013	5.1	22,939	6.0
In-house	Cash	6,886	2.1	11,986	3.1
In-house	Transition	118	-	3,458	0.9
		7,004	2.1	15,444	4.0
Net financial assets		335,345	100.0	382,163	100.0

## 6d Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
Standard Life Property Fund	29,327	8.7	34,201	8.9
Baillie Gifford Inv Grade Bond Fund	24,039	7.1	27,380	7.1
Baillie Gifford Index Linked Gilt Fund	23,338	6.9	28,449	7.4

# Notes to the Accounts

## 6e Investments representing more than 5% of any investment class

		Market value at 31 March 2014 £000	Percent of class 31 March 2014 %	Market value at 31 March 2015 £000	Percent of class 31 March 2015 %
UK Gov 1.125% Index Linked 22/11/37	Fixed interest	1,226	18.8	1,472	11.1
UK Gov 2% Index Linked 26/01/35	Fixed interest	1,179	18.1	1,368	10.4
UK Gov 0.625% Index Linked 22/03/40	Fixed interest	987	15.2	1,215	9.2
UK Gov 0.75% Index Linked 22/03/34	Fixed interest	988	15.2	1,161	8.8
UK Gov 0.125% Index Linked 22/03/44	Fixed interest	-	-	1,151	8.7
UK Gov 1.25% Index Linked 22/11/32	Fixed interest	1,170	18.0	1,125	8.5
UK Gov 0.75% Index Linked 22/11/47	Fixed interest	-	-	880	6.7
UK Gov 4.125% Index Linked 22/07/30	Fixed interest	961	14.8	878	6.6
UK Gov 0.375% Index Linked 22/03/62	Fixed interest	-	-	866	6.6
UK Gov 1.25% Index Linked 2055	Fixed interest	-	-	758	5.7
Standard Life Property Fund	Pooled fund	29,327	33.3	34,201	32.3
Baillie Gifford Inv Grade Bond Fund	Pooled fund	24,039	27.3	27,380	25.8
Baillie Gifford Index Linked Gilt Fund	Pooled fund	23,338	26.5	28,449	26.9

## 6f Securities lending

During the year Lothian Buses Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2015, £10.5m (2014 £14.1m) of securities were released to third parties. Collateral valued at 106.1% (2014 105.2%) of the market value of the securities on loan was held at that date.

## 7 Financial instruments

### 7a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

# Notes to the Accounts

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

	31 March 2014			31 March 2015		
	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>						
Investment assets						
Fixed interest	6,511	-	-	13,209	-	-
Equities	221,274	-	-	242,863	-	-
Pooled investments	87,978	-	-	105,943	-	-
Cash	-	19,521	-	-	19,174	-
Other investment balances	-	1,995	-	-	1,071	-
	315,763	21,516	-	362,015	20,245	-
Other assets						
City of Edinburgh Council	-	422	-	-	1,113	-
Cash	-	1,523	-	-	2,027	-
Debtors	-	912	-	-	726	-
	-	2,857	-	-	3,866	-
<b>Assets total</b>	<b>315,763</b>	<b>24,373</b>	<b>-</b>	<b>362,015</b>	<b>24,111</b>	<b>-</b>
<b>Financial liabilities</b>						
Investment liabilities						
Other investment balances	(1,934)	-	-	(98)	-	-
	(1,934)	-	-	(98)	-	-
Other liabilities						
Creditors	-	-	(1,077)	-	-	(244)
	-	-	(1,077)	-	-	(244)
<b>Liabilities total</b>	<b>(1,934)</b>	<b>-</b>	<b>(1,077)</b>	<b>(98)</b>	<b>-</b>	<b>(244)</b>
<b>Net asset total</b>	<b>313,829</b>	<b>24,373</b>	<b>(1,077)</b>	<b>361,917</b>	<b>24,111</b>	<b>(244)</b>
<b>Total net financial instruments</b>			<b>337,125</b>			<b>385,784</b>

## 7b Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Designated as fair value through fund account	22,814	43,538
Loans and receivables	(403)	(116)
Financial liabilities at amortised cost	-	-
<b>Total</b>	<b>22,411</b>	<b>43,422</b>

# Notes to the Accounts

## 7c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unlisted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unlisted private equity, infrastructure and timber are based on valuations provided by the general partners to the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2015			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial assets</b>				-
Designated as fair value through fund account	332,875	13,209	15,931	362,015
Loans and receivables	24,111	-	-	24,111
<b>Total financial assets</b>	<b>356,986</b>	<b>13,209</b>	<b>15,931</b>	<b>386,126</b>
<b>Financial liabilities</b>				
Designated as fair value through fund account	(98)	-	-	(98)
Financial liabilities at amortised cost	(244)	-	-	(244)
<b>Total financial liabilities</b>	<b>(342)</b>	<b>-</b>	<b>-</b>	<b>(342)</b>
<b>Net financial assets</b>	<b>356,644</b>	<b>13,209</b>	<b>15,931</b>	<b>385,784</b>

# Notes to the Accounts

	31 March 2014			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial assets</b>				
Designated as fair value through fund account	297,978	6,511	11,274	315,763
Loans and receivables	24,373	-	-	24,373
<b>Total financial assets</b>	<b>322,351</b>	<b>6,511</b>	<b>11,274</b>	<b>340,136</b>
<b>Financial liabilities</b>				
Designated as fair value through fund account	(1,934)	-	-	(1,934)
Financial liabilities at amortised cost	(1,077)	-	-	(1,077)
<b>Total financial liabilities</b>	<b>(3,011)</b>	<b>-</b>	<b>-</b>	<b>(3,011)</b>
<b>Net financial assets</b>	<b>319,340</b>	<b>6,511</b>	<b>11,274</b>	<b>337,125</b>

\* Index linked gilts reclassified to Level 2 to be consistent across Funds

## 8 Nature and extent of risk arising from financial instruments

### Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to the employer. The Fund achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments. Risks are reviewed regularly to reflect changes in activity and market conditions.

### Types of investment risks

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Investment risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall investment risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which the Fund invests
- monitoring market risk and market conditions to ensure risk remains within tolerable levels.



# Notes to the Accounts

The Fund may use equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

## Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as “volatility” and it differs by asset class. The table below sets out the long-term volatility assumptions used in the Fund’s asset-liability modelling undertaken by the Fund’s investment adviser KPMG:

Asset type	Potential price movement (+ or -)
Equities - developed markets	20.0%
Private equity	30.0%
Timber	30.0%
Secured loans	10.0%
Corporate bonds	12.0%
Index-linked gilts	8.5%
Infrastructure	8.0%
Property	13.0%
Cash	1.5%

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset’s change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes do not always move in line with each other. The extent to which assets move together is known as their “correlation”. A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from “diversification” because it invests in different asset classes, which don’t all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

Asset type	Value at 31 March 2015		Potential Change + / -	Value on increase	Value on decrease
	£000	% of fund	+ / - %	£000	£000
Equities - developed markets	234,550	61.4	20.0	281,460	187,640
Private equity	4,753	1.2	30.0	6,179	3,327
Timber	6,341	1.7	30.0	8,243	4,439
Secured loans	530	0.1	10.0	583	477
Corporate bonds	27,380	7.2	12.0	30,666	24,094
Index-linked gilts	42,364	11.1	8.5	45,965	38,763
Infrastructure	14,941	3.9	8.0	16,136	13,746
Property	34,201	8.9	13.0	38,647	29,755
Cash	17,103	4.5	1.5	17,360	16,846
Total [1]	382,163	100.0	16.5	445,239	319,087
Total [2]			14.4	437,194	327,132
Total [3]			13.6	434,137	330,189

[1] No allowance for correlations between assets

[2] Including allowance correlations for between assets

[3] Including allowance for correlation between assets and liabilities.

## Notes to the Accounts

The value on increase/decrease columns illustrate the effect of the volatility. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three. It can be seen that the risk to the overall Fund [2] assets is lower than the total of the risks to the individual assets[1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities[3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

### Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and stock lending are the major areas of credit exposure where credit risk is not reflected in market prices.

### Cash deposits

At 31 March 2015, cash deposits represented £21.7m, 6.1% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa	11,452	3,285
Northern Trust Company - cash deposits	A1	5,591	3,903
The City of Edinburgh Council - treasury management	See below	2,478	11,986
<b>Total investment cash</b>		<b>19,521</b>	<b>19,174</b>
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,523	2,026
<b>Total cash</b>		<b>21,044</b>	<b>21,200</b>

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash management opportunities.

# Notes to the Accounts

The Fund's cash holding at the year end under its treasury management arrangements was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Money market funds			
Deutsche Bank AG, London	<i>Aaa</i>	527	2,057
Goldman Sachs	<i>Aaa</i>	295	2,055
Bank call accounts			
Bank of Scotland	<i>A1</i>	364	1,324
Royal Bank of Scotland	<i>Baa1</i>	137	186
Santander UK	<i>A2</i>	377	1,285
Barclays Bank	<i>A2</i>	367	1,341
Svenska Handelsbanken	<i>Aa3</i>	566	2,090
HSBC Bank	<i>Aa3</i>	546	2,045
Commonwealth Bank of Australia	<i>Aa2</i>	-	543
Floating Rate Note			
Rabobank	<i>Aa2</i>	-	362
Building society fixed term deposits			
Nationwide Building Society	<i>A2</i>	182	362
UK pseudo-sovereign risk instruments			
Other Local Authorities	<i>n/a</i>	458	
UK Government Treasury Bills	<i>Aa1</i>	182	362
		4,001	14,012

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

## Securities lending

The Fund participates in a security lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of stock defaults. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

## Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cashflow projections are prepared on a regular basis to understand and manage the timing of the Fund's cashflow. The majority (estimated to be approximately 85%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

## Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

# Notes to the Accounts

## 9 Actuarial statement

The Fund Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

## 10 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £400m (2014 £358m).

This figure is used for statutory accounting purposes by Lothian Buses Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March	31 March
	2014	2015
	% p.a.	% p.a.
Inflation / pensions increase rate	2.8	2.4
Salary increase rate	5.1	4.3
Discount rate	4.5	3.2

\*Salary increases were estimated at 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

### Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		31 March 2015	
	Males	Females	Males	Females
Current pensioners	18.4 years	21.6 years	20.4 years	22.6 years
Future pensioners (assumed to be currently 45)	21.7 years	24.8 years	23.5 years	25.9 years

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

# Notes to the Accounts

11 Debtors	31 March 2014 £000	31 March 2015 £000
Contributions due - employers	654	528
Contributions due - employees	199	161
Pensions paid on behalf of employer	38	-
Sundry debtors	21	37
	<b>912</b>	<b>726</b>
<b>Analysis of debtors</b>		
Administering Authority	1	1
Lothian Buses plc	890	689
Other entities and individuals	21	36
	<b>912</b>	<b>726</b>

12 Creditors	31 March 2014 £000	31 March 2015 £000
Benefits payable	91	73
Miscellaneous creditors and accrued expenses	986	171
	<b>1,077</b>	<b>244</b>
<b>Analysis of creditors</b>		
Other entities and Individuals	1,077	244
	<b>1,077</b>	<b>244</b>

## 13 Additional Voluntary Contributions

Active members of the Lothian Buses Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

	2013/14 £000	2014/15 £000
Total contributions during year for Lothian Buses Pension Fund		
Standard Life	9	9
Prudential	108	73
	<b>117</b>	<b>82</b>
	31 March 2014 £000	31 March 2015 £000
Total value at year end for Lothian Buses Pension Fund		
Standard Life	148	167
Prudential	186	251
	<b>334</b>	<b>418</b>

# Notes to the Accounts

## 14 Related party transactions

### The City of Edinburgh Council

Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the pension funds.

The Investment and Pensions Division of the Council is responsible for administering the three pension funds. The Division receives an allocation of the overheads of the Council, based on the amount of central services consumed. In turn, the Division allocates its costs to the three funds. Costs directly attributable to a specific fund are charged to the relevant fund, costs that are common to all three funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Council is paid a cash sum leaving a working balance in the account to cover the next month's pension payroll costs and other expected costs.

	31 March 2014 £000	31 March 2015 £000
<b>Year end balance on holding account</b>	422	1,113

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2015, the Fund had an average investment balance of £6.8m (2014 £6.6m), interest earned was £31k (2014 £34.9k).

	31 March 2014 £000	31 March 2015 £000
<b>Year end balance on treasury management account</b>		
Held for investment purposes	2,478	11,986
Held for other purposes	1,523	2,026
	4,001	14,012

The Council owns 91.01% of the shares of Lothian Buses plc, the Fund being operated solely for the employees of Lothian Buses Plc.

### Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	1,379	1,379
Recognised as an expense during the year	33	91

# Notes to the Accounts

The above expense has been allocated across the three Pension Funds, Lothian Buses Pension Fund's share is £5.2k.

## Key management personnel

During the period from 1 April 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. These employees and their financial relationship with the Fund (expressed as cash-equivalent transfer values or CETV) are set out below:

Name	Position held	Accrued CETV as at	Accrued CETV as at
		31 March 2014 £000	31 March 2015 £000
Alastair Maclean*	Chief Operating Officer Deputy Chief Executive	115	141
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

\* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

## 15 Contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the infrastructure and timber parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a period of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2014 £000	31 March 2015 £000
Outstanding investment commitments	466	5,387

## 16 Contingent assets and liabilities

There were no contingent assets or liabilities at the year end.

## 17 Impairment losses

No impairment losses have been identified during the year.

# Lothian Buses Pension Fund

## Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

- To ensure solvency of the Fund;
- To minimise the degree of short-term change in employer contribution rates;
- Reduce risk of the investment strategy over time;
- To ensure that sufficient cash is available to meet all liabilities as they fall due for payment

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £337 million, were sufficient to meet 117% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2014 valuation was £48 million.

On the more prudent gilts basis, the Fund's assets at 31 March 2014 were sufficient to meet 88% of the liabilities accrued to that date. The resulting deficit at the 2014 valuation, on the gilts basis, was £45million.

The employer contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.



## Actuarial Statement for 2014/15

The key financial assumptions adopted for the 2014 valuation were as follows:

Financial Assumption	31 March 2014	
	% p.a. Nominal	% p.a. Nominal
Discount rate	5.00%	2.30%
Pay increases*	5.00%	2.30%
Price inflation/Pension increases	2.70%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.4 years	22.6 years
Future Pensioners*	23.5 years	25.9 years

\*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

### Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update as at 31 March 2015 revealed that the Fund's assets were sufficient to meet 106% of the past service liabilities. The decrease in the funding level was largely as a result of a decrease in real bond yields, and the subsequent reduction in the net discount rate, which places a higher value on the Fund's liabilities. The resulting surplus was £22 million.

On the more prudent gilts basis, the Fund's assets at 31 March 2015 were sufficient to meet 81% of the liabilities accrued to that date, with a resulting deficit of £91 million.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time

**Richard Warden FFA**

**Fellow of the Institute and Faculty of Actuaries**

**For and on behalf of Hymans Robertson LLP**

**1 June 2015**

# Scottish Homes Pension Fund

## Membership records

Status	Membership at 31/03/2012	Membership at 31/03/2013	Membership at 31/03/2014	Membership at 31/03/2015
Active	-	-	-	-
Deferred	650	626	595	562
Pensioners	999	978	956	928
Dependants	303	308	298	293
<b>Total</b>	<b>1,952</b>	<b>1,912</b>	<b>1,849</b>	<b>1,783</b>

## Funding

As the Scottish Homes Pension Fund has no active members, benefits are funded by investment earnings and payments from the Scottish Government in line with the guarantee agreement.

Payments under the guarantee agreement are set at triennial actuarial valuations. The amount payable for the year ended 31 March 2015, of £771,000, was based on the actuarial valuation as at 31 March 2011. As a result of the 31 March 2014 valuation, the Scottish Government will pay £675,00 each year from 1 April 2015 to 31 March 2018.

The Fund's actuary has estimated the funding level to be 92% at 31 March 2015. The position has improved from 88.8% at the date of the last actuarial valuation, 31 March 2014. More information on funding can be found in the Actuarial Statement for 2014/15 at the end of this section.

## Investment strategy

The funding agreement with the Scottish Government and the investment strategy are designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time. They allow for acceleration in the sale of equities and property and purchase of bonds if the actual funding level improves to the target funding level. The 2014 Actuarial Valuation showed that the actual funding level (88.8%) was below the target funding level (91.5%).

Following the results of the 2014 Actuarial Valuation, the Pensions Committee approved a revised investment strategy for Scottish Homes Pension Fund in December 2014, which confirms that the equity allocation will be reduced with corresponding increases in the bond allocation dependent on the funding level. The target funding levels from 2011 to 2026 are shown in the table below along with the corresponding target equity allocations.

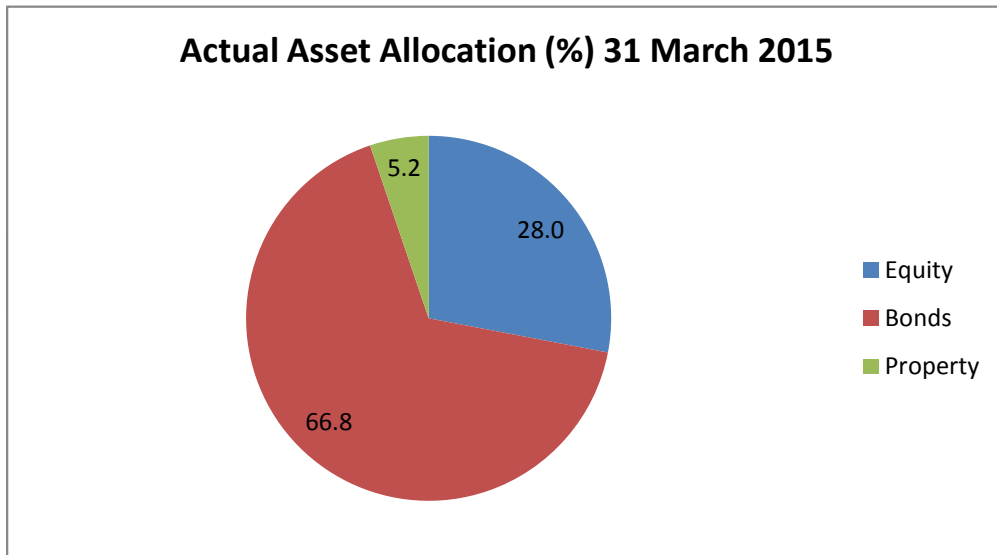
Year [1]	Target Funding	Equity
	Level %	Allocation %
2011	89.5	35
2014	91.5	30
2017	93.0	25
2020	94.5	20
2023	95.5	15
2026	96.5	10

[1] The Scottish Government guarantee agreement sets out the target funding levels every 3 years until 2044.

Over 2014/15, the actual funding level did improve to the target funding level and action was taken to reduce the equity allocation from 30.0% to 27.5% during the first quarter of 2015, consistent with the funding approach. The estimated actual funding level was 92% at 31 March 2015, which is broadly in-line with the target funding level of 93.0% for 2017. The strategic asset allocation at 31 March 2015 is shown below.

Asset Class	Strategic Allocation	Strategic Allocation
	31 March 2014	31 March 2015
	%	%
Equities	30.0	27.5
Bonds	65.0	67.5
Property	5.0	5.0
Cash	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The actual asset allocation at 31 March 2015 is shown in the pie chart below.



During 2014/15, an analysis of the Fund’s liability cash flow projections was undertaken, which highlighted the differences between the term/duration of the Fund’s investments compared to the liabilities. This was partly due to the fact that the investments have tracked a standard market index of gilts and issuance of new government bonds over recent years has tended to be of longer duration. During September 2014, the duration of the Fund’s investments was reduced accordingly and part of the Fund’s holdings is now being managed internally. Approximately half of the bond portfolio was moved to in-house management. The equity and bond allocations did not change over this time. This change in duration should result in the investments providing a closer match to the liabilities in the future.

## Investment performance

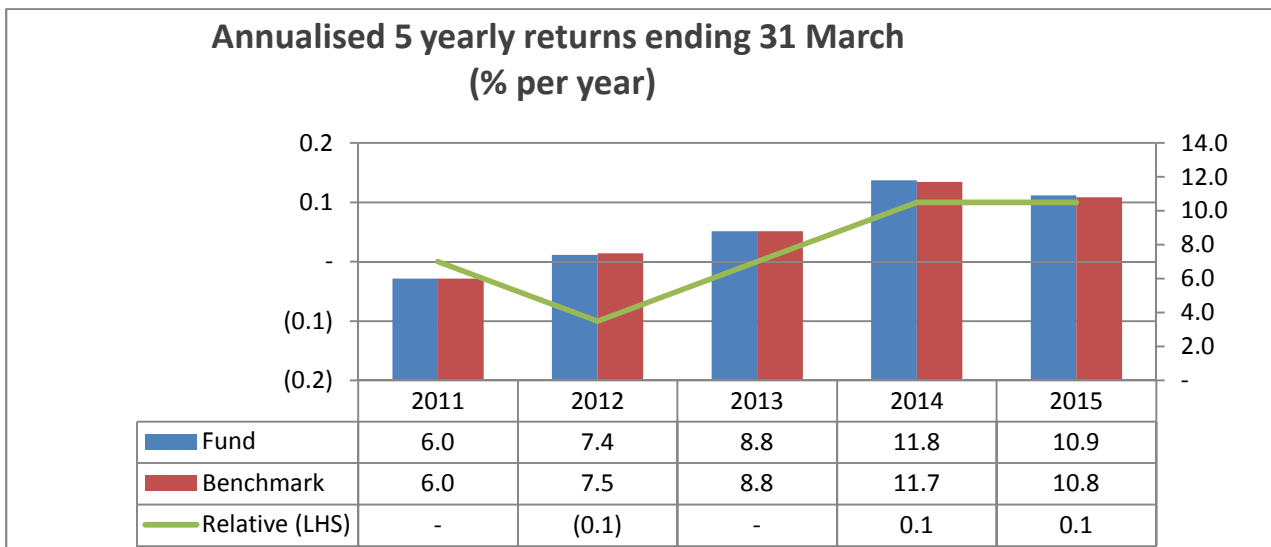
The objectives of the Fund were redefined in December 2012 and are:

- over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund’s annualised performance over the year and longer-term periods is shown in the table below. The Fund has performed in line with its benchmark since inception, and has outperformed its benchmark by a small margin over the 1- and 5-year timeframes. The Fund’s equity and bond assets are currently managed passively and the Fund’s risk has been similar to that of the benchmark.

Annualised returns to 31 March 2014 (% per year)	1 year	5 years Since inception (July 2005)
Scottish Homes Pension Fund	19.7	10.9
Benchmark	19.4	10.8
Retail Price Index (RPI)	0.9	3.1
Consumer Price Index (CPI)	(0.1)	2.4
National Average Earnings	3.3	1.7

The absolute performance of Scottish Homes Pension Fund over the 12-month period was +19.7% and 5 year performance was +10.9% per annum. With a large allocation to bonds, the continuing bull market in the world’s bond markets boosted the fund’s performance over 2014/15. Since inception in July 2005, the Fund has returned +9.2% per annum, well ahead of measures of inflation, and national average earnings.



# Scottish Homes Pension Fund

## Fund Account for year ended 31 March 2015

2013/14 £000		<i>Note</i>	2014/15 £000
	<b>Income</b>		
791	Contributions from employer	2	771
-	Transfers from other schemes		-
791			771
	<b>Less: expenditure</b>		
7,083	Pension payments including increases		7,057
329	Lump sum retirement payments		372
15	Lump sum death benefits		11
9	Transfers to other schemes	3	93
57	Administrative expenses	4a	69
7,493			7,602
(6,702)	<b>Net withdrawals from dealing with members</b>		(6,831)
	<b>Returns on investments</b>		
339	Investment income	5	569
2,742	Change in market value of investments	6a, 7b	24,861
(191)	Investment management expenses	4b	(184)
2,890	<b>Net returns on investments</b>		25,246
(3,812)	<b>Net (decrease) / increase in the Fund during the year</b>		18,415
140,117	<b>Net assets of the Fund at 1 April 2014</b>		136,305
136,305	<b>Net assets of the Fund at 31 March 2015</b>	7a, 7c	154,720

# Scottish Homes Pension Fund

## Net Assets Statement as at 31 March 2015

31 March 2014		Note	31 March 2015
£000			£000
	<b>Investments</b>		
133,761	Assets		152,067
-	Liabilities		-
133,761		6, 8	152,067
	<b>Current assets</b>		
175	The City of Edinburgh Council	14	219
2,383	Cash balances	8, 14	2,433
48	Debtors	11	27
2,606			2,679
	<b>Current liabilities</b>		
(62)	Creditors	12	(26)
(62)			(26)
2,544	<b>Net current assets</b>		2,653
136,305	<b>Net assets of the Fund at 31 March 2014</b>	7a, 7c	154,720

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

JOHN BURNS FCMA CGMA  
Pensions and Accounting Manager  
30 September 2015

### Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

# Notes to the Accounts

## 1 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

## 2 Contributions

	2013/14 £000	2014/15 £000
Deficit funding	671	671
Administration expenses contribution	100	100
Strain costs	20	-
	791	771

The Scottish Homes Pension Fund is a single employer pension fund for former employees of Scottish Homes. The Scottish Homes Pension Fund was set up under (Scottish) Statutory Instrument 315/2005, when Scottish Homes became Communities Scotland - part of the Scottish Government.

Following the actuarial valuation at 31 March 2011 deficit funding of £671,000 per year was paid by the Scottish Government over the period April 2012 to March 2015. In addition, the Scottish Government agreed to pay £100,000 every year towards the cost of ongoing administration. The results of the 31 March 2014 actuarial valuation mean that the Scottish Government will pay £575,000 per year in deficit funding for the period April 2015 to March 2018 while the administration cost remains the same.

Where the Scottish Government makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full.

The Fund consists of only deferred and pensioner members, hence no employee contributions were paid during the year.

## 3 Transfers out to other schemes

	2013/14 £000	2014/15 £000
Group transfers	-	-
Individual transfers	9	93
	9	93

## 4a Administrative expenses

	2013/14 £000	2014/15 £000
Employee costs	27	25
The City of Edinburgh Council - pension payroll costs	6	-
The City of Edinburgh Council - other support costs	7	3
System costs	5	7
Actuarial fees	7	25
External audit fees	1	1
Printing and postage	1	2
Depreciation	2	2
Office costs	1	2
Sundry costs less sundry income	-	2
	57	69

# Notes to the Accounts

## 4a Administrative expenses - continued

The Investment and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

## 4b Investment management expenses

	2013/14	2014/15
	£000	£000
External management fees - invoiced	72	59
External management fees - deducted from capital	61	60
Transaction costs	2	-
Employee costs	24	25
Engagement and voting fees	2	2
Performance measurement fees	2	5
Investment consultancy fees	1	-
The City of Edinburgh Council - other support costs	3	5
Custodian fees	18	18
System costs	4	4
Legal fees	-	2
Office costs	1	2
Sundry costs	1	2
	191	184

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 7a - Reconciliation of movements in investments).

The Fund has not incurred any performance-related investment management fees in 2014/15 or 2013/14.

## 4c Management expenses

	2013/14	2014/15
	£000	£000
Administrative costs	52	40
Investment management expenses	171	159
Oversight and governance costs	25	54
	248	253

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administration and Investment expenses in note 4a and b and splits out the costs to include a third heading covering Oversight and governance.



## Notes to the Accounts

5 Investment income	2013/14 £000	2014/15 £000
Income from fixed interest securities	-	250
Property pooled investment income	326	308
Interest on cash deposits	13	11
	339	569
Irrecoverable withholding tax	-	-
	339	569

6 Net investment assets	31 March 2014 £000	31 March £000
<b>Investment Assets</b>		
Fixed Interest Securities	-	54,147
Pooled investment vehicles	133,761	97,503
Deposits	-	244
<b>Other investment assets</b>		
income due	-	173
Net investment assets	133,761	152,067

### 6a Reconciliation of movement in investments

	Value at 31 March 2014 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2015 £000
Fixed Interest	-	49,838		4,309	54,147
Pooled investment vehicles	133,761		(56,810)	20,552	97,503
	133,761	49,838	(56,810)	24,861	151,650
<b>Other financial assets/(liabilities)</b>					
Cash deposits	-			-	244
Dividends due	-			-	173
	-			-	417
Net investment assets	133,761			24,861	152,067

	Value at 31 March 2013 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2014 £000
Pooled investment vehicles	138,006	21,435	(28,422)	2,742	133,761

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

# Notes to the Accounts

## 6b Analysis of Investments (at market value)

### Fixed income

Public sector index linked gilts quoted

2013/14	2014/15
£000	£000

-	54,147
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### Pooled investment vehicles

UK managed funds - property

6,960	7,875
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UK managed funds - other

126,801	89,628
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133,761	151,650
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## 6c Investment managers and mandates

Manager	Mandate	Market value at	% of total	Market value at	% of total
		31 March 2014	funds	31 March 2015	funds
		£000	%	£000	%
State Street	UK equity	8,777	6.6	9,199	6.0
State Street	N American equities	12,596	9.4	12,575	8.3
State Street	European equities	8,171	6.1	8,580	5.6
State Street	Pacific (ex Jpn) equities	3,225	2.4	3,544	2.3
State Street	Japanese equities	4,149	3.1	5,264	3.5
State Street	Emerging mkts equities	3,048	2.3	3,449	2.3
Total overseas equities		31,189	23.3	33,412	22.0
In-house	UK index-linked gilts	-	-	54,564	35.9
State Street	UK fixed interest gilts	17,336	13	21,362	14.0
State Street	UK index-linked gilts	69,499	51.9	25,655	16.9
Total fixed interest		86,835	64.9	101,581	66.8
Schroders	Property	6,960	5.2	7,875	5.2
Total property		6,960	5.2	7,875	5.2
Net financial assets		133,761	100	152,067	100.0

# Notes to the Accounts

## 6d Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
UK Gov 1.125% Index Linked 22/11/27	-	-	26,489	17.4
State Street UK Index Linked Gilts Over 15Y	69,498	52.0	25,655	16.9
State Street UK Conventional Gilts Over 15Y	17,336	13.0	21,362	14.0
UK Gov 1.25% Index Linked 22/11/32	-	-	16,401	10.8
State Street MPF North America Equity Index	12,596	9.4	12,575	8.3
UK Gov 1.125% Index Linked 22/11/37	-	-	11,257	7.4
State Street MPF UK Equity Index	8,777	6.6	9,199	6.0
State Street MPF Europe ex-UK Equity Index	8,171	6.1	8,580	5.6
Schroders UK Real Estate INC	6,690	5.2	7,874	5.2

## 6e Securities lending

The Fund has not participated in any securities lending arrangements in the last two years.

# Notes to the Accounts

## 7 Financial instruments

### 7a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

	31 March 2014			31 March 2015		
	Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
<b>Financial assets</b>						
<b>Investment assets</b>						
Fixed Interest securities	-	-	-	54,147	-	-
Pooled investments	133,761	-	-	97,503	-	-
Cash	-	-	-	-	244	-
Other balances	-	-	-	-	173	-
	133,761	-	-	151,650	417	-
<b>Other assets</b>						
City of Edinburgh Council	-	175	-	-	219	-
Cash	-	2,383	-	-	2,433	-
Debtors	-	48	-	-	27	-
	-	2,606	-	-	2,679	-
<b>Assets total</b>	133,761	2,606	-	151,650	3,096	-
<b>Financial liabilities</b>						
<b>Other liabilities</b>						
Creditors	-	-	(62)	-	(26)	-
	-	-	(62)	-	(26)	-
<b>Liabilities total</b>	-	-	(62)	-	(26)	-
<b>Net assets total</b>	133,761	2,606	(62)	151,650	3,070	-
<b>Total net financial instruments</b>			136,305			154,720

# Notes to the Accounts

## 7b Net gains and losses on financial instruments

	2013/14	2014/15
	£000	£000
Designated as fair value through fund account	2,742	24,681
Loans and receivables	-	-
Financial liabilities at amortised cost	-	-
<b>Total</b>	<b>2,742</b>	<b>24,681</b>

## 7c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2015			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Designated as fair value through fund	97,503	54,147	-	151,650
Loans and receivables	3,096	-	-	3,096
<b>Total financial assets</b>	<b>100,599</b>	<b>54,147</b>	<b>-</b>	<b>154,746</b>
<b>Financial liabilities</b>				
Designated as fair value through fund				
Financial liabilities at amortised cost	(26)	-	-	(26)
<b>Total financial liabilities</b>	<b>(26)</b>	<b>-</b>	<b>-</b>	<b>(26)</b>
<b>Net financial assets</b>	<b>100,573</b>	<b>54,147</b>	<b>-</b>	<b>154,720</b>

# Notes to the Accounts

	31 March 2014			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Designated as fair value through fund account	133,761	-	-	133,761
Loans and receivables	2,606	-	-	2,606
<b>Total financial assets</b>	<b>136,367</b>	<b>-</b>	<b>-</b>	<b>136,367</b>
<b>Financial liabilities</b>				
Designated as fair value through fund account	-	-	-	-
Financial liabilities at amortised cost	(62)	-	-	(62)
<b>Total financial liabilities</b>	<b>(62)</b>	<b>-</b>	<b>-</b>	<b>(62)</b>
<b>Net financial assets</b>	<b>136,305</b>	<b>-</b>	<b>-</b>	<b>136,305</b>

## 8 Nature and extent of risk arising from financial instruments

### Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The funding objective is outlined in the guarantee document, agreed by the Administering Authority, the Scottish Government and the Fund's Actuary.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

### Types of investment risks

There are various ways of considering investment risks for pension funds. For the purposes of this note, investment risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Investment risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, geographical and industry sectors as well as individual
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which the Fund invests
- monitoring market risk and market conditions to ensure risk remains within tolerable levels.

The Fund may use equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

# Notes to the Accounts

## Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as “volatility” and it differs by asset class. The table below sets out the long-term volatility assumptions used in the Fund’s asset-liability modelling:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.0%
Equities - Emerging Markets	30.0%
Fixed interest gilts	10.5%
Index-linked gilts	8.5%
Property	13.0%

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset’s change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don’t always move in line with each other. The extent to which assets move together is known as their “correlation”. A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from “diversification” because it invests in numerous different asset classes, which don’t all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level.

Asset type	Value			Value on increase £000	Value on decrease £000
	at 31 March 2015 £000	% of fund %	Change + / - %		
Equities - Developed Markets	39,162	25.7	20.0	46,994	31,330
Equities - Emerging Markets	3,449	2.3	30.0	4,484	2,414
Fixed Interest Gilts	25,655	16.9	10.5	28,349	22,961
Index-Linked Gilts	75,926	49.9	8.5	82,380	69,472
Property	7,875	5.2	13.0	8,899	6,851
Total [1]	152,067	100.0	12.5	171,106	133,028
Total [2]			9.4	166,361	137,773
Total [3]			7.1	162,864	141,270

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlations between assets and liabilities

The value on increase/decrease columns illustrates the monetary effect of the volatility. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets [1].

## Notes to the Accounts

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

### Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the funds assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are a major area of credit exposure where credit risk is not reflected in market prices.

### Cash deposits

At 31 March 2015 cash deposits represented £2.7m, 1.7% of total net assets. This was held as follows:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 32 March 2015 £000
<b>Held for investment purposes</b>			
Northern Trust Company - cash deposits	A1	-	244
Total investment cash		-	244
<b>Held for other purposes</b>			
The City of Edinburgh Council - treasury management	See below	2,383	2,433
Total cash		2,383	2,677

The majority of cash deposits of the Fund are managed along with those of the administering authority (The City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities.

As well as lending monies to other local authorities, the Council has purchased UK Government Treasury Bills as well as Bonds and Floating Rate Notes with an explicit UK Government Guarantee.



## Notes to the Accounts

The Fund's cash holding under its treasury management arrangements at 31 March 2015 was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Money market funds			
Deutsche Bank AG, London	Aaa	314	357
Goldman Sachs	Aaa	175	357
Bank call accounts			
Bank of Scotland	A1	217	230
Royal Bank of Scotland	Baa1	82	32
Santander UK	A2	225	223
Barclays Bank	A2	219	233
Svenska Handelsbanken	Aa3	337	363
HSBC Bank	Aa3	325	355
Commonwealth Bank of Australia	Aa2	-	94
Floating Rate Note			
Rabobank	Aa2	-	63
Building society fixed term deposits			
Nationwide Building Society	A2	108	63
UK pseudo-sovereign risk instruments			
Other Local Authorities [1]	n/a	273	-
UK Government Treasury Bills	Aa1	108	63
		2,383	2,433

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2014 was 'Aa1'). Of the £273k above, £119k was with a local authority which had a 'Aa2' credit rating from Moody's.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

### Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cashflow projections are prepared on a regular basis to understand and manage the timing of the Fund's cashflow.

The majority (estimated to be approximately 94%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

### Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

# Notes to the Accounts

## 9 Actuarial statement

The Fund Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

## 10 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £141m (2014 £138m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March 2014 % p.a.	31 March 2015 % p.a.
Inflation / pensions increase rate	2.6	2.1
Discount rate	4.1	3.1

### Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements from 2011 in line with Medium Cohort and a 1.25% p.a. underpin. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		31 March 2015	
	Males	Females	Males	Females
Current pensioners	24.5 years	25.4 years	24.5 years	25.4 years
Future pensioners (assumed to be aged 45 as at 31 March 2014)	26.8 years	28.6 years	26.8 years	28.6 years

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

## 11 Debtors

	31 March 2014 £000	31 March 2015 £000
Sundry debtors	48	27
	48	27
Analysis of debtors		
Administering Authority	1	1
Scottish Government	20	-
Other entities and individuals	27	26
	48	27

# Notes to the Accounts

## 12 Creditors

Benefits payable  
Miscellaneous creditors and accrued expenses

	31 March 2014 £000	31 March 2015 £000
	39	5
	23	21
	62	26
Analysis of creditors		
Other entities and individuals	62	26
	62	26

Analysis of creditors  
Other entities and individuals

## Additional Voluntary

## 13 Contributions

As the Fund has no active members, there are no AVC arrangements provided.

## 14 Related party transactions

### The City of Edinburgh Council

Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the pension funds.

The Investment and Pensions Division of the Council is responsible for administering the three pension funds. The Division receives an allocation of the overheads of the Council, which is based on the amount of central services consumed. In turn, the Division allocates its costs to the three funds. Costs directly attributable to a specific fund are charged to the relevant Fund; costs that are common to all three funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Council is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

Year end balance on holding account

	31 March 2014 £000	31 March 2015 £000
	175	219

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2015, the Fund had an average investment balance of £2.5m (2014 £2.3m). Interest earned was £11.5k (2014 £12.3k).

Year end balance on treasury management account  
Held for investment purposes  
Held for other purposes

	31 March 2014 £000	31 March 2015 £000
	-	-
	2,383	2,433
	2,383	2,433

# Notes to the Accounts

## Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	<b>1,379</b>	<b>1,379</b>
Recognised as an expense during the year	<b>33</b>	<b>91</b>

The above expense has been allocated across the three pension funds. Scottish Homes Pension Fund's share is £2.2k.

## Key management personnel

During the period from 1 April 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. These employees and their financial relationship with the Fund (expressed as cash-equivalent transfer values or CETV) are set out below:

Name	Position held	Accrued CETV as at 31 March 2014 £000	Accrued CETV as at 31 March 2015 £000
Alastair Maclean*	Chief Operating Officer Deputy Chief Executive	115	141
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

\* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

# Notes to the Accounts

## **15 Contingent liabilities and contractual commitments**

There were no contingent liabilities or contractual commitments at the year end.

## **16 Contingent assets**

There were no contingent assets at the year end.

## **17 Impairment losses**

No impairment losses have been identified during the year.

# Scottish Homes Pension Fund

## Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The administering authorities Funding Strategy Statement, dated March 2015, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The Funding strategy is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time, with a reducing allocation to equities over time reflecting the requirements of the Scottish Government to lock away any surpluses that may occur over time by accelerating the transfer into bonds.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £136 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £17 million.

The Guarantor's contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 4 December 2014.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

Assumption	Description
Price Inflation (CPI) (deferreds and pensioners)	Bank of England implied inflation (RPI) curve less 0.8% p.a
Discount rate (deferreds and pensioners)	Bank of England nominal yield curve

## Actuarial Statement for 2014/15

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	24.5 years	25.4 years
Future Pensioners*	26.8 years	28.6 years

\*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

### Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. At the time of writing the funding level is estimated to be 92%, an increase of 3% since the formal funding valuation at 31 March 2014.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

**Richard Warden FFA**

**Fellow of the Institute and Faculty of Actuaries**

**For and on behalf of Hymans Robertson LLP**

**1 June 2015**

# Statement of accounting policies and general notes

## 1 Basis of preparation

The Statement of Accounts summarises the transactions of the Funds for the 2014/15 financial year and their position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Funds and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Accounts.

## 2 Summary of significant accounting policies

### Fund account - revenue recognition

#### a) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate recommended by the Scheme Actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable under the scheme actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### c) Investment income

##### i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.



# Statement of accounting policies and general notes

## iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it is notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

## v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

## vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Fund account - expense items

## d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

## e) Taxation

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

## f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. The Investment and Pensions Division of the Council is responsible for administering the three Pension Funds. The Division receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, the Division allocates its costs to the three Pension Funds.

Costs directly attributable to a specific Fund are charged to the relevant Fund. Investment management costs that are common to all three Funds are allocated in proportion to the value of the Funds as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the Funds at the end of the year.

## g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

## Statement of accounting policies and general notes

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, the decision to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Both categories of expense are disclosed separately in the notes to the accounts of each of the Funds under investment management expenses.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house fund management team are charged to the Funds. The basis of allocation is as described section f) above.

### h) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with SIC 15, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

### Net assets statement

#### i) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

#### i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

#### ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

#### iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

## Statement of accounting policies and general notes

- directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- the values of the direct investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS. The valuations are usually undertaken at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

### iv) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

### v) Freehold and leasehold properties

The properties were valued at open market value at 31 March 2015 by John Symes-Thompson FRICS and Genine Terry MRICS of independent external valuers CB Richard Ellis Ltd in accordance with the Royal Institute of Chartered Surveyors' - Professional Standards (2012) ("the Red Book"). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

### j) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### k) Derivatives

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### l) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

# Statement of accounting policies and general notes

## m) Financial liabilities

The Funds recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised.

## n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of each of the Funds is assessed on an annual basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements.

## o) Additional voluntary contributions

The Lothian Pension Fund and Lothian Buses Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Funds. The Funds have appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in the pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

## 3 Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRSs (2011-2013 cycle)
- Annual Improvements to IFRSs (2010-2012 cycle)

The IFRS and IAS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

## 4 Critical judgements in applying accounting policies Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure and timber investments at 31 March 2015 was £564.2m (2014 £527.2m).

For the Lothian Buses Pension Fund, the value of unquoted private equity, infrastructure and timber investments at 31 March 2015 was £15.9m (2014 £11.3m).

## Statement of accounting policies and general notes

### Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund's Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

### 5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

#### a) Actuarial present value of promised retirement benefits

##### Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Fund Actuary advises on the assumptions to be applied and prepares the estimates.

##### Effect if actual results differ from assumptions - Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	11	706
1 year increase in member life expectancy	3	200
0.5% increase in salary increase rate	4	251
0.5% increase in pensions increase rate	7	436

##### Effect if actual results differ from assumptions - Lothian Buses Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	11	42
1 year increase in member life expectancy	3	12
0.5% increase in salary increase rate	4	14
0.5% increase in pensions increase rate	7	27

## Statement of accounting policies and general notes

### Effect if actual results differ from assumptions - Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	6	8
1 year increase in member life expectancy	3	4
0.5% increase in pensions increase rate	6	8

### b) Valuation of unquoted private equity and infrastructure investments

#### Uncertainties

These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

#### Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors.

### c) Quantifying the cost of investment fees deducted from capital

#### Uncertainties

Section g) above describes the accounting policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant Fund.

#### Effect if actual results differ from assumptions

There is a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year.

# Statement of responsibilities for the Statement of Accounts

## The Administering Authorities Responsibilities

The Administering Authority's responsibilities require it to:

- make arrangements for the proper administration of the financial affairs of the pension funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all of the Council's accounting arrangements, including those of the Lothian Pension Funds. For the Lothian Pension Funds, however, this Section 95 responsibility has been delegated to the Pensions and Accounting Manager.
- manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 30 September 2015.

Signed on behalf of

**COUNCILLOR ALASDAIR RANKIN**  
**Pensions Committee Convener**  
**30 September 2015**

## The Pensions and Accounting Manager's Responsibilities

The Pensions and Accounting Manager is responsible for the preparation of the Pension Funds' statement of accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and their income and expenditure for the year (ended 31 March 2015).

In preparing this statement of accounts, the Pensions and Accounting Manager has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Pensions and Accounting Manager has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2015, and their income and expenditure for the year ended 31 March 2015.

**JOHN BURNS, FCMA CGMA**

Pensions and Accounting Manager

30 September 2015



# Independent Auditor's Report

## Independent auditor's report to the members of City of Edinburgh Council as administering body for Lothian Pension Funds and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian Pension Funds for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the the Pensions and Accounting Manager and auditor

As explained more fully in the Statement of Responsibilities, the Pensions and Accounting Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### 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 funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pensions and Accounting Manager; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- • give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities;
- • have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- • have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

**Opinion on financial statements**

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA  
Assistant Director  
Audit Scotland  
4th Floor South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
GLASGOW  
G2 1BT

Date: 30 September 2015

# Annual Governance Statement

## Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these responsibilities, elected members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement explains how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement explains how the Council has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

## The Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled. It also describes the way it engages with, accounts to and leads its communities. It enables the Council and Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the "Funds") to monitor the achievement of their objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and considered by the Governance, Risk & Best Value Committee.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The framework is intended to meet the principles of effective governance.

The Funds place reliance upon the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. The relevant key elements of the Council's corporate governance framework, with specific additional reference as appropriate to the arrangements for the Funds, are set out below:

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2015-2018.
- The Council's revenue budget framework underpins the Council's long term financial plan and strategic planning framework, enabling it to manage expected future costs and service demands, aligning service delivery to the Council's Transformation and Improvement Plan to address these demands and deliver best value from available resources.
- The Corporate Programme Office provides a single and central structure with oversight of all significant Council projects over £5 million.
- A performance management framework, incorporating internal and public performance reporting, enables the Council to regularly report performance in achieving its key corporate objectives.

## Annual Governance and Compliance Statements

- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and internal audit, to the Corporate Leadership Group, Governance, Risk and Best Value Committee and Council, and to the Pensions Committee and Pensions Audit Sub-Committee for all matters affecting the Funds, where appropriate, supports effective scrutiny and service improvement activities.
- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.
- The Chief Executive has overall responsibility to Council, as head of paid service, for all aspects of operational management.
- The Chief Operating Officer Deputy Chief Executive has overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Head of Finance as section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control. For the Funds, the Section 95 officer has sub-delegated responsibility to the Pensions and Accounting Manager.
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for pension fund matters to the Pensions Committee and Pensions Audit Sub-Committee, on the adequacy of the Council's internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.
- The Chief Operating Officer Deputy Chief Executive has responsibility for advising the Council on corporate governance arrangements.
- The Governance, Risk and Best Value Committee, and for pension fund matters, the Pensions Committee and Pensions Audit Sub-Committee, provides the Council with independent assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides independent scrutiny of the Council's financial and non-financial performance, approves and monitors the progress of the Internal Audit risk based plan, and monitors performance of the internal audit service.
- The risk management policy and framework set out the responsibilities of elected members, Governance, Risk and Best Value Committee, and for pension fund matters, the Pensions Committee and Pensions Audit Sub-Committee, management and staff for the identification and management of risks to corporate and service related priorities;
- The Community Risk Register, Council Risk Register and Service area risk registers identify risks and proposed treatment or actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Group, which reviews Council-wide risk and reports to the Governance, Risk and Best Value Committee for scrutiny and challenge.
- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.
- Senior management and heads of service have formal objectives, with performance reviewed by the appropriate chief officer. Officers have personal work objectives, and receive feedback on their performance through the Council-wide performance review and development process.
- An Elected Members remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of elected members salaries, allowances and expenses is published on the Council's website.
- The Council's Chief Operating Officer Deputy Chief Executive ensures that induction training on roles and

- Codes of Conduct that set out the standards of behaviour expected from Elected Members and officers are in place.
- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations.
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others.
- A Register of Members' Interests and Registers of Officers' interests are maintained and available for public inspection.
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Consultative Panel and Independent Professional Observer;
- A structured programme to ensure that Pensions Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme matters;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme on investment;
- With the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework; and
- Benchmarking of services in terms of quality and cost against other pension funds.

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Council's objectives, including those relevant to the Funds. Following the establishment of the wholly-owned subsidiary company, LPFE Limited, the Council continues to have appropriate assurance processes and procedures in relation to the responsible officers involved in the administration of the Funds.

### **Review of Effectiveness**

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Chief Operating Officer Deputy Chief Executive has reviewed the effectiveness of the Code and will report the result to the Governance, Risk and Best Value Committee in August 2015.

The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit. The Section undertakes an annual work programme based on agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal, Risk and Compliance but had free access to the Chief Executive, all directors and elected members along with reporting directly to the Governance, Risk and Best Value Committee.

The review of the effectiveness of the governance framework is informed by:

- The work of the Corporate Leadership Group which develops and maintains the governance environment;
- The certified annual assurance statements provided by all directors;
- The certified assurance statements provided by the Chief Executives and Directors of Finance of the Council's Group companies, together with the work of each company's respective external (and where applicable, internal) auditors;
- Council officers' management activities;
- The Chief Internal Auditor's annual report and internal audit reports, risk based, across a range of Council services;
- Reports from the Council's external auditor; and
- Reports by external, statutory inspection agencies.

In compliance with standard accounting practice, the Head of Finance has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31<sup>st</sup> March 2015. It is the Head of Finance's opinion that reasonable assurance can be placed upon its effectiveness. The Pensions and Accounting Manager has provided the same in respect of the Funds.

Each service director has reviewed the arrangements in his / her service areas and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered any relevant third party reviews and recommendations

These reviews have identified that we need to continue to address:

- the mitigation of risks associated with the Council's transformation process, including structural and operating model changes;
- the Best Value audit actions: transformational change, corporate working, workforce, ICT, risk management and scrutiny, staff engagement and budget;
- the processes to ensure compliance with policies and procedures;
- the processes to ensure compliance with health and safety legislation, regulations and guidance;
- the implementation of actions identified in internal audit reviews;
- the implementation of all other actions identified by service directors in statements of assurance.

Accordingly, such matters relevant to the Funds will be also be progressed, including the implementation of actions identified in internal audit reviews and appropriate risk mitigation measures.

**ANDREW KERR**  
Chief Executive

**30 September 2015**

**ALASTAIR MACLEAN**  
Chief Operating Officer  
Deputy Chief Executive

**30 September 2015**

**COUNCILLOR ALASDAIR RANKIN**  
Pensions Committee Convener

**30 September 2015**

## Governance Compliance Statement

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below discusses arrangements at 31 March 2015, prior to the introduction of new governance arrangements on 1 April 2015. Please also see the How the Fund works section for an overview of the changes implemented.

<b>Structure</b>	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Yes	<p>The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters to a committee of seven members (Pensions Committee) made up as follows:</p> <ul style="list-style-type: none"> <li>- Five City of Edinburgh elected members</li> <li>- Two external members from the Consultative Panel (one each from the employer and member representatives).</li> </ul>
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	<p>The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives taken from the Consultative Panel. Two members of the Consultative Panel also attend the Pensions Audit Sub-Committee.</p> <p>Fund members and employers are also represented by the Funds' Consultative Panel. Membership includes six employer representatives and six member representatives.</p> <p>All members of the Consultative Panel are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings.</p>
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	<p>The Pensions Audit Sub-Committee consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations.</p> <p>The Funds' Consultative Panel attends the Pensions Committee meetings in an advisory, non-voting capacity and takes part in training events. Two members of the Panel are also full voting members of the Pensions Committee. Implementation of investment strategy is delegated to the Director of Corporate Governance, who takes advice from the Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually.</p> <p>The Investment Strategy Panel consists of Director of Corporate Governance, Investment and Pensions Service Manager, Pensions and Accounting Manager, Investment Manager and three independent advisers.</p>

## Annual Governance and Compliance Statements

<b>Representation</b>	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	Yes	<p>The Funds' Consultative Panel consists of a mix of representatives:</p> <ul style="list-style-type: none"> <li>- six employer representatives from non-administering authority employers (of which two places are reserved for Lothian Buses plc and Scottish Government)</li> <li>- six member representatives including one pensioner representative, three members (active or deferred) appointed by the Trade Union Consultative Committee and two members (active or deferred) appointed through an alternative route.</li> </ul>
	Where appropriate, independent professional observers, and expert advisors (on an ad-hoc basis).	Yes	<p>An Independent Professional Observer was appointed in March 2013 to help Committee scrutinise advice.</p> <p>Three independent investment advisers sit on the Investment Strategy Panel.</p> <p>A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the pension funds. The Independent Professional Observer also attends the meetings of the Pensions Audit Sub-Committee.</p>
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	<p>The Consultative Panel attends the Pensions Committee meetings in an advisory capacity and take part in all Committee training events. The Pensions Committee takes account of the views of the Consultative Panel when making decisions.</p>
<b>Selection and Role of Lay Members</b>	That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	<p>A comprehensive training programme including induction is in place. Members of the Pensions Committee are expected to attend three days of training each year and Consultative Panel members one day of training each year. The members confirm that they have read and will abide by a Code of Conduct (specifically tailored for the Committee and Panel) prior to their appointment to the Funds' Pensions Committee and Consultative Panel.</p>
	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	<p>The declaration of members' interests is a standard item on the agenda of the Pensions Committee and Pensions Audit Sub-Committee.</p> <p>A Code of Conduct also applies to all members of the Pensions Committee and to the Consultative Panel.</p>



## Annual Governance and Compliance Statements

<b>Voting</b>	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	Five of the seven places in the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The constitution of the Consultative Panel clearly documents how one each of the employer and member representatives will be elected to the Pensions Committee.
<b>Training / Facility Time / Expenses</b>	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Yes	A Code of Conduct also applies to all members of the Pensions Committee and to the Lothian Pension Funds' Consultative Panel which addresses these matters. This Code is under continual review in order that it remains up to date and that it contains an appropriate level of detail.
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy ensures all members are treated equally. Members of the Lothian Pension Funds' Consultative Panel are encouraged to attend in-house training events. Advisers have their own professional development obligations.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	The Funds' training policy requires that each member of the Pensions Committee receives at least three days of training each year. Attendance at meetings and training is monitored and reported.  Although the Fund's governance arrangements are in compliance with best practice, five of the seven committee members did not meet the Fund's training target.
<b>Meetings frequency</b>	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year.  The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times with further meetings held if necessary.  The Investment Strategy Panel meets quarterly or more frequently as required.
	c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	

## Annual Governance and Compliance Statements

<b>Access</b>	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	Committee papers and minutes are publicly available on the Council's website and all Committee and Consultative Panel members have equal access.
<b>Scope</b>	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	<p>The Pensions Committee deals with all matters relating to both the administration and investment of the Funds.</p> <p>A separate specialist Pension Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the pension funds.</p>
<b>Publicity</b>	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	<p>The City of Edinburgh Council is responsible for the appointment of members to the Pensions Committee.</p> <p>However on an annual basis:</p> <ul style="list-style-type: none"> <li>- the employer representative to be nominated for the Pensions Committee is selected by the employer representatives of the Consultative Panel</li> <li>- the member representative to be nominated to the Pensions Committee is selected by the member representatives of the Consultative Panel.</li> </ul> <p>Membership of the Consultative Panel is rotated every three years.</p> <p>The Funds publish governance documents and communicate regularly with employers and scheme members. Two members of the Consultative Panel are recruited by self nomination.</p>

### Certification

It is our opinion based on the foregoing that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance operated by the City of Edinburgh Council that relate to the arrangements for the Funds. The annual review has shown that, with the exception of those matters listed above, the arrangements are in place and operating as planned.

**ANDREW KERR**  
Chief Executive

30 September 2015

**ALASTAIR MACLEAN**  
Chief Operating Officer  
Deputy Chief Executive

30 September 2015

**COUNCILLOR ALASDAIR RANKIN**  
Pensions Committee Convener

30 September 2015

## Additional information

### Key documents online

You can find further information on what we do and how we do it, on our website at [www.lpf.org.uk/policy](http://www.lpf.org.uk/policy)

- Actuarial Valuation reports
- Consultative Panel constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration strategy
- Communications strategy
- Funding Strategy Statement
- Service Plan
- Trustee training policy

### Fund advisers

Actuaries:	Hymans Robertson LLP
Auditor:	David McConnell, Assistant Director of Audit, Audit Scotland
Bankers:	Royal Bank of Scotland
Investment consultancy:	KPMG LLP, Gordon Bagot and Scott Jamieson
Investment custodians:	The Northern Trust Company
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life and Prudential
Property valuations:	CB Richard Ellis Ltd
Solicitors:	Dedicated in-house resource

### Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to [pensions@lpf.org.uk](mailto:pensions@lpf.org.uk)

### Accessibility

You can get this document on tape, in Braille, large print and various computer formats if you ask us. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

### Contact details

If you would like further information about Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Home Pension Fund, please contact us.

**Email:** [pensions@lpf.org.uk](mailto:pensions@lpf.org.uk)

**Web:** [www.lpf.org.uk](http://www.lpf.org.uk)

**Telephone:** 0131 529 4638

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**Address:** Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX

Lothian Pension Fund  
Atria One  
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EH3 8EX



10.00am, Thursday, 22 October 2015

## Report by the External Auditor on the Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – Referral from the Pensions Committee

Item number	8.5
Report number	
Wards	All

### Executive summary

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The External Auditor had presented their annual report on the 2014/15 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

### Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome Agreement**

**Appendices**      Appendix – Report by the External Auditor on the Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – report by the Deputy Chief Executive

# Terms of Referral

## **Report by the External Auditor on the Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – Referral from the Pensions Committee**

### **Terms of referral**

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- 1.1 On 30 September 2015 the Pensions Committee considered the External Auditor's annual report on the 2014/15 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.
- 1.2 The report is now referred to the Council for information. This is considered best practice given the Council's statutory role as administering authority of the Lothian Pension Funds.
- 1.3 The Pensions Committee agreed:
  - 1.3.1 To approve the Annual Report on the 2014/15 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.
  - 1.3.2 To note the action plan at appendix iii of the Deputy Chief Executive's report and to seek appropriate updates on progress.
  - 1.3.3 To refer the report to Council for information.

### **For Decision/Action**

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- 2.1 To note the External Auditor's report on the audit of the Annual Report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

### **Background reading / external references**

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#### **Carol Campbell**

Head of Legal, Risk and Compliance

Contact: Gavin King, Committee Services Manager

Email: [gavin.king@edinburgh.gov.uk](mailto:gavin.king@edinburgh.gov.uk) | Tel: 0131 529 4239

## Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome  
Agreement**

**Appendices**      Appendix – Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund – report by the Deputy Chief Executive

# Pensions Committee

2.00 p.m., Wednesday, 30 September 2015

## Report by the External Auditor on the Annual Report 2015 of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Item number	5.5
Report number	
Executive/routine	
Wards	All

### Executive summary

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This report presents the External Auditor's Annual Report on the 2014/15 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The report from Audit Scotland is shown at Appendix 1. This includes commentary from the Investment & Pensions Service Manager as to planned management actions. The report will be presented to Committee by Stephen O'Hagan, Senior Audit Manager, Audit Scotland.

It is anticipated that Audit Scotland will provide an unqualified opinion that the financial statements (of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund) give a true and fair view of the transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities.

### Links

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Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement



## Report by the External Auditor on the Annual Report 2015 of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

### Recommendations

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- 1.1 Committee is requested to:
- That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider;
  - note the Annual Report on the 2014/15 audit of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund;
  - note the Action Plan at Appendix III of the report and seek appropriate updates on progress.

### Background

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#### Unqualified audit opinion

- 2.1 It is anticipated that Audit Scotland will provide an unqualified opinion that the financial statements (of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund) give a true and fair view of the transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities.

### Main report

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- 3.1 The purpose of this report is to present the External Auditor's Annual Report on the 2014/15 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The report from Audit Scotland is shown at Appendix 1. This includes commentary from the Investment & Pensions Manager as to planned management actions. The report will be presented to Committee by Stephen O'Hagan, Senior Audit Manager, Audit Scotland.
- 3.2 In addition to members of the Pensions Committee and Pensions Audit Sub-Committee, Audit Scotland has also sent the report to the Controller of Audit and has advised that the report will be published on its web-site in due course.

## Measures of success

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- 4.1 The prime objective of the Council, as administering authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, is to ensure an unqualified audit opinion of the Annual Report 2015. This has been achieved.
- 4.2 Planned management action in relation to the points raised by Audit Scotland is stated at Appendix III.

## Financial impact

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- 5.1 There are no financial implications arising directly from this report.

## Risk, policy, compliance and governance impact

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- 6.1 This annual report summarises the opinions and conclusions of Audit Scotland, in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. Appendix I (of the Audit Scotland report) sets out the significant audit risks identified at the planning stage and how the auditor addressed each risk in arriving at his opinion on the financial statements. Appendix III is an action plan setting out the high level risks identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

## Equalities impact

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- 7.1 There are no adverse equalities impacts arising from this report.

## Sustainability impact

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- 8.1 There are no adverse sustainability impacts arising from this report.

## Consultation and engagement

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- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.
- 9.2 This report is also being considered by the Pensions Audit Sub-Committee at its meeting on the 29 September 2015 and its recommendation(s) will be reported orally.

## Background reading/external references

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None

### **Alastair D Maclean**

Chief Operating Officer

Deputy Chief Executive

Contact: John Burns, Pensions & Accounting Manager

E-mail: [john.burns@edinburgh.gov.uk](mailto:john.burns@edinburgh.gov.uk) | Tel: 0131 469 3711

## Links

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### **Coalition pledges**

**Council outcomes** CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

### **Single Outcome Agreement**

**Appendices** Appendix 1 – Audit Scotland Report



# Lothian Pension Funds

2014/15 annual audit report to Members and the Controller of Audit

**DRAFT**

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. ([www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac))

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Accounts Commission has appointed David McConnell as the external auditor of Lothian Pension Funds for the period 2011/12 to 2015/16.

This report has been prepared for the use of City of Edinburgh Council as Lothian Pension Funds administrator and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

## Key contacts

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Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"> <li>• Unqualified auditor's report on the 2014/15 financial statements of the Lothian pension, Lothian Buses and Scottish Homes Funds</li> <li>• No adjustments required to the Funds' financial statements.</li> </ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"> <li>• Lothian Pension Fund net assets increased by 16.6% to £5,106 million at 31 March 2015. Lothian Buses and the Scottish Homes Pension Funds net assets increased by 14.5% and 13.5% to £386 million and £154 million, respectively, at 31 March 2015.</li> <li>• The Lothian Pension Fund 2014 triennial valuation reports that the fund's assets were sufficient to meet 91% of liabilities. Lothian Buses and Scottish Homes Funds 2014 triennial valuation reports that the fund's assets were sufficient to meet 106% and 92% of liabilities respectively.</li> <li>• Overall, satisfactory financial management arrangements in place.</li> </ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"> <li>• The Funds have effective governance arrangements in place.</li> <li>• The Pensions Board established from April 2015.</li> <li>• System of internal control operated effectively.</li> <li>• Satisfactory arrangements in place for investigating and reporting data matches identified by the National Fraud Initiative.</li> </ul>
 <p>Best Value</p>	<ul style="list-style-type: none"> <li>• The Funds' return on investments for the 2014/15 financial year has met or exceeded benchmarks.</li> <li>• The Lothian Pension, Lothian Buses and Scottish Homes Funds have a ratio of management expenses to net assets (total expense ratio) of 0.56%, 0.37% and 0.16% respectively which compares well with other funds.</li> </ul>
 <p>Outlook</p>	<ul style="list-style-type: none"> <li>• From the start of 2015/16, the Lothian Pension Fund and Lothian Buses Pension Fund will provide benefits on a "career average" basis. This change will increase the complexity and workload of fund administration.</li> <li>• The global investment outlook is less certain due to political and economic challenges.</li> </ul>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Lothian Pension Funds (the Funds). The report is divided into sections which reflect our public sector audit model.
2. The management of the Funds is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of the Fund's affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Funds, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Funds understands its risks and has arrangements in place to manage these risks. The Pension Committee and senior management should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. We are grateful for the co-operation and assistance we received from officers during the course of the audit.



# Audit of the 2014/15 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements of the Lothian pension, Lothian Buses and Scottish Homes funds' have been prepared on a going concern basis. We are unaware of any events or conditions that may cast significant doubt on the pension fund's ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and governance compliance statement. We have nothing to report in respect of these statements.</li></ul>

## Submission of financial statements for audit

8. We received the unaudited financial statements on 16 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and pension fund staff provided good support to the audit team which assisted in the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Pensions Audit Sub Committee on 25 March 2015.

10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit which was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

- 12. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
- 13. Our audit involved 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.

## Materiality

- 14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
- 15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
- 16. We summarised our approach to materiality in our Annual Audit Plan and set materiality at 0.5% of net assets and 1% of total contributions received for each separate Fund. We set a lower level, known as performance materiality, when defining our audit procedures

- 17. Based on the unaudited financial statements, we revised our materiality for 2014/15 as illustrated at **Exhibit 1**.

### Exhibit 1: Materiality levels.

Financial statements	Materiality £000s	Performance Materiality £000s
<b>Lothian Pension Fund</b>		
Net assets	25,530	19,150
Fund account	1,910	1,435
Reporting threshold - £100k		
<b>Lothian Buses Pension Fund</b>		
Net assets	1,930	1,450
Fund account	95	70
Reporting threshold - £15k		
<b>Scottish Homes Pension Fund</b>		
Net assets	775	585
Fund account	8	6
Reporting threshold - £1k		

Source: Lothian Pension Funds audited financial statements 2014/15

## Evaluation of misstatements

18. There were no misstatements identified during the audit, which exceeded our misstatement threshold. Therefore, no amendments have been made to the financial statements which impact upon either the net returns on investments for the year or the net assets position at 31 March 2015.
19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

## Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

## Significant findings from the audit

Issue	Resolution
<p><b>Management Commentary:</b> The new regulations have introduced the requirements for the annual report and accounts to include a management commentary in-line with Scottish Government guidance. Our review noted that the requirements were not fully disclosed in the management commentary, however, they were reported elsewhere in the annual report.</p>	<p>Officers have updated the management commentary in-line with Scottish Government guidance and no further adjustments are required to be made.</p>

- the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - significant difficulties encountered during the audit
  - significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - written representations requested by the auditor
  - other matters which in the auditor’s professional judgment, are significant to the oversight of the financial reporting process.
21. The following table contains a summary of the significant findings that, in our view, require to be communicated to you in accordance with ISA 260.

Issue	Resolution
<p><b>Investment management fees:</b> The Funds’ officers have previously worked closely with CIPFA on the development of guidance on accounting for pension scheme management costs. As part of our audit we reviewed the reasonableness of the methodology applied and sample checked the calculations undertaken to determine the investment management costs. As part of our audit testing we noted one example where information in the calculation was extracted using inconsistent exchange rate period data compared to the previous year. This resulted in the estimate increasing by £0.578 million. Management have agreed that this was an error.</p>	<p>Except for the noted error, we accept that that the methodology is consistent with prior years and in-line with guidance. Management have confirmed that correct information will be used in future years to ensure a consistent approach is undertaken.</p> <p>The impact is not material and therefore no adjustment is required.</p>
<p><b>Group transfers:</b> Note 4 of the Lothian Pension Fund accounts disclose a group transfer-in of £0.703 million. The transfer related to 10 employees of “Gullane Fire College” who transferred to their new employer “Fire Scotland” in 2012. Unlike individual transfers, which are recognised in the fund accounts on a cash basis, group transfers should be accounted for on an accruals basis. However, no accrual was included in the accounts for 2012/13 or 2013/14 as the actuary had not agreed the transfer value. In the end, 3 employees transferred in to the fund and agreement on the actual transfer value of £0.703 million was reached during 2014/15, at which point the cash settlement was made and recognised in the financial statements.</p>	<p>No adjustment to the disclosure note will be required for 2014/15. Going forward, management have agreed that where there is a lack of clarity over the transfer value then group transfers in/out should be disclosed as a contingent asset/liability or a provision, where appropriate.</p>

Issue	Resolution
<p><b>Contributions received:</b> Officers compile an annual reconciliation of the employee contributions received from the seven largest employers of the Lothian Pension Fund, comparing the expected amount per the pension administration system to the actual amounts received. As at 6 August 2015, the reconciliation indicated that contributions received were £243,335 more than anticipated within the Pension administration system. This equates to 0.68% of the contributions receivable by the fund for the seven employers.</p>	<p>Officers have confirmed that these should represent valid contributions and the reconciliation differences arose due to delays in the notification of the entry of new members to the scheme. As at 4 September the contributions received were £156,647 more than anticipated within the Pension administration system. We have concluded that this is not material and no further action is required.</p>

## Recent developments

### Public Services Pensions Act 2013

22. The 2013 Act brings a number of significant changes to the Local Government Pension Scheme (LGPS) (Scotland) that apply from 1 April 2015. Some of the main changes are illustrated below:

Benefits from 1 April 2015 will build up on a career average basis at the rate of 1/49th of annual pensionable earnings

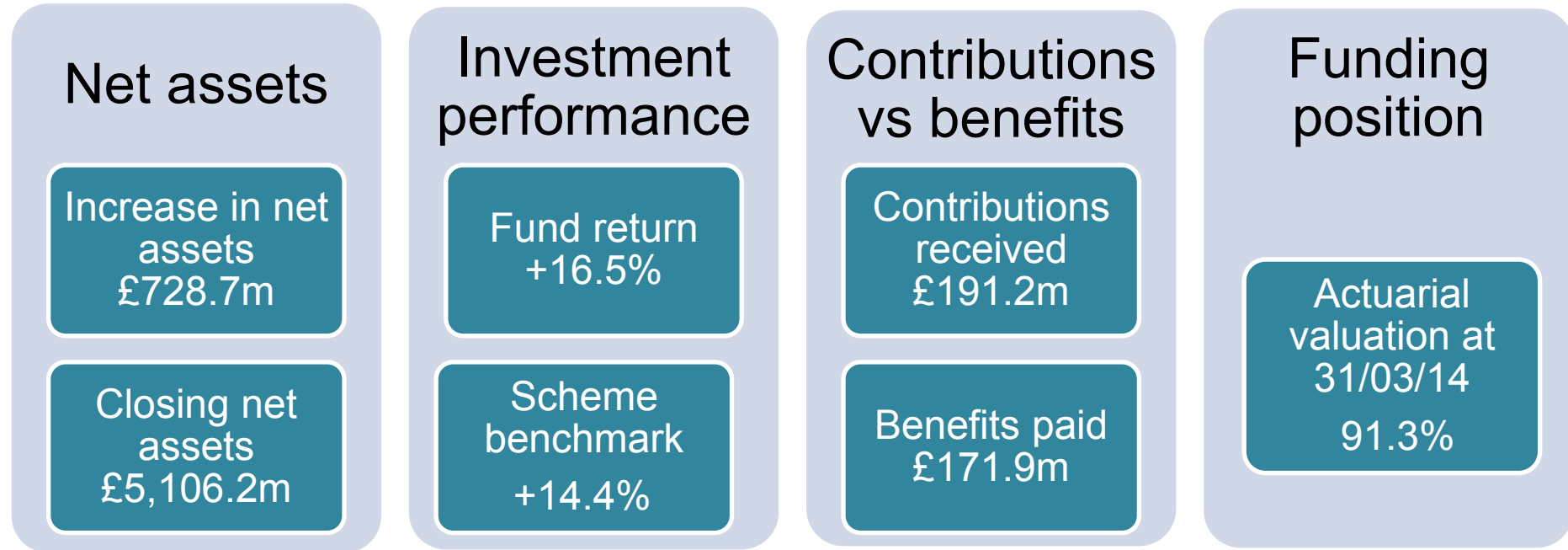
Normal Pension Age will be aligned with each member's own State Pension Age

The LGPS will have a national Advisory Board and local pension boards

### Revised governance arrangements

23. The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (SSI 2015-60) set out the new governance arrangements required from 1 April 2015.
24. At a national level the new arrangements include the establishment of a Scheme Advisory Board. Its role is to:
- provide advice to Scottish Ministers on proposed changes to the LGPS (Scotland)
  - provide advice to scheme managers or the scheme's pension boards on the effective and efficient administration of the scheme and any funds within the scheme.
25. The act also extends the powers of the Pensions Regulator to cover standards of governance and administration of the LGPS (Scotland).
26. At the local level, another key feature is the requirement for a Pension Board to be established from 1 April 2015 to assist the Funds in securing compliance with the scheme rules and with the Pension Regulator's codes of practice. The Funds formed a Pensions Board in March 2015 and it met for the first time in April.

# Financial management and sustainability – Lothian Pension Fund



Source: Lothian Pension Funds' Financial Statements – Lothian Pension Fund data

## Financial management

27. In this section we comment on the fund's financial outcomes and assess its financial management arrangements.
28. Pension fund finances are independently assessed every three years by the fund's actuary. Employer contribution rates are determined by the actuary and used by the Funds to set an annual budget for expenditure and income. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

29. The Lothian Pension Fund reported an increase in net assets of £728.7 million (16.6%). This relates mainly due to investment valuations, both realised and unrealised, which showed a significant increase on the year before (£4,377.5 million) and illustrates the volatility associated with investment returns. There was also a surplus of £6.4 million contribution income over pensions expenditure.
30. Lothian Buses and Scottish Homes Pension Funds reported an increase in net assets of £48.7 million and £18.4 million respectively. Lothian Buses and Scottish homes reported an increase in net withdrawals from dealing with members of £1.4 million and £0.129 million respectively.

## Financial management arrangements

31. As auditors, we need to consider whether the Funds have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the proper officer has sufficient status within the council to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the council
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
32. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the Funds' comply with the statement's five principles.
33. Our review noted that the proper officer (the Pensions and Accounting Manager) has sufficient status to deliver good financial management of the Funds.



34. The Funds do not have their own financial regulations, however they comply with City of Edinburgh Council's (administering authority) financial regulations. Our review of the Council's financial regulations concluded that they are comprehensive and current. The financial regulations are available on the council's website.
35. Regular reporting on budget monitoring and investment performance updates is provided to the Pensions committee members on a regular basis throughout the year.

## Conclusion on financial management

36. We have concluded that the Funds financial management arrangements are satisfactory.

## Financial sustainability

37. The Funds give their members a guarantee that in exchange for contributions during their employment, the fund will pay a pension until the end of each member's life. There is a timing difference of many years between the receipt of contributions and the payment of pensions. Financial sustainability means that the fund maintains the capacity to meet the current and future needs of its members, despite changes of investment performance and life expectancy.
38. In assessing financial sustainability we are concerned with whether:
  - the Funds liabilities are greater or smaller than the Funds assets (the actuarial position)

- contribution rates strike an appropriate balance between the needs of the schemes and the needs of employers
  - where there is a deficit, long term recovery measures are in place
  - the Funds' investments have a profile of risk that is consistent with expected cash flows.
39. Effective investment strategy, investment management and regular actuarial review are crucial to sustainability.

## Funding position

40. The last two actuarial reviews showed the Lothian Pension Fund in a position of deficit, with liabilities exceeding assets (See Exhibit 2 below).
41. Based on advice from its actuaries, from next year, the employers contribution rates will increase for scheduled and admitted bodies. For example, the administering authority's (City of Edinburgh) contribution rate will increase from its present rate of 17.2 to 20.1 in 2016/17 and 2017/18.
42. The funding levels calculated at the last triennial revaluations in 2014 for the Lothian Buses Pension Fund and Scottish Homes Pension Fund were 117% and 89% respectively.

**Exhibit 2: Movement in Lothian Pension Fund valuations 2011 to 2014**

Description	31 March 2011 £ million	31 March 2014 £ million
Assets	3,477	4,379
Liabilities	(3,619)	(4,796)
Net surplus	(142)	(417)
<b>Funding level</b>	<b>96.1%</b>	<b>91.3%</b>

Source: Actuary's valuations from 2011 and 2014

43. The actuarial values of promised retirement benefits for each fund are calculated annually by the actuary for the purposes of international accounting standards. These annual values represent a snapshot and are not relevant for calculating funding levels or setting employer contribution levels.

The Lothian Pension Fund actuarial annual statement at 31 March 2015 estimated a value of promised retirement benefits as £6,663 million (2013/14: £5,483 million). Net assets of £5,106 million at 31 March 2015 were sufficient to meet 77% of this value. This increase in the net liability is mainly due to a fall in market yields. The liability is not a full actuarial valuation, but an estimate of the present value of the future liabilities of the fund, based on the future discount rate as required by international accounting standards, longevity of members and rate of inflation.

44. .
45. Based on the 31 March 2015 actuarial annual statement for the Lothian Buses Pension Fund, the net assets of £386 million represent 96.5% of existing promised benefits of £400 million. This fund stopped admitting new members in 2008, consequently the long term trend will be for the number of active members to decrease.
46. The Scottish Homes Pension Fund has no active members contributing to the fund. Based on the 2013/14 actuarial statement, net assets of £155 million at 31 March 2014 represent 91% of estimated promised retirement benefits of £141million. As guarantor of the fund, the Scottish Government is liable to meet any shortfall in funding.

**Financial planning**

47. The financial plans of pension funds have a horizon determined by the expected longevity of their members, and by assumptions about investment returns and the benefits payable in the future. Every three years, following the triennial review, officers of the Funds' updates the Funding Strategy Statement.
48. Fund membership increased during the financial year by 1,789 to 72,635 and is likely to increase further as other employers progress through the auto-enrolment process. This is an area for management to monitor closely to ensure the fund remains sustainable.

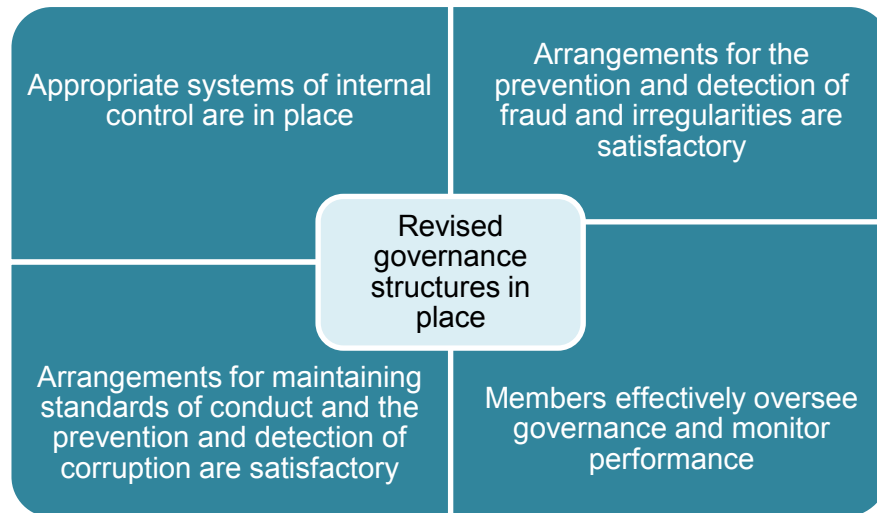
49. The Funds' investment strategies 2012-17, as agreed by the Pensions Committee in October 2012, have continued to be implemented during 2014/15. The key objective of the Funds' investment strategies is to reduce risk. For the Lothian Pension Fund, this has been progressed in 2014/15 through reduction within equity and alternative portfolios to equities with less volatility, along with an increased exposure to index-linked assets.
50. For Lothian Buses, this has been progressed through a reduction within their equity portfolio and an increase in their exposure to alternatives.
51. For the Scottish Homes Pension Fund, the strategy has been to reduce the allocation to equities and increased in the allocation to bonds.
52. We conclude that the funds are in a good position with regard to financial sustainability through aligning the investment allocations and implementation of the investment strategy 2012-17.
53. It is clear that the outlook for public spending remains very challenging and the need for spending constraints and budget reductions will continue. Any further staff reduction schemes introduced by employers will place pressures on the fund from increased administration workloads and reductions in member contribution levels.
54. The Public Service Pensions Act 2013 is designed to ensure the continued sustainability of the LGPS. In particular, the introduction of the 'employer cost cap' which will shift some of the risk of future rises in scheme costs onto members.
55. The Scottish LGPS Advisory Board is being formed with effect from 1 April 2015 under section 7 of the Public Service Pensions Act 2013. It is expected to operate at national level and will have members drawn from employers, trade unions, professional advisors and bodies such as the Pensions Regulator and the National Association of Pension Funds.
56. It may publish guidance for Funds, for example on the operation of their local Pension Boards, and provide a forum for discussion on the future structure of the LGPS.

## Conclusion on financial sustainability

## Outlook

53. It is clear that the outlook for public spending remains very challenging and the need for spending constraints and budget reductions will continue. Any further staff reduction schemes introduced by employers will place pressures on the fund from

# Governance and transparency



57. Members of the Pensions Committee is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Funds and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

58. Members of the Funds should be able to hold the Funds to account for the services these provide. Transparency means that fund members should have access to understandable, relevant and timely information about how the fund is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent although there are some areas where practices could be improved

## Corporate governance

59. The corporate governance framework for the Funds is centred on the Pensions Committee which is supported by a Pensions Audit Sub-Committee. City of Edinburgh Council's Director of Corporate Governance has delegated authority for the implementation of the Funds' investment strategy. An Investment Strategy Panel provides advice on these matters.

60. Based on our observations and audit work our overall conclusion is that the governance arrangements within the Funds are operating effectively and that the Funds are open and transparent.

## Governance processes and committees

61. City of Edinburgh Council acts as the administering authority for the Funds. It is responsible for managing and administering the scheme for scheduled and admitted bodies.

62. The Council has delegated the administration, management and investment of the Funds to the Pensions committee. The committee comprises councillors from City of Edinburgh Council and representatives from employers and members of the schemes.
63. A Consultative Panel to enhance participation in the development and scrutiny of matters relating to the Pension Funds was disbanded in order to meet new regulations on 31 March 2015.
64. The Consultative Panel has been replaced by a Pensions Board from 1 April 2015, in compliance with the Public Service Pensions Act 2013. The Board's role is to assist the Funds Manager in ensuring compliance with the rules relating to schemes governance and administration. The Pension Board meets quarterly on the same cycle as the committee.
65. As the Council is the administering authority for the Lothian Pension Funds the day to day administration of the Funds is carried out by the Investment and Pensions Division. The Pensions and Accounting Manager has been delegated section 95 responsibility for the Funds.
67. The Pensions Committee and subsequently City of Edinburgh Council, agreed in October 2014 to the creation of two special purpose vehicle wholly owned and controlled by the council to be established for the purpose of seeking Financial Conduct Authority (FCA) authorisation for the activities of this team and directly employing certain key staff associated with Lothian Pension Fund's investment function to minimise the risk of not retaining staff.
68. The two special purpose vehicles were not set up until April 2015 and do not have an impact on the 2014/15 financial statements. Therefore, the impact of these changes will require to be discussed in detail with Funds' officers during 2015/16 in relation to accounting for these special purpose vehicles e.g. group accounting and potential changes to accounts presentation.

### *Investment Operations*

66. A review of investment governance arrangements of the Funds was undertaken during 2013/14 by external consultants and concluded that the existing systems and controls were generally sufficient for the Funds' current investment activities. However, a number of key risks were identified including those around the investment staff remuneration and retention policies.
69. The Code of Practice on local authority accounting in the United Kingdom 2014/15 has been amended to require the Funds Annual Report and Accounts to include both an annual governance statement and an annual compliance statement.
70. Our review of the 2014/15 Annual Governance Statement noted that it has been based primarily on the content of the council's Annual Governance Statement. Whilst some of the content within the council's statement is pertinent to the Funds, there are aspects which are of less relevance.

### **Annual Governance Statement and Governance Compliance Statement**

**Recommendation 1**

71. The governance compliance statement is developed to measure the Funds' governance arrangements against the standards set out in the guidance issued by the Scottish Ministers. We reviewed the governance compliance statement we are satisfied that it complies with the guidance issued by the Scottish Ministers.
72. The governance structures have been seen to be working well with no issues with regard to openness, reporting or scrutiny. The information reported in the governance compliance statement is consistent with our knowledge and understanding of the Funds' governance arrangements, based on our audit knowledge, attendance at meetings, and review of papers and minutes.

**Internal control**

73. The Funds' financial systems are run alongside those of the City of Edinburgh Council and some of the council's systems are used by the Investments and Pensions Division. We obtained confirmation from the external auditors of the council that there were no significant weaknesses in the internal controls for those systems utilised by the Investments and Pensions Division for 2014/15.
74. As part of our work we also took assurance from key controls within the Funds' financial systems. From our work on these systems, we noted that the Funds' policy is for Committee members to have at least 3 days training per year. A register of training for committee members is maintained by the Funds' detailing a range of training

opportunities and time spent training. However, our review noted that only two out of seven Pensions Committee members received 3 days training during 2014/15.

**Recommendation 2****Internal audit**

75. Internal audit is an important element of the Funds governance structure. Internal audit provides the Pensions Sub-Audit committee, Pension committee members and management of the Funds with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible
76. The internal audit service is provided by City of Edinburgh Council via a co-source arrangement with PricewaterhouseCoopers. Our review of internal audit concluded that it complies with the main requirements of the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
77. The Public Sector Internal Audit Standards require internal audit to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

78. The annual internal audit opinion should conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It should also contain certain information, including a summary of the work that supports the opinion; a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
79. Internal Audit conducted two pension fund reviews during 2014/15 on scheme of delegation and pension administration. This work was considered in our assessment of the internal controls put in place by the Funds.
80. Internal Audit has not identified any fundamental weaknesses in the framework of governance, risk management and control. Therefore, Internal audit provided an opinion in compliance with the above requirements, and it was presented to the Pensions Audit Sub Committee on 23 June 2015 along with other key assurance statements, as part of the consideration of the unaudited financial statements.

### **Arrangements for the prevention and detection of fraud**

81. The Funds comply with the relevant fraud and irregularity policies of City of Edinburgh Council and these have been reviewed as part of our audit of the Council. No issues have been identified for inclusion in this report.

### **National Fraud Initiative in Scotland**

82. The National Fraud Initiative (NFI) in Scotland brings together data from councils and other agencies to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
83. As part of our local audit work we monitor City of Edinburgh Council's approach to participation in NFI both in terms of the submission of the required datasets and their approach to and progress investigating the subsequent data matches. A total of 898 pension matches were identified from the most recently completed exercise. Of these, 306 were 'recommended matches'.
84. During 2014/15, the Pension and Investment Division officers were engaged in investigating matches and resolving outcomes. The exercise is still ongoing and an update on outcomes will be provided to the Pension Committee by the end of the year.
85. Overall, we concluded that the Pension and Investment Division has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

86. The arrangements for the prevention and detection of corruption in the fund are satisfactory and we are not aware of any specific issues that we need to record.

## Transparency

87. This is the first year that the financial statements have included a management commentary. This includes management's assessment of the financial performance of the fund, and the risks that are managed. It also includes indicators of administrative performance.
88. Financial monitoring reports are provided to attendees at the Pension Funds Sub-Audit committee and Pension Board going forward. Information about the pension fund is published on the Funds' website.
89. Overall we concluded that the Funds administration is open and transparent although there are some areas where practices could be improved.

## Outlook

90. The introduction of career average pensions and impact of these changes may result in system or performance issues due to the complexity of pension calculations. The Funds will therefore require to consider procedural changes and staff resourcing during 2015/16.

91. Confirmation may also require to be sought from system providers that all upgrades have been fully tested and no control weaknesses have been identified. In addition, as the two special purpose vehicles were set up in April 2015, the impact of these changes will require to be discussed in detail with Funds' officers during 2015/16 in relation to accounting for these special purpose vehicles in such areas as group accounting and any potential changes to accounts presentation.



## Best Value

92. The Funds have a duty to ensure Best Value in the provision of services and to report performance publicly so that Funds' members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.
93. The Funds have not been subject to a Best Value review, however, it is covered by the overall Best Value arrangements of the administering authority, City of Edinburgh Council.

## Performance

### *Investment Performance*

94. Investments are managed both by external fund managers and the Funds' internal investment management team. Through the use of mandates, responsibility for the management of the Funds' investments has been divided up. **Exhibit 3** shows the allocation of investments to fund managers for the Lothian Pension Fund as at 31 March 2015.
95. Approximately 45% of the Lothian Buses Pension Fund is managed by in-house investment managers, with the remainder allocated between 2 separate external investment managers, Baillie Gifford (46%) and Standard Life (9%).

96. Approximately 36% of the Scottish Homes Pension Fund investments are managed by in-house investment managers, with the remainder allocated between 2 separate external investment managers State Street (69%) and Schroders (5%).

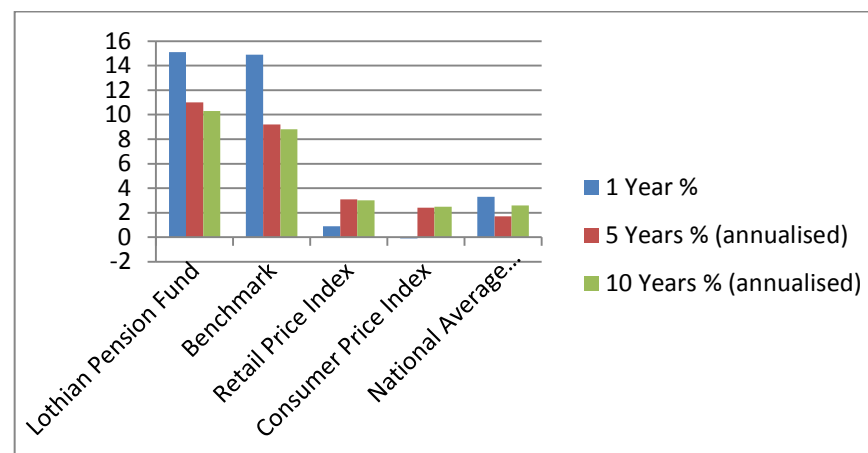
### **Exhibit 3: Fund managers' allocation 2014-15 (Lothian Pension Fund)**

Fund Manager	Market Value £'000	% of Total Fund Value
<b>Cantillon</b>	265,575	5.2
<b>Harris</b>	205,125	4.0
<b>In-house Investment Managers</b>	3,789,521	74.8
<b>Mondrian</b>	104,048	2.1
<b>Nordea</b>	203,667	4.0
<b>Standard Life</b>	382,694	7.5
<b>UBS</b>	121,954	2.4
<b>Total</b>	5,072,584	100

*Source: Lothian Pension Fund audited financial statements 2014/15*

97. The main mechanism for measuring investment performance is through an analysis of the returns achieved by each of the Funds' fund managers. Each active Investment Manager has a defined performance benchmark and objective, against which performance will be measured. Their performance, in terms of achieving benchmarks, is subject to independent verification by an external specialist provider and is regularly reported to the pensions committee and investment strategy panel.
98. Investment returns of the Lothian Pension Fund have outperformed benchmark targets over the short, medium and longer term, as illustrated in **Exhibit 4**. The table also shows that over a period of one, five and ten years the pension fund has outperformed measures of inflation i.e. the consumer price index, the retail price index and national average earnings.
99. Lothian Buses Pension Fund investment returns exceeded the required performance benchmark levels for 2014/15. The portfolio as a whole made returns of 15.1% against the benchmark target of 14.9%.
100. Scottish Homes Pension Fund investment returns exceeded the required performance benchmark levels for 2014/15. The portfolio as a whole made returns of 19.7% against the benchmark target of 19.4%.

**Exhibit 4: Investment Performance – Lothian Pension Fund**



Source: Lothian Pension Fund audited financial statements 2014/15

## Administration performance

101. The Funds' Administration Strategy was approved by the Pensions Committee in September 2013. It contains the standards which are required of the participating employers to ensure that the Funds meet their statutory obligations and are able to deliver services efficiently. The strategy contains a variety of performance measures against which the Funds and the participating employers are assessed.
102. In accordance with Local Government Regulations, the Funds' annual report discloses performance against the measures detailed in the Pension Administration Strategy. In relation to 2014/15 the Funds' performance was broadly in line with the annual targets set.

## Investment strategies

- 103.** The Funds' investment strategies 2012-17, as agreed by the Pensions Committee in October 2012, have continued to be implemented during 2014/15. The key objective of the Funds' investment strategies is to maximise the investment return within reasonable and considered risk parameters, as illustrated in **Exhibit 5**.
- 104.** The Lothian Pension Fund had a higher position in equities and cash, and was lower in index-linked assets and alternatives compared to the interim strategy at 31 March 2015.
- 105.** The Lothian Buses Pension Fund had a higher position in equities and cash, and was lower in index-linked assets and in alternatives compared to the interim strategy at 31 March 2015.
- 106.** For the Scottish Homes Pension Fund, the strategy has been to reduce the allocation to equities and property and increase the allocation to bonds.

**Exhibit 5: Allocation of Investments to Investment strategy**

Funds	Allocation 31 March 2015 %	Strategy 31 March 2015 %
<b>Lothian Pension Fund</b>		
Equities	69.1	68.0
Index-Linked Assets	6.1	7.0
Alternatives	21.0	24.0
Cash	3.8	1.0
<b>Lothian Buses Fund</b>		
Equities	62.0	60.5
Index-Linked Assets	11.0	12
Alternatives	23.0	27.5
Cash	4	0
<b>Scottish Homes Fund</b>		
Equities	28.0	27.5
Bonds	66.8	67.5
Property	5.2	5.0

Source: Pension Committee June 2015 - Annual Investment updates

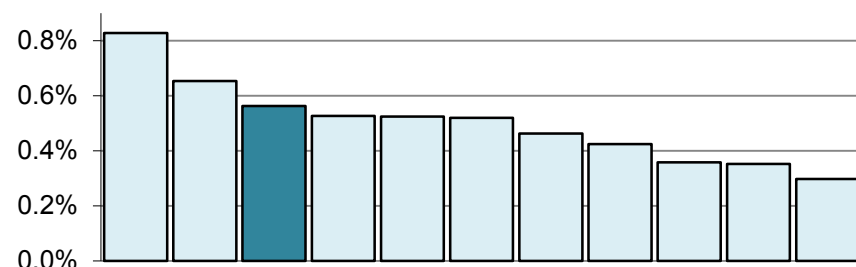
## Management expenses

- 107.** There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the council and the governance fees for actuarial and audit services.

108. In 2014/15 the investment management costs of the Lothian Pension Fund rose from £24.022 million to £25.479 million.

109. **Exhibit 6** shows provisional figures for total management costs as a percentage of net assets, with the Lothian Pension Fund highlighted separately.

### Exhibit 6: Management costs as percentage of net assets of Scottish LGPS funds



Source: Draft financial statements published for 2014/15

110. At 0.56%, the Lothian Pension Fund's management costs are comparatively low, which contributes to long term asset growth.

111. It is noted at this stage that there is inconsistency in the level of cost transparency between funds and that management costs will be heavily influenced by the asset allocation of a Fund.

## National performance reports

112. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, no reports were issued which directly related to pension funds.

113. A number of local government reports were issued during the year and some of the topics covered may be of interest to members. These include:

- scotland's public finances – a follow up: Progress in meeting the challenges (June 2014)
- update on developing financial reporting (March 2015)
- an overview of local government in Scotland (March 2015).

114. These and other Audit Scotland reports are available on Audit Scotland's website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

## Outlook

115. Low interest rates and relaxed monetary policy have resulted in high equity valuations and low yields on fixed interest securities. Against this background, investment managers may find it difficult to achieve positive returns in 2015/16. Continued global turmoil and persistent weaknesses in the Eurozone economies has created uncertainty in the financial markets. The UK government's commitment to hold a referendum on continued membership of the European Union is adding to this uncertainty. There is a risk that these factors could have a negative impact on asset valuations.

# Appendix I – Significant audit risks

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

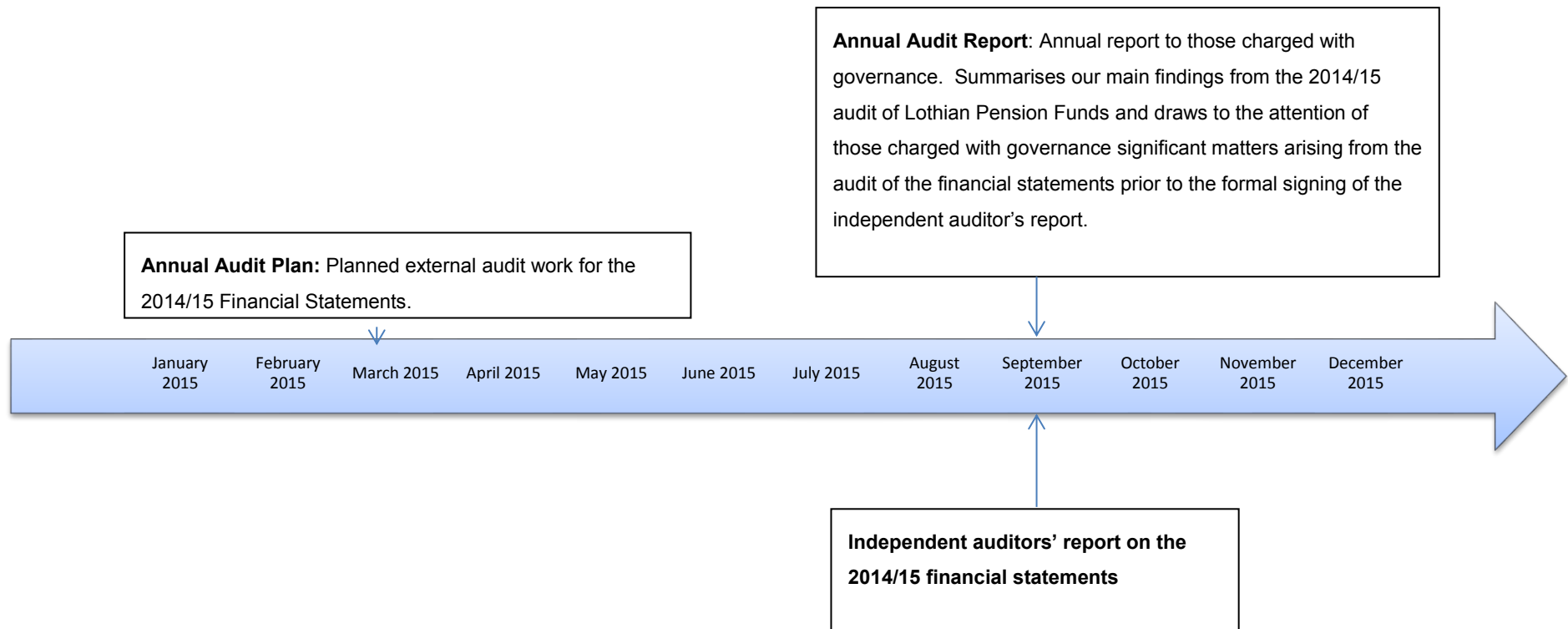
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates for bias</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Investment management – special purpose vehicles</b></p> <p>Investment and other senior staff will be transferred to a new company created to provide the Funds more flexibility in the terms and conditions on which staff are recruited.</p> <p>There is a risk that transactions between the Funds and the newly established company may not be recorded and disclosed in accordance with the accounting requirements of 'The Code'.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of transaction between the Funds and the newly established company.</li> <li>• Review of the disclosures made in the Funds' 2014/15 financial statements concerning the relationship between the Funds and the company against the requirements of 'The Code' and sector specific guidance.</li> </ul>	<p>Discussion with management confirmed that the two special purpose vehicles were not set up until April 2015 and do not have an impact on the 2014/15 financial statements.</p> <p>We plan to continue to discuss the impact of these changes with management during 2015/16 in relation to accounting for these special purpose vehicles e.g. group accounting and potential changes to accounts presentation.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Investment management expenses</b></p> <p>CIPFA guidance applicable for 2014/15 requires all management expenses, including those deducted from the capital value of investments, to be fully disclosed in a note to the financial statements. Lothian Pension Fund applied a revised methodology in 2013/14, in advance of the CIPFA guidance, with a view to enhancing the transparency of existing disclosures.</p> <p>There is a risk that the methodology applied does not fully reflect the requirements set out in the CIPFA guidance, or provide a level of comparability with other pension fund disclosures.</p>	<ul style="list-style-type: none"> <li>Review of the Funds' approach to estimating management expenses against the CIPFA guidance.</li> </ul>	<p>We undertook a review of investment management expenses disclosed in the financial statements and no significant issues identified. The methodology is consistent with prior years and in-line with guidance.</p>
<p><b>Requirements of new accounting regulations</b></p> <p>The Local Authority Accounts (Scotland) Regulations 2014 introduce some changes to the contents of the financial statements and the approval processes for the annual accounts.</p> <p>There is a risk that the pension fund annual accounts do not comply with the new regulations and are not approved in accordance with the new requirements.</p>	<ul style="list-style-type: none"> <li>Review of compliance as part of the detailed financial statements review for 2014/15</li> </ul>	<p>We discussed and agreed with officers, all amendments to the presentation of the Annual Report and Accounts to ensure requirements of the new regulations were complied with.</p>

# Appendix II

## Summary of Lothian Pension Funds local audit reports 2014/15





# Appendix III

## Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 18/70	<p><b>Issue</b></p> <p>The Funds have included an Annual Governance Statement in their annual report as part of the new regulations. This statement has been based primarily on the content of the council's Annual Governance Statement. Whilst some of the content within the council's statement is pertinent to the Funds, there are aspects which are of less relevance.</p> <p><b>Risk</b></p> <p><i>There is a risk that the disclosures in the Annual Governance Statement are not focused on the governance arrangements of the Pension Funds.</i></p> <p><b>Recommendation</b></p> <p>The Funds should consider the current format and content of the Annual Governance Statement.</p>	With the evolution and ongoing enhancement of the governance and control procedures of the City of Edinburgh Council this point is recognised and acknowledged.	Claire Scott Investment and Pensions Service Manager	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 19/74	<p><b>Issue</b></p> <p>Not all members received the minimum training requirements as per the Funds policy during 2014/15.</p> <p><b>Risk</b></p> <p>Members, especially new members of the Pension Board, are not kept updated with changes in pension regulations and standards in public life.</p> <p><b>Recommendation</b></p> <p>The Funds should ensure that all members receive the minimum of three days training (as per the Funds policy).</p>	<p>With the introduction of the new Pension Board, training will be a priority over the coming year.</p>	<p>Clare Scott Investment and Pensions Service Manager</p>	<p>31 March 2016</p>