Notice of meeting and agenda

The City of Edinburgh Council

10.00 am, Thursday, 26 October 2017

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

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

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

3.1 If any

4. Minutes

4.1 The City of Edinburgh Council of 21 September 2017 (circulated) – submitted for approval as a correct record

5. Questions

5.1 By Councillor Osler – East Fettes Avenue Crossing Point – for answer by the Convener of the Transport and Environment Committee

5.2 By Councillor Lang – Active Travel Plan – for answer by the Convener of the Transport and Environment Committee

5.3 By Councillor Lang – Council Owned Car Parks – for answer by the Convener of the Transport and Environment Committee

5.4 By Councillor Lang – Queensferry High Street - for answer by the Convener of the Finance and Resources Committee

5.5 By Councillor Gloyer – Safety and Access for Pedestrians on Ellersley Road - for answer by the Convener of the Transport and Environment Committee

5.6 By Councillor Gloyer – Pedestrian Crossing Across the A8 at Kaimes Road - for answer by the Convener of the Transport and Environment Committee

5.7 By Councillor Booth - Proposals for Carriageway Changes – for answer by the Convener of the Transport and Environment Committee

5.8 By Councillor Lang – Janitorial Review - for answer by the Convener of the Finance and Resources Committee

5.9 By Councillor Staniforth – Bank of Scotland – Museum Closure - for answer by the Convener of the Culture and Communities Committee

5.10 By Councillor Jim Campbell – School Recruitment - for answer by the Convener of the Education, Children and Families Committee

5.11 By Councillor McLellan – Licensing – Dog Walkers - for answer by the Convener of the Regulatory Committee

5.12 By Councillor Johnston – Utility Works - for answer by the Convener of the Transport and Environment Committee

5.13 By Councillor Smith – Council Owned Property - for answer by the Convener of the Housing and Economy Committee

5.14 By Councillor Doggart – New Primary School – Canaan Lane - for answer by the Convener of the Education, Children and Families Committee

5.15 By Councillor Jim Campbell – Section 75 Contributions - for answer by the Convener of the Housing and Economy Committee

5.16 By Councillor Webber – School Catchment Area - for answer by the Convener of the Education, Children and Families Committee

5.17 By Councillor Rust – General Waste Litter Bins - for answer by the Convener of the Transport and Environment Committee

5.18 By Councillor Bruce – Street Lighting - for answer by the Convener of the Transport and Environment Committee

5.19 By Councillor Mary Campbell – Staffing Proposals – Community Centres - for answer by the Convener of the Education, Children and Families Committee

5.20 By Councillor Booth – Leaf Sweeping - for answer by the Convener of the Transport and Environment Committee

6. Leader's Report

6.1 Leader's report

7. Appointments

7.1 If any

8. Reports

8.1 Edinburgh Integration Joint Board – Appointment of Chief Officer and Heads of Service – report by the Chief Executive (circulated)

8.2 Governance for the Edinburgh and South East of Scotland City Region Deal – Joint Committee – report by the Chief Executive (circulated)

8.3 Locality Committees 2017 – report by the Executive Director of Place (circulated)

8.4 Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor – referral from the Pensions Committee (circulated)

8.5 City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit – referral from the Finance and Resources Committee (circulated)

9. Motions

9.1 By Councillor Lang – Dalmeny Station

"Council notes;

1. the importance of Dalmeny Station as part of the City's public transport system, with over 100 train services between Fife and Edinburgh city centre each day,

2. how the station provides an important alternative to private car journeys into the city, particularly for those residents who work in the centre of Edinburgh,

3. the growth in the populations of Dalmeny, Queensferry and Kirkliston following major programmes of house building which has led to a substantial increase in the numbers using Dalmeny Station, from 361,000 in 2005/6 to 500,000 in 2015/16,

4. the Local Develpment Plan which designates significant land in rural west Edinburgh for new housing and which is likely to lead to a further increase the number of passengers using the station.

Council recognises;

(a) the problems being faced by those living close to Dalmeny Station because of the current levels of car parking, with significant commuter parking on nearby roads and in spaces created for residents in new developments,

(b) the difficulty created by the limited parking arrangements, which risks creating a disincentive towards using the station, forcing more commuters to choose to use their car to travel into Edinburgh via the busy and congested Barnton junction and Queensferry Road.

Council welcomes the recent improvements at the station, such as an increase in bike storage facilities, but believes this is insufficient in addressing the wider access issues around the station and that further significant action is needed.

Council therefore instructs officials to engage with Scotrail and Transport Scotland and seeks a report to the Transport & Environment Committee within two cycles. This report should set out an action plan for addressing these issues, including proposals to further maximise sustainable transport options to and from the station along with improved parking arrangements which benefit passengers and local residents,"

9.2 By the Lord Provost – Daw Aung San Suu Kyi – Freedom of the City

"The City of Edinburgh Council awarded the Freedom of the City of Edinburgh to Daw Aung San Suu Kyi on 18 June 2005. She remained under house arrest in Burma (now Myanmar) at that time and the award was presented 'in absentia' in the presence of her son and the Director of Amnesty International. The award was in recognition of her personal courage and relentless pursuit of democratic justice in Burma, and reflected the award of the Nobel Peace prize to her in 1991. In conferring the award, the Council also recognised the commitment made by all those seeking to secure democracy and human rights in Burma by non-violent means.

Aung San Suu Kyi was elected to the position of State Counsellor on 5 April 2016.

The current crisis of the Rohingya minority in Myanmar's Northern Rakhine State is of wide and grave international concern. This Council notes the ongoing calls from the United Nations, Amnesty International and many governments to the Burmese government to stop the violence and allow UN scrutiny and safe return of those fleeing Rakhine.

This Council condemns the violence and calls on Daw Aung San Suu Kyi, as a recipient of the Freedom of the City of Edinburgh and all that this award stands for, to use her influence and moral courage to intervene to stop the violence, to allow UN and international scrutiny and mediation to commence immediately, and to ensure a safe, democratic and peaceful solution for the people of the region."

9.3 By Councillor Child – Robert Owen Award for an Inspirational Educator

"Council congratulates Lindsey Watt, Headteacher, Castleview Primary School on receiving the Robert Owen Award from the Scottish Government. The Award was established to recognise the contribution of renowned educationalists across the world whose work has had significant impact and informed substantial education improvement activities in Scotland. The Award recognises Lindsey's hugely positive influence on Scottish education over many years, where she has provided outstanding and inspirational leadership for learning and has continuously improved children's experiences, attainment and life-chances.

Council requests that the Lord Provost writes to Lindsey expressing the Council's appreciation for her work and congratulating her for receiving this award "

9.4 By Councillor Key – Spokes 40th Anniversary

"Council:

Notes that Spokes, the Lothian Cycle Campaign, was formed in 1977.

Further notes that Spokes has been a key player in ensuring the promotion of safe cycling within the City and throughout the Lothians.

Congratulates Spokes on its 40th anniversary and looks forward to continuing to work in partnership to ensure that Edinburgh remains the most cycle friendly city in Scotland."

9.5 By Councillor Jim Campbell – Communal Bins

"Council:

1. Recognises the dangers of obstacles on the pavement as highlighted at last Council by Councillor Howie.

2. Instructs Council waste operatives to be mindful of all members of our community, and to always re-position empty bins to maintain a clear pathway along pavements.

3. Instructs Director of Waste, following the successful implementation of Clause 2, to write to all private waste collection services to request in the strongest terms that their employees always re-position empty bins to maintain a clear pathway along pavements.

4. Recognises that many Continental European cities have adopted different communal waste collection solutions, involving a suite of waste receptacles that feature a central lift point, controlled waste entry hatch at a lower height, offer greater capacity with a more efficient use of roadside space in a more acceptable aesthetic package, integral internal mechanisms protected from damage, and the possibility of ground location plates than ensure repeated precise placement.

5. Request a report to the Transport and Environment Committee within 2 cycles to cover;

   a) The costs and benefits of replacing circa 1,800 wheeled communal bins in use in Edinburgh with Continental style receptacles described in Clause 4;

b) Where additional costs have been identified under clause 5a, investigate if these costs could be offset by identifying areas where individual bins could be replaced with new Continental style receptacles described in Clause 4;

c) Determine costs estimates to install semi-submerged central lift point communal waste disposal suites in Central Edinburgh to enhance the public realm that would be compatible with the description in Clause 4."

9.6 By Councillor Mowat - Statues

"Council:

Council notes that parts of a number of statues including Greyfriar's Bobby's nose, David Hume's toe and Wojcek the bear's nose are being regularly rubbed by passers by which is removing the patina and exposing the bronze below creating patches of shiny bronze and causing concern to residents and visitors who believe that the statues are being harmed by this inadvertent polishing and calls for a report in 2 cycles detailing:

1. Whether the rubbing and exposure of the bronze does damage the statue and what is the nature of this damage and whether it affects the structure of the statue or is cosmetic;.

2. Recognising that it is very difficult to change human nature and prevent people from interacting with these statues what measures are available to protect these statues and the costs of these if indeed it is deemed necessary to take such measures; and

3. If evidence concludes that the discolouration is damaging in a material way to the statues what factors should be taken into consideration when commissioning or advising on new statues to prevent this happening to any such new commissions."

9.7 By Councillor Laidlaw – A Placemaking Exercise for North West Portobello

"Council calls for Planning Officers to conduct a Placemaking Exercise for North West Portobello in full consultation with local residents and their representative organisations using the Place Standard developed by Architecture and Design Scotland, the Scottish Government and NHS Scotland.

Council notes the following drivers for conducting this exercise:

- Significant change of use in area from industrial and leisure to residential and retail

- Several new developments constructed, under construction or at planning stage which have and will affect services and infrastructure

- Significant pressure on road networks and parking due to historic street design

- Presence of Portobello Conservation Area

- Lack of open space per the requirements of the Local Development Plan

- Pressure on key public services including schooling and medical provision

Council notes that a Participation Request was made to the City of Edinburgh Council under the Community Empowerment (Scotland) Act 2015 to be involved in the decision-making process on the sale of land at Westbank Street, and that a Community Engagement Exercise has taken place.

Council instructs Planning Officers to use the results of the Community Engagement Exercise to inform the scope of the Placemaking exercise.

Council notes that Action Porty has submitted an application for a Making Places co-design process.

If successful, Council instructs planning officers to ensure these processes are complimentary to the Placemaking Exercise

Council agrees this Placemaking Exercise must be completed before any final decision is taken by Council on the sale of the Westbank site."

9.8 By Councillor Graczyk – Welcomes Webcast Subtitles

"Council:

1. Notes, the City of Edinburgh Council webcast will be provided with subtitles to improve accessibility for Deaf and hard of hearing people.

2. Welcomes the recognition that subtitles are likely to be an important format for receiving information for Deaf and hard of hearing. Welcomes the immense input by the City of Edinburgh Council and our webcast providers whom are busy working on a base version of a transcription service that they hope will be rolled out by December 2017.

3. Thanks the Governance Officer Stuart McLean and members for their assistance in my request for webcast subtitles and for their work in partnership with our webcast providers to enable Deaf and hard of hearing people to engage in Local Government business via webcast,

making a positive difference in the lives of Deaf and hard of hearing people."

9.9 By Councillor Jim Campbell – EV and Parking Infrastructure

"Council:

1. Welcomes the initiatives of the UK and Scottish Governments to boost the use of low emissions vehicles.

2. Recognises that this represents a paradigm shift and opportunity for our City

3. Awaits the forthcoming Business Case for Electric Vehicle (EV) in Edinburgh being prepared for the Transport & Environment Committee and understood to include

    a. Estimates of adoption rates, including temporal and spatial demand models

    b. Discussion on the maturity of charging technology

    c. Capital cost estimates and the possibilities of offsetting these costs to avoid any burden on the Council budget

    d. Requirements that new developments include public charging infrastructure that the Council can adopt

    e. Exploration of EV charging payment mechanisms

    f. Consideration of the impact the adoption of electric taxis will have in Edinburgh

    g. Understand of the impact of a Low Emissions zone on the Council's own vehicular fleet

4. Notes the wide variance in the number of Controlled Parking Permits issues per Permit & shared use space, ranging from a low of 1.41 in Zone 2 to a high, next door, of 2.54 in Zone 3. Council anticipates that the roll out of EV charging points could exacerbate issues with parking.

5. Instructs the Chief Executive to prepare a strategy paper with 4 cycles to Policy & Strategy Committee including

    a. An analysis of the possibility of adopting the same payment mechanism for EV charging and parking, including residential parking schemes

    b. An analysis of whether such a payment mechanism would allow a more dynamic model of residential controlled and priority parking both in spatial and temporal terms

c. An analysis if such an approach could be extended to avoiding the undesirable concentration of parking just outside controlled parking zones, and on residential streets near major traffic destinations

d. A discussion of what conditions would need to be in place to attracted private capital to finance and run a city wide EV charging and parking infrastructure."

9.10 By Councillor Webber – Heriot Watt University

"Council

Welcomes Heriot-Watt University being named as the inaugural International University of the Year 2018. #TrulyGlobal

Notes this award is a wonderful accolade as it recognises the truly global nature of the education and influence of Heriot-Watt University. It operates as an integrated global university across three countries and offers students, staff and partners exceptional opportunities in their education, research and employment.

Recognises the whole community receives tremendous benefits from their global outlook, whether learning on one or more of their campuses across the world, or working with world-leading academics on challenge-led research that actively supports delivery of sustainable development goals.

Therefore congratulates Heriot-Watt University's success and confirms its continued support for the work of all of the talented staff and students, across the world, in the coming months."

9.11 By Councillor Whyte – Housing First Model

"Council:

Council notes the apparent success of the "Housing First" model in resolving street homelessness and rough sleeping in both the Unites States and Scandinavia with further evidence from elsewhere.

Council further notes the intention of the UK Government to pilot the Housing First approach in England and Wales as part of a renewed attempt to end rough sleeping following successful work in the 1990s with the Rough Sleepers' Initiative.

Council recognises the publication of recent research by the Social Justice Foundation detailing the success of the approach as compared with traditional methods in amongst other areas sustainability of tenancies and recovery from addiction.

Council therefore instructs the Director of Place to report within three cycles on the implications of implementing a Housing First approach in Edinburgh as a first step to ending Rough Sleeping and reducing street begging - the report to detail the requirements for Housing, the costs involved, the potential outcomes and the changes required in other services (including those of partners)."

9.12 By Councillor Doggart – Unmet Self-Directed Care

"Council:

Apologises to the 800 or so City of Edinburgh residents who have been assessed as having critical or substantial support needs that the Council has not met.

Recognises our responsibility to provide the c. 7,000 hours of unmet weekly care for those individuals, in line with the Self-Directed Support Act.

Instructs the Chief Executive within one cycle to report on the feasibility of the Service Matching Unit designing bundles of aggregated unmet hours, to interest providers to take part in regular auctions, to find the lowest price at which supply meets demand of the individuals and the Act."

9.13 By Councillor Hutchison – Christmas Lights

"Council:

Welcomes the announcement of funding for Christmas lights in high streets across the city and recognises that this relatively small investment in the context of the overall cost of the city's festive celebrations is crucial in helping local communities throughout the city to celebrate Christmas.

Council regrets that a decision on provision of festive lights in communities across Edinburgh for Christmas 2017 was not made until October and acknowledges that this is much too late in the year, given the fact that community groups across the city have already made their own arrangements.

Council further acknowledges that a decision to re-instate this funding, which was withdrawn in 2016, for a single year is illogical and may be unhelpful in light of significant investments already made by community groups and multi year contracts entered into.

Council apologises to all affected community groups for the uncertainty around funding for Christmas lights and for the inconvenience caused by the lateness of this decision and the subsequent poor communication of the decision once it was made.

Council agrees that all future decisions on funding for community Christmas lights will be made for a period of not less than 3 years and will be communicated no later than March in the year in which the decision is reviewed."

Laurence Rockey

Head of Strategy and Insight

Information about the City of Edinburgh Council meeting

The City of Edinburgh Council consists of 63 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

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.

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.

For remaining items of business likely to be considered in private, see separate agenda.

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Please note: this meeting may be filmed for live and subsequent broadcast via the Council's internet site – at the start of the meeting the Lord Provost will confirm if all or part of the meeting is being filmed.

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Generally the public seating areas will not be filmed. However, by entering the Council Chamber and using the public seating area, you are consenting to being filmed and to the use and storage of those images and sound recordings and any information pertaining to you contained in them for web casting and training purposes and for the purpose of keeping historical records and making those records available to the public.

Any information presented by you to the Council at a meeting, in a deputation or otherwise, in addition to forming part of a webcast that will be held as a historical record, will also be held and used by the Council in connection with the relevant matter until that matter is decided or otherwise resolved (including any potential appeals and other connected processes). Thereafter, that information will continue to be held as part of the historical record in accordance with the paragraphs above.

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Minutes Item No 4.1

The City of Edinburgh Council

Edinburgh, Thursday 21 September 2017

Present:-

LORD PROVOST

The Right Honourable Frank Ross

COUNCILLORS

Robert C Aldridge
Scott Arthur
Gavin Barrie
Eleanor Bird
Chas Booth
Claire Bridgman
Mark A Brown
Graeme Bruce
Steve Burgess
Lezley Marion Cameron
Ian Campbell
Jim Campbell
Kate Campbell
Mary Campbell
Maureen M Child
Nick Cook
Gavin Corbett
Cammy Day
Alison Dickie
Denis C Dixon
Phil Doggart
Marion Donaldson
Karen Doran
Scott Douglas
Catherine Fullerton
Neil Gardiner
Gillian Gloyer
George Gordon
Ashley Graczyk
Joan Griffiths
Ricky Henderson
Derek Howie
Graham J Hutchison
Andrew Johnston
David Key
Callum Laidlaw
Kevin Lang
Lesley Macinnes
Melanie Main
John McLellan
Amy McNeese-Mechan
Adam McVey
Claire Miller
Max Mitchell
Joanna Mowat
Gordon J Munro
Hal Osler
Ian Perry
Susan Rae
Alasdair Rankin
Lewis Ritchie
Cameron Rose
Neil Ross
Jason Rust
Stephanie Smith
Alex Staniforth
Mandy Watt
Susan Webber
Iain Whyte
Donald Wilson
Norman J Work
Louise Young

1 Edinburgh Tram – York Place to Newhaven – Updated Outline Business Case – referral from the Transport and Environment Committee

a) Deputation from Leith Central Community Council

The deputation expressed concern at the impact of works to extend the tram line would have on local residents including increased noise, pollution, delays, inaccessible shops, constantly changing bus stops and quality of life.

They listed measures which they asked the Council to put in place before work on the Tram extension started.

b) Referral from the Transport and Environment Committee

The Transport and Environment Committee had referred a report on the updated Outline Business Case for the Edinburgh Tram York Place to Newhaven project to Council for approval to commence Stage 2 activities of the project.

Details were provided on the updated Outline Business Case which had built on the work done for the Outline Business Case reported to Council in November 2015. The work to update the Outline Business Case had been overseen by the cross-party Transport Projects Working Group, in conjunction with an officer led Project Board to monitor progress and the approved project budget for Stage 1.

Motion

To approve the commencement of Stage 2 activities of the project.

- moved by Councillor Macinnes, seconded by Councillor Doran

Amendment

1) To note the contents of the report.

2) To note with regret that the Updated Outline Business Case had not changed fundamentally from proposals considered by Council at several junctures in 2015.

3) To agree to take no action due to the fact that the proposals continued to:

   - Expose the Council to a high degree of financial and reputational risk.

- Present poor value and failed to constitute prudent use of taxpayers' money, particularly at a time of continued public sector funding pressures.
- Rely too heavily on a wide variety of assumptions.
- Proceed prior to publication of the full findings of the Hardie Inquiry into what went so badly awry with the previous project; considered the proposals presented in respect of the Inquiry findings to be presumptive and wholly inadequate to ensure lessons were learned meaningfully and comprehensively.
- Impact negatively upon Lothian Buses and remained likely to lead to higher fares for passengers.

\- moved by Councillor Cook, seconded by Councillor Douglas

Voting

The voting was as follows:

For the motion	-	45 votes
For the amendment	-	18 votes

(For the motion : The Lord Provost, Councillors Aldridge, Arthur, Barrie, Bird, Booth, Bridgman, Burgess, Cameron, Ian Campbell, Kate Campbell, Mary Campbell, Child, Corbett, Day, Dickie, Dixon, Donaldson, Doran, Fullerton, Gardiner, Gloyer, Gordon, Griffiths, Henderson, Howie, Key, Lang, Macinnes, McNeese-Mechan, McVey, Main, Miller, Munro, Osler, Perry, Rae, Rankin, Ritchie, Neil Ross, Staniforth, Watt, Wilson, Work and Young.

For the amendment : Councillors Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Graczyk, Hutchison, Johnston, Laidlaw, McLellan, Mitchell, Mowat, Rose, Rust, Smith, Webber and Whyte.)

Decision

To approve the motion by Councillor Macinnes.

(References – Transport and Environment Committee 4 September 2017 (item 1); referral from the Transport and Environment Committee, submitted.)

Declaration of Interests

Councillors Booth, Laidlaw, Macinnes and Whyte declared a non-financial interest in the above item as members of the board of Transport for Edinburgh.

2 Edinburgh Youth Council - Motion by Councillor Graczyk

a) Deputation from Glasgow Youth Council

The deputation outlined the success of Glasgow Youth Council in involving young people with the decision making process within Glasgow City Council. They indicated that the Youth Council had undertaken a number of reforms aimed at making it more accessible and friendlier.

The deputation detailed the work they were involved with and the support they received from local Councillors and MSPs. They felt that although they aimed to make it fun based, it prepared young people for a future role in politics and assisted in building up their confidence.

b) Motion by Councillor Graczyk

The following motion by Councillor Graczyk was submitted in terms of Standing Order 16:

"Council:

1) Calls for a report in two cycles on the potential for establishing an Edinburgh Youth Council body to give Young People who live, work or study within the City of Edinburgh a stronger voice, and the power to be involved in democracy; to inspire Young People about the immense and positive change they can make to their local communities and the wider city environment; and to improve communication between the Council and the Youth sector.

2) Requests that said report includes, but is not limited to:

    (a) consideration of how Young People can become members of the Edinburgh Youth Council;

    (b) how often elections should be held and once elected, the geographical representation by the member;

    (c) recognition that the Edinburgh Youth Council must be led and run by Young People themselves;

    (d) the level of civic and options for budgetary support required by the Council;

    (e) consideration of the operation of Youth Councils elsewhere and relationship with the Scottish Youth Parliament and other external bodies representative of young people."

Motion

To approve the motion.

- moved by Councillor Graczyk, seconded by Councillor Mitchell

Amendment

To note the issues raised in Councillor Graczyk's motion and confirm that a report had already been requested to the next Education, Children and Families Committee on 10 October 2017 on Participation and Engagement in Communities and Families. This would consider and review the participation and engagement of children and young people, parents, carers and staff and look at appropriate ways for them to better inform committee decisions and shape policy.

The report would include details of the engagement with young people since the Edinburgh Youth Council was introduced in 2003 and would cover:

a) Options on how to increase young people's participation;

b) How young people could be encouraged to take a leading role in influencing Council policy;

c) Ways in which the Council could support young people's activities;

d) How young people were represented in other Councils throughout the UK.

- moved by Councillor Perry, seconded by Councillor

In accordance with Standing Order 20(7), the amendment was accepted in place of the terms of the motion.

Decision

To approve the following amended motion by Councillor Graczyk:

To note the issues raised in the motion, and that a report had already been requested to the next Education, Children and Families Committee on 10 October 2017 on Participation and Engagement in Communities and Families. This would consider and review the participation and engagement of children and young people, parents, carers and staff and look at appropriate ways for them to better inform committee decisions and shape policy.

The report would include details of the engagement with young people since the Edinburgh Youth Council was introduced in 2003 and would cover:

a) Options on how to increase young people's participation;

b) How young people could be encouraged to take a leading role in influencing Council policy;

c) Ways in which the Council could support young people's activities;

d) How young people were represented in other Councils throughout the UK.

3 Minutes

Decision

To approve the minute of the Council of 24 August 2017 as a correct record.

4. Questions

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

5 Leader's Report

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

- Update on Coalition Programme Progress
- Future of South Queensferry High School
- Health and Social Care Services

The following questions/comments were made:

Councillor Whyte	-	Health and Social Care Services
Councillor Burgess	-	House prices in Edinburgh - development of derelict sites and areas of vacant land
Councillor Aldridge	-	Health and Social Care Services
Councillor Day	-	Expansion of nursery /early years provision
Councillor Howie	-	Disability/equality services – bins causing an obstruction on public footpaths
Councillor Mary Campbell	-	Children with additional support needs – Kindred services

Councillor Gardiner	-	Mark Beaumont – circumnavigation of the globe by bicycle - congratulations
Councillor Booth	-	Thanks to "Leithers Don't Litter" and Council officers – community clean up
Councillor Rust	-	Transport minister's refusal to meet with disabled campaigners pressing for better access to Waverley Station
Councillor Brown	-	Dispute over recycling uplifts – missed bin collections
Councillor Hutchison	-	Record breaking festivals - congratulations
	-	Queensferry Crossing – disruption of traffic during opening
Councillor Lang	-	Queensferry High School – amendments to plans
Councillor Cameron	-	Housing and Homelessness – level of support from the Scottish Government
Councillor Webber	-	Numeracy Champion
Councillor Cook	-	Public utility works – performance monitoring
Councillor Arthur	-	Council Tax arrears and abandoned properties - recovery
Councillor Doggart	-	Care Inspectorate Report – Crisis within the Integrated Joint Board

6 Appointment of Parent Representative to the Education, Children and Families Committee

The Council had agreed its political management arrangements and made appointments to a range of Committees, Boards and Joint Boards. Details were provided on the proposed appointment of a parent representative to the Education, Children and Families Committee.

Decision

1) To confirm the appointment of Alexander Ramage as the parent representative to the Education, Children and Families Committee with the term of office to run from 21 September 2017 to 30 April 2022.

2) To note that the appointment was conditional upon confirmation that the appointee would comply with the Councillors' Code of Conduct and membership of the Protection of Vulnerable Groups (PVG) Scheme.

(References – Act of Council No 3 of 22 June 2017; report by the Chief Executive, submitted.)

7. Appointment of Chief Social Work Officer

Details were provided on a decision taken by the Chief Executive in consultation with the Lord Provost, following the appointment of Michelle Miller as Interim Chief Officer to the Integration Joint Board, to appoint Alistair Gaw, Executive Director for Children and Families, to fulfil the role of Chief Social Work Officer

Decision

To note the appointment of Alistair Gaw, Executive Director for Children and Families, as Chief Social Work Officer.

(Reference – report by the Chief Executive, submitted.)

8 Edinburgh Festivals 70th Anniversary Legacy

The Council had agreed a motion on the Edinburgh Festivals 70th Anniversary Legacy asking for a report to be provided on the details of funding proposals for the PlaCE programme.

Details were provided on the funding proposals which included how the impact on other Council activities could be mitigated given the Council's existing funding for festivals and how inclusive opportunities, including community-based arts and skills development could be realised.

Decision

1) To note the PlaCE programme as detailed in the report by the Executive Director of Place, to be delivered in partnership with the Scottish Government and the 11 major Edinburgh Festivals.

2) To note that the Council's contribution to this programme would be subject to the full budget process 2018-2023.

(References – Act of Council No 9 of 24 August 2017; report by the Executive Director of Place, submitted.)

Declaration of Interests

Councillors Ian Campbell, McNeese-Mechan, Whyte and Wilson declared a non-financial interest in the above item as Directors of Edinburgh International Festival.

9. Report of Pre-determination Hearing – Old Dalkeith Road, Edinburgh (South East Wedge Development Site) – referral from the Development Management Sub Committee

Decision

To note that the application had been withdrawn.

(References – Development Management Sub- Committee 30 August 2017 (item 3); referral from the Development Management Sub-Committee, submitted.)

10. Revenue Monitoring 2016-17 – Outturn Report – referral from the Finance and Resources Committee

The Finance and Resources Committee had referred a report on the provisional 2016/17 revenue outturn position for the Council based on the unaudited financial statements to the Council for ratification for use of funds to and from the General Fund.

Decision

1) To approve the use of funds to and from the General Fund.

2) To note that any reference in the report by the Executive Director of Resources to the "Strategic Acquitition Fund" (para 3.8 of the report) should have referred to the "City Strategic Investment Fund".

(References – Finance and Resources Committee 5 September 2017 (item 6); referral from the Finance and Resources Committee, submitted)

11. Treasury Management – Annual Report 2016-17 – referral from the Finance and Resources Committee

The Finance and Resources Committee had referred a report on Treasury Management Activity in 2016/17.

Decision

1) To approve the Treasury Management Annual Report 2016/17.

2) To refer the report by the Executive Director of Resources to the Governance, Risk and Best Value Committee for scrutiny.

(References – Finance and Resources Committee 5 September 2017 (item 13); referral from the Finance and Resources Committee, submitted.)

12. Inverleith Park – Motion by Councillor Osler

The following motion by Councillor Osler was submitted in terms of Standing Order 16:

"Council notes;

(1) the importance of Inverleith Park as one of Scotland's largest urban parks,

(2) that, for almost 130 years, the park has provided residents across north Edinburgh with 54 acres of open green space and iconic views of the city centre,

(3) the adverse impact of flooding within the park through damaged drainage at vehicle and pedestrian access points to areas rented out for events, both this year and in previous summers,

(4) the impact this flooding has had on the ability of local people to make use of and enjoy the park.

The Council therefore seeks a report to the Transport & Environment Committee within one cycle to;

(a) confirm that drainage infrastructure will be fully repaired and steps taken to ensure ongoing protection,

(b) ensure revenue receipts from events held in Inverleith Park are applied to meet the full costs of such works."

Motion

To approve the motion by Councillor Osler.

- moved by Councillor Osler, seconded by Councillor Mitchell

Amendment

Council notes;

(1) the importance of Inverleith Park as one of Scotland's largest urban parks,

(2) that, for almost 130 years, the park has provided residents across north Edinburgh with 54 acres of open green space and iconic views of the city centre,

(3) the adverse impact of flooding within the park through damaged drainage at vehicle and pedestrian access points to areas rented out for events, both this year and in previous summers,

(4) the impact this flooding has had on the ability of local people to make use of and enjoy the park.

The Council therefore seeks a report to the Transport & Environment Committee on the issues.

- moved by Councillor Macinnes, seconded by Councillor Doran

In accordance with Standing Order 20(7), the amendment was accepted in place of the terms of the motion.

Decision

To approve the amended motion by Councillor Osler.

13 Locality Improvement and Service Delivery - Motion by Councillor Jim Campbell

The following motion by Councillor Jim Campbell was submitted in terms of Standing Order 16:

"Council:

1) Welcomes the remarks made by the Council Leader to full Council on 22 June setting out the importance of Localities.

2) Thanks officers for compiling Locality Improvement Plans ready for submission to the Scottish Government in October 2017.

3) Recognises that though there is much interdependence between Locality Improvement Plans and the desire of the Council to set up Localities Committees, these are separate issues and both need to be considered and evaluated with care.

4) Further thanks officers for compiling lists of organisations in receipt of Council funds by locality for the last Council meeting, and notes the additional work that was required to do this.

5) Further recognises that the key to improving Localities, both in terms of the Localities Improvement Plans and any future Localities Committees, will be robust performance measures at both the level of (a) the four Council Localities (North East, North West, South East and South West), and (b) identified Smaller Areas within each of these Localities.

6) Accordingly instructs officers to implement the tagging of all relevant data, or the structuring of data in such a way, so that performance reporting is possible at the level of (a) each Locality and (b) each Smaller Area within a Locality, in addition to Community Council, Ward and City aggregations where these are already available, and within existing resources.

7) Where performance reporting, as set out in clause 6, is not possible within existing resources, the Chief Executive is asked to report back to Council in three cycles how systems can be configured to enable reporting at (a) Locality, (b) Smaller Area within a Locality, in addition to Community Council, Ward and City aggregations where these are already available, identifying what the resource implications of providing this are.

8) In addition, the Chief Executive is tasked with developing specifications for future systems and system upgrades, so that data can easily be aggregated to report at (a) Locality, (b) Smaller Area within a Locality, in addition to Community Council, Ward and City levels, or any other level Council requires, and these aggregations can be changed without the need to call on any additional resources on future or substantially upgraded Council systems.

9) Requires councillors and officers to ask all partners involved with Localities to review their data arrangements so they too can contribute to the objective set out in clause 6.

10) Instructs the Chief Executive to report on the progress towards Localities Committees in three cycles. This report will cover competence, delegations and governance, detailing what options are still under consideration, what options have been dismissed.

Council requires the report instructed in clause 10 will have an appendix from each Senior Councillor leading the four Localities working groups setting out the progress made in each working group in the six months since their appointment."

Motion

To approve the motion by Councillor Jim Campbell.

- moved by Councilor Jim Campbell, seconded by Councillor Mowat

Amendment

To note the motion by Councillor Jim Campbell and accept the need to ensure data is most useful to the localisation process.

To recognise that the Culture and Communities Committee had recently agreed to consider Locality Improvement Plans (LIPs) in one cycle and that recommendations on governance would be considered at the October Council meeting.

To note that the Council and its community planning partners already had some data sets which could be broken down by locality, postcode and datazone levels. This had been used to inform the contents of LIPs. Some of this data and analysis was published on the Edinburgh by Numbers website (http://www.edinburgh.gov.uk/info/20247/edinburgh_by_numbers).

To instruct that a report detailing how data issues raised in the motion could be enacted, was presented to the next Culture and Communities Committee along with the draft LIPs.

- moved by Councillor Wilson, seconded by Councillor Ian Campbell

In accordance with Standing Order 20(7), the amendment was accepted in place of the terms of the motion.

Decision

To approve the following adjusted motion by Councillor Jim Campbell:

1) To accept the need to ensure data is most useful to the localisation process.

2) To recognise that the Culture and Communities Committee had recently agreed to consider Locality Improvement Plans (LIPs) in one cycle and that recommendations on governance would be considered at the October Council meeting.

3) To note that the Council and its community planning partners already had some data sets which could be broken down by locality, postcode and datazone levels. This had been used to inform the contents of LIPs. Some of this data and analysis was published on the Edinburgh by Numbers website (http://www.edinburgh.gov.uk/info/20247/edinburgh_by_numbers).

4) To instruct that a report detailing how data issues raised in the motion could be enacted, was presented to the next Culture and Communities Committee along with the draft LIPs.

14 Colinton Amenity Association 90th Anniversary - Motion by Councillor Rust

The following motion by Councillor Rust was submitted in terms of Standing Order 16:

"Council:

1) Notes that Colinton Amenity Association (CAA), a voluntary association comprising working and retired local residents, was established in 1927 to preserve and enhance the amenity of Colinton district in so far as the sustainable development of the City of Edinburgh permits.

2) Recognises the significant input by CAA on planning, roads and environmental matters affecting the Colinton area and its engagement with local elected members and City of Edinburgh Council.

3) Thanks the current Executive Committee and members for continuing the work of their predecessors over the decades in partnering with other local organisations on a broad range of local matters.

4) Congratulates CAA on its 90th anniversary and asks the Lord Provost to mark this anniversary in an appropriate manner."

Decision

To approve the motion by Councillor Rust.

15 Graffiti Task Force - Motion by Councillor Laidlaw

The following motion by Councillor Laidlaw was submitted in terms of Standing Order 16:

"Council:

To recognise that graffiti has become a serious problem across our city with multiple surfaces being vandalised with low-grade tags.

To address the many instances of damage to council property, in particular litter and communal waste bins; lamp post and street furniture including bus stops, benches and bollards.

To instruct the Executive Director of Place to set-up a graffiti task-force to work with Police Scotland to address the problem and report back in two cycles to the Transport and Environment Committee detailing progress.

To enable the public to direct complaints of vandalised property through provision of a dedicated reporting function on the website and use of #graffiti on the Twitter handle @EdinHelp."

Motion

To approve the motion by Councillor Laidlaw

- moved by Councillor Laidlaw, seconded by Councillor Johnston

Amendment 1

To delete paragraphs 3 and 4 of the motion and agree to receive a report to the Culture and Communities Committee reviewing the current procedures for dealing with graffiti and examining options for spreading best practice in the city to deal with the issue.

- moved by Councillor Macinnes, seconded by Councillor Doran

Amendment 2

To approve the motion with the following adjustment:

Insert at the end of paragraph 3:

"and to ensure that this task-force does not divert resources from other vital environmental services such as waste collection, street cleaning and weeds removal"

- moved by Councillor Young, seconded by Councillor Gloyer

In accordance with Standing Order 20(7), Amendment 2 was accepted as an addendum to the motion.

Voting

The voting was as follows:

For the motion (as adjusted)	-	24 votes
For Amendment 1	-	39 votes

(For the motion (as adjusted) - Councillors Aldridge, Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Gloyer, Graczyk, Hutchison, Johnston, Laidlaw, Lang, McLellan, Mitchell, Mowat, Osler, Rose, Neil Ross, Rust, Smith, Webber, Whyte and Young.

For Amendment 1 - The Lord Provost, Councillors Arthur, Barrie, Bird, Booth, Bridgman, Burgess, Cameron, Ian Campbell, Kate Campbell, Mary Campbell, Child, Corbett, Day, Dickie, Dixon, Donaldson, Doran, Fullerton, Gardiner, Gordon, Griffiths, Henderson, Howie, Key, Macinnes, McNeese-Mechan, McVey, Main, Miller, Munro, Perry, Rae, Rankin, Ritchie, Staniforth, Watt, Wilson and Work

Decision

To approve Amendment 1 by Councillor Macinnes as follows:

1) To recognise that graffiti has become a serious problem across our city with multiple surfaces being vandalised with low-grade tags.

2) To address the many instances of damage to council property, in particular litter and communal waste bins; lamp post and street furniture including bus stops, benches and bollards.

3) To agree to receive a report to the Culture and Communities Committee reviewing the current procedures for dealing with graffiti and examining options for spreading best practice in the city to deal with the issue.

16 Public Water Bottle Refill - Motion by Councillor Burgess

The following motion by Councillor Burgess was submitted in terms of Standing Order 16:

“The Council:

1) Recognises the high environmental and financial cost in dealing with plastic bottle waste in the city;

2) Welcomes steps to introduce a deposit return scheme for such bottles and other forms of recyclable or re-usable materials;

3) Recognises also that Edinburgh’s high quality public water supply represents an opportunity to reduce demand for bottled water and the associated plastic waste;

4) Recognises the health benefits from greater consumption of water, reducing risks of obesity and dental decay from high sugar drinks;

5) Therefore agrees to investigate a pilot scheme to provide public water bottle refill facilities in a number of high footfall locations in the city, taking account of experience elsewhere in the UK and other countries; and submitting a report within 3 cycles.”

Decision

To approve the motion by Councillor Burgess.

17 Cricket Scotland - Motion by Councillor Doggart

The following motion by Councillor Doggart was submitted in terms of Standing Order 16:

"Council:

Congratulates Cricket Scotland on being awarded a One Day International against England at the Grange Club, Edinburgh on June 10 2018 and two T20 Internationals at the same venue in the same week against Pakistan.

Council welcomes this further opportunity to showcase Edinburgh as an increasingly popular venue for the highest level of all sports."

Decision

To approve the motion by Councillor Doggart.

18 Barclay Review - Motion by Councillor McLellan

The following motion by Councillor McLellan was submitted in terms of Standing Order 16:

"Council:

1) Welcomes the recommendations contained in the Barclay Review of non-domestic rates to support economic growth, in particular the reduction in the large business supplement

2) Requests a report in the next cycle re-examining the provisions and implementation of the Community Empowerment (Scotland) Act 2015, to see what reliefs can be provided for businesses beyond the City centre in Edinburgh's local centres.

3) Believes the operations of arms-length organisations such as Edinburgh Leisure should continue to receive reliefs as at present.

4) Believes its schools should be exempt from non-domestic rates.

5) Believes university properties in Edinburgh should not be liable for non-domestic rates because of the potential negative impact on the Edinburgh Festivals and the wider city economy.

6) Recognises that the Finance and Resources Committee has called for a report and instructs that it includes an assessment of the Barclay Review recommendations on the Edinburgh economy.

7) Instructs the Council Leader to ensure the report is submitted to the Cabinet Secretary for Finance as part of the Scottish Government's ongoing consultation."

Motion

To approve the motion by Councillor McLellan.

- moved by Councillor McLellan, seconded by Councillor Hutchison

Amendment 1

a) To delete points 1 to 7 of the motion and note that the Scottish Government had responded in part to the Barclay Review with a full response expected by the end of the year.

b) To note that the Finance & Resources Committee agreed at its meeting on 5 September that a report be brought back following the response by the Scottish Government. The points raised by Councillor McLellan would be addressed in this report.

- moved by Councillor Rankin, seconded by councillor Donaldson

Amendment 2

To delete Paragraphs 1-6 of the motion and insert the following:

1) To note that the Finance and Resources Committee on 5 September 2017 had already instructed officers to prepare a report into the implications of the Barclay Review.

2) To note that the Barclay Review had been constrained by its remit and so had not proposed more radical approaches to taxation, including the scope to bring derelict and vacant land back into productive use.

3) To welcome, nonetheless, some of the recommendations, including ending rates relief given to private schools and out-of-term commercial letting of university accommodation and look forward to their implementation in line with the timeline set out in the Barclay Review.

4) To acknowledge concerns about the impact of the review recommendations on the financial position of ALEOs such as Edinburgh Leisure, and the need to ensure that there was no additional burden on Edinburgh Leisure's finances.

- moved by Councillor Corbett, seconded by Councillor Miller

Amendment 3

To replace Paragraph 1) of the motion with;

Council notes the publication of the Barclay Review of Non-Domestic Rates, the decision by the Scottish Government to implement the majority of the report's recommendations and to consult further on other elements of the review report.

To add 8)

Council believes the review and subsequent response has presented a missed opportunity for radical changes that would benefit Scottish business such as a system of land value taxation which would avoid the big rate increases that Scottish businesses face when improving their property and provide a further incentive to redevelop brown-field sites.

- moved by Councillor Lang, seconded by Councillor Neil Ross

Voting

First Vote

The voting was as follows:

For the Motion	-	18 votes
For Amendment 1	-	31 votes
For Amendment 2	-	8 votes
For Amendment 3		6 votes

(For the Motion - Councillors Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Graczyk, Hutchison, Johnston, Laidlaw, McLellan, Mitchell, Mowat, Rose, Rust, Smith, Webber and Whyte

For Amendment 1 : The Lord Provost, Councillors Arthur, Barrie, Bird, Bridgman, Cameron, Ian Campbell, Kate Campbell, Child, Day, Dickie, Dixon, Donaldson, Doran, Fullerton, Gardiner, Gordon, Griffiths, Henderson, Howie, Key, Macinnes, McNeese-Mechan, McVey, Munro, Perry, Rankin, Ritchie, Watt, Wilson and Work.

For Amendment 2 – Councillors Booth, Burgess, Mary Campbell, Corbett, Main, Miller, Rae and Staniforth.

For Amendment 3 – Councillors Aldridge, Gloyer, Lang, Osler, Neil Ross and Young.)

There being no overall majority, Amendment 3 fell and a second vote was taken between the Motion and Amendments 1 and 2.

Second Vote

The voting was as follows:

For the Motion	-	18 votes
For Amendment 1	-	31 votes
For Amendment 2	-	8 votes

(For the Motion - Councillors Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Graczyk, Hutchison, Johnston, Laidlaw, McLellan, Mitchell, Mowat, Rose, Rust, Smith, Webber and Whyte.

For Amendment 1 : The Lord Provost, Councillors Arthur, Barrie, Bird, Bridgman, Cameron, Ian Campbell, Kate Campbell, Child, Day, Dickie, Dixon, Donaldson, Doran, Fullerton, Gardiner, Gordon, Griffiths, Henderson, Howie, Key, Macinnes, McNeese-Mechan, McVey, Munro, Perry, Rankin, Ritchie, Watt, Wilson and Work.

For Amendment 2 – Councillors Booth, Burgess, Mary Campbell, Corbett, Main, Miller, Rae and Staniforth.

Abstentions – Councillors Aldridge, Gloyer, Lang, Osler, Neil Ross and Young)

Decision

To approve Amendment 1 by Councillor Rankin.

Declaration of Interests

Councillors Bruce, Ian Campbell, Staniforth and Wilson declared a non-financial interest in the above item as Directors of Edinburgh Leisure.

Councillor Osler declared a non financial interest in the above item as a member of Edinburgh Leisure and the parent of a child who attends an independent school.

Councillors Doggart, Lang, McLellan and Mowat declared a non financial interest in the above item as parents of children who attend independent schools.

Councillor Barrie declared a non financial interest in the above item as a member of the board of Fettes College.

19 Period Poverty - Motion by Councillor Mary Campbell

The following motion by Councillor Mary Campbell was submitted in terms of Standing Order 16:

"Council notes

1) The inclusion of provision free sanitary products for schools, colleges and universities in the Scottish Government's Programme For Government announced on the 5th of September, and that they have not yet attached a timetable for implementation.

2) That period poverty is an urgent issue, and the evidence from Barnardo's Scotland, Scottish Women's Aid and the Trussell Trust that some young people are using unsuitable items such as socks and toilet paper instead of proper hygiene products simply because they cannot afford to buy them.

3) Their concern that some young people are avoiding school during their monthly cycle to avoid embarrassment.

4) That menstruation should never be a barrier to education.

Therefore Council agrees

5) That the Convener of the Education, Children and Families Committee will write to Scottish Ministers to ask them to urgently bring forward a timetable for the implementation of free sanitary products for schools, colleges and universities."

Motion

To approve the motion by Councillor Mary Campbell

- moved by councillor Mary Campbell, seconded by Councillor Rae

Amendment

Council agrees that the Convener of the Education, Children and Families Committee would write to Scottish Ministers stating Edinburgh's willingness to adopt the policy and offers any required information or assistance to secure a quick implementation of free sanitary products for schools in the city and in cooperation in colleges and universities.

- moved by Councillor Bird, seconded by Councillor Dickie

In accordance with Standing Order 20(7), the amendment was accepted as an addendum to the motion

Decision

To approve the following adjusted motion by Councillor Mary Campbell:

Council notes

1) The inclusion of provision free sanitary products for schools, colleges and universities in the Scottish Government's Programme For Government announced on the 5th of September, and that they have not yet attached a timetable for implementation.

2) That period poverty is an urgent issue, and the evidence from Barnardo's Scotland, Scottish Women's Aid and the Trussell Trust that some young people are using unsuitable items such as socks and toilet paper instead of proper hygiene products simply because they cannot afford to buy them.

3) Their concern that some young people are avoiding school during their monthly cycle to avoid embarrassment.

4) That menstruation should never be a barrier to education.

Therefore Council agrees

5) That the Convener of Education, Children and Families would write to Scottish Ministers stating Edinburgh's willingness to adopt the policy and offers any required information or assistance to secure a quick implementation of free sanitary products for schools in the city and in cooperation in colleges and universities.

20 Potential Closure of Leith Registrars Office - Motion by Councillor Booth

The following motion by Councillor Booth was submitted in terms of Standing Order 16:

"The Council:

1) Notes with concern reports that Leith Registrar's Office may be due to close;

2) Notes there has been a registrar in Leith for many years prior to the merger of Leith and Edinburgh in 1920, and since that date;

3) Agrees that Leithers should be able to continue to register births, marriages and deaths in Leith;

4) Agrees that any proposals for closure or rationalisation of Leith Registrar's Office should be subject to public consultation;

5) Agrees to receive a report to the first meeting of the North East Locality committee, or to the next meeting of the Culture and Communities Committee if that occurs earlier, setting out options for the future of Leith Registrar's Office and outlining plans for public consultation on these options."

Motion

To approve the motion by Councillor Booth.

- moved by Councillor Booth, seconded by Councillor Rae

Amendment

To approve the motion subject to amending paragraphs 4 and 5 as follows:

4) Agrees that any proposals for closure or relocation of Leith Registrar's Office should be subject to public consultation.

5) Agrees to receive a report at the Finance and Resources Committee within one cycle and referred to the North East Locality Committee (when formed) setting out options for the future of Leith Registrar's Office and outlining plans for any necessary public consultation on these options.

- moved by Councillor Rankin, seconded by Councillor Donaldson

In accordance with Standing Order 20(7), the amendment was accepted as an addendum to the motion

Decision

To approve the following adjusted motion by Councillor Booth:

The Council:

1) Notes with concern reports that Leith Registrar's Office may be due to close;

2) Notes there has been a registrar in Leith for many years prior to the merger of Leith and Edinburgh in 1920, and since that date;

3) Agrees that Leithers should be able to continue to register births, marriages and deaths in Leith;

4) Agrees that any proposals for closure or relocation of Leith Registrar's Office should be subject to public consultation.

5) Agrees to receive a report at the Finance and Resources Committee within one cycle and referred to the North East Locality Committee (when formed) setting out options for the future of Leith Registrar's Office and outlining plans for any necessary public consultation on these options.

Appendix 1

(As referred to in Act of Council No 3 of 21 September 2017)

QUESTION NO 1

By Councillor Neil Ross for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question

Under point 18 in the Waste and Cleansing Improvement Plan, the Technical Team investigated the use of QR codes to allow residents to easily report missed or overflowing communal bins but this was abandoned after it was found to require a high level of administration to maintain. Until such time when QR code technology becomes simpler to administer, could the Council investigate the simpler alternative of setting up a new Waste telephone number and placing it, along with a unique identifying number, on each on-street communal bin so that members of the public could report a full or overflowing bin to the Waste Department, either by text or phone call?

Answer

Officers have investigated this suggestion. Applying a unique identifying number to the approximately 18,000 communal bins across Edinburgh comes with a number of practical issues, which ultimately may not provide a better service or outcome to citizens.

There would need to be a robust procedure in place, which would be resource intensive, to ensure bins and associated unique numbers were kept in the right location. Communal bins are not static.

Unique numbers would mean that a citizen would need to walk to the bin to find the number before they reported it therefore not an efficient, nor convenient service for the user. Currently, communal bin data is already on the online transaction, showing as blue dots on the map, so customers can select the exact bin they want to report on. The website is responsive (optimised for a variety of mobile device screen sizes which automatically resizes).

An additional phone line would require additional staffing in the Customer Service area. This resource implication would need to be agreed with the service area

The Waste and Cleansing Service is preparing to start a Communal Bin Review which will look at a range of ways to improve the efficiency of the service. This includes the possibility of increasing the frequency of servicing bins while reducing the number of bins on streets. It will also look at their location. Bearing this in mind it would not be appropriate to invest in unique identifying numbers now. However, it will be considered as part of the communal bin review.

Supplementary Question	Thank you Lord Provost and thank you Convener for investigating my suggestion. Not everyone has an internet enabled mobile phone or has mastered the Council's online reporting system. So, by way of a supplementary question, I would ask the Convener if the communal bin review could take into account these factors when determining improvements in the reporting system.
Supplementary Answer	I think the very simple answer to that Councillor Ross is yes.

QUESTION NO 2

By Councillor Neil Ross for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question **(1)** Under Section 130 of The New Roads and Street Works Act 1991, a utility company must ensure that the reinstatement of the road surface conforms to such performance standards as may be prescribed. In the case of permanent reinstatement, the road surface must conform for a prescribed period after the completion of the reinstatement. How long is the prescribed period for permanent reinstatements to the road surface carried out in the City of Edinburgh?

Answer **(1)** The present Guarantee period for permanent reinstatements shall run for two years, or three years in the case of deep openings.

There are proposals by Scottish Government to increase this to six years and this is currently being consulted on.

Question **(2)** The Council has a number of powers to ensure that the quality of a reinstatement of the road surface meets its performance standards.

On how many occasions in the past twelve months, and also in the past five years, has the Council:

a) issued notices to utility companies to require them to carry out remedial works with respect to an inadequate reinstatement of the road surface?

b) carried out the necessary remedial works?

c) recovered the costs, which it reasonably incurred in carrying out remedial works, from these utility companies and how much was recovered?

Answer **(2)** The Council currently inspects all reinstatements carried out by utilities in the city. We undertake a statutory 10% check of reinstatements within six months of completion and again within three months of the end of the guarantee period.

a) During 2016/17, 1,605 notices were issued to carry out remedial work. Between April and September 2017, 536 notices were issued.

The Council reissues failure notices every 17 days for every reinstatement that has not been repaired correctly. These are entered on the Scottish Road Works Register and issued directly to the Utility company responsible.

Over the past 5 years 6,592 failure notices have been issued.

b) The Council has not carried out any permanent remedial work to Utility reinstatements. If the Council was to do so it would take on the responsibility for that reinstatement which would relieve the utility company of its responsibility.

c) There was no recovery of cost from the Council undertaking repairs. However, the cost of an inspection carried out is £36 for each failure and each failure reissue. Last year £365,468 was levied in inspection fees and paid by utility companies in Edinburgh. The inspection fee is fixed and set by Scottish Government.

Supplementary Question Thank you Lord Provost and thank you Convener. I'm sure the Convener can guess what prompted my question is the large number of inadequate road repairs carried out by utility companies that never seem to be fixed despite the issue of one or more failure notices. My supplementary question is what proportion of these inadequate repairs is eventually fixed by the utility company or would it be more effective for the Council to pay for an adequate reinstatement and to recover that cost from the utility company? Thank you.

Supplementary Answer	Thank you Councillor Ross for the supplementary question. I can't give you a specific answer on the proportion of those that are not repaired, although clearly we have an inspection programme that runs. But I would address the second part of your question which is that if the Council takes on the responsibility in any shape or form for undertaking those reinstatements, it absolves the utility companies of responsibility and I'm pretty sure that's not something that anybody in this Chamber would want to see happen.

QUESTION NO 3		**By Councillor Lang for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017**

Question	What action is being taken to address the flooding issues in the Binks Car Park in Queensferry?
Answer	Gullies in the car park will be jetted and cleaned in the next - 3-4 weeks. If this fails to resolve the flooding problem a more extensive investigation will be carried out to establish if there are any breakages in the pipes.

QUESTION NO 4 | **By Councillor Lang for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017**

Question

The Edinburgh and South East Scotland Region City Deal Heads of Term states that the Scottish Government will provide "£20m investment to support public transport infrastructure improvements identified by the Council's West Edinburgh Transport Appraisal, alongside investment from partners and the private sector."

Can the Convener explain which projects this funding to likely to finance and which partners are expected to contribute additional investment?

Answer

The total cost of the transport interventions identified in WETA is £108 million (see table below). The Scottish Government has agreed to contribute £20 million towards its delivery.

The Local Development Plan (LDP), Supplementary Guidance: Developer Contributions and Infrastructure Delivery has already set contribution mechanisms for developers across the city, including how developers in West Edinburgh contribute to the WETA interventions that are now embedded in the LDP Action Programme.

Further work is also being undertaken to determine other partner contributions; such as the Council's own contribution.

TABLE: WETA INFRASTRUCTURE PACKAGE COST

Infrastructure measure	Potential cost excluding optimism bias	Potential cost including 44% optimism bias
Cycling		
A8 north side missing link	£537,500	£773,900
Improvements to Gravel path (old railway line) from A8/M9 interchange north to Kirkliston	£317,600	£457,300
Cycle Connection from A8 along Eastfield Road into Airport	£481,500	£693,300
New pedestrian / cycle bridge over railway between West Craigs and Edinburgh Gateway	£3,000,000	£4,320,000
Improved Crossings at Turnhouse Road and Maybury Road for designated cycle path	£110,000	£158,400
Improved access between Ratho Station and A8 along Station Road	£458,200	£659,800
Improved Station Road/A8 access for cyclists	£440,800	£634,800
Total	**£5,345,600**	**£7,697,500**
Public transport		
Broxburn to Newbridge Roundabout bus lane	£3,124,700	£4,499,600
Station Road to Newbridge Interchange bus lane	£1,112,700	£1,602,300
A8 Eastbound Bus Lane from Dumbbells to Maybury Junction	£2,567,700	£3,697,400
Bus Lane under Gogar Roundabout	£64,100	£92,300
Maybury Road Approach to Maybury Junction	£2,140,400	£3,082,200
Improved bus priority linking South West Edinburgh with the Gyle, IBG and airport (including pedestrian / cycle facilities where appropriate)	£4,480,200	£6,451,500
Upgraded Bus interchange facility at Ingliston P+R	£3,000,000	£4,320,000
Kilpunt Park and Ride	£5,500,000	£7,920,000
New Tram Stop	£1,000,000	£1,440,000
Total	**£22,989,800**	**£33,105,400**
Road		
Link Road Part 1 Dual Carriageway	£6,301,000	£9,073,400
Link Road Part 2 Single Carriageway	£2,813,900	£4,052,000
Segregated Link Road cycle route	£1,115,000	£1,605,600
Development Link Road Main Street Carriageway	£5,634,900	£8,114,300
Dualling of Eastfield Road Phase 1	£1,802,900	£2,596,100
Dualling of Eastfield Road Phase 2	£1,143,000	£1,645,900
Dumbbells Roundabout Improvement	£1,203,000	£1,732,400
Dumbbells westbound off-slip signals	£865,200	£1,245,900
MOVA improvements at Newbridge, Dumbbells, Gogar/Maybury	£1,510,000	£2,174,400
Newbridge additional lane from M9 onto A8	£581,300	£837,100
A8 Gogar Roundabout – 4 lane northern circulatory improvement	£1,699,200	£2,446,800
Gogar to Maybury additional eastbound traffic lane	£20,833,300	£30,000,000
CEC Maybury improvement scheme	£1,294,500	£1,864,100
Total	**£46,797,200**	**£67,388,000**
Grand total	**£75,132,600**	**£108,190,800**

Supplementary Question

Sorry to disappoint you Lord Provost! I thank the Convener for her answer. Whilst I very much welcome the investment that has been gained or secured by the City Deal, I am conscious that this is very much focused on the A8 corridor which exists between Newbridge and Gogar. One of the big concerns right now is the gridlock and the congestion further to the north at the Barnton junction and along the Queensferry Road, a problem which risks getting worse because of the terms of the Local Development Plan which the previous Council voted through. To my mind, there appears to be no real plan to address this problem (I'm conscious it's a big and complex one). So, could I simply ask her if she will write to me to outline what this Administration plans to do about it. Thank you.

Supplementary Answer

Councillor Lang, I will do more than that, I will write to you and invite you to meet with the officials with me to discuss some of the issues that are obviously emerging in your Ward. Thank you.

QUESTION NO 5

By Councillor Lang for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question **(1)** On what date was the decision taken to commence the resurfacing and improvement works at the Silverknowes roundabout on 11 September?

Answer **(1)** The decision to commence works on or around 11 September was made at the time of contract award in May 2017.

Question **(2)** Why were local ward councillors not informed of the commencement date or provided with detailed project drawings until just a few days before the works?

Answer **(2)** Councillor notification usually runs in parallel with resident notification (and normally includes a copy of the resident notification letter which incorporates a location plan) so should be sent out 7-14 days prior to work starting on-site. This ensures residents are advised in good time but not too far in advance of the actual start date. It should be noted that the local ward councillors at the time, were originally provided with detailed scheme drawings in October 2016 during the development of the scheme.

Question **(3)** What assessment has been made of the effectiveness of the neighbour notification procedure for these works?

Answer **(3)** The form of neighbour notification used for the works at Silverknowes Roundabout is similar to that used for all capital improvement schemes of this nature. This aims to have the resident notifications issued 7-14 days in advance of works starting. In this instance, however, it is acknowledged that the notifications were distributed later than would normally would be the case. The performance of the distribution company in this regard will be investigated. In addition to notification letters, advance signage was erected two weeks prior to works commencing.

Question	**(4)**	What potential exists to complete the works within a shorter period than the expected 14 weeks?
Answer	**(4)**	The scheme duration is dictated primarily by the site constraints and traffic management required to maintain pedestrian and vehicular movements through the site. Providing the contractor with unhindered access to the site through closures of all arms of the roundabout could reduce the duration, however this would be at the expense of significant traffic disruption.
Supplementary Question		Well, whilst I'm on a roll then, can I thank the Convener for the detailed answers which she has provided and, more importantly, thank her and Councillor Key for stepping in last week to try and deal with a whole series of issues around this project, issues which I completely understand and appreciate long pre-date her time as Convener. Nevertheless Lord Provost, I hope she will understand that there are many of us who have viewed this project as a complete and utter shambles involving an initial flawed design, botched and misleading communications with residents, local councillors kept completely in the dark and a wholly inadequate alternative pedestrian diversion arrangement. Will she agree that, as a new Convener, hopefully with a fresh approach, that she is well placed to review all of these issues to try and ensure that such a sorry state of affairs is not allowed to happen again?
Supplementary Answer		I recognise some of the issues that Councillor Lang has brought forward here, although I would suggest that perhaps his characterisation of the processes around that is a little extreme. I would suggest, first of all, that there are lessons to be learnt from this particular instance and I would suggest that we pull together some form of meeting for some of the local residents, the community councils, etc with officials to actually learn from that and I would be happy to be there. Thank you.

QUESTION NO 6		**By Councillor Rust for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 21 September 2017**

Question	**(1)**	What outstanding issues remain to be resolved to ensure Firrhill High School Hockey Club has an adequate pitch on which to train and play?
Answer	**(1)**	Pitches at both Firrhill and Oxgangs need to be lined.
Question	**(2)**	What is the anticipated timescale for resolving these issues?
Answer	**(2)**	The Firrhill pitch was lined over the weekend of 16 September. The Oxgangs pitch is due to be lined on Friday 22 September, weather permitting.
Question	**(3)**	Will the Convener give assurance that he and department officials will engage with Firrhill High School and Oxgangs Primary School to ensure a long term future for Firrhill High School Hockey Club with as minimal disruption as possible?
Answer	**(3)**	Yes. The Head Teacher continues to work closely with all stakeholders to find a long term solution.
Question	**(4)**	Why are new pitches which are being laid in Edinburgh schools such as Firrhill not suitable for competitive hockey beyond S2?
Answer	**(4)**	Because the pitches that are being laid are able to meet the secondary school PE curricular use. No surface exists that is compatible for competitive hockey and all purpose PE use.
Supplementary Question		Thank you Lord Provost and I thank the Convener for his answer. Progress on this matter has been very slow and has caused a lot of concern locally but I am pleased to see we now have a timescale. In terms of the lining, is he able to confirm that the hockey club is being kept free of expense and that this is now being met by Amey?

Supplementary Answer	Unsure about your last question here but in relation to the answer, if I can give you a guarantee that the lines will be drawn on 22 September. I will personally go up there to make sure they're drawn and if they're not drawn I will draw them myself, weather permitting !

QUESTION NO 7

By Councillor Rust for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 21 September 2017

Question **(1)** In relation to the Council owned properties at 5 Ratho Park, Ratho Station occupied by Cheque Centres Limited please advise of any outstanding sums due to the Council?

Answer **(1)** All rent and service charge due under the terms of the lease are paid in full to 27 August 2017. There are no outstanding sums.

Question **(2)** What steps are being taken to recover said sums?

Answer **(2)** No action is required at present.

Question **(3)** What was the Council's total contribution during the term of occupation of Council owned premises at Ratho Station or elsewhere by Cheque Centres Limited, in terms of

(a) agreed rental reduction,

(b) fitting out of premises and

(c) any other net benefit to the company?

Answer **(3)**

(a) A 30-month rent free period was granted on entry. This was spread over the initial 5-year period, which equated to a rental reduction of £106,745.50 p.a.

(b) In addition to the above, a capital contribution was made in the sum of £166,750.

(c) These reductions reflect a combination of normal market incentives and costs of fitting out the property from a shell condition and were approved by the Finance and Resources Committee on 1st November 2012.

All other sums due during the term of this lease have been paid, in full, by Cheque Centre Ltd. Up to 27 August 2017, this equates to £505,663.75 in rent and £430,000 service charge.

Supplementary Question	Thank you Lord Provost and I thank the Convener for his answer. The poor return on investment aside, I'm sure the Convener will appreciate that subsidising a now former pay day loan lender with hundreds of thousands of pounds of Council taxpayers' money remains a matter of public concern. Can he confirm that no similar arrangements will be made with other such companies during this Council term?
Supplementary Answer	Thank you Lord Provost and I thank Councillor Rust for his supplementary. I don't think there is any serious prospect that we would be doing something similar to this. If you think back to the time when we decided that we would lease this property to this particular company it was because there was no other interest from any other quarter in taking out a lease in the property and it remained simply a liability in the Council's books. What we managed to do was to gain an income stream from letting the Cheque Centre take this place over. Now, as you know, they are moving into liquidation but we will still be able to receive the full amount of rent that was due. I think on the whole it has been a prudent thing for the Council to do although I can well understand the political sensitivities of coming to a similar arrangement with a similar company.

QUESTION NO 8

By Councillor Rose for answer by the Convener of the Housing and Economy Committee at a meeting of the Council on 21 September 2017

The current update to housing statistics for Scotland published by the Scottish Government include the following qualification to the figures:

"Figures for the private sector new build completions for the City of Edinburgh have been estimated from 2015 Quarter 4 onwards due to quality concerns of data derived from building completion certificates. Estimates for Edinburgh have instead been based on private new build house sales data from Registers of Scotland, with further assumptions on self-builds and private sector led Section 75 completions which are not captured in this data source. The estimates for Edinburgh are being investigated further and are subject to change in future publications."

Question **(1)** What is the extent of delays in issuing building completion certificates over the last five years?

Answer	**(1)**	The figures show that the percentages for time taken to issue completion certificates within 5 working days following final site inspections were as follows:

Q1 2015/16	82.0%
Q2 2015/16	93.3%
Q3 2015/16	80.9%
Q4 2015/16	71.5%
Q1 2016/17	71.8%
Q2 2016/17	67.8%
Q3 2016/17	87.3%
Q4 2016/17	83.1%
Q1 2017/18	91.2%

These figures do not include temporary occupation certificates. These are required when an amendment of warrant is required (for example when there have been design changes during construction). Temporary occupation certificates are also required where partial works have been completed – e.g. some flats in a larger block of flats.

Question	**(2)**	When will this be resolved?
Answer	**(2)**	Performance in issuing completion certificates is in line with performance in other authorities. However there are other aspect of the process that require attention. The Building Standards Improvement Plan was reported to Planning Committee on 17 August 2017 in the Planning and Building Standards Customer Engagement Strategy and Building Standards Improvement Plan report .
Question	**(3)**	What measures are being taken to resolve this failure of service

Answer	**(3)**	The above report sets out the measures that are being undertaken to address performance. Progress will be reported to the Planning Committee.
Question	**(4)**	Please give the information requested above in relation to the timely issue building warrants
Answer	**(4)**	A building warrant is ready to grant once all satisfactory information has been received. The percentage of warrants granted within 10 days following receipt of final plans is as follows:

Q1 2015/16	43.4%
Q2 2015/16	35.2%
Q3 2015/16	34.5%
Q4 2015/16	35.8%
Q1 2016/17	35.9%
Q2 2016/17	32.5%
Q3 2016/17	27.4%
Q4 2016/17	27.2%
Q1 2017/18	23.4%

This aspect is a measure of part of overall performance. The action to improve this is set out in report to the Planning Committee as indicated above.

Supplementary Question	Thank you Lord Provost. I thank the Convener for his answer in which I note that the performance in granting building warrants within the standard timescale has steadily fallen from 43% to 23% from June 2015 to June this year. Now, I learn from the accompanying report, and indeed from constituents, that a proportion of this work has been outsourced to other local authorities, namely Argyll and Bute and Aberdeen. A couple of small questions for the Convener. First of all how long has this outsourcing been taking place? And, secondly, will he be willing to supply me with a full copy of the poor Performance Inspection Report initiated by the Minister for Local Government and Housing delivered to the Council in April this year?
Supplementary Answer	Thank you for the questions. How long has it been in place? Right now I can't answer that. I suspect that the decision to outsource was made prior to my position in this post. I will certainly get that information to you. If there is no reason why the Inspection Report can't be released, it will be released and I'll make sure you have a copy of it.

QUESTION NO 9

By Councillor McLellan for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 21 September 2017

Question	**(1)**	To ask the Convener for an update on a feasibility study into the possible amalgamation of services provided by the Northfield Community Centre, Gilmerton Community Centre and Piershill Library, conducted by Edinburgh University on behalf of CEC, and for which Northfield Community Centre continues to provide data.
Answer	**(1)**	There has been no feasibility work undertaken by Edinburgh University.
Question	**(2)**	To ask the Convener to confirm that amalgamation of community centre and library services in Northfield and Gilmerton will not take place
Answer	**(2)**	The Council has approved a city wide review of assets with a view to reducing the size of the Council estate. This review includes Libraries and Community Centres and a range of options will be developed that might include, where appropriate, opportunities to co-locate services. Service user engagement will be important and every effort will be made to work in partnership with key stakeholders.
Supplementary Question		Thank you very much. It's fair to say that the situation with libraries and community centres in this part of the City is causing some confusion. At the last meeting of the Northfield Community Centre, the Management Committee were told unequivocally that an amalgamation with Piershill library was not on the agenda. So I wonder if I could ask the Convener, and I'm grateful for his answer, if he could provide the community centres with some further clarity about exactly what the situation is with amalgamations with the library services? Thank you.

Supplementary Answer

The answer is contained in Answer (2) that there is a review ongoing and all the libraries and all the community centres will be part of that review. When the review is complete it will come to Committee and we as Councillors will see that and we can make our judgements against it. I will say there has been some confusion and I accept that particularly with Edinburgh University there being this notion that they were coming in to do a feasibility study. That wasn't exactly true. Edinburgh University offered their services to help us with the consultation process. So I think that's where part of the confusion came in.

QUESTION NO 10	**By Councillor Johnston for answer by the Convener of the Corporate Policy and Strategy Committee at a meeting of the Council on 21 September 2017**
Question	What procedures are in place to deal with potential conflicts of interest in terms of an elected member's role and their role as a champion, and what additional powers or budgets do champions have access to?
Answer	Council on 24 August 2017 appointed champions to act as ambassadors for specified areas. These appointments are compatible with the role of elected members. Duties that councillors undertake must comply with the Councillors' Code of Conduct and standing orders in relation to committee business. Should any conflict of interests arise, these will be dealt with, in the regular manner, in compliance with the Code. Council also decided that champions should consult with, and be accountable to, the relevant committee and their Convener. This should minimise potential conflicts. There are no additional powers or budget provided to champions and decision making remains in the hands of the relevant committee.

QUESTION NO 11

By Councillor Mowat for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

The Scottish Government announced on 6th September 2017 that it will support the introduction of a Low Emission Zone in Edinburgh by 2020 and the Administration has made a commitment to introduce one in the Council's business plan. It appears from the press reports and Government Consultation that this is likely to be fines for vehicles entering the zone. There have been reports that Edinburgh would like to be one of the first LEZ in Scotland. Could the Convener indicate:

Question (1) When will the Council publish their plans showing where the LEZ will be?

Answer (1) The Scottish Government has issued a public consultation document (Building Scotland's Low Emission Zones). The Council is engaging in this consultation and a response will be considered by the Transport and Environment Committee in December.

Question (2) Which vehicles will be affected?

Answer (2) This will be considered in future reports to the Transport and Environment Committee.

Question (3) Whether there will be exemptions for residents who live within the zone?

Answer (3) This will be considered in future reports to the Transport and Environment Committee.

Question (4) What is the timescale for introduction so that people can begin to plan for any introduction of a Low Emission Zone given the extremely short timescales being proposed for the introduction of said zones by the Scottish Government?

Answer (4) This will be considered in future reports to the Transport and Environment Committee.

Question	**(5)**	How are the decisions regarding the above matters to be taken and what empirical evidence will be used as the basis for taking these decisions?
Answer	**(5)**	This will be considered in future reports to the Transport and Environment Committee
Supplementary Question		Thank you. I would thank the Convener for her answer but there isn't really an answer because there is no information that we were seeking except that this will be considered in future reports to the Transport and Environment Committee. So, what I would ask the Convener is, given that this is obviously a substantive piece of work that's been undertaken, given the commitment that Edinburgh has said that the various members of the Administration, supported by their cheerleaders, agreed they would like to be early adopters of low emission zones and the lack of progress we seem to have made on this matter, can you confirm that all other projects recently agreed to, such as the implementation of the Parking Action Plan, will go ahead and will not be superseded and fall off the agenda as they have done previously?
Supplementary Answer		First of all I appreciate the frustrations attached to the answers given in the written answer but inevitably, at this stage, I would not, if you will excuse the vehicular allusion, want to be jump started into providing information that at this point still has to be pulled together. I think it is only right and proper that the development of the low emission zones work and the project is brought to the Transport and Environment Committee for a more detailed examination which certainly wouldn't be possible in this Chamber. In terms of, essentially, the diary management of the projects that have already been committed to, I can assure you that it is certainly my intention to bring forward all of the projects that have come under my jurisdiction as Convener. Thank you.

QUESTION NO 12	**By Councillor Johnston for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 21 September 2017**

Question	Given the guidance regarding repairs in shared buildings has not been updated in some time, will the administration consider a fresh public awareness campaign, to further explain both the rights and responsibilities for owners and occupants?
Answer	The Edinburgh Shared Repairs Service (ESRS) constantly seeks to raise awareness with owners and occupants, supported by specific campaigns throughout the year. The Autumn campaign is due to start in mid-October and this includes multiple promotion and awareness raising methods, such as updated leaflets, factsheets, and guidance, both in print and online, and by the use of social media. In addition, officers from the ESRS will continue to attend events and deliver presentations to groups of owners throughout the city.
Supplementary Comment	I thank the Convener for that answer. I think that a new public awareness campaign is very timely and I look forward to engaging with it. Thank you.

QUESTION NO 13		**By Councillor Hutchison for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 21 September 2017**

The ‘Overtime working and working time payments’ section of the Orb states that ‘No function should be routinely reliant on overtime working in order to deliver its service.’

Question **(1)** In light of the first quarter budget overspend and the projected overspend for the 2017/18 financial year, can the Convener please advise the total spend on overtime in the year to date and the projected budget for overtime for the remainder of the financial year.

Answer **(1)** The current expenditure on overtime working for the financial year to date is £2,715,618.

The total budget provision made for overtime for the financial year is £6,255,088. Although this allocation has been made, it may not be required to be fully utilised. Projections for overtime are challenging to provide with a high degree of accuracy, given the exceptional circumstances that this may be applied to address.

Question **(2)** Can the Convener please confirm the contributions of individual departments to the total overtime spend as given in the answer to Question 1 and provide details of the circumstances under which overtime working is authorised.

Answer **(2)** The breakdown of overtime expenditure by Directorate to date, is as follows:

Directorate	Current expenditure
Communities and Families	£614,266
Place	£1,286,266
Health and Social Care	£267,849
Resources	£391,588
Safer and Stronger Communities	£147,115
Chief Executive's	£8,534

Overtime working may only be approved in exceptional circumstances. Examples of such circumstances can include: annual billing activities for council tax and non-domestic rates; major events such as Edinburgh's Hogmanay or during the Edinburgh Festival; ICT system related changes being implemented during weekends; etc

Question **(3)** Are the reasons for overtime working as given in the answer to Question 2, deemed to be exceptional or is overtime working seen as a long-term solution?

Answer **(3)** Overtime working is not a long-term solution. The use of overtime working is one of several measures that may be applied to address demands upon services or to temporarily increase resource levels in exceptional circumstances, only where deemed necessary.

Question **(4)** Can the Convener please confirm what actions are currently in place or planned to be put in place to manage and reduce the overtime spend.

Answer **(4)** Executive Directors and their management teams are responsible for managing overtime within their Directorates. Monthly management information about overtime working is provided to senior managers to enable appropriate scrutiny and controls to be applied.

Supplementary Question

Thank you Lord Provost and I thank the Convener for his response. A quick few follow up questions. Given the significant variance in the overtime spend across departments as shown in the answer to part (2), can the Convener please provide assurances that the Overtime Policy is being applied consistently across the Council? With a budget of over £6m for overtime for the financial year, does the Convener agree that stricter enforcement of the Overtime Policy could be a means of reducing the projected budget overspend for the financial year? And finally, following the recent Members' Bulletin noting a recruitment freeze, can the Convener please confirm that a cost benefit analysis of this Policy set against the projected £6m spend on overtime has been carried out? Thank you.

Supplementary Answer

I thank Councillor Hutchison for his three supplementary questions. First of all, on the variance across departments, as you will appreciate the demands for overtime across departments are going to vary according to the nature of what they do. Some will have more volume, festivals for example, than others and some will be more involved with things like the work peaks that are involved in putting out Council Tax notices. So, yes there is variance, and that's natural, but we do keep it under review and it's something that I've been keen to stress talking to the Head of Finance that we do keep all overtime under review and that managers only ever allow it where there is a compelling operational need.

In terms of stricter enforcement, I think I've just addressed that point. It's something which I think is, that is one aspect and the other thing in this area would be the number of agency staff that we take on. Everything to do with staffing levels in the Council is under review virtually week by week as you might imagine in the Council's financial situation.

I can't immediately answer your third question about the cost benefit analysis but I will be happy to get back to you about that.

QUESTION NO 14	**By Councillor Jim Campbell for answer by the Convener of the Housing and Economy Committee at a meeting of the Council on 21 September 2017**

Question	What are the missing conditions that have resulted in large areas of undeveloped land remaining void of new housing in the Edinburgh Waterfront, in our otherwise economically successful City?

Answer

Prior to 2008, it was anticipated that land at the Waterfront would be developed by private developers for first time buyers and to a lesser extent families and larger households. The major landowners in the area sold development sites to private developers for speculative housebuilding. The banking crisis led to a reduction in availability of mortgages to first time buyers and a fall in land prices. In some cases, housebuilding came to a halt whilst, in other cases, land was traded or simply lay derelict awaiting development. Granton Hesperus is an example of a development where works stopped on site in 2008. It was only when the Council provided grant funding to Dunedin Canmore Housing Association that the development was completed. The downturn in the housing market had a greater impact on the Waterfront than other parts of the city due to a heavy reliance on the first time buyer housing market, fragmented land ownership and challenging infrastructure constraints.

Since 2009 there has been piecemeal development in the Waterfront, supported largely by Scottish Government grant funding administered by the Council. Housing associations have managed to secure land at Granton Harbour and the wider Waterfront area and have completed 465 homes, with an additional 545 homes either under construction or about to start on site.

The Waterfront has suffered from over 40 years of post-industrial decline, which has in many areas, resulted in particularly challenging infrastructure constraints. In an attempt to accelerate the delivery of new homes and wider regeneration of this area, the Council is already working in partnership with the Scottish Government to identify ways in which investment in infrastructure can be made to overcome barriers to development. Through City Region Deal, the Scottish Government has committed to work with the Council on a site- by -site basis to support local authority borrowing and to share the financial risk of infrastructure delivery. It is anticipated that the development of a wider regeneration strategy for the area, consolidation of land ownership and public sector led investment will accelerate progress and help meet the shortfall of affordable homes for those on low to medium incomes.

Supplementary Question

Thank you Lord Provost and I thank the Convener for his answer. Just building on his indication that he is in discussions with the Scottish Government about what can be done going forward, would that include looking at the mix of housing that might work in the Waterfront and also might it include a study of whether a growth accelerator model might provide a way of lowering the initial costs but spreading the costs of infrastructure into the future?

Supplementary Answer

Thank you for your supplementary. I'm not sure the growth accelerator model would be one that would be fitting for that area by all means that can be raised with the Scottish Government. We will do everything we can to accelerate development in that area. The answer suggests it's been blighted by and during the recession. I also take the opportunity to welcome you to come and have a chat with officials and myself and the Vice-Convener. Let's talk about how we can all work together to get that area moving.

QUESTION NO 15

By Councillor Webber for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question

The boundary fence between Baberton Mains Housing Estate and the A720 City Bypass is in a terrible state of repair. The bypass boundary fence has never had any maintenance work carried out since it was built to prevent trespass onto the A720 during its construction in the mid to late 1980s.

Can the Convener confirm that she will contact AMEY to request its engagement with residents to ensure the integrity of this boundary and repair and assist the 1,000s of residents of this area?

Answer

The legal position on the boundary fence between Baberton Mains Development and the A720 (City Bypass) is that this is owned and maintained by the proprietors of the houses. The fences between house plots being mutual with adjoining proprietors, with fences of open spaces in the estate being the joint responsibility of all the proprietors of the properties. This was placed in the title deeds relieving the original developer (Wimpey) of all responsibility for any future maintenance. The Council therefore is not responsible for the maintenance of these fences.

However, I have asked that the South West Locality approach AMEY on my behalf to establish if they will be willing to engage with local residents to effect repairs to the boundary fence in question in order to mitigate the risk of people gaining access to their network.

The South West Locality will report back to me once a response has been received from AMEY.

Supplementary Comment

Can I thank the Convener for her answer and I very much look forward to working with her while we look to resolve this matter. Thank you.

QUESTION NO 16		**By Councillor Doggart for answer by the Chair of the Edinburgh Integration Joint Board at a meeting of the Council on 21 September 2017**

Question	**(1)**	Following the departure of Rob McCulloch-Graham as Chief Executive Officer (CEO) of the EIJB, could the Chair provide a timetable to Council for the recruitment of a replacement CEO?
Answer	**(1)**	The Integration Joint Board will consider what action needs to be taken at its meeting on 22 September 2017. Robust interim arrangements have been put in place to ensure that financial, performance and quality issues for the service are dealt with quickly and efficiently.
Question	**(2)**	In light of the Care Inspectorate Report into health and social work for older people in Edinburgh, what steps has the Chair of the EIJB taken to ensure that the new CEO will address the quality indicators that the Care Inspectorate found to be less than adequate?
Answer	**(2)**	Work is already underway to address the recommendations in the Care Inspectorate's report. An improvement action plan has been developed and regular progress reports are considered by the IJB. A progress report will also be considered by the Corporate Policy and Strategy Committee on 3 October 2017. Ensuring delivery of improvement actions will be a key focus for the interim Chief Officer and subsequent appointee to this role.
Question	**(3)**	Following the Council Leader's verbal commitment at the last Council meeting to implement the 17 recommendations of the Care Inspectorate report, what representations has the Chair of the EIJB made to the Convener of the Finance and Resources Committee for an increase in the 2018/19 Budget to meet the recommendations?

Answer **(3)** All adult care needs and any improvement measures will be considered as part of the normal budget process for the 18/19 financial year. The Convener of the Finance and Resources is fully aware of the pressures on the adult care budget.

Supplementary Question

Lord Provost thank you and I thank the Chair of the Board for his response. I think it would be appreciated by members of Corporate Policy and Strategy Committee if the update to that Committee could include a summary of the actions agreed tomorrow in terms of the replacement of the Chief Officer.

In terms of the specific Directions of the Board, could the Chair of the Board please indicate whether Direction 1F – Publication of Locality Improvement Plans by October of this year will be met and could he give a specific date for publication?

Supplementary Answer

Thanks Lord Provost and I thank Councillor Doggart for his supplementary question. Locality Improvement Plans in respect of the Neighbourhood Partnerships in the Council's localities, I know that's being taking place elsewhere. Health and social care and the Integration Joint Board will align with that and publish at the same time.

QUESTION NO 17

By Councillor Miller for answer by the Convener of the Culture and Communities Committee at a meeting of the Council on 21 September 2017

Question	Given the successful community-led buy-out by Action Porty of the former church on Bellfield Street in Portobello, the first exercise of right to buy powers in urban Scotland, what support does the Council plan to provide to other community groups considering using the right to buy provisions or considering transfer of ownership of a local asset?
Answer	Community right to buy powers, which were extended under the Community Empowerment (Scotland) Act 2015, apply to all properties. The Act also introduced powers relating to Community Asset Transfer which are applicable to the purchase or lease of public sector property. This is the anticipated route for applications to purchase Council assets. Our policy on Community Asset Transfer was approved at Council in March 2017 and this policy will also form the basis of the Council's approach under the right to buy powers. A small team has been established within Property and Facilities Management which will advise groups seeking to submit proposals under the legislation.
Supplementary Question	I thank the Convener for the answer. Lord Provost, I know the Convener will be aware of the level of anger in the community and the city more widely this week because one of Scotland's first major community right to buy projects, the Sick Kids Hospital in Edinburgh, has been derailed. The NHS sold the site to the Downing Group before even allowing the Marchmont/Sciennes Development Trust the chance to enter into the right to buy process. The Trust notified Government Ministers several times of their interest in purchasing the site and had fantastic plans which included truly affordable housing for a range of different occupiers.

But they were met with repeated knock backs due to technical issues with their applications. Not because their plans for the site were wrong, not because their vision was wrong and not because funding was absent, but because the process was wrong. Instead of the Government and NHS providing the community group with the help to get past these hurdles with a very very complicated sale, they simply refused the applications on technicalities

So, would the Convener please write to the Scottish Government requesting an urgent report into the failure to support the community bid so there can be transparency about what went wrong and so that lessons can be learned on how better to support future community bids? And will he also ask Council staff to be proactively engaging with the Trust to develop support for community groups who need help to navigate the process to ensure that future applications are given a fair hearing?

Supplementary Answer

Lord Provost, I would like to thank Councillor Miller for her question and also for the supplementary. I'm certainly more than happy to do that but I think also in my reply I would say that the issue that you are getting at is one that very much occurred to me in the answering of this question but is not actually contained in the answer and that is how we proactively promote the structure and the process for taking up these powers in the future. I have now instructed the Communications Team to come up with a plan to do this proactively to get the message out to our communities about how they engage with these new powers.

That's one thing I would say and the other answer to the question would be that, certainly in answering this question I have amassed quite a bit of information on exactly how to engage with these powers and I will be circulating that to elected members so that they can enact their leadership role in their local communities and disseminate and promote engagement with these new powers with their own communities.

QUESTION NO 18

By Councillor Main for answer by the Chair of the Edinburgh Integration Joint Board at a meeting of the Council on 21 September 2017

Question

How many hours of required care at home per week, have the Council and its contracted partner providers each been unable to provide over the last year, broken down week by week?

Answer

The table below shows the number of hours of care which providers have been unable to offer over the last four months. Full year figures are unavailable because of changes to recording, which were introduced to support the new care at home contract in autumn 2016.

The table gives the following detail of people waiting for domiciliary care:

- The hours for which people aged 65 and over are waiting, split into: a) waiting to move on from the reablement service, effectively reducing the service's capacity for new clients; b) other people waiting in the community, most of whom will not be in receipt of support already; c) people in hospital
- The number of hours needed by people aged under 65 years
- The total number of hours needed

Time Series of Hours Waiting	Older People				People aged under 65	
	a) Receiving Reablement, awaiting Mainstream service	b) In the community, including people with Intermediate Care	c) In hospital	Total	Total	**Total**
27/03/2017	763	1,780	1,172	**3,715**	**1,151**	**4,866**
03/04/2017	752	1,835	1,263	**3,850**	**1,188**	**5,038**
10/04/2017	655	1,888	1,227	**3,770**	**1,321**	**5,091**
17/04/2017	587	1,914	1,176	**3,677**	**1,285**	**4,962**
24/04/2017	703	1,853	962	**3,518**	**1,267**	**4,785**
01/05/2017	670	1,956	748	**3,374**	**1,452**	**4,826**
08/05/2017	638	2,018	654	**3,310**	**1,486**	**4,796**
15/05/2017	717	1,993	618	**3,328**	**1,503**	**4,831**
22/05/2017	897	2,203	677	**3,776**	**1,489**	**5,265**
29/05/2017	947	2,370	650	**3,966**	**1,568**	**5,534**
05/06/2017	908	2,302	801	**4,011**	**1,657**	**5,668**
12/06/2017	929	2,238	1,119	**4,286**	**1,526**	**5,812**
19/06/2017	867	2,243	1,033	**4,143**	**1,580**	**5,723**
26/06/2017	886	2,238	1,011	**4,135**	**1,359**	**5,495**
03/07/2017	942	2,250	1,016	**4,208**	**1,412**	**5,620**
10/07/2017	904	2,365	1,186	**4,455**	**1,464**	**5,919**
17/07/2017	964	2,223	1,203	**4,390**	**1,394**	**5,784**
24/07/2017	1,048	2,297	1,199	**4,544**	**1,565**	**6,109**
31/07/2017	1,069	2,332	982	**4,382**	**1,584**	**5,966**
07/08/2017	1,101	2,471	1,225	**4,796**	**1,431**	**6,228**
14/08/2017	1,109	2,555	1,368	**5,032**	**1,477**	**6,509**
21/08/2017	1,100	2,646	1,272	**5,018**	**1,524**	**6,542**
28/08/2017	1,101	2,599	1,344	**5,045**	**1,591**	**6,635**
04/09/2017	1,118	2,552	1,266	**4,936**	**1,605**	**6,541**
11/09/2017	1,195	2,600	1,121	**4,916**	**1,576**	**6,492**

QUESTION NO 19

By Councillor Burgess for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question

As a category one responder, expected to be among the first to deal with any incident, has the Council assessed the possible impact of a release of radioactive material from 1) military convoys carrying nuclear warheads and high explosives by road, and 2) radioactive waste transports by rail, that pass through or near to the City?

Answer

The City of Edinburgh Council works through Resilience Partnerships, in conjunction with other designated Category 1 Responder Organisations, including the Emergency and Health Services and the Scottish Environment Protection Agency (SEPA) to examine the potential impacts, outcomes, response arrangements and mitigation measures related to a range of risks that might impact on the local area. This work is led by multi agency groups, chaired by the Scottish Fire and Rescue Service (SFRS) and the information is published in Community Risk Registers available on the SFRS web site at: http://www.firescotland.gov.uk/your-safety/community-risk-register.aspx

Supplementary Question

Thanks very much and I thank the Convener for her written answer. My written question was about planning in the event of an incident involving radioactive material that is transported near or through Edinburgh on a regular basis such as military convoys and nuclear power station waste from Torness. The answer provided pointed me to the East of Scotland Community Risk Register. I'm not sure if the Convener has had a chance to look at the Register but I could find no mention of radioactive material on the Register at all which is surprising and perhaps confirms a report by NukeWatch and Green MSP Mark Ruskell that Edinburgh has not conducted risk assessments on weapons convoys and has not planned how the Council would respond to an incident nor inform the public about the risks.

I would be happy to provide that research report to the Convener if she would be prepared to investigate the matter further perhaps with a view to bringing a report to a future Transport and Environment Committee.

Supplementary Answer

Thank you Councillor Burgess for the supplementary questions. I think that's a deal we can strike. You give me the report and we'll come back okay? Thank you very much.

QUESTION NO 20		**By Councillor Booth for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017**

Question	What plans does she have to reform the Council's Cycle Forum?
Answer	The Council has an Active Travel Forum whose remit includes cycling. There are no agreed plans to change this. Arrangements are currently being made for a programme of meetings over the next year.
Supplementary Question	Thank you Lord Provost. I thank the Convener for her reply. She will be aware of discussions on social media and elsewhere about how well, or otherwise, the Active Travel Forum addresses the concerns of both pedestrian and cycle groups compared to having separate pedestrian and cycle forums as previously. Now, I appreciate that she doesn't want to set up meetings for the sake of meetings but I hope she can reassure me that she will continue to discuss with pedestrian and cycle groups, as well as the Council's Cycling Champion and other relevant stakeholders, to ensure that the Council has the best mechanisms to take the active travel agenda forward.

Supplementary Answer	Thank you Councillor Booth. As you know, I've been actively engaging where possible particularly on projects like Silverknowes roundabout as highlighted by Councillor Lang with the concerns raised by the groups you have referenced. The Active Travel Forum is currently being prepared for the early part of November and I hope that the cycling groups will find it an appropriate forum this time. We are looking at form and outcome at the moment. If at a later date there is a need for flexibility around that, then I would be very happy to entertain the possibility of a further specialist forum for cycling groups in particular. In the meantime, I am happy to have meetings, where appropriate and possible given diary commitments, with anybody who has concerns coming forward. Thank you.

QUESTION NO 21

By Councillor Booth for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question

What conversations has the Council had with the Scottish Government regarding taking forward a low emission zone for Edinburgh?

Answer

On 6 September I, together with chief officers met with Humza Yousaf, Minister for Transport and the Isles to discuss a range of transport issues including implementation of LEZs.

Additionally, Council officers met with Transport Scotland officers on 12 September to discuss LEZs.

QUESTION NO 22	**By Councillor Booth for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017**

Question	What quality assessment does the Council undertake to ensure that cycle and pedestrian infrastructure projects adhere to the Council's own design guidelines, and to Scottish Government design guidelines?
Answer	The Council's new street design guidance was approved by Transport and Environment Committee on 25 August 2015 and endorsed by Planning Committee on 3 October the same year. This document is intended as the first point of reference for all street design in Edinburgh, including, but not confined to, projects specifically aimed at improving conditions for walking and cycling. The Edinburgh Street Design Guidance (ESDG) aligns closely with the Scottish Government's Designing Streets policy statement, with objectives that reflect the 'six qualities of successful places' set out in Designing Streets. Work on the bulk of the technical guidance documentation accompanying the ESDG is nearing completion. Work is also underway on formally incorporating the use of the ESDG into internal management processes.
Supplementary Question	Thank you Lord Provost. I'm going to disappoint you again I'm afraid! I thank the Convener for her reply. I note that the reply talks about the development of the Council's Street Design Guidance but it doesn't mention the Scottish Government's Cycling by Design Guidance which I asked about in my question. And it doesn't actually answer my question about what quality assessment is carried out to ensure that the works the Council undertakes or procures does actually comply with the Guidance. Councillor Lang has already raised the issue about Silverknowes roundabout and she will be well aware of that.

The original proposals there did not, as far as I understand it, comply with the Cycling by Design Guidance. Now, the Convener may be aware of Living Streets' dossier listing a total of 14 instances where recent works did not, in their view, meet with the Council's own Design Guidelines which suggests that there may be a systematic problem. In light of the very welcome announcement this week of more than £12m of Community Links PLUS investment, I hope she agrees with me that the quality of delivery on the ground will be absolutely crucial and will she agree to meet with me and with representatives from cycling and pedestrian groups to develop an action plan for ensuring high quality delivery of walking and cycling infrastructure in future?

Supplementary Answer	Thank you very much Councillor Booth for that supplementary. I couldn't agree with you more about the importance of getting it right and I would be very happy to meet with you to discuss this subject in more detail.

QUESTION NO 23		**By Councillor Young for answer by the Convener of the Planning Committee at a meeting of the Council on 21 September 2017**

Question	The Council's Planning and Building Standards Customer Service Charter includes a commitment to "respond within 10 working days or tell you if we need longer." What percentage of correspondence to Planning and Building Standards have met this commitment in each of the last 5 years?
Answer	The casework management system which is used to manage applications and warrants does not record data relating to correspondence which would allow analysis to assess whether the target response time is met. The service is currently working with IT and Business Intelligence teams to retrieve the figures for general Planning and Building Standards enquiries raised through the Customer Contact centre. A briefing will be provided to members.
Supplementary Question	Thank you very much and thank you very much Convener for your reply. I do have to say though I do find it a little surprising that we have Service Level Agreements set up and are actually able to monitor but not actually able to meet them. So, I was going to ask if you would be willing to commit to ensure that the briefing you mention in your reply does make reference to what action we can take to address the frequency of the 10 day deadline not being met because otherwise there's not really any point in having that standard set. Thank you.

Supplementary Answer

I thank Councillor Young very much for her supplementary question. I completely understand the frustration that she expresses in her supplementary question but I think it is important to note the fact that the Charter was established to set out exactly what our citizens have a right to expect from the planning service but also to serve as an important indication to highlight what staff expectations have in order to how they address the demands that citizens have from the planning service too.

Now, there is unfortunately huge administrative work that would have to go into providing the kind of statistics that Councillor Young is looking for and to provide that level of administrative work to do so would actually take us away from the objective that we actually want to try to achieve which is to bring down handling times to increase the service provision that we offer. However, if it is data that the Councillor wants I'm quite happy to give her some statistics which she might find useful from last year alone. We have 42,000 calls that have been received by the planning department, almost 4,500 planning applications heard, 16,000 building warrant inspections and only 170 complaints to the department. Now, of course, even one complaint is one complaint too many. However, I think that demonstrates that we have a planning department that handles an extremely huge caseload and is actually serving the public well. However, the Councillor does ask that we look into how we provide more assurance, how we streamline our service, how we provide a better level of service quality but also how we can report on that and I'm happy to investigate that. Thank you.

QUESTION NO 24

By Councillor Young for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 21 September 2017

Question **(1)** What income has been generated by the fees paid from Cruise Liners visiting the port at South Queensferry, in each of the last 5 years?

Answer **(1)**

Year	Net Income
17/18	£268,300.00 projected
16/17	£254,375.03
15/16	£221,502.60
14/15	£277,240.47
13/14	£242,078.19
12/13	£207,227.59

Question **(2)** What budget area do these fees contribute to?

Answer **(2)** Income generated forms part of the Transport Services budget within Place.

Question **(3)** How much of this income, in each of the last 5 years, has been specifically used to fund projects or make improvements in South Queensferry, and what were these?

Answer **(3)** The income forms part of the overall revenue budget and is not spent on specific projects.

For your information, there is a piers maintenance budget and approximately £75,000 is spent per annum.

Supplementary Question	Thank you very much and thank you indeed for the answers and the details provided. Whilst noting that the income is not being ringfenced for the local area in particular, and that there is a fund of £75,000 already allocated to maintaining the pier, there is still, in fairness, well over £100,000 of income being generated for the transport part of the base budget. Now, in the local community of Queensferry they do experience a lot of disruption from these visits but they don't feel they're getting any local benefit. And indeed the local amenities being used by those visitors from the cruise ships, and indeed the residents themselves, are often well below acceptable standard. So, I would like to ask the Convener if he would agree to look at utilising some of this income to make some essential improvements such as the public toilets in South Queensferry which, it has to be said, are currently an extremely embarrassing first impression to these visitors, and to generally consider the potential for a small fund for other similar amenity improvements on a more regular basis? Thank you.
Supplementary Answer	Thank you Lord Provost and I thank Councillor Young for her question. You're quite right to say there's no ringfencing around this amount of money and it does go into the Transport Directorate's budget. What I usually say when people make suggestions like this is please show me the business case to support what you want to do and if you want some help from officers in getting that business case together then I'm sure they would be happy to provide it. It is worth saying, however, that although the answer, or indeed your question, covers the last five years that some, 2011 I think it was, major structural repair work costing the best part of £1.5m was at Hawes Pier. So the demands for financing the pier, not only that one but also the Longcraig Pier, can vary very much from year to year depending on the state of the weather and so on what that might do over a harsh winter. So, we do need to take all these factors into consideration in the round. But as I say if you do want to bring forward the case for some amenity, you mentioned public lavatories and so on, then that's obviously something that could be considered within the context of available budgets.

QUESTION NO 25

By Councillor Young for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question **(1)** What consultation takes place between CEC, Event Organisers and the local community on the annual Pedal Scotland event which goes through Kirkliston every year?

Answer **(1)** A number of planning meetings are held with the organisers as well as the blue light services and adjacent affected authorities to discuss and plan the event every year. The organiser informs residents along the route between Glasgow and Edinburgh of the closures and restrictions via a targeted residents' letter and on-street pre-warning signage as well as notices, correx and the associated traffic management.

The organisers have been asked to make contact with any affected Community Councils well in advance of the event.

The organiser also has an informative website to share details with the participants as well as the many residents and businesses along the route that have to negotiate the road closures. Within the Edinburgh boundary the Legal Order detailing the closures and restrictions is also advertised in the local press in advance of the event

Question **(2)** How has this engagement influenced traffic management and residential access decisions over the years?

Answer **(2)** Engagement has led to changes to the route, the type and level of traffic management, and access and egress arrangements that will continue for as long as the event takes place in Edinburgh.

Question **(3)** What consideration has been given to variations in route, considering the growing size of Kirkliston's population?

Answer	**(3)**	Access and egress for residents and businesses is carefully considered to mitigate disruption. An example of this is that the bus gate between Kirklands Park Street and Eilston Road is rescinded on the day of the event to allow movement for vehicular traffic to the B800 which allows access to the north and east to enable free movement in and out of Kirkliston
Supplementary Question		Thank you very much and thank you very much Convener for your answer. Now, I note in your response reference to the organisers being asked to make contact with any affected community councils in advance of the event. Unfortunately this isn't actually happening on the ground and I've got confirmation from Kirkliston Community Council that, despite repeated attempts, they've not actually been actively engaged. So, I'd like to ask the Convener if she can commit to ensuring the local consultation that is documented does actually in reality take place for next year, ideally through that Community Council and that would just allow for discussions on how disruption can be minimised for residents and also just ensure that we don't just copy and paste what's happened this year into next year and take some lessons forward. Thank you.
Supplementary Answer		Thank you Councillor Young for your supplementary. Clearly an event like this grows and evolves and certainly around this issue of communication we have to grow and evolve in order to answer the community's concerns. We will reinforce this with the event organisers about their role and responsibilities in all of this and, indeed, you and I can discuss further whether or not there are any measures the Council have to take. Thank you.

QUESTION NO 26

By Councillor Bruce for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 21 September 2017

Question

Is the Council aware of the impending HW students traffic study of the Lanark Road area and does the Council have any plans to consider this in light of future developments in Balerno?

Answer

A transport appraisal of the new developments allocated in the Edinburgh Local Development Plan (adopted November 2016) was carried out in 2014. This includes the allocated sites in Balerno. This appraisal considered the cumulative impact of the plan-led developments supported in principle by the Local Development Plan. It informed the LDP Action Programme, which sets out a number of transport actions in the area.

Officers would welcome the opportunity to review the Heriot-Watt Students' traffic survey of the Lanark Road area and consider its results.

Supplementary Question

Thank you Lord Provost and can I thank the Convener for her information within the Local Development Plan Action Plan. In the Action Plan it talks about a number of improvements such as a new MOVA system at Gillespie Crossroads, extra bus stops at Newmills no doubt to slow traffic down again, and improving cycle routes to Curriehill Station etc. That's all good and well but can I ask Councillor Macinnes that with around 140 homes being built at Ravelrig which will compound traffic issues at the lights at Balerno, can you confirm that a MOVA system will be installed at this location because I can't see it in the Action Plan and also with around 400 new homes under construction in Balerno and Currie which will no doubt equate to around an extra 650 cars on Lanark Road West. What other infrastructure plans do you have to support this amount of traffic? Thank you.

Supplementary Answer	Thank you Councillor Bruce for your supplementary question. You've raised some very detailed issues and I would hesitate to make any particular comment on them at this time but I would be happy to come back to you on them. Thank you.

Item no 5.1

QUESTION NO 1

By Councillor Osler for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	When will the much anticipated East Fettes Avenue Crossing Point from Inverleith Park to Broughton High School finally be constructed?
Answer	**(1)**	
Question	**(2)**	Why has it taken so long?
Answer	**(2)**	

Item no 5.2

QUESTION NO 2

By Councillor Lang for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	Why does the Council's Active Travel Plan, as refreshed in 2016, make no mention of Kirkliston or, other than a reference to the completed cycle route NCN 1 cycle route, Queensferry?
Answer	**(1)**	
Question	**(2)**	Why do the seven maps contained within the Active Travel Plan specifically exclude Kirkliston and Queensferry?
Answer	**(2)**	
Question	**(3)**	When will be Active Travel Plan next be refreshed?
Answer	**(3)**	
Question	**(4)**	What Active Travel projects are anticipated to be taken forward in Queensferry and Kirkliston, particularly in light of the Local Development Plan?
Answer	**(4)**	

Item no 5.3

QUESTION NO 3

By Councillor Lang for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	a) How many free to use car parks are owned and maintained by the Council and will she publish a list of such car parks?
Answer	**(1)**	
Question	**(2)**	Which of these car parks are open and accessible to caravans and motorhome vehicles?
Answer	**(2)**	
Question	**(3)**	Which of these car parks have restrictions on overnight parking?
Answer	**(3)**	
Question	**(4)**	What statutory powers exist for the Council to introduce restrictions on overnight parking at its car parks?
Answer	**(4)**	

Item no 5.4

QUESTION NO 4		**By Councillor Lang for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 26 October 2017**

Question	**(1)**	When was the £1m funding agreed for the redevelopment of the High Street in Queensferry?
Answer	**(1)**	
Question	**(2)**	What progress has been made in the delivery of the project since this date?
Answer	**(2)**	
Question	**(3)**	What specific improvements are expected to be delivered through this project?
Answer	**(3)**	

Item no 5.5

QUESTION NO 5

By Councillor Gloyer for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question

The Convenor will be aware that Murrayfield Community Council hosted a site visit to Ellersly Road for council officers and Living Streets on the 15th of August. What progress has been made since that site visit on improving safety and access for pedestrians on Ellersly Road?

Answer

Item no 5.6

QUESTION NO 6	**By Councillor Gloyer for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017**

Question	A signalised pedestrian crossing across the A8 at Kaimes Rd was first assessed as having high priority in October 2009. At what stage is the design of this crossing at present?
Answer	

Item no 5.7

QUESTION NO 7

By Councillor Booth for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question

When will the council publish technical drawings for their proposals for carriageway changes to:

a) Picardy Place

b) Leith Street

Answer

Item no 5.8

QUESTION NO 8

By Councillor Lang for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 26 October 2017

Question **(1)** If he will produce a table showing

(a) which community centres will see a reduction in the number of hours of janitorial cover arising from the current review of facilities management and

(b) the number of hours reduction being proposed at each centre.

Answer **(1)**

Question **(2)** Which community centre management committees have received formal notification of the proposed new levels of janitorial cover?

Answer **(2)**

Question **(3)** What hourly rate will be charged to community centres for the mobile janitor(s) to attend outwith the hours covered by their assigned janitor?

Answer **(3**

Question **(4)** What assessment has been made of the expected cuts to community organisations, clubs and other activities which may arise from the reduction in core hours and charges for mobile janitors?

Answer **(4)**

Question **(5)** Why have elected members received no formal briefings from officials on the specific changes being proposed at each community centre and the likely impact of such changes?

Answer **(5)**

Item no 5.9

QUESTION NO 9

By Councillor Staniforth for answer by the Convener of the Culture and Communities Committee at a meeting of the Council on 26 October 2017

On Friday 13th October the Bank of Scotland announced its intention to close the Museum on the Mound permanently on 29th December 2017.

Question **(1)** Did the Bank of Scotland discuss its intentions with the Council before announcing the closure?

Answer **(1)**

Question **(2)** What action can being taken by Council to ensure that valuable educational services continue uninterrupted and that safeguards public access to the museum artefacts?

Answer **(2)**

Question **(3)** What action is being taken to safeguard other privately owned educational and cultural venues?

Answer **(3)**

Item no 5.10

QUESTION NO 10

By Councillor Jim Campbell for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 26 October 2017

School Recruitment

Question

For all recruitment into school based rolls from June 2017 to date, what is the average:

a) Number of days between job advertisement and interview?

b) Number of days between interview and first written offer being made?

c) Number of days from requesting PVG checks from candidates and gaining PVG certification?

d) The proportion of first offers that are accepted.

Answer

Item no 5.11

QUESTION NO 11

By Councillor McLellan for answer by the Convener of the Regulatory Committee at a meeting of the Council on 26 October 2017

Question **(1)** How many licences have been issued by the Council to commercial dog walkers since their inception in 2014?

Answer **(1)**

Question **(2)** How many complaints have been received in that time about the operation of licensed commercial dog-walkers?

Answer **(2)**

Question **(3)** How many of those complaints were upheld?

Answer **(3)**

Question **(4)** How many licenses have been revoked in that time?

Answer **(4)**

Question **(5)** To ask what measures are taken to ensure dog walkers continue to meet the conditions of their licenses?

Answer **(5)**

Item no 5.12

QUESTION NO 12

By Councillor Johnston for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	What steps does the Council take to ensure that third parties, such as power or telephone providers, reinstate road markings after works have completed?
Answer	**(1)**	
Question	**(2)**	Does the council measure how many repairs have been effected within the twelve month post-works deadline?
Answer	**(2)**	

Item no 5.13

QUESTION NO 13	**By Councillor Smith for answer by the Convener of the Housing and Economy Committee at a meeting of the Council on 26 October 2017**

Question		When a council owned residential property becomes available when someone finishes their tenancy/leaves the property, how is the property evaluated and on what basis, to confirm any maintenance/repairs that are required?
Answer		
Question	**(2)**	How is this evaluation reviewed and by whom?
Answer	**(2)**	
Question	**(3)**	Please confirm the total costs of repairs/maintenance per year on council owned residential properties between tenancies for the last 3 years.
Answer	**(3)**	
Question	**(4)**	Of those repairs, does the council monitor or review the percentage of those relating to normal wear and tear, and those caused by damage? If so, please also provide details of this for each of the last 3 years.
Answer	**(4)**	

Item no 5.14

QUESTION NO 14

By Councillor Doggart for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	Will the convenor please confirm that the administration still anticipates the opening of the new primary school in Caanan Lane in 2020? If completion is not anticipated for that date, could the Convenor set out a new target for the opening of the much needed school in the south of the city?
Answer	**(1)**	
Question	**(2)**	Will the Convener explain what financial impact the new building will have on existing school budgets, particularly for South Morningside Primary?
Answer	**(2)**	
Question	**(3)**	Will the Convener meet with the South Morningside Primary Parent Council to explain how the administration will meet its target, provide the finance to maintain the high standards of South Morningside Primary and avoid the problems that have affected the opening of the new Boroughmuir school building?
Answer	**(3)**	

Item no 5.15

QUESTION NO 15

By Councillor Jim Campbell for answer by the Convener of the Planning Committee at a meeting of the Council on 26 October 2017

Question **(1)** Do we maintain a central register of all Section 75 contributions agreed with developers?

Answer **(1)**

Question **(2)** What date was this register started?

Answer **(2)**

Question **(3)** What is the total value of all section 75 contributions agreed since the register was started?

Answer **(3)**

Question **(4)** What is the value of unchallenged section 75 payments made that were included on the register?

Answer **(4)**

Question **(5)** Is the collection rate since the date of the register higher or lower than the collection rate prior to the register?

Answer **(5)**

Item no 5.16

QUESTION NO 16

By Councillor Webber for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 26 October 2017

Question **(1)** Can the Convener confirm if and when a school catchment area review will take place (in particular in Pentland Hills given all the new FAMILY 4/5 bed homes being built! – this also covers Kirkliston and Ratho as these children go to Balerno HS)?

Answer **(1)**

Question **(2)** Can the Convener confirm what consultation had taken place regarding the catchment area review with:

a) The Schools – High Schools and Primary

b) The Community Councils

Answer **(2)**

Question **(3)** Can the Convener confirm when the outcomes will be presented?

Answer **(3)**

Item no 5.17

QUESTION NO 17

By Councillor Rust for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	What factors are considered in the siting of general waste litter bins in public areas and when was there last a review of such bin provision?
Answer	**(1)**	
Question	**(2)**	How many general waste litter bins have been removed per ward over the past 5 years?
Answer	**(2)**	
Question	**(3)**	How many of these bins have been replaced per ward?
Answer	**(3)**	
Question	**(4)**	How many outstanding requests are there for litter bins and at what locations?
Answer	**(4)**	
Question	**(5)**	As at 11th September Council staff e-mailed: "We are unable to supply a new litter bin at the moment due to none being available". When were litter bins last available?
Answer	**(5)**	

Item no 5.18

QUESTION NO 18

By Councillor Bruce for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question	**(1)**	Why did it take over 3 months to get the street lights back on for the section of Lanark Road West between Bridge Road & Ravelrig Road in Balerno?
Answer	**(1)**	
Question	**(2)**	Since work has been done on Q1, why are the lights on 24 hours a day (apart from one which doesn't come on at all) on this stretch of road?
Answer	**(2)**	
Question	**(3)**	Lampposts appear to have codes associated with them – why do these not appear on the Council Website or on lampposts themselves? (responses from the street light team note codes which if made available would assist in the identification of those reported as being faulty).
Answer	**(3)**	

Item no 5.19

QUESTION NO 19		**By Councillor Mary Campbell for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 26 October 2017**

Question		Under the current Facilities Management Review proposals, what is the staffing proposal for Head of Establishments?
Answer		
Question	**(2)**	What is the proposed level of janitorial cover for each community centre?
Answer	**(2)**	
Question	**(3)**	Will community centres have janitorial cover for weekend use?
Answer	**(3)**	

Item no 5.20

QUESTION NO 20

By Councillor Booth for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 26 October 2017

Question **(1)** Please list by month the number of requests received since 1 November 2016 to clear leaves from footpaths and cycle paths and in each month listing the requests received by phone; email; web; twitter; in person, and by letter.

Answer **(1)**

Question **(2)** Please list the dates since 1 November 2016 when large mechanical sweepers have swept the off-road cycle paths, including but not limited to the Roseburn, Warriston, Water of Leith and Ferry Road paths.

Answer **(2)**

Question **(3)** Please provide the URL on the council's website where concerns with

a) footpaths

b) off-road cyclepaths

can be reported

Answer **(3)**

Question **(4)** What action has been taken since 1 November 2016 to implement a proactive approach to the sweeping of leaves from footpaths and cyclepaths?

Answer **(4)**

Item No 6.1

October 2017

Challenges and changes in adult care

Establishing the Edinburgh Integration Joint Board and Health and Social Care Partnership (in April 2016) has required a period of significant transition to bring the relevant council and NHS Lothian workforces together.

Managing adult services under a single system will allow more effective investment of precious resources, which will in turn improve our capacity to meet rising demand in ways that allow people more choice and control over their care and support.

Such a shift has inevitably posed many challenges, not least because of the absolute imperative to continue to provide services for those 'at risk'. We currently have 169 residents waiting to be discharged from hospital, 1,044 awaiting assessment and 701 waiting for care following assessment.

As I wrote in a piece for the Evening News earlier this month, I don't for one minute underestimate the challenge that this represents but I can assure you that we are working tirelessly to ensure these residents get the customised support they need as quickly as possible.

Safer cycling

We want Edinburgh's streets to be people-friendly and a major part of that means ensuring they're safe and easy to use, however you choose to travel.

For those on bikes, a raft of new measures is being rolled out at key points along the existing tram route. Red-screeded lanes to guide cyclists across the tracks at the recommended angle of no less than 45 degrees are being laid at various locations highlighted to us by cycling groups. These include the junction with York Place and Elder Street, Princes Street on to Frederick Street and Princes Street on to Waverley Bridge.

A lot of work has also been done to improve the layout of the Shandwick Place and Queensferry Street junction at the West End.

Alongside these, we've also *blazed a trail* by introducing the first two-stage right turn in Scotland. This new layout will go live at the junction of McDonald Road and Leith Walk at the end of this month. Check out this short animation to find out more about the design and how to use it.

Picardy Place plans

Very much with the above in mind, we have decided to defer the decision on Picardy Place designs until early in the New Year. This will allow more opportunity for public engagement – both on the road layout but, further, on how we might use the site where the roundabout currently sits.

We have already heard a wide variety of views on the proposals but want to widen the discussion to include as many of the travelling public as possible. The challenge for us is to find the right, and most practical, balance between the needs of all road users, whether they travel by bike, bus, car, tram or on foot.

In the coming weeks, there will be an opportunity to have your say, either online or in person at one of our public drop-in events. Please keep your eye on the council website and/or local media for further details.

This is an important and well-used gateway to the city centre – and the plans form a crucial part of regenerating the east end – so it is important we gather as many views as we can.

Edinburgh St James… one year on

Hand-in-hand with the Picardy plans is the ongoing development of Edinburgh St James, a major transformation of the area and one that, on completion, will create 3,000 full time permanent jobs and deliver a tremendous boost to the city's economy.

The developer continues to make good progress and, this week, they shared some interesting (and welcome) numbers to mark a year on site: over 96% of demolition waste has been kept from landfill, with some 19,700 tonnes of material recycled and reused onsite; while 200 days of work experience have been provided, with 260 students from 27 different schools, colleges and universities taking part.

I'm pleased to see the planned diversions have maintained the flow of traffic since the Leith Street closure began and I want to thank the public for their ongoing patience. We will continue to work closely with the developer to monitor the impact of the works and to ensure they keep us all properly informed throughout.

Fix the roof while the sun is shining

Storm Ophelia has left plenty of damage in her wake this week, albeit we undoubtedly escaped the worst of her advances. But it does beg the question as to how well we are all prepared for the winter months that lie ahead.

Timely, then, that we remind residents about our new Shared Repairs Service, launched earlier this year to help home owners in shared properties work together to keep them in good repair. Ultimately, it is their responsibility to do so but the Council can offer help and guidance and, in some cases, cover the 'missing share' to enable much-needed works to go ahead if an owner is unable or unwilling to get involved.

Our new step-by-step toolkit will help take owners through the process to work with neighbours to get their properties fixed more easily.

Building blocks in place for the next generation

Ensuring the best start in life for our young children is a key commitment for the Council and we are determined to meet the Scottish Government's aim of increasing the number of funded early learning and childcare hours from 600 to 1140 hours by 2020.

Two of the biggest challenges we face are staffing and providing the physical infrastructure for the extra places. A national recruitment drive starts this month to attract more people to a career in early years and our own Early Learning and Childcare Academy is helping grow and develop our workforce by delivering training and upskilling staff.

Having opened four nurseries since the summer recess, plans are already well underway to deliver a further 12 new facilities that create fun, nurturing environments over the next three to four years.

Campaign success

Congratulations are due to our Communications team, who were awarded 'Best Public Sector Campaign' at this year's CIPR PRide Awards for *Our Edinburgh*, a well-conceived campaign to encourage the public to take responsibility for their local environment, raising awareness of the negative impacts of littering, fly-tipping, dog fouling and misuse of residential bins.

We're already beginning to see the success the campaign, alongside the hard work of our waste and cleansing staff, has had in areas like Leith Walk and Gorgie and Dalry, where complaints about dog fouling and litter have dropped, and I look forward to seeing similar results elsewhere in the city.

Smooth operator

Staying on the subject of success, Edinburgh Trams has scooped another hugely prestigious accolade, being crowned 'Operator of the Year' at the Global Light Rail Awards, held in London earlier this month.

They were also 'Highly Commended' in the Most Improved System category and shortlisted for the Best Customer Initiative, Team of the Year and Project of the Year under £50m awards.

I want to congratulate everyone at Edinburgh Trams for this impressive achievement; it's richly deserved.

Get involved

Keep up to date with all council news via our news section online. You can watch live council and committee meetings via our webcast service and join the debate on Twitter using #edinwebcast. If you wish to unsubscribe, please email us.

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The City of Edinburgh Council

10.00am, Thursday 26 October 2017

Edinburgh Integration Joint Board – Appointment of Chief Officer and Heads of Service

Item number	8.1
Report number	
Executive/routine	
Wards	None

Executive summary

This report advises of the arrangements agreed by the Edinburgh Integration Joint Board (IJB) for the permanent appointment of a Chief Officer. Following review, arrangements are also proposed for two Heads of Service posts, Head of Operations, and Head of Strategic Planning.

The Chief Officer will be employed by either the Council or NHS Lothian, and seconded to the IJB. The two Heads of Service will be employees of one of the constituent partners.

Normally Heads of Service employed by the Council would be appointed by a Recruitment Committee comprising nine elected members. In the current circumstances, it is proposed that the Council waive this right, and agree that responsibility for the selection of these posts be given to an IJB recruitment panel.

Report

Edinburgh Integration Joint Board – Appointment of Chief Officer and Heads of Service

Recommendations

1.1 To note the arrangements for the appointment of the Chief Officer, Edinburgh Integration Joint Board.

1.2 To agree the arrangements for the recruitment and appointment of two Heads of Service posts, including the establishment of an IJB recruitment panel to make the appointments.

1.3 To delegate authority to the Chief Executive to authorise the appointment (if necessary) of the Chief Officer and two Heads of Service posts following the selection of appropriate candidates by the IJB.

Background

2.1 Following the resignation of Rob McCulloch-Graham as IJB Chief Officer, Michelle Miller was appointed as Interim Chief Officer for a period of six months.

2.2 At its meeting on 13 October 2017 the IJB agreed recruitment arrangements for the permanent appointment to the Chief Officer position. These included a joint recruitment panel comprising its chair (Councillor Henderson); vice-chair (Carolyn Hirst); the Council and NHS Lothian Chief Executives, and two non-voting IJB members, to be determined by the Interim Chief Officer in consultation with the chair and vice-chair.

2.3 Proposals to recruit to two Heads of Service posts are also being developed, and will be reported to the next IJB. Subject to the IJB's approval of these proposals, it is intended to use the same recruitment panel membership to oversee the recruitment and appointment of these posts.

Main report

3.1 The attached report by the IJB Interim Chief Officer sets out proposed arrangements for the recruitment and appointment of IJB Chief Officer, and two Heads of Service positions, for Operations and Strategic Planning.

3.2 These were agreed by the IJB at its meeting on 13 October 2017, subject to any necessary Council/NHS Lothian approvals.

3.3 Heads of Service permanently employed by the Council normally require to be selected by the Council's Recruitment Committee, comprising nine elected members and chaired by the Council Leader, and then subsequently appointed by Council.

3.4 The IJB has established a joint recruitment panel to oversee the appointment of both the Chief Officer and the two Heads of Service positions. The process will be assisted by an assessment centre approach, with details to be agreed by the chair/vice-chair and the two Chief Executives.

3.5 These arrangements will ensure a consistent approach, and timely appointments to all three positions. They will underpin the key partnership approach between the two constituent parties, while also promoting engagement and support from the wider stakeholders.

3.6 Council approval for these proposals for the selection is required. If any of the successful candidates are to be employed by the Council, then it would be usual for the Council to approve these appointments. Due to the requirement for the IJB to also agree the appointments and the subsequent delay all these approvals would result in for the successful candidates, it is proposed that the Chief Executive is delegated authority to approve, on behalf of the Council, any necessary appointments made by the IJB.

Measures of success

4.1 Permanent appointments are made to key senior IJB posts.

Financial impact

5.1 Costs will be contained within existing budget. Specific recruitment costs are detailed in the attached report.

Risk, policy, compliance and governance impact

6.1 The Public Bodies (Joint Working) (Scotland) Act 2014 requires Integration Joint Boards to appoint a Chief Officer.

Equalities impact

7.1 The recruitment process will accord with all relevant equalities duties.

Sustainability impact

8.1 Not applicable.

Consultation and engagement

9.1 The processes were approved by all key stakeholders at an IJB meeting on 13 October 2017.

Background reading / external references

10.1 Minute of the Edinburgh Integration Joint Board of 13 October 2017

Andrew Kerr

Chief Executive

Contact: Allan McCartney, Committee Services Manager

E-mail: allan.mccartney@edinburgh.gov.uk | Tel: 0131 529 4246

Appendices

1 Edinburgh Integration Joint Board report 13 October 2017

Report

Appointment of Chief Officer, Integration Joint Board and Director, Health and Social Care Partnership

13 October 2017

Executive Summary

1. This report seeks approval from the Edinburgh Integration Joint Board for the recommended approach for the permanent recruitment of the vacant post of Chief Officer, Integration Joint Board and Director/Health and Social Care Partnership, currently covered by Michelle Miller on an interim basis.
2. A subsequent report will follow detailing the recommended approach for the recruitment to the Head of Operations and Head of Strategic Planning roles.

Recommendations

3. The Edinburgh Integration Joint Board (EIJB) is asked to note that it is now critical that we move ahead with the recruitment for the permanent candidate for the post of Chief Officer, Integration Joint Board/Director, Health and Social Care Partnership.
4. The Board is asked to approve the following recommendations:

   4.1 As the City of Edinburgh Council has in place a procured contract with FWB Park Brown for recruitment searches for our Heads of Service and Director level roles, this supplier should be engaged for this assignment

   4.2 the Board is asked to approve the recruitment panel as detailed in this report.

   4.3 an assessment centre approach will be used for the recruitment of this role and details of this (including design and cost) will be presented to Andrew Kerr, Chief Executive, City of Edinburgh Council and Tim Davison, Chief Executive, NHS Lothian, in consultation with Ricky Henderson, Chair, EIJB and Carolyn Hirst, Vice Chair, EIJB for their consideration and approval in October.

5. In addition, the Board is asked to note that as previously agreed on 22 September, the new posts of Head of Operations and Head of Strategic Planning will be recruited to. Work is underway to finalise and evaluate both

role profiles, and it is envisaged that this will be completed after the NHS Lothian evaluation panel on 23 October 2017.

6. The Board is asked to approve the recruitment panel as detailed in this report at 4.3, subject to any necessary approvals from the Council or NHS Lothian.

Background

7. The Public Bodies (Joint Working) (Scotland) Act 2014 requires Integration Joint Boards to appoint a Chief Officer.
8. The departure of the former Chief Officer has left a vacancy that requires to be filled on an interim basis, pending the appointment of a substantive post holder.
9. In line with the Edinburgh Integration Scheme, the EIJB will appoint the Chief Officer, and s/he will be employed by one of the parties and will be seconded to the IJB.

Main report

10. Michelle Miller was appointed on a six-month interim basis to the role of the Chief Officer.
11. The recruitment of a permanent post holder was agreed at the Board on 22 September. The City of Edinburgh Council has a contract in place with FWB Park Brown for search and selection of senior posts (Heads of Service and Directors), and could therefore proceed with this supplier with immediate effect.
12. The proposed recruitment panel is:
    - Andrew Kerr, Chief Executive, City of Edinburgh Council
    - Tim Davison, Chief Executive, NHS Lothian
    - Councillor Ricky Henderson, Chair EIJB
    - Carolyn Hirst, Vice Chair, EIJB
    - Plus 2 EIJB non-voting members to be decided by the Interim Chief Officer in consultation with the Chair and Vice-Chair
13. The recruitment process for Head of Operations and Head of Strategic Planning roles will be initiated as soon as the role profiles have been evaluated (NHS evaluation panel on 23 October) and the recruitment packs have subsequently been approved by the Board. It is envisaged that the recruitment of these posts will be managed through NHS Lothian and Council vacancy boards and media advertising.

Key risks

14. It is critical that recruitment for a new permanent Chief Officer and Head of Service posts commences immediately.

Financial implications

15. The cost of recruitment to the Chief Officer vacancy will be 11% of the base salary of the successful candidate (as per the procured contract with FWB Park Brown).
16. In addition, there is a cost to the design and running of the assessment centre and a subsequent report will be presented to Andrew Kerr, Chief Executive of the Council and Tim Davison, Chief Executive, NHS Lothian in consultation with Ricky Henderson, Chair, EIJB and Carolyn Hirst, Vice Chair, EIJB in October to confirm these costs.

Involving people

17. Full consultation and involvement of the Chief Executives of the Council and NHS Lothian, the Chair of the IJB and the agreed recruitment panel and relevant trade unions/partnership representatives regarding the proposed approach to recruitment outlined within this report.

Impact on plans of other parties

18. Not applicable.

Background reading/references

19. Management Arrangements for the Edinburgh Integration Joint Board and Health and Social Care Partnership, 22 September 2017

Michelle Miller, Interim Chief Officer
Edinburgh Health and Social Care Partnership

Report authors

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Links to priorities in strategic plan

The City of Edinburgh Council

10.00am, Thursday, 26 October 2017

Governance for the Edinburgh and South East of Scotland City Region Deal – Joint Committee

Item number	8.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

Approval is sought to establish a joint committee for the purpose of progressing and implementing the Edinburgh and South East Scotland City Region Deal, and to delegate authority to the Chief Executive to enter into a minute of agreement and to report back to Council.

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Governance for the Edinburgh and South East of Scotland City Region Deal – Joint Committee

1. Recommendations

1.1 To agree to establish a Joint Committee under Section 57 of the Local Government (Scotland) Act 1973 with East Lothian, Fife, Midlothian, West Lothian and Scottish Borders Councils, representatives from the higher education and further education sector, and business to oversee the governance arrangements for the Edinburgh and South East of Scotland City Region Deal;

1.2 To approve the arrangements that will inform the proposed Minute of Agreement establishing the Joint Committee as detailed in the appendix to this report;

1.3 To agree that the Leader of the Council be appointed to represent the Council on the Joint Committee;

1.4 To delegate authority to the Chief Executive, in consultation with the Leader of the Council, to negotiate and agree the Minute of Agreement establishing the Joint Committee, in line with the principles stated in the appendix to this report, and any financial and resource contributions, if they are required;

1.5 To note that the Chief Executive will report to Council upon the signing of the Minute of Agreement establishing the Joint Committee;

1.6 To note that the Project Management Office is being enhanced as partners enter the Implementation Phase and that contributions will be sought from Councils to fund this; and

1.7 To note that an update will be provided to Corporate Policy and Strategy Committee in December 2017 on progress with the implementation of the Edinburgh and South East of Scotland City Region Deal.

2. Background

2.1 In June 2016, the six local authorities agreed to the principle of establishing a joint committee for the City Region Deal programme. Shadow delivery governance has been established, with the Leaders from the six partner local authorities providing strategic direction for the negotiations with the UK and Scottish Governments to secure agreement of the Heads of Terms in July 2017.

2.2 The role of the committee was highlighted as:

- Determine strategic focus;
- Agree investment priorities;
- Oversee planning and implementation activity; and
- Monitor impact.

2.3 Although a joint committee has been meeting on a shadow basis (as the Leaders' group) since June 2016, it has not been established formally and the next steps are to establish this committee, its remit and membership.

2.4 The wider regional governance model to deliver the Edinburgh and South East of Scotland Deal will include:

2.4.1 A new cross-regional Business Leadership to bring together voices from across the private sector to play a full role across the City Regional development and delivery process;

2.4.2 An Executive Board comprising the six regional local authority chief executives, six regional local authority directors with a remit for the economy, plus a representative for the region's universities and colleges, and a programme management officer function. Its remit will be to support the Joint Committee in the delivery of the City Deal Programme; and

2.4.3 A Programme Management Office (PMO). Experience from other Scottish City Region Deals has suggested that a well-resourced and led PMO that provides a central point of contact for all parties is essential. Councils will be expected to contribute staff or financial resources to the PMO. The Executive Board has agreed that each Council will contribute up to £28,000 in 2017/18 to enhance the PMO so that it can deliver the documents required by Government before any funding is released. The level of funding will be reviewed in 2018/19.

3. Main report

3.1 The Local Government (Scotland) Act 1973 gives power to local authorities to discharge their functions either by delegating power to a committee, sub-committee, officer or to another local authority in Scotland. This includes the power to appoint a joint committee made up of two or more local authorities.

3.2 The Joint Committee will aim to deliver increased value for money from the Edinburgh and South-East Scotland City Region Deal and wider regional collaboration and provide the appropriate oversight and strategic direction.

Remit

3.3 The local authorities have the power to delegate which decisions they feel necessary for the joint committee to be able to progress work streams. The remit contained in the appendix provides decision making powers but would require any decision to commit funds and resources, to be undertaken by individual governing bodies rather than the joint committee. Significantly, the delegation of powers to a joint committee does not preclude the individual local authorities from still making those decisions.

3.4 The proposed powers are outlined in the appendix to this report.

3.5 Constituent Councils will be able to add further powers to the remit of the Joint Committee at a later date if this is felt necessary. Non-Council members will be able to delegate further powers to their representatives when required.

Membership

3.6 It is proposed that the membership includes a representative from each local authority. Fife Council who have two co-leaders will have two members, although they will only have one vote between the two members.

3.7 The Local Government (Scotland) Act 1973 also allows the committee to contain members who are not councillors. The committee must consist of two-thirds councillors but if the committee regulates or controls the finance of the local authority or its area then only councillors are permitted to be voting members. The remit of the Joint Committee outlined in the appendix allows non-Council members to have full voting rights on an equal footing with Council members.

3.8 The joint committee is a local authority decision making body but the intention is to have non-Council members as full voting members of the joint committee. These members would make up three of the ten members and would include a minimum of one business representative and one higher education/further education representative.

3.9 It would be a decision for the higher education/further education and business member organisations whether they were content to empower their representatives on the committee to commit their organisations to the decisions made at the Joint Committee.

Minute of Agreement

3.10 It is proposed that a minute of agreement is produced that will set out arrangements of the Joint Committee and how it will operate. These will include amongst other things the membership, voting rights, period of office, quorum and who would chair the meeting. The details laid out in the appendix to this report would form part of this minute of agreement.

3.11 It is proposed that the power to agree the Minute of Agreement is delegated to the Chief Executive, in consultation with the Leader of the Council, to allow for the details of the minute of agreement to be drafted in October but for there to be no delay in the creation of the Joint Committee. The Chief Executive will report to Council upon the signing of the Minute of Agreement establishing the Joint Committee.

3.12 Progress with implementing the Edinburgh and South-East Scotland City Region Deal and the work of the Joint Committee will be reported to Corporate Policy and Strategy Committee on a regular basis. Engagement with the UK and Scottish Governments continues as a key element of this workstream.

4. Measures of success

4.1 That a representative, efficient and collaborative joint committee is created to take forward the Edinburgh and South-East Scotland City Region Deal.

5. Financial impact

5.1 The Programme Management Office for the Edinburgh and South East Scotland City Deal will be supported by contributions of £28,000 from the seven city region partners for the next 12 months. Costs will be reviewed thereafter.

6. Risk, policy, compliance and governance impact

6.1 The creation of the Joint Committee must comply with the requirements set out in the Local Government (Scotland) Act 1973.

7. Equalities impact

7.1 There are no equalities impacts as a result of this report.

8. Sustainability impact

8.1 There is no sustainability impact as a result of this report.

9. Consultation and engagement

9.1 The proposed arrangements for the Joint Committee have been produced with the involvement of the six local authorities and the further/higher education sector.

10. Background reading/external references

10.1 The City of Edinburgh Council 30 June 2016 – The Edinburgh and South East Scotland City Region Deal

Andrew Kerr

Chief Executive

Contact: Gavin King, Corporate Governance Manager

E-mail: gavin.king@edinburgh.gov.uk | Tel: 0131 529 4239

11. Appendices

Appendix – Joint Committee arrangements

Appendix - Joint Committee Arrangements

Membership

There will be one representative from each council, except in the case where there are joint leaders, where two will be permitted. There will be three non-Council representatives (including a minimum of one business and one regional higher and further education representative from the Edinburgh and South East Scotland city region). Each representative organisation will be allocated one vote.

Period of Office

The period off office will be determined by each individual member authority, but must not extend beyond the next local government elections.

Meetings

There will be a minimum of six meetings per annum.

Convener and Vice-Convener

The chair and vice-chair will be rotated annually.

Quorum

The quorum will be three elected members and three councils, plus one non-council representative.

Remit

- Oversee the implementation of the Edinburgh and South East Scotland City Region Deal programme;
- Monitor the impact of the Edinburgh and South East Scotland City Region Deal Programme;
- Build and support inclusive growth focusing on the needs of the local area and strengthening the partnership between public, private and third sectors;
- Improve business involvement from the Edinburgh and South East Scotland city region in local decision making;
- Collaborate and work in partnership to assist in delivering regional planning and transport policy linking the Edinburgh and South East Scotland City Region Deal to SESTRAN and SESPlan; and
- work in partnership on other initiatives across the Edinburgh and South East Scotland city region with the explicit support of individual constituent members.

Standing Orders

The Joint Committee should adopt its own Standing Orders.

Meeting Arrangements

Any minute of agreement should include the arrangements for the location of meetings and which constituent council will administer the meeting.

Timescales

These arrangements will be reviewed by the members after the first six and twelve months. After partners enter the delivery stage, this will be reviewed periodically as deemed appropriate.

City of Edinburgh Council

10 am, Thursday, 26 October 2017

Locality Committees 2017

Item number	8.3
Report number	
Executive/routine	
Wards	
Council Commitments	C52

Executive Summary

At the meeting on 30 June 2017, Council agreed to explore creating locality committees and established four working groups to have initial discussions. This report, building on the work of the groups, sets out proposals for establishing locality committees.

In establishing this new Council governance framework, the potential this has for enhancing community planning arrangements is recognised. On this basis, the report sets out proposals for a wider review and consultation of community planning structures and working arrangements at neighbourhood and locality levels with these to be recommended to the Edinburgh Partnership for inclusion as part of its current governance review.

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Locality Committees 2017

1. Recommendations

1.1 To agree locality committees should be established based on the principles in paragraph 3.3 and detailed proposals should be set out in a report to Council in November 2017 for final approval;

1.2 To carry out a review and consultation of community planning structures and working arrangements at neighbourhood and locality levels, to inform the Edinburgh Partnership governance review;

1.3 To seek formal agreement to the review and consultation proposals from the Edinburgh Partnership at its meeting on 7 December 2017;

1.4 To continue with the Neighbourhood Partnerships pending the outcome of the proposed review and consultation of community planning arrangements;

1.5 To refer this report to Culture and Communities Committee on 14 November 2017 for noting and discussion of the review and consultation process; and

1.6 To agree that strategic oversight of the review and consultation process will be the responsibility of the Culture and Communities Committee.

2. Background

2.1 The direction of travel for the Council has been, in recent years, to decentralise Council decision making and increase community participation in the democratic process. This was informed by the Christie Commission and the Commission on the Renewal of Local Democracy.

2.2 In 2007, Neighbourhood Partnerships (NPs) were established, which changed the way the Council operated in terms of many of its services and created partnerships involving elected members, police, fire and NHS, the voluntary sector and the community. Community involvement is central to these arrangements with a range of opportunities for participation being provided.

2.3 This was followed in 2014/15 with the shift to localities which aims to strengthen partnership working and community engagement, whilst providing a new operating model for Council service delivery and integrated joint working.

2.4 With the publication of the Community Empowerment (Scotland) Act 2015 and the focus on locality working, there is now an opportunity for the Council to develop and improve its approach to devolved decision making, delivery of local services, and community engagement and empowerment.

2.5 There is also recognition of future change with the Scottish Government expected to commence a review of Local Governance by the end of 2017, ahead of a Local Democracy Bill scheduled for the summer of 2018. This review will shape the detail of how control over budgets and service moves closer to local communities.

3. Main report

Locality Committees

3.1 Edinburgh has long been recognised for being a leader in its approach to participatory democracy and partnership working. The drive for continuous improvement and innovation, which is at the core of the city's approach, has been given renewed impetus with the introduction of the Community Empowerment (Scotland) Act 2015, the shift to a localities model of partnership working and service delivery, and the establishment of a new governance framework for the Council.

3.2 A current gap in the locality structure is the lack of elected member oversight and decision making, creating a democratic deficit that needs to be addressed as part of this report.

3.3 Within this context, there is an opportunity to develop a new approach to locality governance. The establishment of Council locality committees will be an important element of this framework and will provide scope to:

3.3.1 Recognise the facilitation/leadership role of elected members in supporting and promoting participation

3.3.2 Support capacity building of all stakeholders - elected members, communities and officers

3.3.3 Support better/more meaningful relationships between the community and the Council - based on transparency and open and honest communication

3.3.4 Provide scope for innovation and creativity - recognising the strengths and role communities have in improving outcomes and providing solutions to difficult problems

3.3.5 Foster diversity and inclusiveness – supporting and removing barriers to participation, enabling all affected citizens and communities to be involved

3.3.6 Demonstrate impact – show clearly the difference the participation has made to the decision making process

3.4 To achieve this, it is proposed to apply core principles whereby the locality committees will:

3.4.1 be decision making committees made up of all elected members from the locality area;

3.4.2 have the power to set up working groups or sub-committees;

3.4.3 be open, transparent and inclusive;

3.4.4 be held in public, invite local partners and community groups to attend and actively seek public engagement;

3.4.5 have power to make decisions on local services which are within devolved budgets and are in line with Council policy;

3.4.6 have a role in scrutiny of services provided for the locality;

3.4.7 take an active role in community planning;

3.4.8 have a clearly defined structure and strategy for engaging with residents and the local community;

3.4.9 have clearly defined advisory and decision-making roles; and

3.4.10 have clearly defined first phase powers.

3.5 Detailed proposals, including a full remit, which establish locality committees will be presented for approval at the next Council meeting.

Locality and neighbourhood community planning structures and working arrangements

3.6 Increasing community participation in decision making and improving outcomes for citizens and communities through the provision of effective and responsive services are the core drivers for community planning. These objectives inform the role of NPs and the localities model. In developing new Council governance arrangements there is an opportunity to review and strengthen current partnership structures and processes.

3.7 The current partnership framework at a locality and neighbourhood level is shown below.

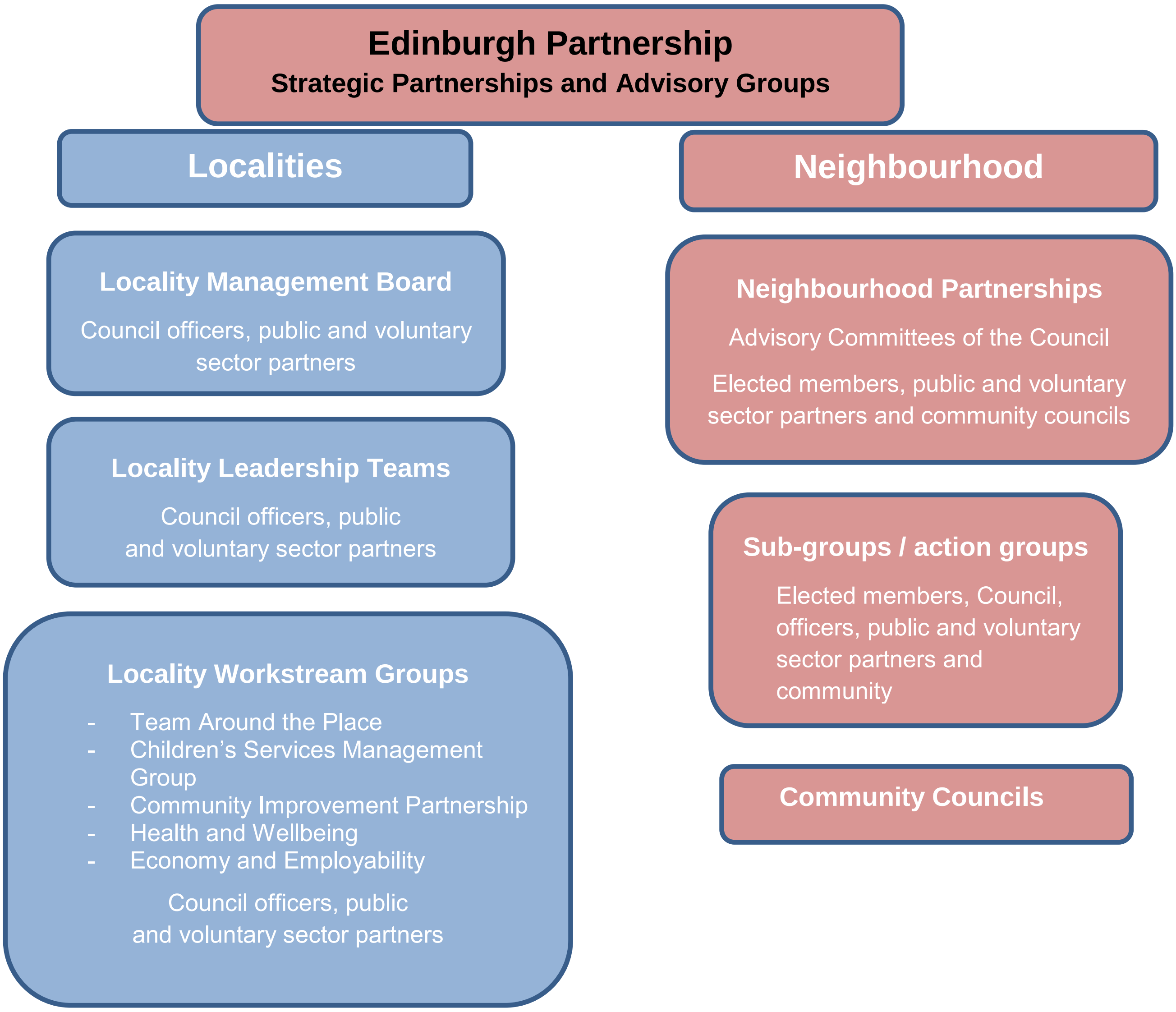

Diagram 1: Current Locality and Neighbourhood Community Planning Framework

3.8 This represents the primary structures created to support partnership working and recognises the role of community councils. It is not exhaustive and there are other groupings relating to the Health and Social Care integration and locality workstream activity in each locality. The wider community points of influence and involvement are not reflected. A key task of the review will be to map these arrangements for each locality.

3.9 These arrangements form part of the Edinburgh Partnership 'family' which also includes at the city level Strategic Advisory Groups and Strategic Partnerships. These are responsible for delivering effective community planning, the delivery of relevant policies described within the Edinburgh Partnership strategic planning framework, and advice on policy and service matters.

3.10 A key issue with the current governance framework is the lack of formal relationships between the component parts. Framing the proposed review and consultation of locality and neighbourhood structures within the context of the current Edinburgh Partnership governance review provides an ideal opportunity to address this issue. Agreement will be sought from the Edinburgh Partnership to the review and consultation proposals at its meeting on 7 December 2017. The potential the process has in informing the development of the locality committees is also recognised.

3.11 The proposed review and consultation will seek to develop a governance framework that:

3.11.1 Strengthens community influence/participation in decision making

3.11.2 Provides clear lines of accountability and greater transparency

3.11.3 Strengthens the approach to partnership working

3.11.4 Formalises the relationship/achieves greater connectivity between local and city policy, planning and development

3.12 A two phase process is proposed which reflects the complexity of the work and the need to ensure full stakeholder participation, including public and voluntary sector partners, community councils and other community groups. The review will enable options for a proposed governance framework to be co-produced. It is intended that this work is led by a working group drawing on a range of partners, including potential involvement by the Community of Place and Equality and Rights representatives on the Edinburgh Partnership Board. The governance proposal developed will then be subject to wider stakeholder consultation. This work will be carried out in accordance with the Consultation Framework, agreed by Council in May 2014, and informed by the National Standards for Community Engagement, adopted by the Council and the Edinburgh Partnership in March 2017.

3.13 The key stages and indicative timetable for this work are set out below.

3.13.1 Establishment of partner working group – November 2017

3.13.2 Production of review scope and engagement plan – November 2017

3.13.3 Agreement sought from Edinburgh Partnership – 7 December 2017

3.13.4 Review – December 2017 to February 2018

3.13.5 Development of proposals and production of consultation plan- February 2018

3.13.6 Consultation – February to April 2018

3.13.7 Proposed model developed and presented for approval to appropriate bodies – May 2018

3.14 To ensure there is no loss in momentum in partnership working whilst this work is carried out, it is proposed to continue with the Neighbourhood Partnerships.

3.15 It is proposed that strategic oversight of this work will be the responsibility of the Culture and Communities Committee, with reporting at key stages.

4. Measures of success

4.1 In line with the Council Performance Framework and the outcomes assigned to each of the strategic aims.

5. Financial impact

5.1 There are currently insufficient resources to fully administer and run locality committees. Officers are reviewing structures and arrangements and these will take account of any changes made by Council.

6. Risk, policy, compliance and governance impact

6.1 The changes proposed in the report will require changes to the Council's governance documentation including the Committee Terms of Reference and Delegated Functions. These will be required to be approved by Council.

6.2 Any changes to the remits of committees must consider the impact on other committee remits and ensure there are no instances where responsibilities will clash or there is no transparency on delegation of powers.

6.3 The Council's procedural Standing Orders will apply to locality committees.

7. Equalities impact

7.1 Locality committee formation supports delivery of equalities outcomes and the protected characteristics.

8. Sustainability impact

8.1 Locality committees will support delivery of sustainability outcomes.

9. Consultation and engagement

9.1 Elected members have been consulted and have discussed the future of the locality committees and the potential remits they carry.

9.2 Any consultation carried out with stakeholders would follow the Council's agreed consultation process.

10. Background reading/external references

None

Paul Lawrence

Executive Director of Place

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11. Appendices

City of Edinburgh Council

10.00am, Thursday, 26 October 2017

Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor – referral from the Pensions Committee

Item number	8.4
Report number	
Executive/routine	
Wards	All
Council Commitments	

Executive summary

On 27 September 2017 the Pensions Committee considered the Audited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The unaudited Annual Report had been considered by the external auditor Scott-Moncrieff and their annual report to Members and the Controller of Audit was presented to the Committee. The audited financial statement for the wholly-owned companies LPFE Limited and LPFI Limited were also provided.

The report was referred to the Council for information, as the administering authority of the Pension Funds

Terms of Referral

Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

Terms of referral

1.1 On 27 September 2017, the Pensions Committee considered a report by the Executive Director of Resources regarding the Annual Report 2017 of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund including the Annual Report by the External Auditor.

1.2 The Pensions Committee agreed:

1.2.1 To note the report by Scott-Moncrieff "Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit" as detailed in Appendix 1 to the report by the Executive Director of Resources.

1.2.2 To approve the audited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund as detailed in Appendix 2 to the report by the Executive Director of Resources.

1.2.3 To note that the audited financial statements, for the year ended 31 March 2017, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2017 as detailed in Appendix 3 and Appendix 4 to the report by the Executive Director of Resources.

1.2.4 To note that Scott-Moncrieff had made no comment in respect of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Accounting for Local Government Pension Scheme Management Costs", as revised in June 2016, and its failure to reflect full transparency of investment management fees, specifically through "fund of fund arrangements".

1.2.5 To note that the Pension Funds meet CIPFA guidance providing a level of transparency beyond what was required.

1.2.6 To refer the report by the Executive Director of Resources, to the City of Edinburgh Council, in its role as administering authority of the Pension Funds.

For Decision/Action

2.1 The City of Edinburgh Council is asked to consider the attached report.

Background reading / external references

Pensions Committee 27 September 2017.

Laurence Rockey

Head of Strategy and Insight

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Appendices

Appendix 1 – report by the Executive Director of Resources

Pensions Committee

11.00am, Wednesday, 27 September 2017

Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

Item number	5.10
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

The unaudited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund has now been considered by the external auditor, Scott-Moncrieff.

International Standard on Auditing (ISA) 260 requires the external auditor to communicate their findings to those charged with governance of the Funds. Accordingly, the Scott-Moncrieff "Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit" is included at Appendix 1.

The review of the unaudited financial statements concluded that no numerical adjustments were required. Some presentational changes have been reflected in the full revised report at Appendix 2 – "Audited Annual Report 2017 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund".

Scott-Moncrieff has provided "an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund within our independent auditor's report" and has also stated "that there were no matters which we were required to report by exception".

Report

Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

1. Recommendations

Committee is requested to:

1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;

1.2 Note the points raised by the Pensions Audit Sub-Committee following its consideration of this report at its meeting on 26 September 2017;

1.3 Note the report by Scott-Moncrieff "Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit" (at Appendix 1);

1.4 Approve the audited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund (at Appendix 2);

1.5 Note that the audited financial statements, for the year ended 31 March 2017, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2017. These statements are shown in full at Appendices 3 and 4.

1.6 Note that Scott-Moncrieff has made no comment in respect of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Accounting for Local Government Pension Scheme Management Costs", as revised in June 2016, and its failure to reflect full transparency of investment management fees, specifically through "fund of fund arrangements"; and

1.7 Refer this report, for information, to the City of Edinburgh Council, in its role as administering authority of the Pension Funds.

2. Background

ISA 260 annual report by External Auditor

2.1 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.

2.2 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires the External Auditor to communicate his findings to those charged with governance of the Funds. This summarises any matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

2.3 As part of the standard, the External Auditor is required to provide its 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.

2.4 City of Edinburgh Council noted the Unaudited Annual Report 2017 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund at its meeting on 29 June 2017.

3. Main report

Scott-Moncrieff - Lothian Pension Funds 2016/17 Annual Audit report to Members and the Controller of Audit

3.1 The report by the external auditor on the financial statements is included at Appendix 1 – "Scott-Moncrieff - Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit.

3.2 Scott-Moncrieff has stated that its "work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards".

3.3 This report will be presented to Committee by Nick Bennett, Partner, and Kirstie MacDonald, Public Sector Audit Senior, Scott-Moncrieff.

3.4 Scott-Moncrieff has provided "an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund within our independent auditor's report" and has also stated "that there were no matters which we were required to report by exception".

3.5 Scott-Moncrieff has made no comment in respect of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Accounting for Local Government Pension Scheme Management Costs", as revised in June 2016, and its failure to reflect full transparency of investment management fees, specifically through "fund of fund arrangements". Committee is reminded that the financial statements of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund continue, however, to include full transparency of all investment management fees.

3.6 Appendix 1 (“Appendix 1: Management action plan”, Pages 28 to 30 of that report) “details the control weaknesses and opportunities for improvement that we (Scott-Moncrieff) have identified during our audit”. Planned management actions by Lothian Pension Fund staff in relation to the points raised by the external auditor are also stated.

3.7 In addition to members of the Pensions Committee and Pensions Audit Sub-Committee, Scott-Moncrieff has also sent the report to the Controller of Audit and has advised that it will be published on the Audit Scotland web-site in due course.

Audited Annual Report 2017 for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

3.8 With the completion of the work by Scott-Moncrieff, the Audited Annual Report 2017 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2.

3.9 No numerical adjustments were required to be made on the unaudited financial statements following the Fund’s audit. Some minor presentational changes have also been incorporated.

3.10 As part of the completion of the audit, the auditor seeks written assurances from the Chief Finance Officer, Lothian Pension Fund, on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix 5.

Audited Financial Statements for the year ended 31 March 2017; LPFE Limited and LPFI Limited

3.11 The consolidated financial statements (within the Annual Report 2017) combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and now also the investment services company, LPFI Limited, which commenced trading during the year) as defined in International Accounting Standard (IAS) 27. The financial statements of both companies have been audited by Scott-Moncrieff and approved by the respective Board of Directors in June 2017, LPFE Limited on 12 June 2017 and LPFI Limited on 15 June 2017. These statements are shown in full at Appendices 3 and 4.

3.12 As previously reported to Committee, LPFE Limited is the employment vehicle for the Fund’s investment and senior staff. It provides staffing services to the City of Edinburgh Council, LPFI Limited and to Falkirk Council. The company’s financial objective is “to make a modest trading surplus before adjustments required under International Financial Reporting Standards (IFRS)”. Such adjustments primarily relate to pension costs, as required by International Accounting Standard (IAS) 19, and the related deferred tax. For the year ended 31 March 2017, the underlying trading profit of the company was £30,730 (2016: £28,243).

3.13 A separate report on the Phase 2 transfer of staff to the company is provided elsewhere on the agenda for this Committee.

3.14 LPFI Limited provides Financial Conduct Authority (FCA) regulated investment services, both to Lothian Pension Fund and other pension funds, but does not employ any staff directly. Its financial objective is “to make a modest trading surplus”. LPFI commenced trading in December 2016 and completed its first collaborative “club-deal” in the infrastructure sector in January 2017. A second project was in progress at the year-end. Profit for the financial year after taxation was £432.

3.15 Committee was previously advised of the appointment of Leslie Robb as non-executive director of LPFI Limited, subject to the receipt of requisite approvals from the FCA. These were received and his appointment commenced from 1 February 2017. Leslie is expected to attend the meeting of the Pensions Committee on 27 September.

3.16 A full report will be provided to Committee in December 2017 on the progress and further development of collaborative initiatives with other LGPS funds.

4. Measures of success

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 2017. This has been achieved.

4.2 Planned management actions in relation to the points raised by the external auditor, Scott-Moncrieff, are stated at Appendix 1 (“Appendix 1: Management action plan”, Pages 28 to 30 of that report).

5. Financial impact

5.1 There are no direct financial implications arising from this report.

6. Risk, policy, compliance and governance impact

6.1 The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and also in compliance with the requirements of the Local Government Scotland Act 1973.

6.2 The annual report summarises the opinions and conclusions of Scott-Moncrieff, in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Practice issued by Audit Scotland in May 2011. The Scott-Moncrieff 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 I (of that report) is the “Management action plan” “detailing the control weaknesses and opportunities for improvement” which were identified by the External Auditor during the audit. Officers have considered the issues and responded in the column headed “Management Comments”.

7. Equalities impact

7.1 There are no adverse equalities impacts arising from this report

8. Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

10. Background reading/external references

10.1 None

Stephen S. Moir

Executive Director of Resources

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11. Appendices

Appendix 1 – Scott-Moncrieff - Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit, in accordance with International Standard on Auditing (UK and Ireland) 260 (ISA 260)

Appendix 2 - Audited Annual Report 2017 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2017

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2017

Appendix 5 – Letter of Representation (ISA 580) by Chief Finance Officer, Lothian Pension Fund

Scott-Moncrieff
business advisers and accountants

Appendix 1

Lothian Pension Funds

2016/17 Annual Audit Report to Members and the Controller of Audit

August 2017

Contents

Key messages

Annual accounts

Lothian Pension Funds are scheduled to approve the annual accounts for 2016/17 on 27 September 2017 and the accounts will be submitted, together with this report, to the Controller of Audit by the deadline of 30 September 2017. We intend to report unqualified opinions on the financial statements and other prescribed matters for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund within our independent auditor's report. We also intend to report that there were no matters which we were required to report by exception.

Wider Scope

Financial management

- The Funds have adequate and effective arrangements in place for managing their financial position and use of resources.
- We have evaluated the Funds' key financial systems and internal financial controls and determined these are adequate to prevent material misstatements in the annual accounts.

Financial sustainability

- We have concluded that the Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

Governance & transparency

- Our work on corporate governance focussed on reviewing the Funds' arrangements to ensure effective systems are in place regarding internal control, prevention and detection of fraud and irregularity and standards of conduct.
- Governance arrangements at the Funds were found to be satisfactory and appropriate.

Value for money

- The Funds have appropriate arrangements in place to monitor performance of investments and the administration of the Funds.

Key facts

- Net assets increased by 21% in 2016/17 to £6,595 million (2015/16: £5,433 million).
- Contributions received in year (£201.8 million) fell below the benefits paid out by the fund (£211.1 million) leaving a net withdrawal on the fund of £9.2 million.
- Return on investments in 2016/17 was 21.7% slightly behind the benchmark of 24.8%; however, the performance over the five year period to 31 March 2017 is exceeding the target of 11.4% by 1.5%.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
August 2017

1

Introduction

Introduction

1. This report summarises our findings from the 2016/17 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund (collectively referred to as the "Funds").

2. We outlined the scope of our audit in our external audit plan, which we presented to the Pensions Committee on 20 March 2017. The core elements of our audit work in 2016/17 have been:

   - an interim audit of the Funds' key financial systems and governance arrangements;
   - an audit of the Funds' 2016/17 annual report and accounts, including a review of the Annual Governance Statement;
   - a review of arrangements as they relate to the four dimensions of wider-scope public audit: financial management, financial sustainability, governance and transparency, and value for money; and
   - consideration of the local impact of the national performance report *The Role of Boards*.

3. The Funds are responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. We discussed and agreed the content of this report with the Chief Finance Officer and Chief Executive. We would like to thank all management and staff for their co-operation and assistance during our audit.

5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Funds assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Funds promote improved standards of governance, better management and decision making and more effective use of resources.

7. We welcome any comments you may have on the quality of our work and this report via: *www.surveymonkey.co.uk/r/S2SPZBX*

8. This report is addressed to both Lothian Pension Funds and the Controller of Audit and will be published on Audit Scotland's website. *www.audit-scotland.gov.uk*.

2

Annual accounts

Annual accounts

Introduction

9. The Funds' annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Funds and the auditor in relation to the financial statements are outlined in appendix 2.

Overall conclusion

Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 are due to be approved by the Pensions Committee on 27 September 2017. We plan to report within our independent auditor's report:

- an unqualified opinion on the financial statements; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report to you by exception.

Good administrative processes were in place

12. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline the significant risks below.

Audit Risk 1: Revenue Recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Funds could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

14. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams and carried out testing to confirm that the Funds' revenue recognition policies are appropriate and have been applied consistently.

Audit Risk 2: Management override of controls

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

15. While we did not suspect any incidences of management override leading to financial reporting issues, we reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly. Based on our audit work to detect potential material misstatement we have not identified any indications of such management override during the year.

Audit Risk 3: Valuation of Investments

The Lothian Pension Fund held investments of £5.399 billion as at 31 March 2016, of which 30% (£1.663 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.

16. In 2016/17 the value of level 2 and level 3 investments rose in year to £2.069 billion increasing as a proportion of overall investments to 31%. Fair values of investments of this nature are provided by the fund managers and custodian using different bases as deemed appropriate, including reference to similar companies and bid prices. The valuation basis for each class of investment is disclosed within the accounting policies of the Funds.

17. We have considered the competence, capability and objectivity and control environment of the key fund managers and the custodian. Our testing did not raise any issues regarding the qualifications of or work provided by management's experts.

18. The disclosures in the financial statements are consistent with the information provided by the custodian.

Audit Risk 4: Pension liability assumptions

An actuarial estimate of the pension fund liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

19. Our review of the control environment around membership data did not identify any weaknesses in its design which would be likely to lead to a material misstatement.

20. The assumptions used by the actuary were compared to benchmarks across the sector and deemed to be reasonable.

Our application of materiality

21. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

22. On receipt of the draft 2016/17 accounts, we reassessed materiality which resulted in a change to the level of materiality applied. Our revised assessment of materiality along with our planning materiality for each Fund is set out in the table below. The Funds hold significant investment assets, which form the largest part of the net asset statements for each pension fund. We consider that the net asset statements are of primary interest to the reader of the annual accounts and therefore consider that these should be used in the calculation of overall materiality.

23. ISA 320 states that in certain circumstances it is appropriate to set a materiality amount for particular classes of transactions for which the lesser amounts than the overall materiality could influence the decision of the users of the accounts. We considered the transactions in the Fund Accounts to be of key interest to the users as it contains information around the day to day performance of the Funds. We have therefore set a materiality for this class of transactions based on return on investments and the expenditure incurred for providing payments to pensioners.

	Overall Planning materiality £million	Fund account planning materiality £million	Overall Final materiality £million	Fund account final materiality £million
Lothian Pension Fund (group)[1]	81.5	8.8	98.9	19.9
Lothian Pension Fund (single entity)	81.5	8.8	98.9	19.9
Lothian Buses Pension Fund	5.9	0.4	7.3	1.5
Scottish Homes Pension Fund	2.3	0.2	2.5	0.5

24. We set a performance materiality for each area of work which is based on a risk assessment for that area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Lothian Pension Fund (group and parent)	44.5	54.4	69.2
Lothian Buses Pension Fund	13.9	10.9	8.9
Scottish Homes Pension Fund	1.7	1.4	1.1

25. We agreed to report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements over £250,000, less than 1% of the overall materiality figure;
- Misstatements below the £250,000 threshold we believe warrant reporting on qualitative grounds.

Other matters

26. We identified one medium risk matter relating to the authorisation of journal entries. We have reported on this fully within appendix 1 to this report.

[1] Lothian Pension Fund group comprises Lothian Pension Fund, LPFE Ltd and LPFI Ltd

Audit adjustments identified

27. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

Board representations

28. We have requested that the Pensions Committee present a signed representation letter, covering a number of issues, to us at the date of signing the financial statements.

29. In June 2017 a voluntary disclosure of under-declared Output Tax was made to HMRC by the City of Edinburgh Council on behalf of the Funds. The under declaration arose from two properties managed by Standard Life which did not have VAT applied correctly. A review of all properties has been undertaken and the total under declaration was £0.51 million. The total under declaration covers a number of tax periods and does not breach the penalty threshold in any financial year. The proposed adjustment is outlined at appendix 2.

30. We do not consider the difference to be material to the financial statements, either individually or in aggregate. Through discussion with the Chief Finance Officer, the decision was taken not to adjust the financial statements. The difference is reported through the representation letter.

An overview of the scope of our audit

31. We detailed the scope of our audit in our external audit plan. We presented the plan to the Pensions Committee on 20 March 2017.

32. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Pensions Committee. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

33. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.

34. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Accounting and Internal Control systems

35. The Funds have adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in the Funds' accounting and internal control systems during our final audit.

Other matters identified during our audit

36. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

37. As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[2] as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

38. The Local Authority Accounts (Scotland) Regulations 2014 require pension funds to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them. As auditors we are required to read the

[2] Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts.

39. As part of our audit we also reviewed the Council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). We considered the extent to which the Funds' management commentary included relevant information in respect of:

- The context of the annual accounts;
- Insight into the priorities of the Funds' and strategies adopted to achieve these priorities and objectives;
- Information on future plans;
- KPIs which measure the investment performance of the Funds'; and
- Information on the principal risks and uncertainties facing the authority.

Annual governance statement and Governance Compliance Statement

40. The Chief Executive and Acting Executive Director of Resources of the City of Edinburgh Council along with the Chief Executive Officer of Lothian Pension Fund have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of Lothian Pension Funds' systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the Council to continue to progress improvements in the Council's governance arrangements.

41. We have reviewed the Funds' Annual Governance Statement and have found that it complies with the relevant guidance: *Delivering Good Governance in Local Government*. However, it is a requirement that the Annual Governance Statement outlines an action plan outlining the actions that the Funds' will take to continue to progress improvements in the Funds' governance processes. This was not present in the draft accounts.

Action Plan point 2

42. We found that the processes used to prepare the statements are reasonable and appropriate.

43. The Local Government Pension Scheme (Scotland) Regulations 2014 require all pension funds to prepare a Governance Compliance Statement. The purpose of this statement is to compare the Funds' governance arrangements with those standards set out in guidance from the Scottish Ministers.

44. We have reviewed the Governance Compliance Statement and we are satisfied the disclosures comply with guidance issued by Scottish Ministers and are not inconsistent with our knowledge of the arrangements in place at the Funds.

Group accounts

45. The Pensions Committee for the Funds approved the creation of two special purpose vehicles, LPFE Ltd and LPFI Ltd in October 2014. The companies are wholly owned and controlled by the City of Edinburgh Council. Group accounts were prepared for the Funds for the first time in 2015/16 incorporating LPFE Ltd. LPFI Ltd became operational in 2016/17 after the funds received Financial Conduct Authority authorisation.

46. We reviewed the consolidation process in 2016/17 and concluded the subsidiary companies had been correctly included in the group accounts of Lothian Pension Fund.

Legality

47. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the Funds' solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

48. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Qualitative aspects of accounting practices and financial reporting

49. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies which are disclosed in the annual accounts of the Funds. We consider the policies to be appropriate to the Funds, however, we have noted that the Funds have departed from CIPFA Guidance in relation to investment management expenses. During 2015/16 CIPFA issued guidance stating that pension funds should only report the direct costs of using investment managers. The impact of this is that investment management costs associated with fund of funds transactions would not be reported. The Funds feel this would detract from the transparency of the accounts and have reported indirect costs of £4.16 million for Lothian Pension Fund and £0.33 million for Lothian Buses (there were no indirect costs for Scottish Homes). The impact of this accounting treatment is to increase the investment management expense which is offset by an increase in the change in market value of investments. The net impact on the fund account is therefore zero.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The Funds have significant levels of accounting estimates and judgements used by management in preparing the financial statements. The principal areas of estimation concern the valuation of unquoted private equity and infrastructure investments and the actuarial valuation of promised retirement benefits. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. We have considered the disclosures around the estimates, including sensitivity analysis and concluded that they are appropriate.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements (beyond the existing disclosures made).

The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the annual accounts in the Management Commentary.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any significant accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

3

Financial management

Financial management

Overall conclusion

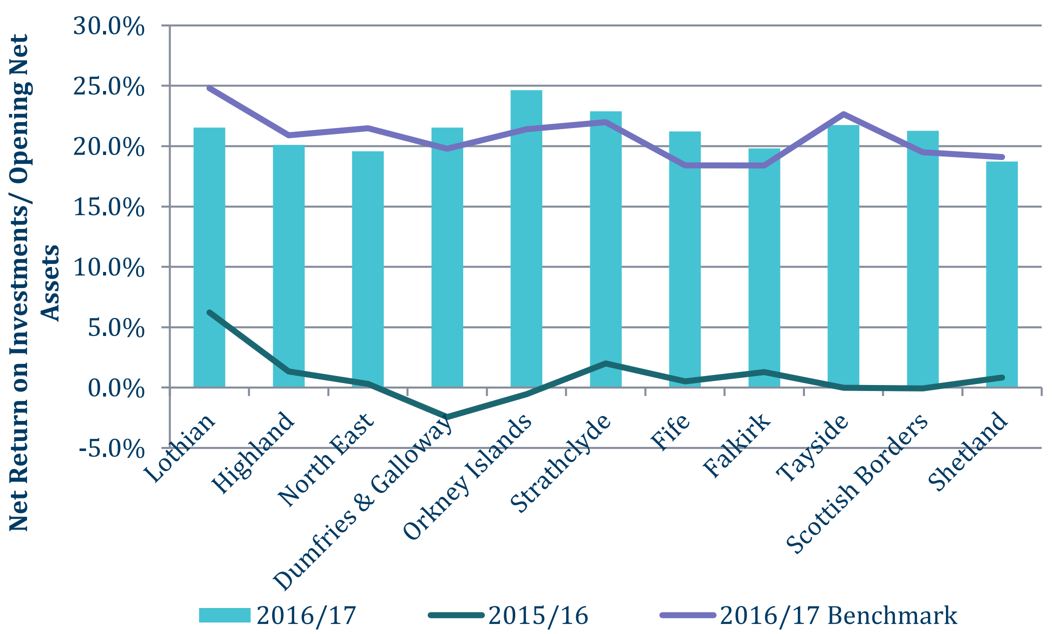
The Funds have effective arrangements in place for financial management and the use of resources

50. Overall, the Funds have effective arrangements in place for financial management and the use of resources. Our conclusion is based on a review of the Funds' financial performance against their investment strategy and our review of the system of internal control

The Funds' financial performance in 2016/17

The Funds were slightly behind the 1 year benchmark but achieved their longer term targets

51. The key financial indicator for the across pension funds in Scotland is the return on investments. Following a relatively poor performance across all investment funds in 2015/16 the investment performance has improved across all Scottish Finds in 2016/17.



52. The average return on investments in 2016/17 was 21.19% a significant increase compared to 0.86% in 2015/16.

53. The Lothian Pension Funds have consistently performed above the average figure.

54. The graph above focuses on the short term performance of the Scottish Pension Funds but the Funds investment programme recognises that long term performance is key to ensure the sustainability of the Funds. Consequently the Funds review performance against benchmark over one, five and ten years.

55. The Funds were slightly behind the one year benchmark on Lothian Pension Fund and Lothian Buses Pension Fund. The performance over the longer term is consistently meeting or exceeding benchmark which indicates the investment portfolio is being managed appropriately.

	1 year		5 years		10 Years	
	Return	Benchmark	Return	Benchmark	Return	Benchmark
Lothian Pension Fund	21.7%	24.8%	12.9%	11.4%	8.2%	6.6%
Lothian Buses	23.7%	24.2%	13.2%	11.5%	9.6%	8.0%
Scottish Homes	18.9%	18.7%	10.8%	10.7%	9.1%	9.1%

Financial Position

56. The net assets of the Fund continued to increase in 2016/17, reflecting the level of returns achieved in year and the relatively strong position of the market in year.

	2016/17 £m	2015/16 £m	% Movement
Lothian Pension Fund	6,594	5,434	21.3%
Lothian Buses	488	394	19%
Scottish Homes	171	150	14%

57. Although the net assets position is increasing the Funds' actuary, Hymans Robertson estimated that the present value of the promised retirement benefits had risen across Lothian Pension Fund and Lothian Buses Pension Fund by approximately 31%. Scottish Homes had a smaller increase of only 12%.

58. The actuarial calculations are based on the 2014 Actuarial Valuation rolled forward. It was noted by the Actuary in their report that the performance of real bond yields has declined in recent years meaning the funding levels set in 2014 are likely to be worse than predicted and the liability increased.

59. The liability figures do not appear in the primary financial statements and appear only in the notes to the accounts. This is in line with the options in the CIPFA Code of Practice on Local Authority Accounting.

60. This recognises that the liabilities are recognised on the employing bodies' balance sheets. However, the financial environment continues to be challenging and following the 2017 Actuarial Valuation it may become increasingly difficult for employers to meet the contribution demands of the Funds.

61. In addition to this there are a number of employers within the Lothian Pension Fund with fewer than 5 employees who may be in a position where the debt crystallises on the cessation of active members. Due to the low market yields it is anticipated that cessation valuations would show sizable deficits.

62. This has increased the risk of employers defaulting on the exit payments required to cover the liability attributable to their employees.

63. The Funds have recognised this as a significant risk and are taking steps to mitigate this risk. Lothian Pension Fund is working with the at risk employers to ensure they can continue to meet the contribution demands of the fund or can meet the cessation liability.

64. Lothian Pension Fund currently has a contingent asset of £0.33 million relating to unsecured assets due from ceased employers.

65. As this is deemed to be a significant risk to Lothian Pension Fund we recommend that increased disclosure around the nature of the risk, the level of at risk employers within the Fund and the potential impact on the funding level is included in the financial statements.

Action Plan Point 3

The Funds have effective budget setting and monitoring arrangements

66. We have considered the Funds' system of budgetary control and financial management and did not identify any significant deficiencies.

67. The Funds align their financial regulations and policies with the City of Edinburgh Council. The financial regulations were last subject to review in 2017 and were approved by the Council in June 2017.

68. The Pensions Committee consider the investments control environment and performance over the annual committee cycle in line with a formal long term agenda plan. Over the course of the financial year the Pensions Committee has taken reports on the investment strategy panel, investment principles and the performance of the Funds.

69. The Pensions Committee also receive a report on the financial performance of the Funds in year, encompassing the contributions received and pensions paid along with the administration costs. Where there are variances adequate narrative is provided to ensure the Pensions Committee have an understanding of the reason for the movement and the action being taken by the Funds.

Prevention and detection of fraud and irregularity

70. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Funds' arrangements for the prevention and detection of fraud and other irregularities to be adequate.

4

Financial sustainability

Financial Sustainability

Overall Conclusion

The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

71. The Funds have a responsibility to pay pensions to members until the end of their life. The payments required are based on the contributions made by members over the course of their employment.

72. Overall we have concluded that the Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds. When assessing financial sustainability we have considered the contribution rates set, the Funding Strategy Statement and the Investment Strategies in place for the Funds.

Triennial Valuation

73. The Funds' undertook an actuarial valuation in 2014 in line with the requirements of the Local Government Pension Scheme Regulations 2014. The 2014 Actuarial Valuation was a triennial valuation with the purpose of setting rates for the three year period commencing 1 April 2015.

74. The 2014 Actuarial Valuation was undertaken by Hymans Robertson in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended.

75. At the 2014 Actuarial Valuation the funding level reduced for Lothian Pension Fund but increased across Lothian Buses Pension Fund and Scottish Homes Pension Fund. The Lothian Buses Pension Fund was the only fund achieving its target funding level.

Funding level

	Actual 2014 (%)	Target (%)
Lothian Pension Fund	91.3%	100%
Lothian Buses	117%	100%
Scottish Homes	88.8%	91.5%

76. In light of the funding levels the 2016/17 financial statements show that the Lothian Pension Fund has now moved to a position where payments exceed contributions received.

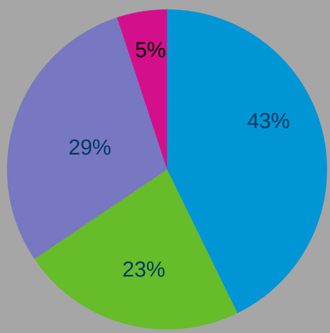
	Lothian Pension	Lothian Buses	Scottish Homes
Contributions and transfers	201,849	9,801	675
Payments (including admin)	(211,085)	(12,522)	(7,540)
Net position	**(9,236)**	**(2,721)**	**(6,865)**

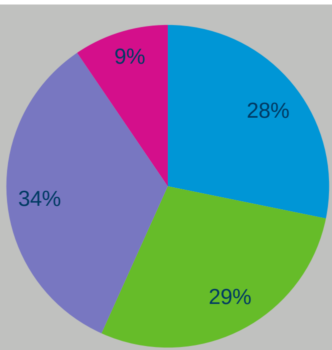
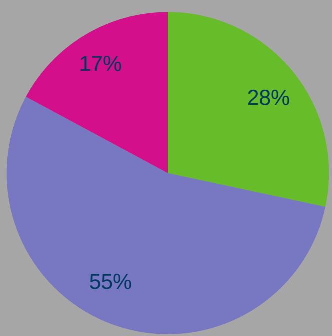
77. Lothian Buses and Scottish Homes have operated at a net withdrawals position for a number of years. This is due to the fact both schemes are now closed to members, with Scottish Homes having no active members. The Funds are managing their investment strategy to ensure there is adequate investment income to cover payments.

78. The next detailed actuarial valuation for the Funds will be carried out as at 31 March 2017 and at this stage the contribution rates required to support the Lothian Pension Fund back to fully funded status will be considered.

Funding Strategy Statement

79. The longer term sustainability of the Funds' is considered in the Funding Strategy Statement which was prepared in 2015 concurrently with the triennial actuarial valuation and creates a different strategy for each of the funds.

<table>
<tr><th></th><th>Pension Fund Membership</th><th>Funding Strategy</th></tr>
<tr><td>Lothian Pension Fund</td><td>
</td><td>Lothian Pension Fund is open to new members with active members still being the highest proportion of members. Lothian Pension Fund has adopted a long term investment strategy split into 2 strategies. Strategy 1 applies to 99% of the employee liability and aims to maximise the investment return within reasonable and considered risk parameters.

The second strategy invests in a portfolio of UK index linked gilts to reduce funding level and contribution rate risk to a level appropriate to their circumstances.</td></tr>
<tr><td>Lothian Buses Pension Fund</td><td>
</td><td>Lothian Buses Pension Fund is closed to new members and the liabilities are expected to mature. A revised strategy was approved in March 2016 to be implemented over the period from 2016 to 2021. The revised strategy reduces the Fund's allocation to equities and increases the allocation to index gilts and fixed income assets. The revised strategy is designed to reduce risk in order to take account of the maturing employee liability.</td></tr>
<tr><td>Scottish Homes Pension Fund</td><td>
</td><td>Scottish Homes Pension Fund currently has a funding arrangement in place with the Scottish Government, where the government is acting as guarantor for the scheme and provides funding on an annual basis to help fund the employee liability.

A bespoke Investment strategy is in place to reduce the level of funding in equities and increase the level of funds invested in bonds. In line with this strategy the investments in equities reduced from 30% to 17.5% in 2016/17.</td></tr>
</table>

■ Active ■ Deferred ■ Pensioners ■ Dependants

80. As part of the triennial valuation process the Funds' Funding Strategy Statement is being reviewed and revised. In line with the Scheme Regulations the Funds' are making arrangements for consultation with scheme employers. The draft Funding Strategy Statement will be issued for consultation in late 2017.

Investment Strategy Panel

81. The Pensions Committee has delegated responsibility for investment strategy to an Investment Strategy Panel made up of:
- Head of Finance, City of Edinburgh Council;
- Chief Executive, LPFE Ltd;
- Chief Investment Officer, LPFE Ltd;
- Chief Finance Officer, LPFE Ltd; and
- three external investment consultants.

82. In 2016/17 Lothian Pension Fund set up a joint working arrangement with Falkirk Pension Fund which includes a joint Investment Strategy Panel. The role of this panel will be to advise the Finance Directors of each administering authority on the implementation of investment strategy. There has been collaborative investment in 2016/17 with 7 investments being made alongside Falkirk Pension Fund.

83. The Funds' are committed to reducing costs thereby improving longer term sustainability through increasing collaboration with other Scottish Local Authorities.

5

Governance & transparency

Governance & transparency

84. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. The Funds are responsible for ensuring the proper conduct of their affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

85. The Funds have appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to the corporate governance framework in place, the information provided to the Pension Committee and Audit Sub-Committee and the risk management arrangements in place.

Governance Structure

86. The Pensions Committee, supported by an Audit Sub-Committee, has been delegated responsibility for governance by the City of Edinburgh Council, the administering authority.

87. As outlined by the City of Edinburgh Council Scheme of Delegation the Pensions Committee has responsibility for the administration, management and investment strategy for the Funds.

88. From 1 April 2015 all pension funds were required to introduce local pension boards in line with the Public Service Pension Act 2013. This is the second year of operation of the Pension Board.

89. The Pension Board meet quarterly on a concurrent basis with the Pension Committee.

90. The remit of the Pension Board is to support the Pension Committee in compliance with regulations and the requirements of the Pension Regulator. In line with legislation if more than half of the members of the Pension Board disagree with a decision of the Pension Committee then they can request in writing that the Pension Committee review that decision. There have been no requests to review decisions in 2016/17.

Risk Management

91. A developed and integrated approach to risk management is a key feature of a robust system of internal control. The Pension Funds maintain a risk register in line with the City of Edinburgh Council Risk Management Policy and Procedures.

92. Risk management arrangements are firmly embedded in the governance process. The Pensions Committee receive a risk management update on a quarterly basis which provides information of the movement in risks and the actions being taken on the most notable risks.

93. The Pensions Audit Sub-Committee reviews the risk management process on an annual basis to ensure it is appropriate.

94. From our review of the risk management arrangements in place we have concluded that there are adequate arrangements in place at the Funds.

Internal Audit

95. An effective internal audit service is an important element of the Funds' governance arrangements. The Funds' internal audit service is provided by the City of Edinburgh Council via a co-source arrangement with PricewaterhouseCoopers (PwC).

96. Internal audit completed three reviews in year as follows:

- internally managed investments;
- a vulnerability assessment for online modules accessible to employers and members of the Funds; and
- governance of the Lothian Pension Fund Group.

97. The Internal Audit Plan was subject to scrutiny at the Pensions Audit Sub-Committee in December 2016. The Committee were satisfied that the level of review would provide them with adequate assurance in 2016/17.

98. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Funds' audit resource.

Standards of conduct

99. In our opinion the Funds' arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

100. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial regulations and schemes of delegation and for complying with national and local codes of conduct.

The Role of Boards

101. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made a number of recommendations as follows:

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the Board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interest should be considered at every meeting	Boards should review the use of Committees and ensure delegation levels are appropriate

102. As part of our audit work in 2016/17 we followed up on the Funds' response to the issues highlighted by Audit Scotland. Our aim was to identify any causes for concern or areas of good practice. Our detailed findings were submitted to Audit Scotland and are summarised below.

103. In our opinion arrangements for scrutiny and decision making are appropriate.

104. The Pensions Committee and Board members receive an induction which includes specific training on the activity of pension funds and investment management. Following the local elections in May 2017 there were 2 new Councillors elected to the Pensions Committee. Appropriate training for new members is scheduled for September 2017.

105. Due to the specialised nature of the Funds, it is vital that members have the appropriate knowledge and understanding to provide appropriate challenge and operate effectively. Training is therefore seen as a fundamental requirement for all Committee and Board members. Our review found that all Pension Committee and Board members met the requirement to have a minimum of 21 hours training during 2016/17.

106. The Pensions Committee and Pensions Audit Sub-Committee meetings are held in public, papers are available in advance and minutes of the meetings are published on the City of Edinburgh Council's website. Information about the Funds is published on the Funds' website including key strategic documents. Overall we have concluded there is a good level of transparency around the pension fund business.

6

Value for Money

Value for money

Introduction

107. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

Overall conclusions

108. The Funds have appropriate arrangements in place to monitor performance of investments and the administration of the Funds. Our review was informed by the information provided to the Pensions Committee and the operations in place at the Pension Fund.

Investment operations

109. In October 2014 the Pensions Committee and City of Edinburgh Council agreed to the creation of two special purpose vehicles: LPFE Ltd and LPFI Ltd. Both companies were wholly owned and controlled by the Council.

110. In 2016/17 LPFI Ltd obtained Financial Conduct Authority authorisation (LPFE Ltd obtained this in 2015/16). The special purpose vehicles were established to support the investment programme of the in-house investment team by providing operational efficiencies.

111. Investments at the Funds are managed through a combination of external fund managers and the Funds' investment management team. The proportion of funds managed internally has increased over recent years.

Lothian Pension Fund proportion of internally managed Funds

112. The Funds' have used the internal investment team to drive efficiencies in year including a reduction of investment managers expenses as a proportion of net return on investment from 9% to 1% for Lothian Pension Fund.

113. Lothian Buses Pension Fund and Scottish Homes Pension Fund have followed the same pattern with a decrease in the level of externally managed investments by 12.9% and 54.9% respectively. Both funds have also seen a reduction of investment manager's expenses as a proportion of net investment to below 1%.

Monitoring investment performance

114. There is an annual review of investment performance in June. Due to the elections in 2017 the Pension Committee was cancelled, however, a briefing meeting was held for the newly formed Committee. From our attendance at this briefing and the Pensions Committee in year we concluded that Pension Committee and Board Members are engaged in monitoring the performance of investments.

115. In addition to monitoring at a Committee level the Funds' performance is reviewed by an external provider on a monthly basis. The external provider compiles information covering monthly, quarterly, yearly and 3 yearly performance measures. This information is presented to the Investment Strategy Panel to allow for scrutiny investment performance of the Funds.

Administrative Performance

116. The Funds' have developed a Service Plan covering the period 2016- 2018 which focuses on four key objectives:

- We put our customers first and aim to provide the very best service
- Our people are at the very heart of our business and we work together to deliver our service
- We strive to improve our services by thinking ahead and developing new solutions
- We are committed to supporting a culture of honesty and transparency.

117. The Pensions Committee receive updates on the service plan at each meeting. The annual results for 2016/17 are presented in the Funds' Management Commentary. The Performance Report highlights that the Fund are meeting the majority of their targets (81%) with only 2 areas where performance was not in line with target levels:

- Overall staff satisfaction decreased in year from 73% to 70% which was below the target level of 75%.
- The target for the proportion of active members receiving their annual benefit statement by 31 August 2016 was 100% but the Funds' achieved a level of 99.6%. The issue of annual benefits statements by 31 August is a requirement of the Local Government Pension Scheme (Scotland) 2014. The statements not issued related to members employed on a casual basis prior to March but who did not contribute to the scheme up to the end of the year. The members should consider whether they deem this an issue which should be self-referred to the Pension Regulator.

Action Plan point 4

Tendering for Services

118. The Funds make use of a range of service providers including investment managers, an actuary and a custodian. In order to ensure the Funds are achieving value for money it is good practice to tender for services at set intervals.

119. The Funds follow the City of Edinburgh Council procurement procedures and maintain a contract register.

120. It was noted that two contracts were currently in their extension period and were due to go out to tender in 2017/18. We will consider the adequacy of this process as part of our 2017/18 audit procedures.

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Funds in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Authorisation of journals **Rating** **Grade 3** **Paragraph ref** **25**	**Observation** Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are currently posted by individuals without an authorisation process. Journals can be used to override controls and create fraudulent errors therefore it is crucial there are strong controls in place. **Recommendation** Whilst we were able to obtain alternative audit evidence to provide assurance that there were no material issues with regards to the posting of journals, we recommend that a review process for all journals is put in place.	Agreed the fund will undertake a review of the journals processes. All parties that use the Council's financial systems are affected by this finding. The Fund awaits the Council's response to the issue. The Fund is satisfied that there are sufficient controls in place to prevent an actual cash payment leaving the Fund without full authorisation and that the ability to post journals is limited to staff authorised to do so. The system also records the username of the person posting the journal. **Action owner:** John Burns **Due Date:** 31 January 2018

Action plan point	Issue & Recommendation	Management Comments
2. Annual Governance Statement **Rating** **Grade 3** **Paragraph ref** **40**	**Observation** We have reviewed the Funds' Annual Governance Statement and identified that improvements could be made. To be fully compliant with the Delivering Good Governance in Local Government guidance an action plan outlining the actions the Funds' will take to progress improvements in the Funds' governance process should be disclosed. **Recommendation** We recommend the Funds' consider the disclosures in the Annual Governance Statement to ensure they are meeting applicable guidance.	Agreed to review for next year's accounts **Action owner:** Struan Fairbairn **Due Date:** 31 March 2018

Action plan point	Issue & Recommendation	Management Comments
3. Employer cessation liabilities **Rating** **Grade 3** **Paragraph ref** **63**	**Observation** Lothian Pension Fund has identified that there are significant pressures facing the employing body members of the Fund. This has increased the risk of employers defaulting on payments required to cover the liability attributable to their employees. **Recommendation** We recommend that increased disclosure around the nature of the risk, the level of at risk employers within the Fund and the potential impact on the funding level is included in the financial statements.	Agreed to review disclosures in management commentary for next year's accounts after the completion of the 2017 triennial actuarial valuation. Contingent assets in respect of Funding Agreements for employers which have terminated membership of the Fund are disclosed to the extent that such default protection is provided to any aligned body (as defined in the Funding Strategy Statement) or other employers in the Fund. Such contingent assets do not have a material impact on net liabilities. **Action owner:** John Burns **Due Date:** 31 March 2018

Action plan point	Issue & Recommendation	Management Comments
4. Annual benefits statements **Rating** **Grade 2** **Paragraph ref** **116**	**Observation** The issue of all annual benefit statements by 31 August 2016 is a requirement of the Local Government Pension Scheme (Scotland) Regulations 2014. In 2016/17 the Funds' achieved 99.6% of the annual benefits statements by the deadline. **Recommendation** The Pension Committee members should consider whether they deem this to be an issue which should be self-referred to the Pension Regulator.	The Funds have considered this in line with the Pensions Regulator guidance and do not feel this would be of material significance and therefore have deemed it unnecessary to declare the breach to the Pensions Regulator.

Appendix 2: Unadjusted differences

Board representations

We have requested that the signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified one unadjusted difference during our audit work. These differences are not considered to be material to the financial statements individually or in aggregate. The unadjusted items are included within the representation letter and shown below:

Unadjusted differences	Fund Account		Net Asset Statement	
	DR £'000	CR £'000	DR £'000	CR £'000
Investment Management Expenses	509			
Creditors				509
Being the under declaration of output tax dating back to 2011.				

Appendix 3: Respective responsibilities of the Pensions Committee and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Pensions Committee and the Chief Finance Officer, as Accountable Officer, to prepare financial statements in accordance with the Local Government (Scotland) Act 1973 and directions made thereunder.

In preparing the annual report and accounts, the Pensions Committee and the Chief Finance Officer, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Code of Practice on Local Authority Accounting (the Code) have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Lothian Pension Fund will continue to operate.

The Chief Finance Officer is also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view, in accordance with applicable law and the Code, of the state of the affairs of the Funds as at 31 March 2016 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code;
- they 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;
- the information given in the Management Commentary is consistent with the annual accounts.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept;
- we have not received all the information and explanations we require for our audit;
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Pensions Committee or senior management that may reasonably be thought to bear on our objectivity and independence.

Scott-Moncrieff
business advisers and accountants

Appendix 2

Lothian Pension Fund

Lothian Buses Pension Fund

Scottish Homes Pension Fund

Audited Annual Report and Financial Statements 2016/17

Lothian PENSION FUND

Contents

Foreword

Head of Finance, City of Edinburgh Council

Welcome to the Annual Report and Financial Statements for 2016/17 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund. The report keeps members, employers and other interested stakeholders informed about the activities and performance of the pension funds, as well as their investments and financial statements.

This year has seen no let-up in the challenges and pace of change both across the pensions sector generally and within the LGPS specifically. The Pensions Committee, Pension Board, together with officers of the Fund are ever mindful of our responsibilities to our 81,000 scheme members and 94 active employers. Therefore our decision making is always clearly focussed on working together to deliver the best outcomes for all our stakeholders.

We know that pensions can be difficult for scheme members to understand, and increasingly complex and challenging for employers to manage; they are a significant cost and short term decisions can have very long term effects. Our average pension in payment is £5,392, reflecting the earnings and work profile of our membership. We believe the LGPS offers a very safe way of saving for a secure income in retirement, particularly important for part time or lower paid employees. We remain committed to helping scheme members and employers understand the LGPS, to enable them to make informed and timely decisions. We continue to focus on investing in people and technology in order to maintain and drive up our high standards of service and performance. I am delighted that our service has been accredited by the Pension Administration Standards Association (PASA), the first Local Government Pension Fund to achieve this.

The LGPS is a Scotland-wide scheme and we continue to take a leading role nationally. Councillor Alasdair Rankin had served on the Scottish LGPS Scheme Advisory Board. Officers also provide advice to the Scheme Advisory Board.

The Scottish Government is encouraging LGPS funds to collaborate with each other. Our authorisation from the Financial Conduct Authority has enabled the expansion of our collaborative efforts over the year, enabling other LGPS funds to benefit from the Funds' expertise in infrastructure. A new collaborative model has been agreed with Falkirk Pension Fund which should bring further opportunities and efficiencies.

I would like to take this opportunity to record my thanks for the hard work of the Pensions Committee, Pension Board, fund advisers, employers and staff.

Hugh Dunn
Head of Finance
The City of Edinburgh Council

Report by the Chair of the Pension Board

The Pension Board comprises both employer and member representatives, and undertakes an important role in helping to ensure the correct governance and functioning of the Lothian Pension Funds.

Having on the 1st April 2016 taken on the role of Chairperson (the first 'employee' representative to do this) I am now able to provide the following information relating to the Board and it's work for the preceding year.

During this time, the Board itself has undergone some changes in membership, but I can confirm that none of these changes detracted in any way from the continuing and important work the Board undertook during the course of the year.

As an example of its diligence, all the Board members have undertaken the extensive training required to ensure their understanding of their role, general pensions issues and the operations of the Funds themselves, and as a result, even those Board Members who joined us late in the year fully met the LPGS Pension Board Members training requirements.

Report by the Chair of the Pension Board cont'd

The Board has, in the past 12 months, undertaken a considerable amount of work attending not only all of the meetings of the Pensions Committee and Pensions Audit Sub-Committee, but also ensuring their active participation at the Board's own quarterly meetings.

As part of its remit, the Board members have also maintained a positive involvement in relation to the funds governance and its consideration of the various environmental, social and governance (ESG) issues being brought to its attention.

During the course of the year, the Scottish Public Pensions Agency (SPPA) instigated a major review of the 'effectiveness of the governance' arrangements for all pension funds, in which the Board was fully and pro-actively involved. We provided both feedback on the Board's work so far in supporting the Funds and in respect of the actual remit of the review' itself and then ultimately provided in-depth feedback on the reviews findings.

The Board has also taken a very keen and active interest in the many ESG matters that were brought before the Pensions Committee for consideration during the year, and we have been instrumental in ensuring that the Funds and its managers continue to consider fairly these important issues whilst maintaining a clear perspective in relation to both its legal fiduciary duties and also its duty of care towards all its various Fund members.

I am grateful to all my Pension Board colleagues for their ongoing commitment to supporting the Board over the last year and for ensuring that both scheme members and employers continue to be well represented within the governance and running of the fund.

As required by the constitution, the chair of the Pension Board rotates annually between employer and member representatives, and Darren May, (an employer member from Scottish Water), was selected by the Board to take on this important role as and from 1 April 2017. I therefore take this opportunity to wish Darren well in his new role as our Chair for the incoming year and I look forward to continuing working with him and the Pension Board members along with the LGPS funds in the coming year.

Jim Anderson
Member Representative and Chair of the Pension Board

Report by the Independent Professional Observer

This is my third year as Independent Professional Observer for the pension funds. My function is to assist the Pensions Committee and Pension Board undertake their governance responsibilities effectively and efficiently. My role as a pension trustee and knowledge of institutional investment allows me to support the Committee and Board in ensuring the Funds comply with relevant pension legislation and requirements set out by The Pensions Regulator.

During the year, I held surgeries to assist the Pensions Committee and Pension Board in working collaboratively and efficiently together in their joint oversight of the pension funds. Topics such as funding, investment and collaboration have been considered in addition to the normal business of the funds.

The quality of engagement and discussion over the year has demonstrated a high standard of governance within the funds. I look forward to working with the new Pensions Committee following the Local Government Elections in May 2017 to provide continuity, knowledge and guidance to them.

Sarah Smart
Independent Professional Observer

Management commentary

Introduction

Customer Service

The quality of membership data has been a key area of focus for the Funds over recent years to ensure we meet The Pensions Regulator's standards. All but three employers are now providing monthly contribution data for each member which is enabling us to see changes in membership quickly and hence provide a better service. Work was also undertaken to tackle historic leavers where information had not been provided by their employer at the time of leaving.

The Funds also registered for the national Tell Us Once service which means we can now be informed about the death of a member notified to another public service. This makes it easier for relatives of deceased members to deal with us, as well as reducing the risk of over-paying pensions.

Over the year, the City of Edinburgh Council undertook a voluntary redundancy exercise as part of a significant transformation project. In view of the scale of this exercise, we reviewed the way we deal with retirements to maximise the use of our online service and speed up the process. As well as reducing the administration work involved, customer satisfaction also improved.

The Funds continue to monitor movements in membership numbers, in particular the impact of early retirement initiatives and auto-enrolment. The number of pensioners from the City of Edinburgh Council has increased significantly over the year because of the transformation project. Over the year, the numbers of pensioner members rose by 922. The number of active members for the Lothian Pension Fund has increased marginally by 378 due to auto enrolment.

Funding & Investment

Changes in membership of the Funds have implications for cashflow. On retirement there are immediate outflows due to the payment of tax free lump sums and pensions and a reduction to inflows as contributions cease. However, payment of strain costs by employers on early retirements helps to mitigate current cashflow pressures.

Lothian Pension Fund is now in a negative cash flow position where payments exceed contributions received. The Fund has targeted increased investment income in recent years and this is expected to exceed net cashflow for the foreseeable future. It is therefore not anticipated that the sale of investments will be required to meet this funding requirement. Lothian Buses and Scottish Homes Pension Funds expenditure continues to exceed income as both funds are closed to new members with Scottish Homes Pension Fund having no members paying in to the scheme. Investment income funds these shortfalls, together with asset sales for Scottish Homes Pension Fund.

All three Funds delivered strong investment performance over the year. Lothian Pension Fund's assets have increased by £1,161million, with investments returning 21.7% over the year, slightly behind the benchmark of 24.8%. The internal team manages a significant proportion of assets of all three pension funds in-house. For Lothian Pension Fund this includes approximately £3.4billion of listed equity assets and a currency hedging programme specifically designed to provide downside protection in times of market stress while participating in some, though not necessarily all, of any upward movement. The underperformance relative to the benchmark this year follows on from a period of significant outperformance (+6.2%) in the prior year (2015/16) and over longer term periods the Fund is meeting its objective, exceeding the benchmark but with lower volatility.

Despite this strong performance, liability values have grown faster as discount yields have fallen. Hence, overall funding levels have fallen. In advance of the 2017 actuarial valuations, Lothian Pension Fund's Actuary reviewed the suitability of the Contribution Stability Mechanism used for setting the employer contribution rates for long-term secure employers. The Actuary concluded that despite changes to market conditions and reducing certainty of full funding due to the outlook for investment returns, at present the Contribution Stability Mechanism remains appropriate for long-term secure employers. However, its ongoing suitability will be reviewed ahead of the 2020 actuarial valuation.

During the 2014 actuarial valuation, Lothian Pension Fund addressed the previous inconsistency between the actuarial and cessation valuations to raise awareness of pension deficits and reduce the risk of employers being unable to pay deficits when their last active member leaves. During 2016/17, the Fund, in consultation with external advisers, has drawn up a funding agreement to address repayment of the cessation debt in order to avoid employer default or insolvency.

This agreement allows for repayment of the cessation debt over longer terms, and in special circumstances, for repayment of less than the full cessation debt. The standard agreement is tailored to each employer's circumstances, taking into consideration the employer's financial circumstances and ability, where applicable, to offer security over assets.

The Pensions Committee regularly considers the legal responsibilities of administering the Funds and its fiduciary duty to members and employers. During the year, the Scheme Advisory Board of the Scottish Local Government Pension Scheme sought a legal opinion on how Pension Committees in Scotland should exercise their fiduciary duty when investing pension fund money. The Committee considered this legal opinion and agreed that it reaffirmed that the approach taken by the Funds is appropriate. Non-compliance with the fiduciary duty could leave the Council and Pensions Committee open to legal challenge or otherwise have an adverse impact on the Council, the Funds and their stakeholders. However, there has been a significant increase in lobbying from external interest groups on certain investments and the Funds continue to engage with these groups as appropriate.

Collaboration with other Pension Funds

LPFI Limited, was granted FCA authorisation in June 2016 which facilitates collaboration with other pension fund investors to bring economies of scale. A new corporate structure, including two new companies (LPFI Limited and LPFE Limited), was introduced in 2015 to support the in-house investment team and create efficiencies. LPFE Limited, employs staff and facilitates separate governance and control for the in-house investment team. Collaboration allows other funds to benefit from the commercial advantage that the existing in-house team has in the market to bring tangible benefits through scale investing. In addition, sharing costs between collaborating funds allows reinvestment in the systems and in-house team to improve long-term sustainability.

Lothian Pension Fund has provided Falkirk Council Pension Fund with support on investment matters, including assisting with infrastructure investing, for the past five years. With Lothian's recent FCA authorisation, a review of the arrangements and a new collaborative model, including a joint Investment Strategy Panel, has been agreed. The Pensions Committee of Falkirk Council will agree investment strategy but will now delegate the implementation of strategy, including selection of investment managers, to officers. This governance model is similar to that of Lothian Pension Fund. The new joint Investment Strategy Panel will advise the Finance Directors of each administrating authority (the City of Edinburgh Council and Falkirk Council) on implementation of investment strategy. The assets of Lothian Pension Funds and Falkirk Council Pension Fund will remain separate and investment strategy decisions retained by the respective Pensions Committees.

During 2016/17, Lothian Pension Fund has made seven investments alongside Falkirk Council Pension Fund and one with Northern Ireland Local Government Officers' Superannuation Committee. Further collaboration with other Scottish Local Government Pension Scheme partners is expected in 2017/18.

Awards

During the year, we retained the Customer Service Excellence award once again demonstrating commitment to customers. In March 2017, we became the first UK Local Government Pension Scheme fund to be awarded accreditation from Pension Administration Standards Association (PASA), which promotes a high standard for administration services for UK pension schemes. Accreditation involved a three-day site visit undertaken by two independent assessors. The award means the Fund has been independently recognised by PASA for delivering good quality administration, and showing a commitment to ongoing improvement. We use the standards to improve various areas of our service including procedure manuals, performance reporting and business continuity planning.

We also received five pension industry awards this year. At the Local Government Investment Awards 2016 we won Fund of the Year (over £5billion) for Lothian Pension Fund and Fund of the Year (under £750million) for Lothian Buses Pension Fund. At the Professional Pension's Pension Scheme of the Year Awards we were winner in the Defined Benefit Communications category and in the LAPF magazine investment awards, we were successful in the categories Investment Performance, Small LGPS Fund and Investment Strategy.

Challenges

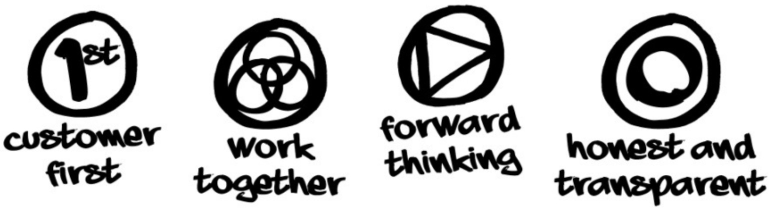
Continuing budgetary constraints across the public and charity sectors are expected to lead to further accelerated increases in pensioner numbers and an increasing number of admitted bodies seeking to exit Lothian Pension Fund. There is also a risk that members decide to opt-out of the Funds on grounds of affordability or lack of appreciation of the value of pension benefits. Together with the new pension freedoms and pension auto-enrolment, these will further impact on the Funds membership, liabilities and cashflow.

Despite strong investment performance since the last actuarial valuation, liability values have grown faster as discount yields have fallen. Hence, the overall funding levels have fallen and the 2017 actuarial valuation is likely to prove challenging. Further, there is greater oversight and scrutiny of funding plans for all LGPS funds as a result of the Public Service Pensions Act 2013. The Government Actuary's Department has carried out a dry-run analysis on the 2014 valuations in Scotland. The results identified differences in the way information is presented and work is ongoing amongst actuarial firms and funds to address inconsistencies. They noted different financial assumptions, which may reflect local circumstances, although the evidence at this stage is limited. The analysis may influence the approach to the 2017 actuarial valuation.

There has always been interest from members and specific campaign groups in investments and over recent years this has increased significantly. There is an ongoing need to be clear, open and transparent in communicating investment strategy and the way in which the Funds must invest in the best interests of members and employers.

To ensure we meet these challenges we have four objectives for our service:

- We put our customers first and aim to provide the very best service
- Our people are at the very heart of our business and we work together to deliver our service
- We strive to improve our services by thinking ahead and developing new solutions
- We are committed to supporting a culture of honesty and transparency.



Hugh Dunn
Head of Finance
The City of Edinburgh Council
27 September 2017

Clare Scott
Chief Executive
Lothian Pension Fund
27 September 2017

Governance

The City of Edinburgh Council is the administering authority for the Funds and delegates pension matters to the Pensions Committee and Pensions Audit Sub-Committee. The Pensions Committee members act as 'quasi trustees' and held four meetings during the year with the Pensions Audit Sub-Committee meeting three times.

The table below shows the membership of the Committees to 31 March 2017 and the current membership following the Local Government elections held on 4 May 2017.

1 April 2016 to 3 May 2017	**May Election 2017**
Pensions Committee	**Pensions Committee**
Councillor Alasdair Rankin (Convener)	Councillor Alasdair Rankin (Convener)
Councillor Maureen Child	Councillor Maureen Child
Councillor Jim Orr	Councillor Cameron Rose
Councillor Bill Cook	Councillor Adam McVey
Councillor Cameron Rose	Councillor Claire Miller
John Anzani (member representative, Midlothian Council)	John Anzani (member representative, Midlothian Council)
Richard Lamont (employer representative, VisitScotland)	Richard Lamont (employer representative, VisitScotland)
Pensions Audit Sub-Committee	**Pensions Audit Sub-Committee**
Councillor Cameron Rose (Convener)	Councillor Cameron Rose
Councillor Jim Orr	Councillor Maureen Child
Councillor Bill Cook	John Anzani (member representative, Midlothian Council)

The Pension Board

The Pension Board was set up on the 1 April 2015 as a result of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

The role of the Pension Board is to help ensure that the operation of the Funds is in accordance with the applicable law and regulation. The Board attends all Pensions Committee meetings and has appointed two representatives to attend Pensions Audit Sub-Committee meetings. The membership comprises of ten members, five representatives appointed from the employer bodies and five members appointed by trade unions representing the membership of the Funds.

The Pension Board membership for the period 1 April 2016 to 31 March 2017 membership was as follows. There were two member vacancies at 31 March 2017.

Member representatives

Jim Anderson (Chair)	Unison
Catrina Warren	Unison
Thomas Carr Pollock	GMB
Graeme Turnbull	UCATT (to 26 January 2017)
John Rodgers	Unite (to 14 March 2017)

Employer representatives

Eric Adair	EDI Group
Darren May	Scottish Water
Sharon Dalli	Police Scotland (from 23 September 2016)
Paul Ritchie	East Lothian Council (from 5 September 2016)
Alan Williamson	Edinburgh College (from 2 September 2016)
Simon Belfer	Napier University (to 10 June 2016)
Linda Mcdonald	Handicabs (to 1 July 2016)
Rucelle Soutar	The Royal Edinburgh Military Tattoo (to 20 July 2016)

Pensions Committee and Pension Board training

The Committee and Board members must attend no less than 21 hours of training per year as outlined in the Funds' training policy which is available on our website at www.lpf.org.uk. All new members of the Pensions Committee and Pension Board attend induction training. Other training included fiduciary duty, investment markets after Brexit, collaboration and investment pooling. All members of the Committee and Board achieved the required training hours during 2016/17. Pensions Committee members collectively attended 322 hours of training over the year and members of the Pension Board undertook 288 training hours.

Investment Strategy Panel

The Pensions Committee sets the overall investment strategy with the implementation of that strategy, including investment monitoring, delegated to the Executive Director of Resources who takes advice from the Investment Strategy Panel. The Investment Strategy Panel meets quarterly and comprises the Executive Director of Resources of the City of Edinburgh Council, the Chief Executive of Lothian Pension Fund, Chief Financial Officer of Lothian Pension Fund and Chief Investment Officer of Lothian Pension Fund along with external advisers. The external advisers are currently Gordon Bagot, Scott Jamieson and KPMG, represented by David O'Hara.

Lothian Pension Fund staff

The day-to-day running of the three pension Funds is carried out by the Investment and Pensions service division of the Resources Directorate within the City of Edinburgh Council. The Division functions include investment, pension administration, communications and accounting. The investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers.

In February 2015, two limited companies (LPFE Limited and LPFI Limited) were established to facilitate the development of the internal investment capabilities and improve governance as well as delivering efficiencies for the administration of the Funds. Both companies are wholly owned and controlled by the City of Edinburgh Council as the administering authority of the Funds. LPFI Limited has been established to support the investment programme of the in-house investment team by providing operational and other efficiencies. LPFI Limited was authorised by the Financial Conduct Authority (FCA) in June 2016.

In 2015, key investment staff were transferred to LPFE Limited. As part of the transfer new terms and conditions were introduced which includes increased notice periods to reduce the risks facing the Funds. A second phase to transfer the remaining staff to LPFE Limited is currently ongoing. This will result in a more streamlined organisation better able to facilitate the collaborative efforts with other local government pension funds that are currently being explored.

Over the year, senior officers were:

Hugh Dunn, Acting Executive Director of Resources, The City of Edinburgh Council
Clare Scott, Chief Executive of Lothian Pension Fund
Bruce Miller, Chief Investment Officer of Lothian Pension Fund
Struan Fairbairn, Chief Risk Officer of Lothian Pension Fund
John Burns, Chief Finance Officer of Lothian Pension Fund
Esmond Hamilton, Financial Controller of Lothian Pension Fund.

Scheme Advisory Board

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises of seven member representatives and seven employer representatives and a Joint Secretary is appointed in support of each of the Member and Employer groups. Councillor Rankin was a member of the Scheme Advisory Board over the year. Officers of Lothian Pension Fund have also been called upon to advise the Board and its Joint Secretaries. There is more information on the Scheme Advisory Board at www.lgpsab.scot.

Investments

Investment Markets

UK economic growth moderated further in 2016, slowing from 2.2% in 2015 to 1.8% in 2016, with political events dominating the news over the year.

Towards the end of June, the UK voted to leave the European Union, a result which was largely unanticipated by most investors. Global equity markets fell for two days before steadying and recovering most of their ground by the end of the month. However, the pound weakened sharply following the result, declining by almost 15% against the dollar, contributing to an increase in expected inflation over the next year. UK bond markets rose on fears of weaker economic growth.

Anticipating a potential slowdown in the economy, the Bank of England cut interest rates in August to a historic low of 0.25%. Subsequent economic news pointed to the UK economy faring better than expected, with the Bank revising its 2017 growth forecasts upwards from 1.4% in November 2016 to 2.0% in February 2017.

Following the EU referendum, investor attention focused on the November US Presidential election. Having fallen prior to the election, equity markets then recovered strongly following another unexpected result, confounding those that had predicted market turmoil accompanying a Trump victory. Signaling its confidence in the state of the US economy, the US Federal Reserve raised interest rates during December 2016 and then again in March 2017. While signalling that further rate rises would be likely over the remainder of 2017, the chair of the Federal Reserve Bank also noted that the outlook remained uncertain.

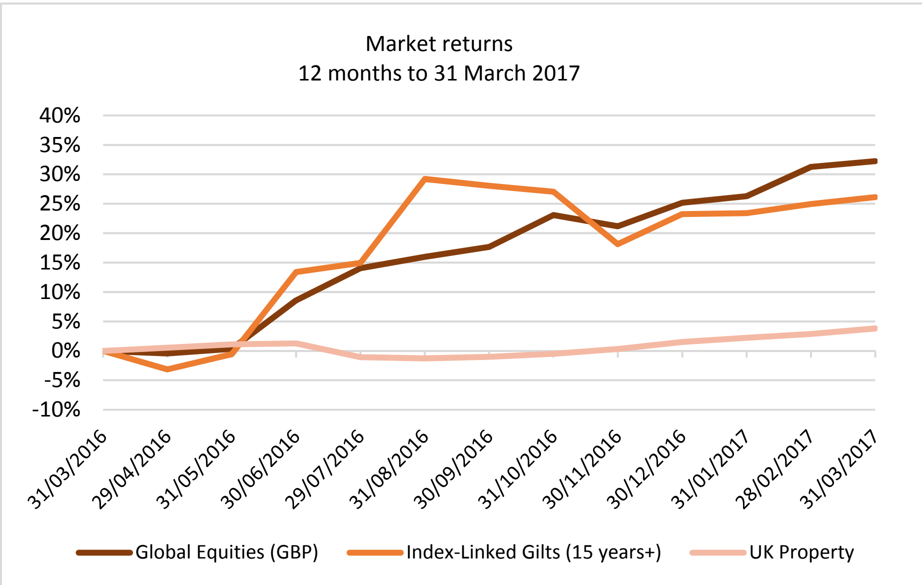
In December, the European Central Bank (ECB) voted to extend its quantitative easing programme by a further nine months to the end of 2017, as estimates suggested inflation would remain below its 2% target in 2019. The Bank of Japan left its bank rate unchanged over the year and maintained its ongoing quantitative easing programme.

For the 12 months to 31 March 2017, equity market returns for sterling-based investors were boosted by the immediate drop in the currency after the referendum, and then further weakness as investors priced in the likelihood of an unpleasant Brexit in economic terms. Index-linked bonds delivered strong returns over the year, as bond investors also priced in the likelihood of weaker UK economic growth. The weaker UK outlook also contributed to subdued returns from UK property, with rental income offsetting a small decline in capital values.

The outlook for the global economy – steady developed market growth and mixed conditions across emerging markets – has remained broadly constant over the past year. Recent divergence in central bank monetary policy suggests the US is ahead of the rest of the world in its economic cycle. Trump's pre-election promises of higher infrastructure spending and tax reform has been positive for equities but negative for US bonds.

However, the prospect of the US turning inwards to support its domestic economy also looms, which would be negative for global growth and raise the risk of a global recession.

The year ahead also sees potential for further surprises on the political front, most notably in Europe, where elections in France, the UK, and Germany fall due.



INVESTMENTS

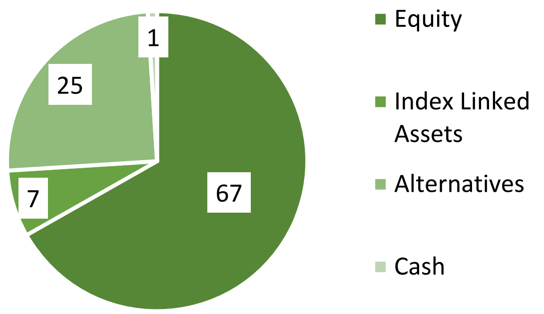
Investment strategies

The review of investment strategies for all three Funds during 2012 resulted in long term plans to achieve a reduction in investment risk as the Funds mature. The investment strategies were again reviewed during 2015/16, taking into account the results of the 2014 actuarial valuations. As at 31 March 2017, the three funds (Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund) were invested broadly in line with their target asset allocations, as expected.

To provide suitable investment strategies for the differing requirements of employers, **Lothian Pension Fund** currently operates two investment strategies.

Most employer liabilities are funded under Strategy 1, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The investment strategy is set at the broad asset class level of Equities, Index-Linked Gilts and Alternatives, which are the key determinants of investment risk and return.

Lothian Pension Fund Actual Asset Allocation Strategy 1 (%) at 31 March 2017

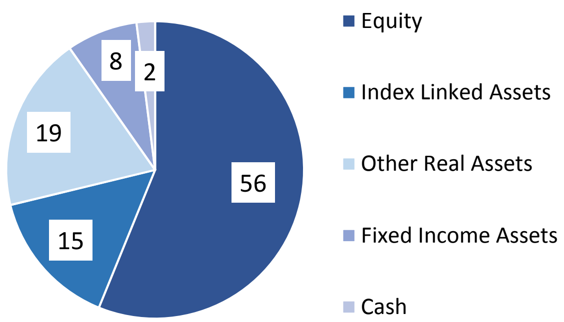


In 2015, the Pensions Committee agreed that there was no reason to amend the planned changes to Strategy 1. Lothian Pension Fund will continue to implement that strategy over 2017, and undertake a further review when the results of the 2017 actuarial valuation are available.

A small number of employers are funded in Strategy 2, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk to a level appropriate to their circumstances. The liabilities funded by Strategy 2 represent less than 1% of total Lothian Pension Fund liabilities.

For **Lothian Buses Pension Fund**, the review of strategy had greater implications. In March 2016, the Pensions Committee agreed a revised long term strategy allocation for the five-year period 2016-21. This involves making meaningful changes to asset allocation over that timeframe reflecting the requirement for greater funding stability as the Fund matures. (The Fund is closed to new entrants and is maturing at a faster pace than the Lothian Pension Fund.) In addition, as Lothian Buses Pension Fund is defined in regulations as a sub-fund of Lothian Pension Fund, the Pensions Committee agreed that the option for it to be merged into Lothian Pension Fund would be explored in consultation with stakeholders. This will be progressed during 2017, and the investment strategy implemented gradually over 2016-21.

Lothian Buses Pension Fund Actual Asset Allocation (%) at 31 March 2017

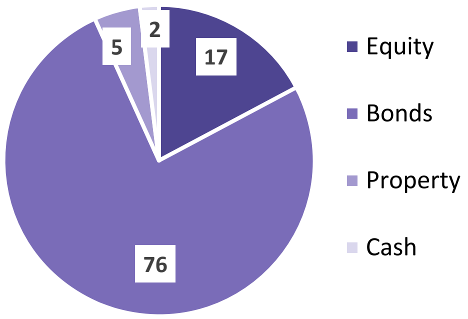


During the year to end March 2017, Lothian Pension Fund and Lothian Buses Pension Fund continued to reduce equity holdings and to make new commitments to alternative assets, including infrastructure investments in the UK and overseas. The two funds invest in private markets, selecting specialist managers to access a wide range of opportunities that are not available in the public markets. Over the past 10+ years, the funds has built a portfolio of private market assets in equity, debt, real estate, timber and especially in infrastructure, which is the largest proportion of the private market assets held and is described in more detail below. For the Lothian Buses Pension Fund, the remaining externally managed index-linked gilts mandate was brought in-house during the year to be managed internally, reducing risk and resulting in savings on ongoing investment fees.

For **Scottish Homes Pension Fund**, the strategic review concluded that a less prescriptive investment and funding strategy would allow a higher-yielding investment strategy and a more flexible approach to setting contributions from the Scottish Government.

The current investment strategy adjusts asset allocation based on the evolution of the funding level. The Fund's current strategy is bond-focused and generates an annual income yield of less than 2% and, given its maturity, it is required to sell assets on a regular basis to pay pensions.

Scottish Homes Pension Fund
Actual Asset Allocation (%) 31 March 2017



The Scottish Homes Pension Fund investment strategy was adjusted through the year as its funding level continued to improve, resulting in a reduced equity target allocation of 17.5% at 31 March 2017, compared to 30% at the previous year-end.

In addition, during March 2017, the assets previously managed by State Street were transferred to be managed internally. Management of the bond portfolios was brought in-house to improve cash-flow matching of the assets with future liability payments and management of the equity portfolios was brought in-house to improve the cash-flow generation of the equity assets.

Strategies for all three funds are implemented and monitored by an experienced internal team of investment professionals supported by external advisers. Over recent years, the internal team has expanded with very positive effects on costs and capabilities. This is reflected in two structural shifts. Firstly, the percentage of Lothian Pension Fund's listed equity assets managed internally has risen from 23% to more than 85% and most publicly traded bond assets are also now managed internally. Secondly, the Fund has altered the construction of the listed equity portfolios, increasing the global mandates from 32% to more than 85%. Despite these large changes in the Fund, performance equity returns have been ahead of benchmark by 1.5% per year over the last five years and this has been achieved with lower risk. The Fund's guiding principle is to use strong internal investment capabilities to their maximum potential and to retain external managers for specialist mandates.

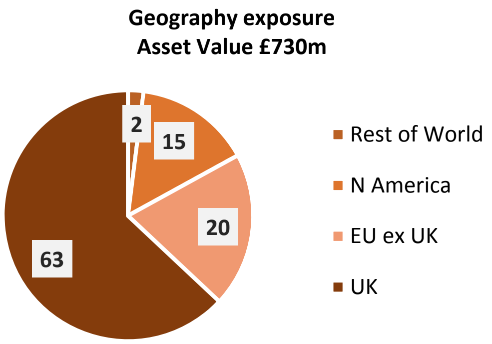
Infrastructure Investment

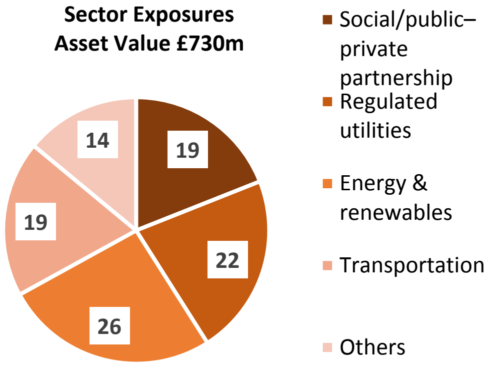
Infrastructure investment continues to receive publicity as the UK and Scottish governments encourage Local Government Pension Schemes to increase their investment in this area. Infrastructure investments may offer the potential to generate attractive risk-adjusted returns based on cash flows that are often linked to inflation and can play a diversifying role in the Funds' strategies.

Over the last decade, the Fund has developed its reputation, networking and execution capabilities to secure access to investment opportunities within this market niche. The Funds' experienced team appraises, models and invests in primary and secondary funds as well as co-investments to achieve its target allocation in a cost-effective manner. An important element of the implementation strategy is to work with managers to ensure execution certainty and to fully understand transaction fees.

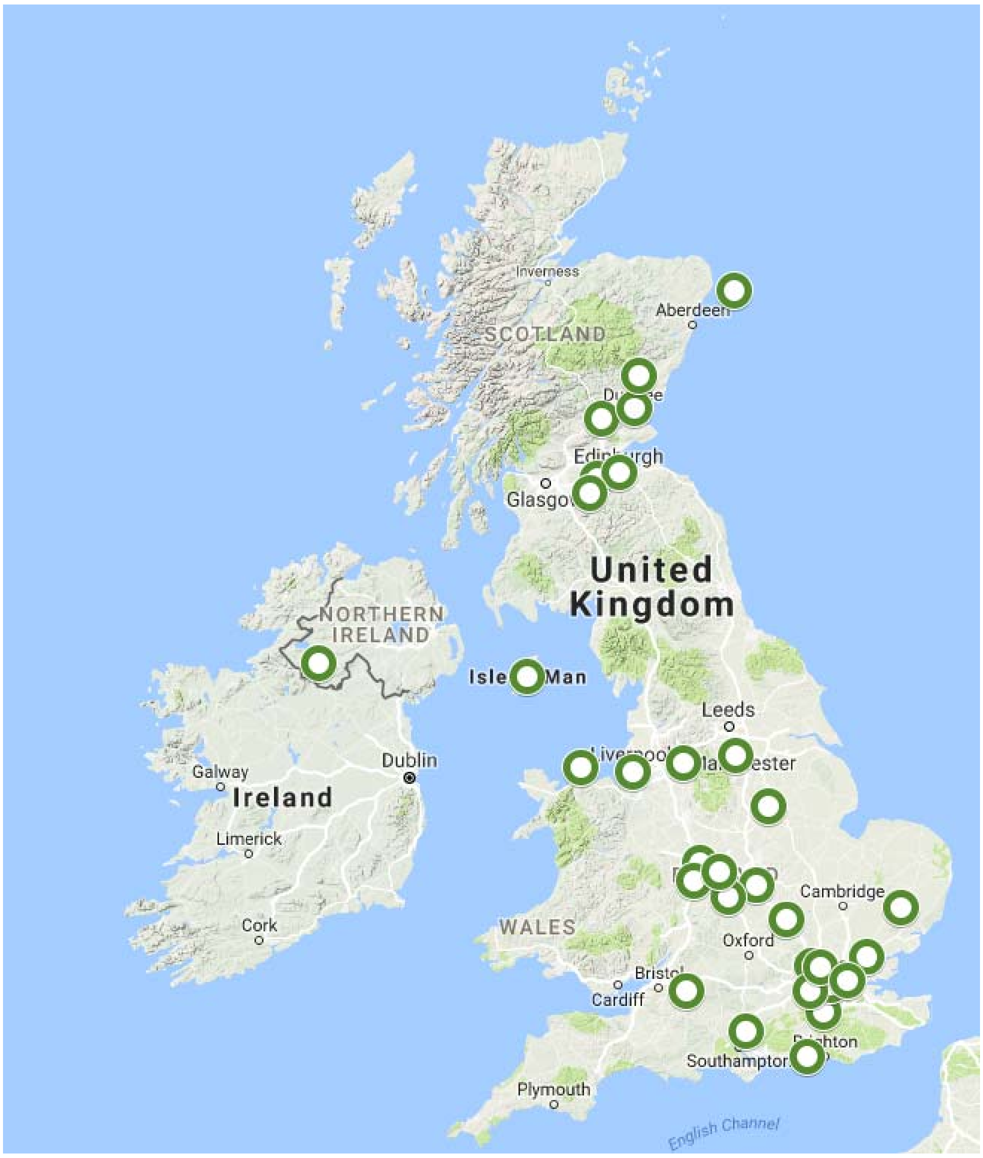
Infrastructure investments represented 10% of the value of the Lothian Pension Fund at 31 March 2017, one of the largest and most diversified allocations compared with other UK Local Government Pension Funds. Lothian Buses Pension Fund investments in infrastructure accounted for 9% at 31 March 2017. Of the combined £730 million (31 March 2016: £439m) invested in infrastructure, 63% is invested in a diverse range of projects in the UK.

Lothian Pension Fund and Lothian Buses Pension Fund combined infrastructure investment allocations are illustrated below.





The market value of infrastructure investments in the UK at 31 March 2017 was £461million. The map and table shows the location of the major UK infrastructure investments.



Location	Sector - Subsector	%
Worthing	Utility - Water	6.5
Walsall	Utility - Water	5.3
Various	Renewables - Solar	5
Manchester	Energy meters	4.7
Redhill	Roads	4.7
Livingston	Energy meters	4.6
Liverpool	Ports	4.5
Isle of Man	Utility - Gas	4.5
Perth	Renewables - Hydro	4.3
Warwick	Utility - Gas	4
London	Sewage system	3.4
Barnsley	Utility - Water	2.3
North Sea	Pipeline	2.3
London	Utility - Water	2.2
Edinburgh	Ports	2.1

Location	Sector - Subsector	%
West Lothian	Renewables - Wind	1.9
Newport Pagnell	Motorway service	1.8
Dudley	Healthcare	1.6
Winchester	Telecommunication	1.3
Dundee	Education	1.2
Suffolk	Utility - Electricity	1.2
Tayside	Healthcare	1.1
London	Utility - Gas	0.8
Birmingham	Roads	0.8
London	Roads	0.7
Nottinghamshire	Healthcare	0.7
North Wales	Utility - Electricity	0.6
Essex	Education	0.6
London	Healthcare	0.6
Corsham	Defence	0.6

During 2016/17, Lothian Pension Fund and Lothian Buses Pension Fund completed two primary fund investments, acquired two secondary fund interests at material discounts to net asset value and invested in eight co-investment and/or specified asset investment vehicles. Approximately £245 million has been invested over the year in UK, European and infrastructure assets, including UK utilities, concessions and contracted infrastructure.

Over the last year, Lothian collaborated with Falkirk Council Pension Fund on seven infrastructure investments. A staff secondment arrangement shares internal staff costs between the Funds, supporting Falkirk's strategy to increase its allocation to UK infrastructure and giving both Funds greater scale and so access to opportunities that would not have otherwise been available.

During the year, Financial Conduct Authority approval was granted to LPFI Limited to enable us to more effectively collaborate in this sector, and for Lothian to benefit from scale in the market whilst further supporting other institutional pension funds in accessing infrastructure markets.

Responsible Investment

The Funds' policy on responsible investment stems from its fiduciary duty to its members and employers, which was endorsed by a legal opinion in September 2016 on the responsibilities of Scottish Local Government Pension Scheme funds (available to view at www.lgpsab.scot). The Funds are regularly approached by groups that lobby for the divestment of the shares of companies operating in certain industries, most recently those in defence and fossil fuels. The issues raised often involve complex social, legal and moral issues.

The Fund invests only in legal businesses and is an active shareholder with a view to enhancing the long-term value of its investments. Environmental, social and governance (ESG) issues are taken into consideration 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 members and employers.

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. Share ownership brings with it the right to engage with management to affect strategic change in a positive direction. Divestment relinquishes that right. The Funds, however, do disinvest from shares where financial risk of loss is expected to outweigh reward.

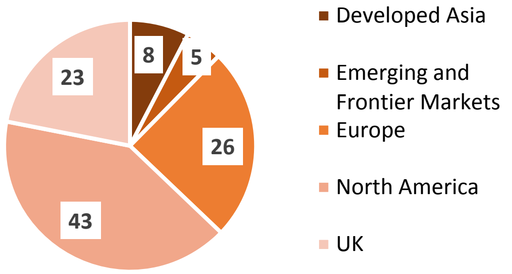
The Funds have been a signatory to the Principles for Responsible Investment (PRI) since 2008. The PRI undertakes a detailed annual assessment of the Funds and their responsible investment activities. It publishes Transparency and Assessment Reports on the Funds, both of which can be found on the Fund's website. The Assessment Report benchmarks performance against the Funds' history and against peers, and the latest report published in 2016 is very favourable. The Funds are also a Tier 1 signatory to the Financial Reporting Council (FRC) UK Stewardship Code.

During 2016/17, voting and engagement activities related to the Funds' shareholdings were largely undertaken by Hermes Equity Ownership Services (EOS). Baillie Gifford and State Street also took direct responsibility for stewardship issues for the investments they managed for the Funds.

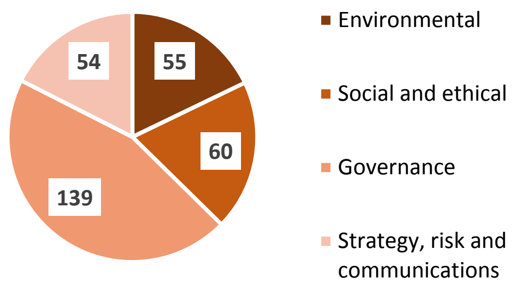
Hermes EOS collates voting and engagement data for the Funds and reports this for calendar year periods. During calendar year 2016, the Funds voted at the annual meetings of the 541 companies in which it was invested. There were votes on 7,525 resolutions, and the Fund opposed 524 of them. In addition, Hermes EOS engaged on the Funds' behalf with companies across the world on topics such as board structure, executive compensation and climate change. These are summarised in the charts below. By collaborating with Hermes and their other clients and other local authorities, the Fund's influence is much enhanced with investee companies.

Engagement activities are also undertaken on behalf of the Fund and approximately 70 other local authority pension schemes in the UK by the Local Authority Pension Fund Forum. Councillor Alasdair Rankin, Convener of the Pensions Committee, was nominated to the Executive Committee of the LAPFF. He replaces Pensions Committee Member Councillor Cameron Rose, who had served on LAPFF's Executive Committee for 10 years, latterly as Vice Chair. Membership of the LAPFF Executive entails meeting with the boards of companies and attending company Annual General Meetings to represent shareholders' interests.

105 ongoing company engagements by region



308 engagement objectives by theme



There has been notable success in engagement surrounding the 'Aiming for A' initiative that was launched last year. 'Aiming for A' seeks to implement strategies to limit man-made climate change to 2°C, and to demand that companies explain how they plan to achieve this. A resolution filed at the Chevron meeting and supporting these goals garnered over 40% votes in favour (the highest ever for a shareholder resolution for that company) and engagement with French oil company Total led to the company to announce goals in line with the 'Aiming for A' objectives.

The Fund continues to monitor the evidence on the impact of ESG on investment returns, and notes evidence that the shares of companies with improving ESG ratings provide better investments than those that are simply highly rated. As such, engaging with companies to improve ESG practices can lead to better long term outcomes for the Funds.

In summary, the Pensions Committee undertakes regular training to understand the legal responsibilities that its fiduciary duty to its members, and to its employers, entails. The Funds are committed to responsible investment with a view to raising corporate standards. It does this by voting on all stocks and engages with companies with poor corporate practices. It engages individually and collectively with other investors to maximise its influence as a shareholder to enhance shareholder returns and effect positive change for society.

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 further revised in November 2015. It can be viewed on our website at www.lpf.org.uk/publications. The Statement covers the funding strategies of each of the three Funds.

The Funding Strategy Statement will be reviewed at the 2017 Actuarial Valuation with the Actuary in consultation with employers.

The Fund is seeking to enhance the transparency of the fund assets attributable to each employer and, to that end, has introduced a system of investment unitisation (asset tracking). This enables investment assets for each employer to be tracked monthly, with the cash flow of an employer resulting in either a purchase or sale of units. The aim is to implement this change at the 2017 actuarial valuation, and data has been loaded to the system retrospectively in readiness. Another benefit of the system is that it also facilitates the future provision of more tailored investment strategies for employers if required.

Financial performance

Administrative expenses

A summary of the Funds' administrative expenditure for 2016/17, against the budget approved by Pensions Committee, is shown in the table below.

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 total net cost outturn of £8,385k against budgeted of £12,242k represented an underspending of £3,855k (31.5%) for the Funds. The key budget variances serving to generate this underspending were:-

- Investment management fees – Invoiced - £2,534k underspend. This saving arose from continued greater use of in-house investment management expertise, with assets transferred from an external global equity manager in March 2016. The budget for external fund management costs was set prior to this in-sourcing having been anticipated.
- Other third party payments - £651k underspend. This saving arose primarily from investment broker research costs continuing to be paid via commission, rather than being invoiced directly. The Funds also had an underspend on budgeted broken deal costs in relation to its co-investment infrastructure investments.
- Employees - £467k underspend. This arose from savings in unfilled posts, partly due to the timing of recruitment during the financial year.

	Approved budget	Actual outturn	Variance
	£000	**£000**	**£000**
Employees	2,906	2,439	(467)
Property	195	211	16
Plant and Transport	41	38	(3)
Supplies and Services	1,195	1,102	(93)
Investment Managers Fees - Invoiced	7,120	4,586	(2,534)
Other Third Party Payments	1,375	724	(651)
Capital funding - Depreciation	87	84	(3)
Direct Expenditure	12,919	9,184	(3,735)
Support Costs	300	265	(35)
Income	(977)	(1,062)	(85)
Total net controllable cost to the Funds	**12,242**	**8,385**	**(3,855)**

Reconciliation to total costs

	Actual outturn
	£000
Actual outturn on budgeted items above	8,385
Add back securities lending revenue included in income above	877
Investment property administration costs	559
Investment transaction costs	1,029
Investment management fees deducted from capital	20,473
Securities lending management fee	176
IAS19 LPFE retirement benefits	505
LPFE deferred tax on retirement benefits	(80)
Total cost to the Funds (inclusive of full investment management fees)	31,924
Per Fund Accounts	
Lothian Pension Fund group	29,666
Lothian Buses Pension Fund	1,978
Scottish Homes Pension Fund	280
Total	**31,924**

Cash-flow

Cashflow to and from a pension fund is very dependent upon the profile of its membership. Specifically, a maturing membership, where the proportion of active to deferred and pensioner members is reducing, would be expected to see a reduction in contributions received, together with additional outlays on payments to pensioners.

Significantly, Lothian Pension Fund experienced a net reduction in value from its dealings with members. Despite active membership numbers rising marginally, reflecting pensions auto-enrolment, pensioner numbers increased more significantly, driven mainly by continuing early retirement initiatives by employers. Outlays exceeded receipts by £9.2million representing a £20.6million change in position from 31 March 2016 (net addition of £11.4million).

As a fund which is closed to new entrants, the income and expenditure of Lothian Buses Pension Fund reflect this relative maturity. As at 31 March 2017, outlays from dealing with members remained in excess of receipts, by £2.7million for 2016/17. This represents a change of £1.4million on the position as at 31 March 2016, where net outlays totaled £1.3million. Primarily, this was the result of significant outgoings due to the early payment of retirement benefits.

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income and funding from the Scottish Government, supplemented by asset sales. Net pension outlays were £6.9million, a decrease of £0.1million (1.4%) on the previous year.

Membership statistics for the three Funds and funding statements from the Actuary are provided in the Fund accounts sections.

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code now requires that preparers have regard to CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs".

CIPFA published this guidance in July 2014, which promoted greater transparency of investment management fees. These principles were adopted as best practice in the presentation of the Lothian Pension Fund audited Annual Report 2015. In June 2016, CIPFA revised its guidance including the following "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account." The revised guidance changed the disclosure of fees for fund of funds investment arrangements. A "fund of funds" is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically fees are payable to the "fund of funds" manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees would not be disclosed with just the fees from the "fund of funds" manager stated.

In the preparation of the Funds' Annual Report for 2014/15 and 2015/16, the Funds made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The Funds disclosures included all layers of fees. At its meeting on 28 September 2016, the Pensions Committee agreed to instruct the Committee Clerk to communicate to the Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee's and Convener's disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA's revised guidance "Accounting for Local Government Pension Scheme Management Costs".

On 18 November 2016, the Scottish LGPS Scheme Advisory Board issued Circular 01/2016, entitled "Transparency Code". This stated that it welcomed the "Code of Transparency for LGPS Asset Managers", as developed by its counterpart in England and Wales, and asked "pension funds in Scotland to promote the code with their own asset managers". This Code is voluntary with asset managers encouraged to demonstrate their commitment to transparent reporting of costs. The financial statements of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund continue, however, to include full transparency of all investment management fees.

	Investment management expenses in compliance with CIPFA guidance	**Investment management expenses per 2016/17 financial statements**	**Disclosure in excess of CIPFA guidance**
	£000	**£000**	**£000**
Lothian Pension Fund	23,555	27,712	4,157
Lothian Buses Pension Fund	1,555	1,880	325
Scottish Homes Pension Fund	212	212	0
TOTAL	**25,322**	**29,804**	**4,482**

Investment cost benchmarking

In an effort to provide stakeholders with some comfort that the Fund is carefully managing and fully understands investment costs, Lothian Pension Fund provides data to a benchmarking expert for analysis. Investment strategy focuses on risk adjusted returns, net of costs. The Fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds with a database of 297 global pension funds representing £5.6 trillion in assets. To provide a fair comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis shows Lothian Pension Fund's investment costs of 0.36% of Fund assets are significantly lower than CEM's benchmark cost of 0.45%, an equivalent annual saving of approximately £4.4m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to fund-of-fund investment vehicles.

Risk management

The Funds are committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks 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 2017, the most significant risks (after taking account of risk reduction controls), as assessed using a score out of 10 by the Funds' management team, were as follows:

Description	**Impact**	**Likelihood**	**Risk score**
Adverse investment performance leading to pressure on employer contributions	5	4	20
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	5	7	35
Collapse/restructuring of an employer body leading to pressure on other employers	4	8	32
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications.	6	7	42

Performance

The Funds have a strong commitment to customer service which drives the continual development of our services to ensure the best possible service for customers whilst recognising potential demands of the future. Our vision, objectives and key actions are shown in our service plan along with how we measure their success. Our progress is reported regularly to the Pensions Committee and Pension Board.

In 2016/17 we have delivered the following achievements:

- Received Financial Conduct Authority registration of LPFI Limited
- Begun collaborative working on infrastructure with other LGPS funds
- Achieved Pensions Administration Standards Association accreditation
- Commenced implementation of investment unitisation system
- Continued work to undertake Guaranteed Minimum Pension (GMP) reconciliation with HMRC
- Continued to provide a shared service to Falkirk Pension Fund.

We also measure our performance against a set of behaviours, values and attitudes:

- We put our customers first and aim to provide the very best service
- Our people are at the very heart of our business and we work together to deliver our service
- We strive to improve our services by thinking ahead and developing new solutions
- We are committed to supporting a culture of honesty and transparency.

We put our customers first and aim to provide the very best service.

	Target	Actual
Maintain Customer Service Excellence Standard	Retain	Retained
Overall satisfaction of employers, active members and pensioners with our services as measured by surveys	88%	90%
Proportion of active members receiving a benefit statement by 31 August 2016	100%	99.6%

Customer Service Excellence

To maintain our commitment to customer service, we use the Customer Service Excellence (CSE) framework which ensures we are continuously making improvements. We are assessed annually by an external assessor and at our assessment in February 2016, we retained the CSE award for another year. We also gained an additional Compliance Plus award bringing the number held to five for areas such as complaint handling and working with employers.

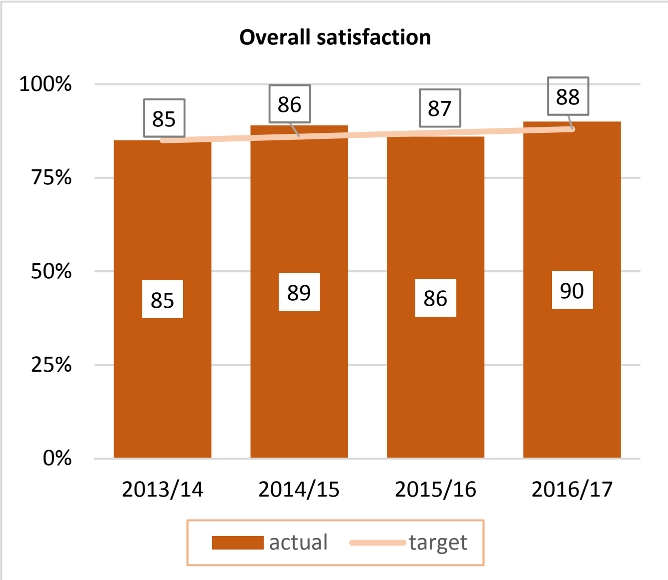
In 2017, the assessor said, “Lothian Pension Fund has been a long-term holder of both the Charter Mark and CSE standards, and this is clearly shown in the outcome of this year's rolling programme review. The service has continued to show that it consults with its customers and adapts its services to reflect their growing expectations. The approach to complaints resolution continues to be of the highest standard, and the service demonstrated a robust approach to root cause analysis to prevent repetition of failures.”

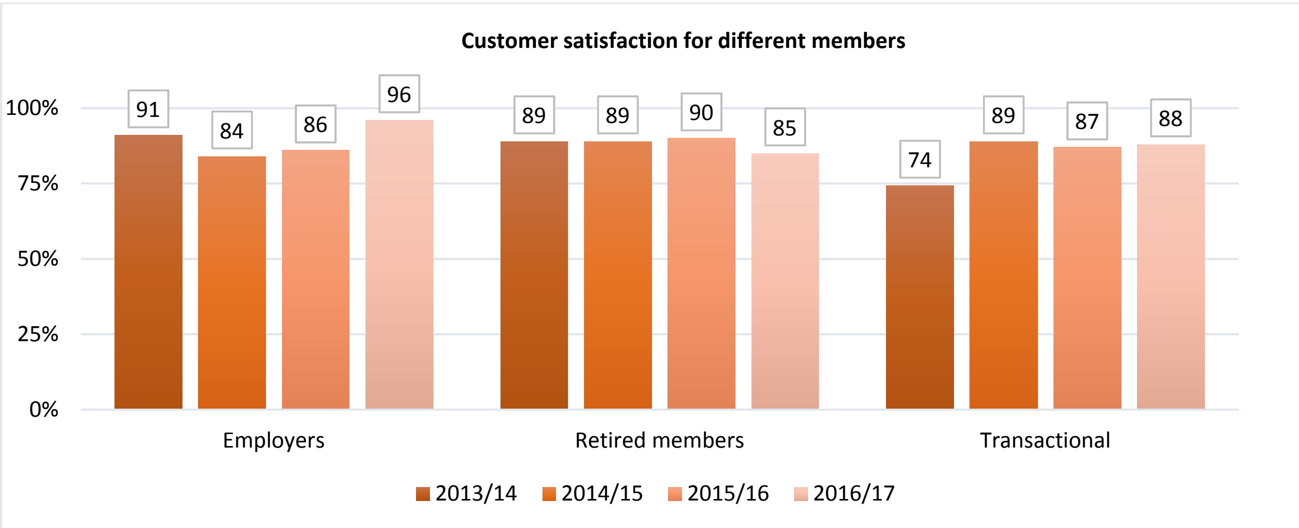
Customer satisfaction

Our overall customer satisfaction has increased steadily over recent years and was 90% in 2016/17, exceeding the target of 88%.

The chart below shows the satisfaction of different customer groups.

We received over 7,300 emails about general pension issues and have worked hard to improve our service provided via email by improving the quality of responses and reducing the time taken to respond. We also received over 6,000 emails about registering for our online service with some members reporting difficulties registering for the service. We have worked with our IT supplier to address these issues.





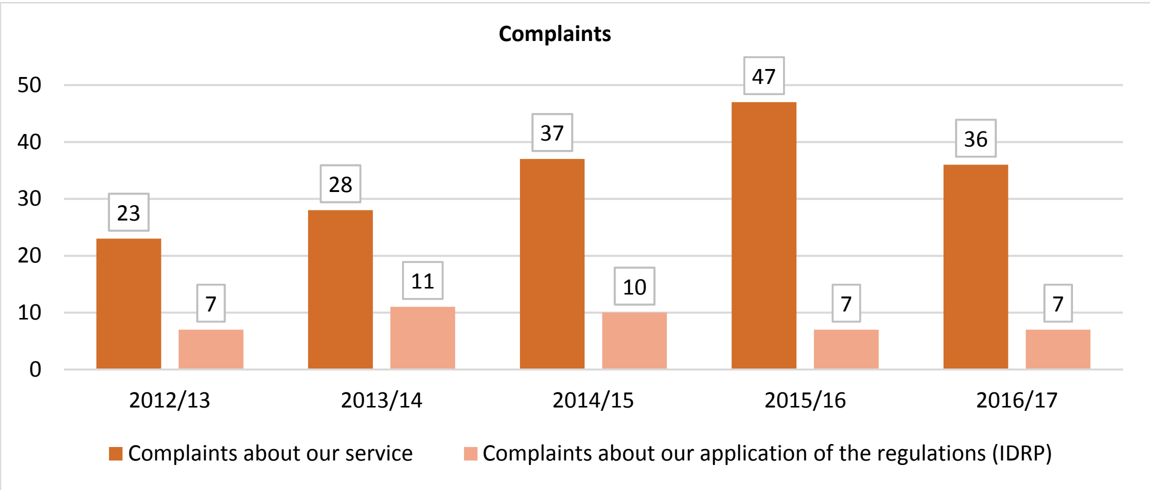
Complaints

We monitor complaints we receive and ensure they are responded to promptly. We investigate and learn from complaints 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 23,000) we carried out in 2016/17.

The Funds responds, and where possible resolves, complaints within 20 working days. In 2015/16, there was an increase in complaints resulting from delays in processing requests to transfer out of the fund. This year, the number of complaints has reduced and related to a broader range of issues including the differences in pension entitlements, late payment of benefits and changes to the State Pension and ending of contrating out.



Annual benefit statements and data quality

We issued 99.6% of benefit statements by 31 August 2016 meeting The Pension Regulator's target for the issuing benefit statements. A small number of statements were not issued where the member was employed on a casual basis prior to March but did not do any work up to the end of the year. During the year, most employers submitted monthly contribution data to the Funds, leading to cleaner membership data, quicker services to members and fewer queries at the end of the year. Three employers who did not supply data to us monthly had a fine imposed under section 8.2 of our Pensions Administration Strategy.

Along with our employer web portal, introduced to assist with the transfer of data, we have adopted other initiatives to improve member information. We use Tell Us Once, the Department of Work and Pension service which allows the relatives of a person who has died to inform central and local government services of the death all at one time rather than having to contact each service individually. We also participate 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.

Following the end of contracting-out of the Second State Pension (S2P) on 5 April 2016, pension schemes need to reconcile the Guaranteed Minimum Pension (GMP) values they hold for members with those calculated by HMRC. Schemes will be obliged to pay whatever GMPs are attributed to them, even those that may be incorrectly calculated or have been transferred out. An initial assessment shows 54% of member records matching those of the Government's and reconciliation is underway for the remainder.

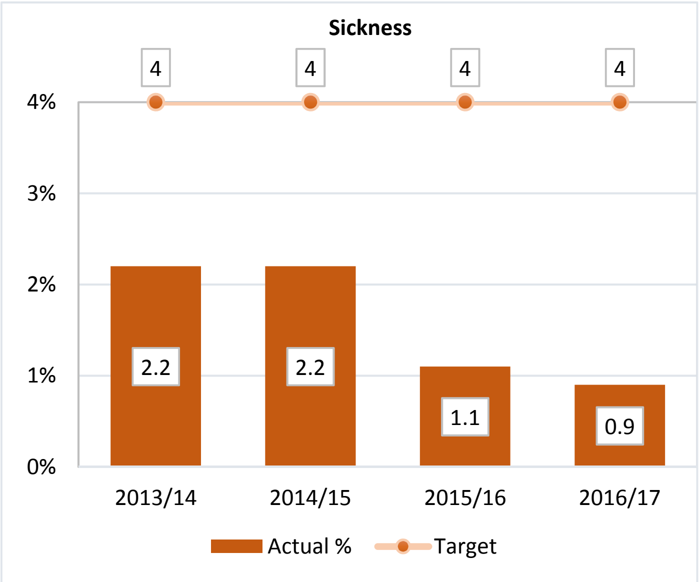
Our people are at the very heart of our business and we work together to deliver our service.

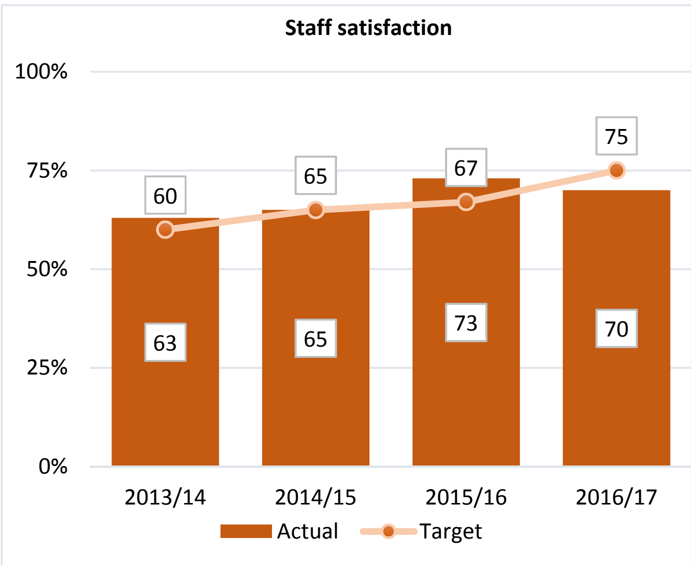
	Target	Actual
All staff complete at least two days training a year	Yes	Yes
Level of sickness absence	4%	0.9%
Staff survey satisfaction	75%	70%

Over the last financial year, staff participated in regular training. As well as attendance at external seminars and studying for qualifications, we held in-house sessions covering topics such as investments, annual accounts and funding.

The sickness absence rate was very low again at 0.9%.

We also participate in the Modern Apprentice programme, which offers paid employment and workplace training for those who have left school in the past three years, and the Job, Education and Training Programme (JET) for school pupils which is a work-based learning programme which combines school education with vocational training and real-life work experience.





In our annual staff survey in 2016, 96% of staff responded with overall satisfaction decreasing marginally from 73% to 70% which is lower than the target of 75%. The graph shows the comparison figures since 2013/14.

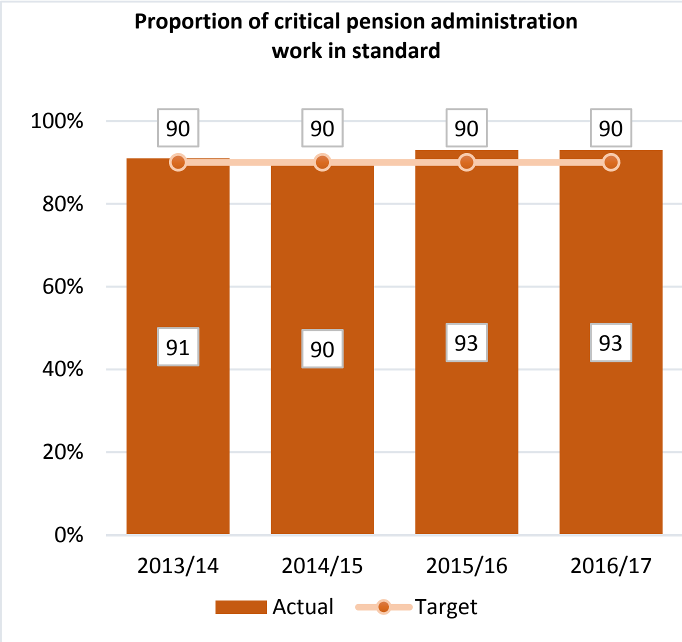
This year's survey also included questions regarding views on collaboration with other pension funds. 86% said they understood the reasons for collaboration and 66% felt that Lothian Pension Fund should look to collaborate with other funds.

We strive to improve our services by thinking ahead and developing new solutions.

	Target	Actual
Proportion of critical pensions administration work completed within standards	Greater than 90%	93%

Our in-house pension administration team provides a dedicated service for the three pension Funds. We monitor the time taken to complete our procedures. Key procedures include processing of retirement and dependent benefits, providing information for new members, transfers and retirement quotes.

The introduction of the career average pension scheme in April 2015 has meant that pension administration has become more complex for both the Fund and employers. We continue to review our processes to improve our performance so that the Fund can meet new challenges and deliver an excellent service to members.



Despite the challenging environment, 93% of key procedures in 2016/17 were completed in target.

The Pensions Administration Strategy sets out the roles and responsibilities of both the Funds and employers specifying the levels of services the parties will provide to each other, and making reference to four key areas where the Funds will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Funds with information required to provide members with pensions savings statements
- Failure to provide details of member contributions on a monthly basis.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the new career average pension scheme and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme regulations whilst other charges have been set to reflect the additional time spent in resolving queries and pursuing late information.

The Funds monitors employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers by way of an annual performance, with more regular reporting for larger employers.

Overall employer performance for 2016/17 is shown below, with 2015/16 shown for comparison purposes.

		2015/16			2016/17		
Case type	**Target (working days)**	**Number received**	**Number within target**	**% within target**	**Number received**	**Number within target**	**% within target**
New members	20	4,653	4,074	**88%**	4,737	4,052	**86%**
Leavers	20	2,377	1,207	**51%**	3,425	1,421	**42%**
Retirements	20	1,156	398	**34%**	1,244	440	**35%**
Deaths in Service	10	40	11	**28%**	29	21	**72%**

The majority of new member information continued to be received within target and the increase in numbers is due to auto-enrolment. Information provided within the 20-day target of the member leaving fell this year. As part of the Fund's drive to improve data, over 1,000 members who had left without the employer supplying details have been targeted within the last six months and we appreciate the support and effort employers have made to address this issue.

Retirement information was provided late than target in a significant proportion of cases and the primary reason for this was due to employers making decisions at short notice for cases such as voluntary redundancy. We have introduced a process for large scale early retirement exercises to handle up to 500 quotes in one quarter with our online facility allowing members to see potential benefits before applying for voluntary redundancy. This has significantly reduced work for both employers and the Funds reducing the numbers who apply speculatively. We also provide voluntary redundancy estimates online and email members the answer to frequently asked questions to help them understand their options.

honest and transparent

We are committed to supporting a culture of honesty and transparency.

	Target	**Actual**
Audit of Annual Report and Financial Statements	Unqualified opinion	Yes
Monthly pension payroll paid on time	Yes	Yes
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant	YES
Contributions received within 19 days of the end of the month to which they relate	99.0%	99.3%

Our 2015/16, Annual Report and Financial Statements were audited by Audit Scotland and received an unqualified audit. The Funds also paid over £216million of pension benefits and lump sums to our members, primarily into the local economy where most of our members live.

Pension record keeping standards are measured against The Pension Regulator's best practice guidance. The Pension Regulator has amended their guidance and now does not provide a target. However, for this year we have used the target set previously. Significant work has been complete to ensure data is up to date. We have also carried out tracing of members where we do not hold a current address. An action plan to meet the additional guidance going forward will be prepared with overall and individual targets set in the future to give a clear indication of any areas that require further work.

	Target	Actual
Common data	100%	99.9%
Conditional and numerical data Fund specific measurement including date of joining, pensionable remuneration, date of leaving and reasons for leaving etc.	98%	99.9%

The Pensions Act 1995 requires employers to pay pension contributions by the 19th of the month following the deduction from an employee's pay. This requirement is highlighted in the Fund's Pensions Administration Strategy. We monitor this requirement via our key performance indicators to ensure compliance with the Act. The target for 2016/17 year was 99% pension contributions paid in time. 99.3% of contributions by value were paid on time. Of the 1,180 payments made to the Fund in 2016/17, in total 46 were paid later than the target of the 19th of the month. The number of late payments for each employer is provided below.

Employer	Number of late payments	Employer	Number of late payments
Baxterstorey	1	Homes for Life	1
Canongate Youth [1]	2	Keymoves	1
Centre for Moving Image	1	Mitie	1
Dean Orphanage	3	Museums Galleries Scotland	1
Donaldson Trust	2	Open Door Accommodation Project	1
Edinburgh Leisure	2	Pilton Equalities Project	2
Edinburgh Rape Crisis Centre [1]	1	Police Scotland	2
Edinburgh World Heritage Trust	1	Royal Edinburgh Military Tattoo	2
Enjoy East Lothian	4	Scotland's Learning Partnership [1]	5
Festival City Theatres Trust [1]	2	Scottish Futures Trust	1
Forth and Oban	1	Skanska [1]	3
Four Square	1	Victim Support Scotland	1
Granton Information Centre	1	Visit Scotland	1
Homeless Action Scotland	2	**TOTAL**	**46**

[1] includes contributions paid in part

Management commentary approved by:

ANDREW KERR	**CLARE SCOTT**	**JOHN BURNS**
Chief Executive	**Chief Executive**	**Chief Financial Officer**
The City of Edinburgh Council	**Lothian Pension Fund**	**Lothian Pension Fund**
27 September 2017	**27 September 2017**	**27 September 2017**

Lothian Pension Fund

Lothian Pension Fund membership

	Active	Deferred	Pensioners	Dependants	Total
31 March 2014	30622	16482	19972	3770	70846
31 March 2015	32273	15916	20636	3810	72635
31 March 2016	32079	17444	21371	3849	74743
31 March 2017	32457	17299	22315	3842	75913

Investment Strategy

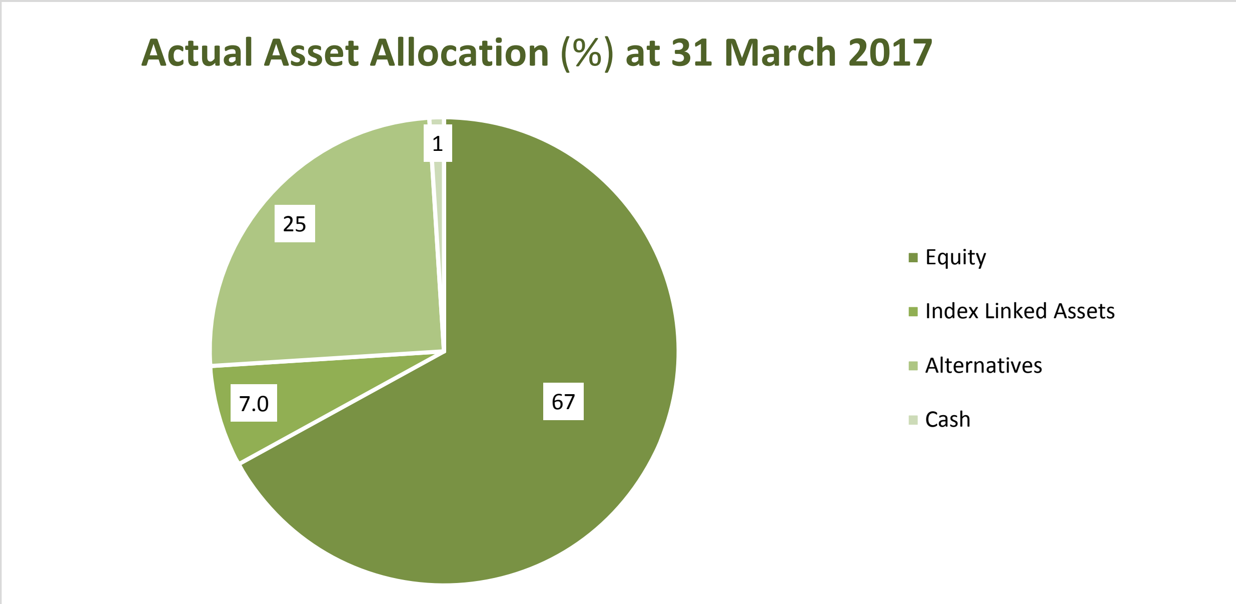
Following completion of the 2014 Actuarial Valuation, the Investment Strategy Panel and Pensions Committee reviewed the Fund's investment strategy in light of developments in pension fund membership, expected cash flow, funding level, investment risk and returns.

Lothian Pension Fund manages two investment strategies, which provides employers with access to an appropriate level of risk dependent on their individual characteristics (covenant strength, funding position, liability profile and time horizon). Most employer liabilities are funded in Strategy 1, which invests in a diversified portfolio of assets that are expected to generate positive real returns over the long term, but which will be volatile over shorter periods. Employers accounting for less than 1% of the Fund's liabilities are funded on a 'gilts' basis in Strategy 2, which invests in a portfolio of index-linked gilts to minimise risk for these employers.

Following completion of the 2014 Actuarial Valuation, the Fund's Investment Strategy was reviewed. The Pensions Committee agreed in December 2015 that the Investment Strategy 2012-17 remained appropriate for the vast majority of employer liabilities. This strategy, Strategy 1, 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 assets and alternatives. (Alternatives include property, infrastructure, timber and fixed income assets, such as corporate bonds and other debt investments.) The strategy recognises a gradually changing risk profile for the Fund, but retains significant exposure to investments, such as index-linked assets and equities, which have a history of protecting or enhancing purchasing power after the effects of inflation have been taken into account.

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.

Strategy 1	Strategic Allocation 31/03/2017 %	Long term Strategy 2012 - 2017 %	Permitted ranges %
Equities	66	65	50 - 75
Index Linked Assets	7	7	0 - 20
Alternatives	26.5	28	20 - 35
Cash	0.5	0	0 - 10
Total	**100**	**100**	**n/a**



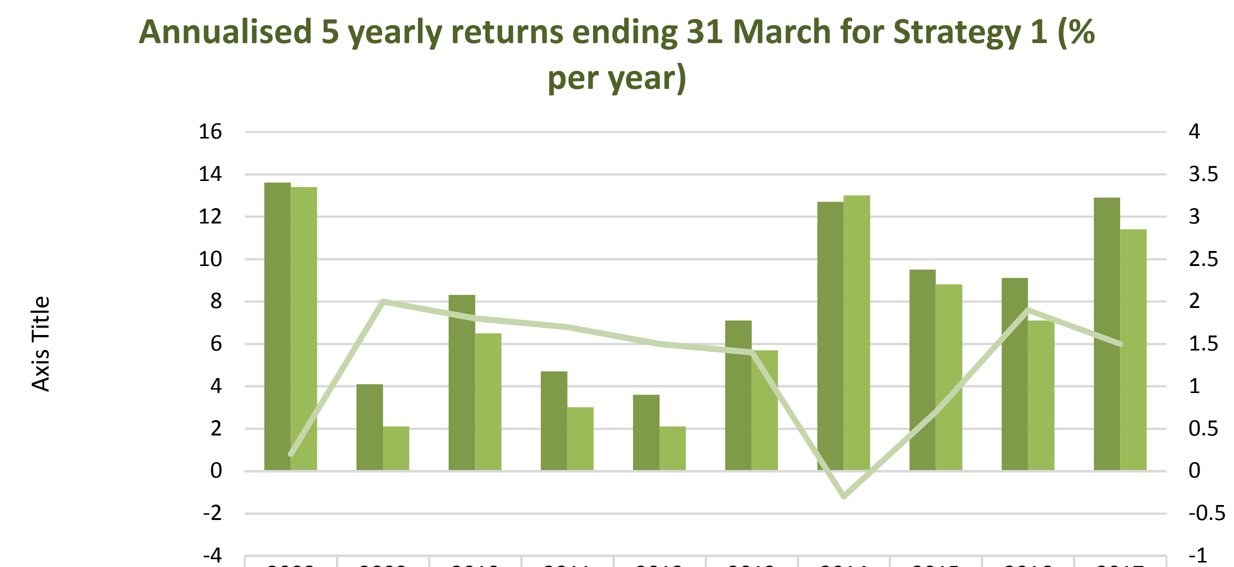
The implementation of the Investment Strategy 2012-17 continued to proceed at a measured pace over 2016/17 as investment opportunities became available and as research on opportunities was completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual 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 investment opportunities.

A key objective of the Fund's investment strategy is to reduce risk, including risk within the equity pool of assets, and has involved a shift from a regional to a global manager structure. Significant steps have been taken in this regard in prior years. As such, 2016/17 represented much more of a "steady state" in terms of the structure within the equity exposure. The only notable change to report over the year was within one of the internally managed regional portfolios. The Europe (ex UK) is being managed using an investment process created by the internal portfolio management team. Almost 90% of the Fund's equities are now 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 a small proportion of investment management services which complement the portfolio strategies employed internally.

Investment performance

Annualised returns to 31 March 2017 (% per year)	1 year	5 year	10 years
Lothian Pension Fund - Strategy 1	21.7	12.9	8.2
Benchmark*	24.8	11.4	6.6
Lothian Pension Fund - Strategy 2 (from 2015)	19.9	-	-
Benchmark	19.9	-	-
Actuarial Valuation Assumptions - Strategy 1 **	5.0	5.5	5.8
Actuarial Valuation Assumptions - Strategy 2 **	3.5	4.9	5.5
Retail Price Index (RPI)	3.1	2.3	2.8
Consumer Price Index (CPI)	2.3	1.4	2.3
National Average Earnings	2.4	1.9	2.0

*Comprises equity, index-linked gilts and cash indices as well as an inflation-linked index for the alternatives allocation
**estimated



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	13.6	4.1	8.3	4.7	3.6	7.1	12.7	9.5	9.1	12.9
Benchmark	13.4	2.1	6.5	3	2.1	5.7	13	8.8	7.1	11.4
Relative (RHS)	0.2	2	1.8	1.7	1.5	1.4	-0.3	0.7	1.9	1.5

The objectives of the Fund 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.

Lothian Pension Fund's assets have increased by £1,161million, with investments returning 21.7% over the year, slightly behind the benchmark of 24.8%. The internal team manages a significant proportion of assets of all three pension funds in-house. For Lothian Pension Fund this includes approximately £3.4billion of listed equity assets and a currency hedging programme specifically designed to provide downside protection in times of market stress while participating in some, though not necessarily all, of any upward movement. The underperformance relative to the benchmark this year follows on from a period of significant outperformance (+6.2%) in the prior year (2015/16) and over longer term periods the Fund is meeting its objective, exceeding the benchmark but with lower volatility.

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 true value and returns on the unlisted investments in the Alternatives portfolio will not be known until assets are realised, perhaps not for several years. Investments are made in Alternative asset classes due to the attractive expected long-term returns and the diversification they provide. Additionally, the low risk equity exposure is specifically designed to provide downside protection in times of market stress while participating in some, though not necessarily all, of any upward movement. It is therefore likely that returns may deviate meaningfully from the benchmark over shorter time periods. 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.

Lothian Pension Fund Group

Fund Account for year ended 31 March 2017

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

Lothian Pension Fund Parent 2015/16 £000	Lothian Pension Fund Group 2015/16 £000		Note	Lothian Pension Fund Parent 2016/17 £000	Lothian Pension Fund Group 2016/17 £000
		Income			
159,872	159,872	Contributions from employers	4	153,735	153,735
42,800	42,800	Contributions from members	5	42,578	42,578
2,780	2,780	Transfers from other schemes	6	5,536	5,536
205,452	**205,452**			**201,849**	**201,849**
		Less: expenditure			
133,624	133,624	Pension payments including increases	7	141,778	141,778
46,315	46,315	Lump sum retirement payments	8	48,895	48,895
5,336	5,336	Lump sum death benefits	9	6,384	6,384
519	519	Refunds to members leaving service		615	615
417	417	Premiums to State Scheme		361	361
6,075	6,075	Transfers to other schemes	10	11,098	11,098
1,743	1,766	Administrative expenses	11a	1,895	1,954
194,029	**194,052**			**211,026**	**211,085**
11,423	**11,400**	**Net (withdrawals)/additions from dealing with members**		**(9,177)**	**(9,236)**
		Returns on investments			
134,113	134,113	Investment income	12	153,016	153,016
216,646	216,646	Change in market value of investments	14, 20b	1,044,952	1,044,952
(34,400)	(34,520)	Investment management expenses	11b	(27,375)	(27,712)
316,359	**316,239**	**Net returns on investments**		**1,170,593**	**1,170,256**
327,782	**327,639**	**Net increase in the Fund during the year**		**1,161,416**	**1,161,020**
5,106,232	5,106,232	**Net assets of the Fund at 1 April 2016**		5,434,014	5,433,871
5,434,014	**5,433,871**	**Net assets of the Fund at 31 March 2017**		**6,595,430**	**6,594,891**

Lothian Pension Fund Group

Net Assets Statement as at 31 March 2017

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund Parent 31 March 2016 £000	Lothian Pension Fund Group 31 March 2016 £000		Note	Lothian Pension Fund Parent 31 March 2017 £000	Lothian Pension Fund Group 31 March 2017 £000
		Investments			
5,413,590	5,413,590	Assets		6,570,547	6,570,547
(14,627)	(14,627)	Liabilities		(1,798)	(1,798)
5,398,963	**5,398,963**	**Net investment assets**	**13**	**6,568,749**	**6,568,749**
		Non current assets			
451	451	Debtors	**24**	259	259
332	332	Computer systems		248	248
-	-	Share Capital		50	-
-	36	Deferred tax	**29b**	-	117
783	**819**			**557**	**624**
		Current assets			
4,287	4,287	The City of Edinburgh Council	**28**	4,467	4,467
41,327	41,331	Cash balances	**21, 28**	27,278	27,362
12,670	12,703	Debtors	**25**	14,938	14,965
58,284	**58,321**			**46,683**	**46,794**
		Non current liabilities			
-	(180)	Retirement benefit obligation	**30**	-	(685)
-	**(180)**			**-**	**(685)**
		Current liabilities			
(24,016)	(24,052)	Creditors	**26**	(20,559)	(20,591)
(24,016)	**(24,052)**			**(20,559)**	**(20,591)**
5,434,014	**5,433,871**	**Net assets of the Fund at 31 March 2017**		**6,595,430**	**6,594,891**

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

JOHN BURNS FCMA CGMA

Chief Finance Officer, Lothian Pension Fund

27 September 2017

<u>Notes to the net asset statement</u>

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 Funds can be found on page 112.

2 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Lothian Buses Pension Fund and Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as "Parent" and after consolidation as "Group". In the notes to the accounts, where there is a difference between the parent and group figures they are identified as either "Parent " or "Group".

Note	Description
28	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
29a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
29b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
30	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

3 Events after the Reporting Date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

Notes to the Accounts

4 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:-

By category	2015/16 £000	2016/17 £000
Future service rate	133,035	133,301
Past service deficit	7,357	7,668
Strain costs	9,984	12,558
Cessation contributions	9,496	208
	159,872	153,735

By employer type	2015/16 £000	2016/17 £000
Administering Authority	63,459	63,542
Other Scheduled Bodies	77,198	71,426
Community Admission Bodies	18,784	18,312
Transferee Admission Bodies	431	455
	159,872	153,735

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the "future service rate", which is expressed as a percentage of payroll and;
- an adjustment for the solvency of the Fund based on the benefits already accrued. If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll and are payable on a monthly basis that is one twelfth of the annual total.

Where an employer makes certain decisions which result in 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 cessation contributions.

5 Contributions from members

By employer type	2015/16 £000	2016/17 £000
Administering Authority	16,389	15,345
Other Scheduled Bodies	20,226	20,993
Community Admission Bodies	6,074	6,099
Transferee Admission Bodies	111	141
	42,800	42,578

6 Transfers in from other pension schemes

	2015/16 £000	2016/17 £000
Group transfers	-	-
Individual transfers	2,780	5,536
	2,780	5,536

Notes to the Accounts

7 Pensions payable

By employer type	2015/16 £000	2016/17 £000
Administering Authority	65,447	70,547
Other Scheduled Bodies	56,115	58,364
Community Admission Bodies	11,902	12,687
Transferee Admission Bodies	160	180
	133,624	141,778

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 which 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.

8 Lump sum retirement benefits payable

By employer type	2015/16 £000	2016/17 £000
Administering Authority	27,160	26,340
Other Scheduled Bodies	15,336	18,503
Community Admission Bodies	3,685	3,900
Transferee Admission Bodies	134	152
	46,315	48,895

9 Lump sum death benefits payable

By employer type	2015/16 £000	2016/17 £000
Administering Authority	2,745	2,578
Other Scheduled Bodies	1,964	3,312
Community Admission Bodies	627	488
Transferee Admission Bodies	-	6
	5,336	6,384

10 Transfers out to other pension schemes

	2015/16 £000	2016/17 £000
Group transfers	-	173
Individual transfers	6,075	10,925
	6,075	11,098

Notes to the Accounts

11a Administrative expenses

	LPF Parent 2015/16 £000	LPF Group 2015/16 £000	LPF Parent 2016/17 £000	LPF Group 2016/17 £000
Employee Costs	992	994	1,093	1,098
The City of Edinburgh Council - other support costs	133	133	132	132
System costs	228	228	231	231
Actuarial fees	50	50	64	64
External audit fees	44	44	41	49
Legal fees	15	15	60	60
Printing and postage	77	77	79	79
Depreciation	57	57	57	57
Office costs	108	108	110	110
Sundry costs less sundry income	39	39	28	18
IAS19 retirement benefit adjustments - see note 30	-	27		66
Deferred tax on retirement benefit obligation - see note 29a	-	(6)		(10)
Corporation tax losses utilised by CEC group - see note 28	-	-	-	-
	1,743	1,766	1,895	1,954

The Investment and Pensions Service of the Council is responsible for administering the three pension Funds. The Service receives an allocation of the overheads of the Council. In turn the Service 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.

11b Investment management expenses

	LPF Parent 2015/16 £000	LPF Group 2015/16 £000	LPF Parent 2016/17 £000	LPF Group 2016/17 £000
External management fees -				
invoiced	7,123	7,123	3,970	3,970
deducted from capital (direct investment)	15,603	15,603	15,245	15,245
deducted from capital (indirect investment)	6,775	6,775	4,157	4,157
Securities lending fees	212	212	155	155
Transaction costs - Equities	2,201	2,201	956	956
Property operational costs	497	497	558	558
Employee costs	961	963	1,116	1,149
Custody fees	304	304	300	300
Engagement and voting fees	76	76	82	82
Performance measurement fees	46	46	50	50
Consultancy fees	78	78	64	64
System costs	185	185	245	245
Legal fees	103	103	210	210
The City of Edinburgh Council - other support costs	124	124	111	111
Depreciation	7	7	7	7
Office costs	71	71	85	85
Sundry costs less sundry income	34	34	64	(1)
IAS19 retirement benefit adjustments - see note 30	-	153	-	439
Deferred tax on retirement benefit obligation - see note 29	-	(30)	-	(70)
Corporation tax losses utilised by CEC group - see note 28	-	(5)	-	-
	34,400	34,520	27,375	27,712

11b Investment management expenses (cont)

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 14 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £4.0m (£3.9m direct, £0.1m indirect) in respect of performance-related fees compared to £12.0m in 2015/16 (£7.9m direct, £4.1m indirect).

It should be noted that Lothian Pension Funds disclosure on investment management fees goes further than CIPFA's LGPS Management Cost revised guidance on cost transparency which came into effect from 1st April 2016. Consistent with previous years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found on page 19. This further disclosure highlights an extra £4.2m in costs (2016 £6.8m).

11c Total management expenses

	LPF Parent 2015/16 £000	LPF Group 2015/16 £000	LPF Parent 2016/17 £000	LPF Group 2016/17 £000
Administrative costs	1,570	1,582	1,686	1,719
Investment management expenses	32,814	32,900	26,345	26,592
Oversight and governance costs	1,759	1,804	1,239	1,355
	36,143	36,286	29,270	29,666

In accordance with CIPFA, the above analysis looks at the combined administration and investment management expenses in note 11a and b and splits out the costs to include a third heading covering oversight and governance expenditure.

12 Investment income

	2015/16 £000	2016/17 £000
Income from fixed interest securities	3,898	3,589
Dividends from equities	94,637	120,326
Unquoted private equity and infrastructure	13,581	5,646
Income from pooled investment vehicles	1,026	1,111
Gross rents from properties	20,914	23,085
Interest on cash deposits	1,237	597
Stock lending and sundries	1,142	775
	136,435	155,129
Irrecoverable withholding tax	(2,322)	(2,113)
	134,113	153,016

Notes to the Accounts

13 **Net investment assets**

Investment Assets	Region	31 March 2016 £000	31 March 2017 £000
Bonds			
Public sector fixed interest	Overseas	153,740	-
Public sector fixed interest	UK	-	156,876
Public sector index linked gilts quoted	UK	380,290	502,439
		534,030	659,315
Equities			
Quoted	UK	561,064	655,522
Quoted	Overseas	2,887,886	3,564,953
		3,448,950	4,220,475
Pooled investment vehicles			
Private equity, infrastructure, private debt & timber	UK	165,547	457,647
Private equity, infrastructure, private debt & timber	Overseas	550,617	556,623
Property	UK	82,453	67,969
Other	UK	17,275	19,191
		815,892	1,101,430
Properties			
Direct property	UK	356,281	356,741
		356,281	356,741
Derivatives			
Derivatives - forward foreign exchange		-	1,081
		-	1,081
Cash deposits			
Deposits		227,409	216,036
		227,409	216,036
Other investment assets			
Due from broker		18,648	1,320
Dividends and other income due		12,380	14,521
		31,028	15,841
Total investment assets		5,413,590	6,570,919
Investment liabilities			
Derivatives			
Derivatives - forward foreign exchange		(13,183)	(424)
		(13,183)	(424)
Other financial liabilities			
Due to broker		(1,444)	(1,746)
		(1,444)	(1,746)
Total investment liabilities		(14,627)	(2,170)
Net investment assets		5,398,963	6,568,749

Notes to the Accounts

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2016 £000	Purchases at cost & derivative payments £000	Sale & derivative receipts £000	Change in market value £000	Market value at 31 March 2017 £000
Bonds	534,030	596,611	(595,768)	124,442	659,315
Equities	3,448,949	591,687	(573,782)	753,621	4,220,475
Pooled investment vehicles	815,893	266,289	(140,168)	159,416	1,101,430
Property	356,280	4,675	(2,358)	(1,856)	356,741
Derivatives - futures	-	(484)	(7,113)	7,597	-
Derivatives - forward foreign exchange	(13,183)	42,385	(8,823)	(19,722)	657
	5,141,969	1,501,163	(1,328,012)	1,023,498	6,338,618
Other financial assets / liabilities					
Margin balances	-			-	-
Cash deposits	227,409			21,837	216,036
Broker balances	17,205			(383)	(426)
Dividend due etc	12,380			-	14,521
	256,994			21,454	230,131
Net financial assets	5,398,963			1,044,952	6,568,749

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.

	Market value at 31 March 2015 £000	Purchases at cost & derivative payments £000	Sale & derivative receipts £000	Change in market value £000	Market value at 31 March 2016 £000
Bonds	414,330	308,910	(202,855)	13,645	534,030
Equities	3,267,975	1,256,575	(1,143,580)	67,979	3,448,949
Pooled investment vehicles	633,040	141,787	(81,080)	122,146	815,893
Property	316,169	25,153	(2,295)	17,253	356,280
Derivatives - futures	-	5	87	(92)	-
Derivatives - forward foreign exchange	29,800	4,316	(40,895)	(6,404)	(13,183)
	4,661,314	1,736,746	(1,470,618)	214,527	5,141,969
Other financial assets / liabilities					
Margin balances	-			-	-
Cash deposits	400,497			1,751	227,409
Broker balances	(384)			368	17,205
Dividend due etc	11,157			-	12,380
	411,270			2,119	256,994
Net financial assets	5,072,584			216,646	5,398,963

Notes to the Accounts

14d Reconciliation of fair value measurements within level 3

Pooled investments	Market value at 31 March 2016	Level 3 transfers in	Level 3 transfers out	Purchases at cost & derivative payments	Sales & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2017
Infrastructure	384,028	-	-	260,926	(57,620)	63,921	11,939	663,194
Property	64,743	-	-	5,492	(25,306)	(19,320)	19,811	45,420
Private Equity	168,904	-	-	6,939	(72,534)	(30,882)	56,884	129,311
Timber	125,313	-	-	-	(11,956)	2,491	16,684	132,532
Private debt	37,919	-	-	52,535	(3,866)	23	2,622	89,233
Freehold Property	348,375	-	-	3,955	-	(1,832)	-	350,498
Unlisted equity	566	-	-	-	-	-	(566)	-
	1,129,848	-	-	329,847	(171,282)	14,401	107,374	1,410,188

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

15 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2017

Contract settlement within	Currency bought	Currency sold	Local currency bought 000	Local currency sold 000	Asset value £000	Liability value £000
Up to one month	GBP	AUD	54,622	90,014	-	(261)
Up to one month	GBP	CAD	99,825	164,694	1,081	-
Up to one month	CAD	GBP	4,872	3,033	-	(112)
Up to one month	USD	JPY	28	3,116	-	-
One to six months	USD	AUD	868	1,186	-	(29)
One to six months	USD	CHF	4,154	4,143	-	(22)

	Asset value £000	Liability value £000
Open forward currency contracts at 31 March 2017	1,081	(424)
Net forward currency contracts at 31 March 2017		657
Prior year comparative		
Open forward currency contracts at 31 March 2016	-	(13,183)
Net forward currency contracts at 31 March 2016		(13,183)

The above table summarises the contracts held by maturity date, all contracts are traded on an over-the-counter basis.

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.

Notes to the Accounts

16 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
In-house	UK all cap equities	106,884	2.0	130,362	2.0
In-house	UK mid cap equities	105,980	2.0	121,061	1.8
Total UK equities		212,864	4.0	251,423	3.8
In-house	European ex UK equities	105,479	2.0	120,393	1.8
In-house	US equities	117,119	2.2	150,941	2.3
Total regional overseas equities		222,598	4.2	271,334	4.1
In-house	Global high dividend	759,254	14.1	928,720	14.1
In-house	Global low volatility	966,835	17.8	1,162,921	17.7
In-house	Global value	824,967	15.2	985,286	15.0
Harris	Global equities	186,652	3.5	263,263	4.0
Nordea	Global equities	223,912	4.1	280,815	4.3
Total global equities		2,961,620	54.7	3,621,005	55.1
In-house	Currency hedge	(12,370)	(0.2)	708	-
Total currency overlay		(12,370)	(0.2)	708	-
Total listed equities		3,384,712	62.6	4,144,470	63.0
In-house	Private equity unquoted	168,904	3.1	129,311	2.0
In-house	Private equity quoted	57,145	1.1	75,902	1.2
Total private equity		226,049	4.2	205,213	3.2
Total equity		3,610,761	66.8	4,349,683	66.2
In-house	Index linked gilts	357,163	6.6	450,833	6.9
In-house	Gold	17,020	0.3	19,652	0.3
Total inflation linked bonds and gold		374,183	6.9	470,485	7.2
In-house	Property	50,003	0.9	38,038	0.6
Standard Life	Property	422,452	7.8	414,574	6.3
Total property		472,455	8.7	452,612	6.9
In-house	Infrastructure unquoted	384,028	7.1	663,194	10.1
In-house	Infrastructure quoted	30,060	0.6	23,548	0.4
In-house	Timber	125,313	2.3	132,532	2.0
Total other real assets		539,401	10.0	819,274	12.5
In-house	Secured loans	13,770	0.3	14,142	0.2
In-house	Treasury bills	134,399	2.5	-	0.0
In-house	Private debt	37,918	0.7	89,233	1.4
In-house	Other bonds	-	0.0	159,307	2.4
Total other bonds		186,087	3.5	262,682	4.0

Notes to the Accounts

16 Investment managers and mandates (cont)

Manager	Mandate	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
In-house	Cash	137,886	2.6	159,645	2.4
In-house	Transitions	32,905	0.6	92	0.0
Total cash and sundries		170,791	3.2	159,737	2.4
Strategy A financial assets		5,353,678	99.2	6,514,473	99.2
In-house	Mature employer gilts	45,285	0.8	54,276	0.8
Strategy B financial assets		45,285	0.8	54,276	0.8
Net financial assets		5,398,963	100.0	6,568,749	100.0

17 Investments representing more than 5% of the net assets of the Fund or 5% of any investment class

Bonds	Market value at 31 March 2016 £000	% of asset class 31 March 2016	Market value at 31 March 2017 £000	% of asset class 31 March 2017
UK Gov 1.5% Senior Gilt 22/07/26	-	-	156,875	23.8
UK Gov 1.125% Index Linked 22/11/37	29,311	5.5	78,952	12.0
UK Gov 0.125% Index Linked 22/03/44	47,630	8.9	62,332	9.5
UK Gov 0.125% Index Linked 22/03/68	36,048	6.8	50,312	7.6
UK Gov 1.25% Index Linked 22/11/55	41,499	7.8	49,488	7.5
UK Gov 0.125% Index Linked 22/03/58	34,099	6.4	39,287	6.0
UK Gov 1.25% Index Linked 22/11/32	-	-	34,847	5.3
UK Gov 0.625% Index Linked 22/03/40	-	-	33,551	5.0
UK Gov 1.25% Index Linked 22/03/50	-	-	32,615	5.0
US Treasury Bill 0.375% 31/05/16	133,396	25.0	-	-
Pooled funds				
Stafford Elm Inc	45,094	5.5	50,421	4.6
Macquarie Infrastructure A & B LP	43,748	5.4	51,480	4.7
Property				
London, 119-125 Wardour St	28,050	7.9	27,100	7.6
Martlesham Heath, Retail Park	24,650	6.9	24,250	6.8
London, 100 St John Street	22,500	6.3	21,000	5.9
Sheffield, Bochum Parkway	19,850	5.6	20,200	5.7
Exeter, David Lloyd Leisure	17,875	5.0	18,825	5.3

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

Notes to the Accounts

18 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2017, £220.3m (2016 £49.8m) of securities were released to third parties. Collateral valued at 104.6% (2016 107.6%) of the market value of the securities on loan was held at that date.

19 Property holdings

	2015/16 £000	2016/17 £000
Opening balance	316,169	356,280
Additions	25,153	4,675
Disposals	(2,295)	(2,358)
Net change in market value	17,253	(1,856)
Closing balance	356,280	356,741

As at 31 March 2017, 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 or construct any of these properties. However, at year end the Fund does have funding approval in place for the development of Waterfront North Leisure Park, Walsall. The build period is 26 weeks, with practical completion anticipated in July 2017.

The future minimum lease payments receivable by the Fund are as follows

	2015/16 £000	2016/17 £000
Within one year	22,018	22,526
Between one and five years	67,158	67,195
Later than five years	94,517	99,741
	183,693	189,462

20 Financial Instruments

20a 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

20a Classification of financial instruments (cont)

Classification of financial instruments - parent

	31 March 2016			31 March 2017		
	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
Investment assets						
Bonds	534,030	-	-	659,316	-	-
Equities	3,448,950	-	-	4,220,475	-	-
Pooled investments	815,892	-	-	1,101,430	-	-
Property Leases	7,905	-	-	6,243	-	-
Derivative contracts	-	-	-	1,081	-	-
Margin balances	-	-	-	-	-	-
Cash	-	227,409	-	-	216,036	-
Other balances	-	31,029	-	-	15,841	-
	4,806,777	258,438	-	5,988,545	231,877	-
Other assets						
City of Edinburgh Council	-	4,287	-	-	4,467	-
Cash	-	41,327	-	-	27,278	-
Share Capital	-	-	-	-	50	-
Debtors - current	-	12,670	-	-	14,937	-
Debtors - non-current	-	451	-	-	259	-
	-	58,735	-	-	46,991	-
Assets total	4,806,777	317,173	-	5,988,545	278,868	-
Financial liabilities						
Investment liabilities						
Derivative contracts	(13,183)	-	-	(424)	-	-
Other investment balances	(1,444)	-	-	(1,746)	-	-
	(14,627)	-	-	(2,170)	-	-
Other liabilities						
Creditors	-	-	(24,016)	-	-	(20,559)
Liabilities total	(14,627)	-	(24,016)	(2,170)	-	(20,559)
Total net assets	4,792,150	317,173	(24,016)	5,986,375	278,868	(20,559)

	31 March 2016	31 March 2017
Total net financial instruments	5,085,307	6,244,684
Amounts not classified as financial instruments	348,707	350,746
Total net assets - parent	5,434,014	6,595,430

Notes to the Accounts

20a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group

	31 March 2016			31 March 2017		
	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
Other assets						
Cash	-	4	-	-	84	-
Share Capital	-	-	-	-	(50)	-
Debtors - current	-	33	-	-	27	-
Debtors - non-current	-	36	-	-	117	-
	-	73	-	-	178	-
Assets total	-	73	-	-	178	-
Other liabilities						
Retire. benefit obligation	-	-	(180)	-	-	(685)
Creditors	-	-	(36)	-	-	(32)
Liabilities total	-	-	(216)	-	-	(717)
Total net assets	-	73	(216)	-	178	(717)

	31 March 2016	31 March 2017
Total adjustments to net financial instruments	(143)	(539)
Total net assets - group	5,433,871	6,594,891

20b Net gains and losses on financial instruments

	2015/16 £000	2016/17 £000
Designated as fair value through fund account	197,274	1,025,354
Loans and receivables	2,119	21,454
Financial liabilities at amortised cost	-	-
Total	199,393	1,046,808
Gains and losses on directly held freehold property	17,253	(1,856)
Change in market value of investments per fund account	216,646	1,044,952

20c Fair Value Hierarchy

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.

Notes to the Accounts

20c Fair Value Hierarchy (cont)

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.

	31 March 2017			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	4,269,539	659,316	1,059,690	5,988,545
Non-financial assets at fair value through profit and loss	-	-	350,498	350,498
Loans and receivables	231,877	-	-	231,877
Total investment assets	4,501,416	659,316	1,410,188	6,570,920
Investment liabilities				
Designated as fair value through fund account	(2,171)	-	-	(2,171)
Total investment liabilities	(2,171)	-	-	(2,171)
Net investment assets	4,499,245	659,316	1,410,188	6,568,749

	31 March 2016			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	3,491,275	534,030	781,472	4,806,777
Non-financial assets at fair value through profit and loss	-	-	348,375	348,375
Loans and receivables	258,438	-	-	258,438
Total investment assets	3,749,713	534,030	1,129,847	5,413,590
Investment liabilities				
Designated as fair value through fund account	(14,627)	-	-	(14,627)
Total investment liabilities	(14,627)	-	-	(14,627)
Net investment assets	3,735,086	534,030	1,129,847	5,398,963

21 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. Investment strategy A aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It 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 strategies 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. 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 sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by the Fund's investment adviser KPMG:

21 Nature and extent of risk arising from financial instruments (cont)

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Timber and Gold	18.0%
Secured Loans	8.0%
Fixed Interest Gilts	6.6%
Index-Linked Gilts	10.9%
Infrastructure	18.0%
Property	13.0%
Cash	1.1%

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.

	Value at 31 March 2017 £m	% of fund %	Potential Change +/- %	Value on increase £m	Value on decrease £m
Equities - Developed Markets	3,855	58.7	20.5	4,645.3	3,064.7
Equities - Emerging Markets	290	4.4	30.0	377.0	203.0
Private Equity	205	3.1	30.0	266.5	143.5
Timber and Gold	152	2.3	18.0	179.4	124.6
Secured Loan	103	1.6	8.0	111.2	94.8
Fixed Interest Gilts	159	2.4	6.6	169.5	148.5
Index-Linked Gilts	505	7.7	10.9	560.0	450.0
Infrastructure	687	10.5	18.0	810.7	563.3
Property	453	6.9	13.0	511.9	394.1
Cash and forward foreign exchange	160	2.4	1.1	161.8	158.2
Total [1]	6,569	100.0	18.6	7,793.3	5,344.7
Total [2]			15.9	7,613.5	5,524.5
Total [3]			15.9	7,613.5	n/a

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

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.

21 Nature and extent of risk arising from financial instruments (cont)

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].

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 2017, cash deposits represented £243.4m, 3.69% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	78,223	83,249
Northern Trust Company - cash deposits	Aa2	66,450	40,697
The City of Edinburgh Council - treasury management	See below	82,736	92,090
Total investment cash		227,409	216,036
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	41,327	27,278
Total cash - parent		268,736	243,314
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A3	4	84
Total cash - group		268,740	243,398

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.

21 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	117	652
Goldman Sachs	Aaa-mf	16,539	14
Bank call accounts			
Bank of Scotland	A1	8,123	11,911
Royal Bank of Scotland	A3	1,316	169
Santander UK	Aa3	10	30
Barclays Bank	A1	8,395	2
Svenska Handelsbanken	Aa2	8,562	23
HSBC Bank	Aa2	12	4
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa1	24,726	106,563
UK Government Treasury Bills	Aa1	56,263	-
		124,063	119,368

[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 2017 was 'Aa1').

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.

(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.

(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

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 defaulting. 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 2017, the Fund was owed £0.7m on over-the-counter foreign currency derivatives.

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.

21 Nature and extent of risk arising from financial instruments (cont)

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 78% (2016 79%)) of the Fund's investments could be converted to cash within three months in a normal trading environment.

22 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.

23 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 £8,210m (2016 £6,266m). 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.

	31 March 2016 % p.a.	31 March 2017 % p.a.
Inflation / pensions increase rate	2.2	2.4
Salary increase rate	4.2	4.4
Discount rate	3.5	2.6

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 2016		31 March 2017	
	Males	Females	Males	Females
Current pensioners	22.1 years	23.7 years	22.1 years	23.7 years
Future pensioners (assumed to be currently 45)	24.2 years	26.3 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.

Notes to the Accounts

24 Non current debtors

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Group 31 March 2017 £000	LPF Group 31 March 2017 £000
Contributions due - employers' cessation	451	451	259	259
	451	451	259	259

Analysis of non current debtor

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Parent 31 March 2017 £000	LPF Group 31 March 2017 £000
Administering Authority	-	-	-	-
Other Scheduled Bodies	-	-	-	-
Community Admission Bodies	451	451	259	259
Transferee Admission Bodies	-	-	-	-
Other Local Authorities	-	-	-	-
Central Government Bodies	-	-	-	-
Other entities and individuals	-	-	-	-
	451	451	259	259

25 Debtors

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Parent 31 March 2017 £000	LPF Group 31 March 2017 £000
Contributions due - employers	10,219	10,219	11,175	11,175
Contributions due - members	2,067	2,067	3,304	3,304
Benefits paid in advance or recoverable	-	-	-	-
Sundry debtors	109	137	160	193
Corporation tax losses utilised by CEC group	-	5	-	1
Prepayments	275	275	283	292
LPFE & LPFI Limited Loan facility - see note 29	-	-	16	-
	12,670	12,703	14,938	14,965

Analysis of debtors

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Parent 31 March 2017 £000	LPF Group 31 March 2017 £000
Administering Authority	6,987	6,992	6,081	6,081
Other Scheduled Bodies	3,526	3,526	6,477	6,477
Community Admission Bodies	1,812	1,812	1,899	1,899
Transferee Admission Bodies	26	26	35	35
Other Local Authorities	-	29	22	56
Central Government Bodies	-	-	-	-
Other entities and individuals	319	318	424	417
	12,670	12,703	14,938	14,965

26 Creditors

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Parent 31 March 2017 £000	LPF Group 31 March 2017 £000
Benefits payable	8,375	8,375	5,745	5,745
VAT, PAYE and State Scheme premiums	1,399	1,495	2,940	3,052
Contributions in advance	11,845	11,845	8,719	8,719
Miscellaneous creditors and accrued expenses	2,083	2,121	2,760	2,809
Office - operating lease	216	216	266	266
LPFE Loan facility - see note 29	6	-	24	-
Intra group creditor - see note 29	92	-	105	-
	24,016	24,052	20,559	20,591

Analysis of Creditors

	LPF Parent 31 March 2016 £000	LPF Group 31 March 2016 £000	LPF Parent 31 March 2017 £000	LPF Group 31 March 2017 £000
Administering Authority	32	32	51	51
Other Scheduled Bodies	11,900	11,900	11,715	11,715
Community Admission Bodies	39	39	19	19
Transferee Admission Bodies	98	-	-	-
Central Government Bodies	1,359	1,455	2,889	3,001
Other entities and individuals	10,588	10,626	5,885	5,805
	24,016	24,052	20,559	20,591

27 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.

Total contributions during year for Lothian Pension fund	2015/16 £000	2016/17 £000
Standard Life	395	339
Prudential	1,593	1,816
	1,988	2,155

Total value at year end for Lothian Pension Fund	31 March 2016 £000	31 March 2017 £000
Standard Life	5,665	5,041
Prudential	3,863	5,097
	9,528	10,138

Notes to the Accounts

28 Related parties

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 Service of the Council is responsible for administering the three Pension Funds. The Service receives an allocation of the overheads of the Council, based on the amount of central services consumed. In turn, the Service 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.

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 2016 £000	31 March 2017 £000
Year end balance of holding account	4,287	4,467
	4,287	4,467

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 2017, the fund had an average investment balance of £105.7m (2015/16 £219.0m). Interest earned was £427.4k (2015/16 £1,032.5k).

Year end balance on treasury management account	31 March 2016 £000	31 March 2017 £000
Held for investment purposes	82,736	92,090
Held for other purposes	41,327	27,278
	124,063	119,368

Scheme employers

All scheme employers to the fund are (by definition) related parties, a full list of employers can be found on page 64. The employer contributions for the ten largest scheme employers are as follows -

	31 March 2016 £000	31 March 2017 £000
City of Edinburgh Council	63,459	63,542
West Lothian Council	22,053	22,214
East Lothian Council	12,897	13,267
Midlothian Council	11,096	11,849
Scottish Water	8,419	9,191
Edinburgh Napier University	4,864	5,001
Scottish Police Authority	3,084	3,519
Heriot-Watt University	3,058	3,077
Edinburgh College	2,984	2,924
Audit Scotland	1,826	2,020

28 Related parties (cont)

Governance

As at 31 March 2017, all members of the Pensions Committee, with the exception of Councillor Bill Cook and Richard Lamont, and all members of the Pensions Board, with the exception of Graham Turnbull, were active members of the Lothian Pension Fund or Lothian Buses Pension Fund.

Each member of the Pensions Committee and Pension Board 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.

During the period from 1 April 2015 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 Executive Director of Resources, 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 2016 £000	Accrued CETV as at 31 March 2017 £000
Hugh Dunn*	Acting Executive Director of Resources, City of Edinburgh Council	755	1,251
Clare Scott*	Chief Executive, Lothian Pension Fund	175	221
Bruce Miller	Chief Investment Officer, Lothian Pension Fund	185	267
Struan Fairbairn	Chief Risk Officer, Lothian Pension Fund	30	46
John Burns	Chief Finance Officer, Lothian Pension Fund	474	538
Esmond Hamilton	Financial Controller, Lothian Pension Fund	161	200

* Also disclosed in the financial statements of the City of Edinburgh Council.

Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2016 £000	31 March 2017 £000
Short-term employee benefits	318	380
Post-employment benefits - employer pension contributions	65	78

Key management personnel employed by LPFE, had accrued pensions totalling £81,825 (1 April 2016: £68,004) and lump sums totalling £100,185 (1 April 2016: £68,004) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Ltd, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited- loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administrating authority of Lothian Pension Fund and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £720 of which £156 was due at the year end and for LPFI Limited interest payable was £99 of which £30 was due at year end. At 31 March 2017, the balance on the loan facility was £24k due to LPFE Limited and £16k due from LPFI Limited.

Notes to the Accounts

28 Related parties (cont)

LPFE Limited & LPFI Limited- corporation tax losses used by companies under common control

In 2015/16 Lothian Buses Limited (also a member of City of Edinburgh Council's Corporation Tax Group) utilised the £5k tax loss from LPFE limited activity during the year. The tax loss of the company is transferred to another company in the Tax Group in exchange for the cash amount. Due to year end timing differences £1k of the loss is still outstanding to Lothian Buses Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2017, the Fund was invoiced £1,073k (2016 £820k) for the services of LPFE Limited staff, £105k (2016 £92k) of this remained payable at year end.

29a Consolidated Lothian Pension Fund group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2015/16 £000	LPF Group 2016/17 £000
At 1 April 2016	-	36
Credit for year to Fund Account	36	81
At 31 March 2017	36	117

Elements of closing deferred tax asset

	LPF Group 31 March 2016 £000	LPF Group 31 March 2017 £000
Pension liability	36	117
	36	117

29b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2016 £	31 March 2017 £
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	-	50,000
	1	50,001

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

30 Retirement benefits obligation - group

The retirement benefit obligation described in this note relates only to the employees of LPFE Limited. This is because obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the City of Edinburgh Council's Financial Statements.

On 1 May 2015 LPFE Limited commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Notes to the Accounts

30 Retirement benefits obligation - group (cont)

Fund assets

The LPFE Limited's share of the fair value of the Fund's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, were comprised as follows:

Asset		Fair value at 31 March 2016 £000	% of total 31 March 2016 %	Fair value at 31 March 2017 £000	% of total 31 March 2017 %
Equity securities:	Consumer	319	15.0	425	15.0
	Manufacturing	247	12.0	429	15.2
	Energy and utilities	167	8.0	210	7.4
	Financial institutions	178	8.0	197	7.0
	Health and care	139	7.0	166	5.9
	Information technology	126	6.0	140	4.9
	Other	120	6.0	195	6.9
Debt securities:	Corporate Bonds	-	0.0	-	0.0
	UK Government	135	6.0	284	10.0
	Other	53	3.0	6	0.2
Private equity:	All	92	4.0	91	3.2
Real property	UK property	179	9.0	191	6.7
Investment funds and unit trusts:	Equities	-	0.0	-	0.0
	Commodities	6	0.0	8	0.3
	Bonds	17	1.0	42	1.5
	Infrastructure	139	7.0	253	8.9
	Other	50	2.0	60	2.1
Cash and cash equivalents:	All	130	6.0	131	4.8
		2,097	100.0	2,828	100.0

Amounts recognised in the Net Assets Statement	LPF Group 31 March 2016 £000	LPF Group 31 March 2017 £000
Fair value of Fund assets	2,097	2,828
Present value of Fund liabilities	(2,277)	(3,513)
	(180)	(685)

30 Retirement benefits obligation - group (cont)

Movement in the defined benefit obligation during the period

	LPF Group 2015/16 £000	LPF Group 2016/17 £000
Brought forward	2,107	2,277
Current service cost	174	172
Interest cost on obligation	69	86
Fund participants contributions	54	76
Benefits paid	-	-
Actuarial losses arising from changes in financial assumptions	(378)	902
Actuarial losses arising from changes in demographic assumptions	-	-
Other actuarial losses	251	-
Balance at year end	2,277	3,513

Movement in the fair value of Fund assets during the period

	LPF Group 2015/16 £000	LPF Group 2016/17 £000
Brought forward	1,826	2,097
Benefits paid	-	-
Interest income on Fund assets	60	80
Contributions by employer	121	156
Contributions by member	54	76
Contributions in respect of unfunded benefits	-	-
Unfunded benefits paid	-	-
Return on assets excluding amounts included in net interest	36	419
Balance at year end	2,097	2,828

Amounts recognised in the Fund Account

	LPF Group 2015/16 £000	LPF Group 2016/17 £000
Interest received on Fund assets	(60)	(80)
Interest cost on Fund liabilities	69	86
Current service costs	174	172
Transfer of opening retirement benefit obligation on 1 May 2015	281	-
Actuarial gains due to re-measurement of the defined benefit obligation	(127)	902
Return on Fund assets (excluding interest above)	(36)	(419)
Net cost recognised in Fund account	301	661
Less - cash flows	(121)	(156)
Increase in retirement benefit obligations	180	505

Principal actuarial assumptions used in this valuation

	31 March 2016 % p.a.	31 March 2017 % p.a.
Inflation / pensions increase rate	2.2	2.4
Salary increase rate	4.2	4.4
Discount rate	3.6	2.7

30 Retirement benefits obligation - group (cont)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2016		31 March 2017	
	Males	Females	Males	Females
Current pensioners	22.1 years	23.7 years	22.1 years	23.7 years
Future pensioners	24.2 years	26.3 years	24.2 years	26.3 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2018 are £157,000, based on a pensionable payroll cost of £764,000.

31 Contractual commitments

Investment 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 number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2016 £000	31 March 2017 £000
Outstanding investment commitments	160,891	235,565
	160,891	235,565

Office accommodation - 144 Morrison Street, Edinburgh

The Investment and Pensions Service is committed to making the following future payments.

	31 March 2016 £000	31 March 2017 £000
Within one year	42	115
Between one and five years	345	345
After five years	992	877
	1,379	1,337
Recognised as an expense during the year	92	92

The above expense has been allocated across the three Funds, Lothian Pension Fund's share is £84.9k.

32 Contingent assets and liabilities

Infrastructure co-investment

At 31 March 2017 the Fund had entered into negotiations for an infrastructure co-investments in which it is exposed to the potential risk of investment abort costs. At 31 March 2017, Lothian Pension Fund's exposure is approximately £21.4k.

Contribution refunds

At 31st March 2017, Lothian Pension Fund had £473k in unclaimed refunds due to members.

Employer Cessations

The Fund has, in consultation with external advisors, drawn up a funding agreement to address repayment of the cessation debt In order to avoid employer default or insolvency, the agreement will allow for repayment over longer terms, and if necessary for repayment of less than the cessation debt. In the latter scenario, an appropriate clause will be included which will allow the Fund to revisit the repayment of the remaining debt at a future date. At 31st March 2017, Lothian Pension Fund had £325k unsecured assets due from ceased employers.

EU Tax claims & income recovery

The Fund, in consultation with external advisers participates in various claims to recover withheld income on its investments. For some of these claims there is a high level of uncertainty on the success of these claims so they are not accrued for in the financial statements. The value of these outstanding claims is approximately £9.8m.

33 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 £23.6k. This decreased the impairment to £22.8k at the year end.

Lothian Pension Fund

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 16 November 2015. In summary, the key funding principles are as follows:

- To ensure solvency of the 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.

Lothian Pension Fund

Actuarial Statement for 2016/17

The key financial assumptions adopted for the 2014 valuation were as follows:

Financial assumptions	31 March 2014 % p.a. Nominal	31 March 2014 % p.a. Real
Discount rate	5.0%	2.3%
Pay increases*	5.0%	2.3%
Price inflation/Pension increases	2.7%	-

*2% p.a. for 2014/15 and 2015/16, reverting to 5.0% 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 at the 2014 valuation aged 45.

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 Fund’s experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements and any potential changes to assumptions at the 2017 valuation). Real bond yields have fallen sharply which places a higher value on liabilities. The effect of this will have been partially offset by strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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
20 Waterloo Street
Glasgow
G2 6DB

28 April 2017

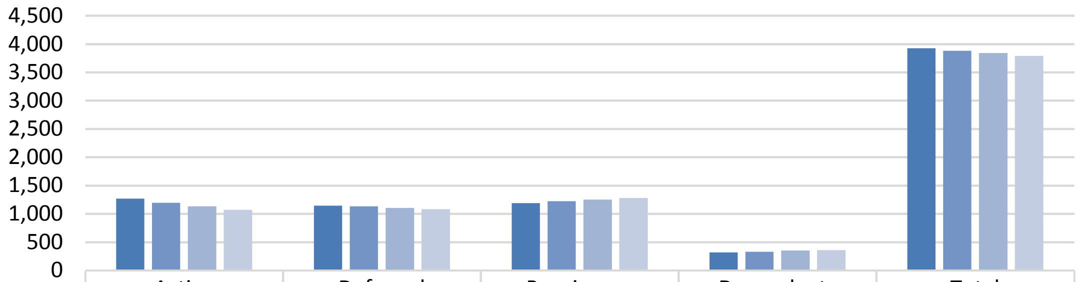
List of active employers at 31 March 2017

Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Police Authority
East Lothian Council	Scottish Water
Edinburgh College	SESTRAN
Heriot-Watt University	Visit Scotland
Midlothian Council	West Lothian College
Scotland’s Rural College (SRUC)	West Lothian Council
Scottish Fire and Rescue Service	

Admitted Bodies	
Amey Services	HWU Students Association
Audit Scotland	Improvement Service (The)
Barony Housing Association Ltd	Into Work
Baxter Storey	ISS UK Ltd
Bellrock Property and Facilities Management	Keymoves
Canongate Youth Project	LPFE Ltd
Capital City Partnership	Melville Housing Association
Centre for Moving Image (The)	Mitie PFI
CGI UK Ltd	Morrison Facilities Services Ltd
Children’s Hearing Scotland	Museums Galleries Scotland
Children’s Hospice Association Scotland	Newbattle Abbey College
Citadel Youth Centre	North Edinburgh Dementia Care
Compass Chartwell	NSL Ltd
Convention of Scottish Local Authorities	Open Door Accommodation Project
Dacoll Limited	Penumbra
Dean Orphanage and Cauvin’s Trust	Pilton Equalities Project
Donaldson’s Trust	Pilton Youth and Children’s Project
EDI Group Ltd	Queen Margaret University
Edinburgh Business School	Queensferry Churches Care in the Community Project
Edinburgh Cyrenians Trust	Royal Edinburgh Military Tattoo
Edinburgh Development Group	Royal Society of Edinburgh
Edinburgh International Festival Society	Scotland's Learning Partnership
Edinburgh Leisure	Scottish Adoption Agency
Edinburgh Napier University	Scottish Futures Trust
Edinburgh World Heritage Trust	Scottish Legal Complaints Commission
ELCAP	Scottish Schools Education Research Centre (SSERC)
Enjoy East Lothian	Skanska UK
Family & Community Development West Lothian	St Andrew’s Children’s Society Limited
Family Advice and Information Resource	St Columba’s Hospice
Festival City Theatres Trust	Stepping Out Project
First Step	Streetwork UK Ltd
Forth and Oban Ltd	University of Edinburgh (Edin College of Art)
Four Square (Scotland)	Victim Support Scotland
Freespace Housing Association	Waverley Care
Granton Information Centre	Weslo Housing Management
Handicabs (Lothian) Ltd	West Granton Community Trust
Hanover (Scotland) Housing Association	West Lothian Leisure
Health in Mind	Wester Hailes Land and Property Trust
Homeless Action Scotland	Young Scot Enterprise
Homes for Life Housing Partnership	Youthlink Scotland

Lothian Buses Pension Fund

Lothian Buses Pension Fund membership



	Active	Deferred	Pensioners	Dependants	Total
31 March 2014	1,268	1,146	1,191	320	3,925
31 March 2015	1,196	1,131	1,222	332	3,881
31 March 2016	1,130	1,104	1,253	350	3,837
31 March 2017	1,069	1,082	1,280	360	3,791

Investment Strategy

An in-depth review of Lothian Buses Pension Fund's investment strategy was undertaken by the Investment Strategy Panel over the 2015/16 financial year, supported by asset liability modelling from the Fund's investment adviser. In March 2016, the Pensions Committee approved a revised investment strategy to be implemented over the five years from 2016 to 2021.

The revised strategy reduces the Fund's allocation to equities (including private equity) from 55% to 40% by the end of 2021 and increases the allocation to index-linked gilts from 15% to 20% and fixed income assets from 10% to 22% within the same timeframe.

The review highlighted the potential future funding level volatility on the employing company's balance sheet and contributions. It afforded the opportunity to clarify the funding approach for this increasingly mature pension fund (it is closed to new entrants) in the event of the funding level worsening and also at the point when the last active member leaves the Fund. After discussions with the majority shareholder and company, Lothian Buses has agreed to continue paying deficit contributions (if required) after the last active member has left the Fund. With this clarity, the Fund is able to continue to adopt a long-term investment approach.

A significant allocation to equities is retained because they have historically exhibited higher returns than bonds when held over the long term. Implementation of the strategy will include further de-risking within equities and an increasing exposure to index-linked assets and fixed income assets to provide greater downside protection in the event of further reductions in interest rates (a key driver of liability values).

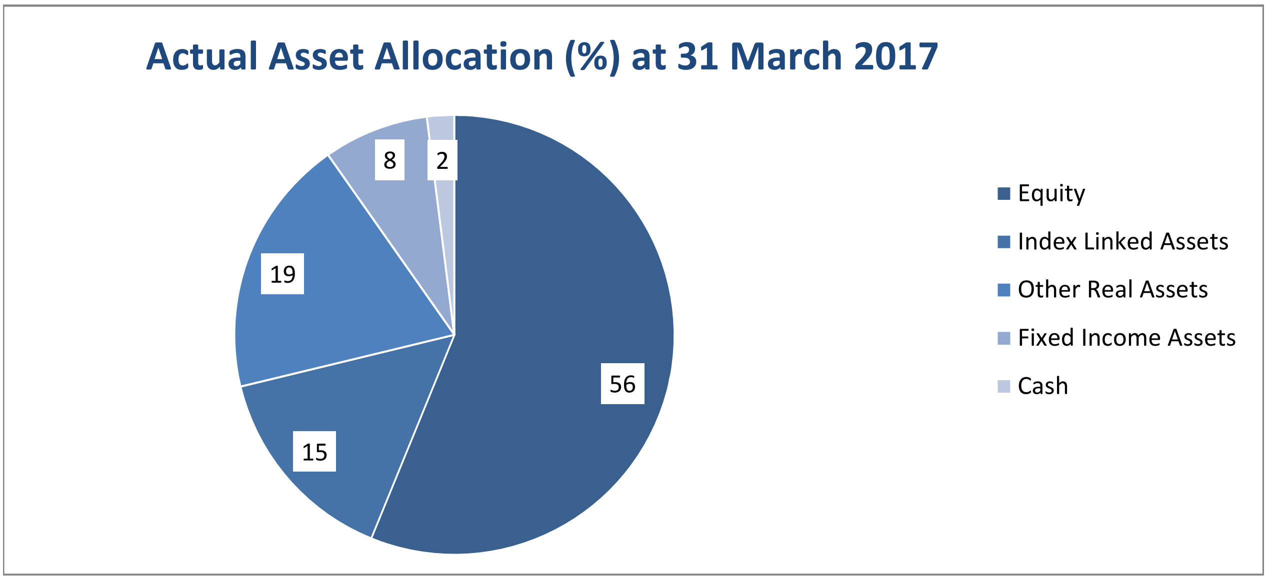
Over the course of 2016/17, the implementation of the investment strategy 2016-21 was initiated. The interim strategy allocation was adjusted over the year with equities reducing from 58.5% to 57%, index-linked gilts increasing from 14% to 15% and other real assets rising from 17.5% to 18%. Further progress will involve the interim strategy allocation and the actual asset allocation changing gradually over time.

In terms of the Fund's actual allocation over the year, equities reduced from 59% to 56%, index-linked assets increased from 12% to 15%, and other real assets and fixed income assets were stable at 19% and 8% respectively. These changes reflected both investment activity and the relative price movements of the various assets.

The investment strategy for 2016-21 is set out in the table below along with the current interim strategy.

	Strategic Allocation 31/03/2017 %	Long term Strategy 2016 - 2021 %
Equities	57.0	40.0
Index Linked Assets	15.0	20.0
Other Real Assets	18.0	18.0
Fixed Income Assets	10.0	22.0
Cash	-	-
Total	**100.0**	**100.0**

The investment strategy is now set at the broad asset class level of equities, index-linked assets, other real assets and fixed income assets, the latter two of which had previously been categorised within Alternatives. These broad groupings are the key determinants of investment risk and return. Equities includes listed and unlisted equities; index-linked assets includes index-linked gilts/bonds and gold; other real assets includes property, infrastructure and timber; and fixed income assets includes listed and unlisted debt investments.



Investment performance

The objectives of the Fund 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 return fell slightly short of the benchmark over the last year, although the absolute return of 23.7% was well above historical averages. Over longer timeframes the Fund has returned more than its benchmark, as shown in the table below. The benchmark returns shown in the table represent the strategic allocations and comprise equity and index-linked gilt indices as well as an inflation-linked index for the other real and fixed income assets.

Annualised returns to 31 March 2016 (% per year)	1 year	5 year	10 years
Lothian Buses Pension Fund	23.7	13.2	9.6
Benchmark	24.2	11.5	8.0
Actuarial Valuation Assumptions *	5.0	5.5	5.8
Retail Price Index (RPI)	3.1	2.3	2.8
Consumer Price Index (CPI)	2.3	1.4	2.3
National Average Earnings	2.4	1.9	2.0

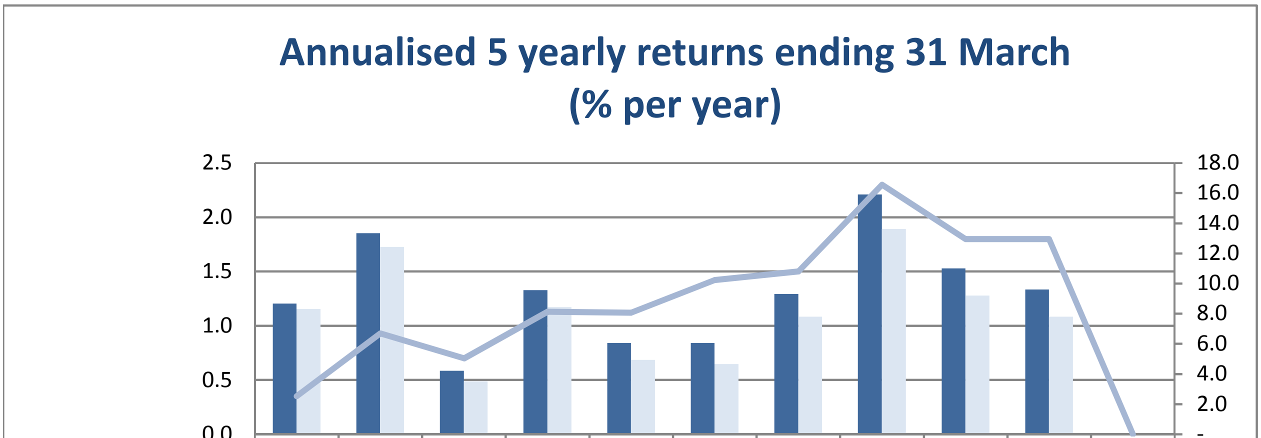
*estimate

The strong absolute return in 2016/17 was largely attributable to the global equity portfolios, one internally managed and one externally managed (by Baillie Gifford), which together rose in value by over 30%. The Fund's index-linked investments were also a significant contributor, driven by the internally-managed assets which rose 26% over the year. The real assets portfolio provided returns of over 6%, with timber and infrastructure assets returning close to 17% and 19% respectively, but offset by a disappointing return from property, which fell over 5% over the period. Fixed income assets returned 10% over the year, led by the corporate bond portfolio managed by Baillie Gifford (+10.2%), though private debt assets partially offset this with a return of 7.6%.

The shortfall in performance (-0.5%) relative to the benchmark over 2016/17 can be largely explained by the Fund's 2% allocation to cash throughout the year. This is a reflection of the fact that risk asset returns (especially equities and index-linked gilts) were so strong. The positive contribution to relative return from fixed income assets (+0.7%), led by the corporate bond portfolio (+0.7%) managed by Baillie Gifford, was offset by small shortfalls from equities (-0.2%), index-linked gilts (-0.1%) and from real assets (-0.4%), driven by weakness in property (-1.2%).

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 real and fixed income assets 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.

The chart below shows the rolling 5 year performance of the Fund against its strategic benchmark over the last 10 years. The Fund has consistently outperformed its benchmark over rolling 5 year periods. Relative returns on a rolling 5 year basis have generally been on an improving trend over the last 10 years, rising from 0.4% pa in 2007 to 1.7% pa in 2016.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund	8.7	13.3	4.2	9.6	6.0	6.1	9.3	15.9	11.0	9.6
Benchmark	8.3	12.4	3.50	8.4	4.9	4.6	7.8	13.6	9.2	7.8
Relative (LHS)	0.4	0.9	0.7	1.1	1.1	1.4	1.5	2.3	1.8	1.8

Lothian Buses Pension Fund

Fund Account for year ended 31 March 2017

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

2015/16 £000		Note	2016/17 £000
	Income		
7,538	Contributions from employer	**3**	7,731
2,129	Contributions from members		2,060
-	Transfers from other schemes		10
9,667			**9,801**
	Less: expenditure		
8,087	Pension payments including increases		8,425
2,101	Lump sum retirement payments		3,277
530	Lump sum death benefits		295
2	Refunds to members leaving service		9
129	Transfers to other schemes	**4**	418
102	Administrative expenses	**5a**	98
10,951			**12,522**
(1,284)	**Net withdrawals from dealing with members**		**(2,721)**
	Returns on investments		
8,076	Investment income	**6**	7,641
3,532	Change in market value of investments	**8, 14b**	90,672
(1,677)	Investment management expenses	**5b**	(1,880)
9,931	**Net returns on investments**		**96,433**
8,647	**Net increase in the Fund during the year**		**93,712**
385,784	**Net assets of the Fund at 1 April 2016**		394,431
394,431	**Net assets of the Fund at 31 March 2017**		**488,143**

Lothian Buses Pension Fund

Net Assets Statement as at 31 March 2017

This statement provides a breakdown of type and value of all net assets at the year end.

31 March 2016 £000		Note	31 March 2017 £000
	Investment Assets		
19,661	Bonds	**7**	73,313
236,417	Equities	**7**	273,603
121,923	Pooled investment vehicles	**7**	122,566
-	Derivatives - forward foreign exchange	**9**	-
11,811	Cash Deposits		14,074
1,291	Other investment assets		1,398
391,103			**484,954**
	Investment Liabilities		
(32)	Derivatives - forward foreign exchange	**9**	-
(283)	Other investment assets		(18)
(315)			**(18)**
390,788	**Net investment assets**	**8, 10**	**484,936**
	Current assets		
400	The City of Edinburgh Council	**21**	385
2,867	Cash balances	**15, 21**	2,440
828	Debtors	**18**	744
4,095			**3,569**
	Current liabilities		
(452)	Creditors	**19**	(362)
(452)			**(362)**
3,643	**Net current assets**		**3,207**
394,431	**Net assets of the Fund at 31 March 2017**		**488,143**

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

JOHN BURNS FCMA CGMA

Chief Finance Officer, Lothian Pension Fund

27 September 2017

<u>Notes to the net asset statement</u>

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 Financial Statements

1 Statement of Accounting Policies

The statement of accounting policies for all three Funds can be found on page 112.

2 Events after the Reporting Date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

3 Contributions from employer

By category	2015/16 £000	2016/17 £000
Normal (ongoing contributions)	7,425	7,516
Deficit contribution	-	-
Strain costs and augmentation contributions	113	215
	7,538	7,731

The Lothian Buses Pension Fund is a single employer pension fund for employees of Lothian Buses Limited. The Lothian Buses Fund was set up in 1986 under the Local Government Superannuation (Funds) (Scotland) Regulations 1986 (SSI 115/1986).

The employer contribution rate was 22.9% for the period from 1 April 2016 to 31 December 2016 then 24.1% for the remainder of the financial year.

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.

4 Transfers out to other pension schemes

	2015/16 £000	2016/17 £000
Group transfers	-	-
Individual transfers	129	418
	129	418

Notes to the Financial Statements

5a Administrative expenses

	2015/16 £000	2016/17 £000
Employee Costs	52	55
The City of Edinburgh Council - other support costs	7	6
System costs	13	13
Actuarial fees	13	9
External audit fees	2	2
Legal fees	-	-
Printing and postage	4	4
Depreciation	3	3
Office costs	6	5
Sundry costs less sundry income	2	1
	102	98

The Investment and Pensions Service of the Council is responsible for administering the three pension Funds. The Service receives an allocation of the overheads of the Council. In turn the Service 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.

5b Investment management expenses

	2015/16 £000	2016/17 £000
External management fees -		
invoiced	704	616
deducted from capital (direct investment)	329	694
deducted from capital (indirect investment)	368	325
Securities lending fees	43	20
Transaction costs	59	33
Employee costs	70	82
Custody fees	34	33
Engagement and voting fees	6	6
Performance measurement fees	17	19
Consultancy fees	12	5
System costs	13	18
Legal fees	3	9
The City of Edinburgh Council - other support costs	9	8
Depreciation	1	2
Office costs	5	6
Sundry costs less sundry income	4	4
	1,677	1,880

Any 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 8 - Reconciliation of movements in investments and derivatives).

The external investment management fees above include £0.3m in respect of performance-related fees (2015/16 £0.1m).

Notes to the Financial Statements

5b Investment management expenses (cont)

It should be noted that Lothian Buses Pension Fund's disclosure on investment management fees goes further than CIPFA's LGPS Management Cost revised guidance on cost transparency which came into effect on 1st April 2016. Consistent with recent years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found on page 19. This further disclosure highlights an extra £325k in costs (2015/16 £368k)

5c Total management expenses

	2015/16 £000	2016/17 £000
Administrative costs	80	78
Investment management expenses*	1,621	1,814
Oversight and governance costs	78	86
	1,779	1,978

* as per note 5b, includes £325k (2015/16 £368k) in costs above CIPFA guidance

In accordance with CIPFA, the above analysis looks at the combined administration and investment management expenses in notes 5a and b and splits out the costs to include a third category covering oversight and governance expenditure.

6 Investment income

	2015/16 £000	2016/17 £000
Income from bonds	92	186
Dividends from equities	6,025	7,026
Income from pooled investment vehicles	1,751	452
Interest on cash deposits	53	18
Stock lending and sundries	214	103
	8,135	7,785
Irrecoverable withholding tax	(59)	(144)
	8,076	7,641

Notes to the Financial Statements

7 Analysis of investments

Investment Assets	Region	31 March 2016 £000	31 March 2017 £000
Bonds			
Public sector fixed interest securities	Overseas	1,122	-
Public sector index linked gilts quoted	UK	18,539	73,313
		19,661	73,313
Equities			
Quoted	UK	32,849	33,935
Quoted	Overseas	203,568	239,668
		236,417	273,603
Pooled investment vehicles			
Managed funds - property	UK	37,492	38,146
Managed funds - index linked gilts	UK	28,326	-
Managed funds - other bonds	UK	27,221	30,100
Timber funds - unquoted	Overseas	8,023	8,361
Infrastructure - unquoted	UK	4,424	26,636
Infrastructure - unquoted	Overseas	13,583	12,607
Private debt funds - unquoted	UK	1,051	2,266
Private debt funds - unquoted	Overseas	1,803	4,450
		121,923	122,566

8 Reconciliation of movement in investments and derivatives

	Market value at 31 March 2016 £000	Purchases at cost & derivative payments £000	Sales & derivative receipts £000	Change in market value £000	Market value at 31 March 2017 £000
Bonds	19,661	87,284	(49,714)	16,082	73,313
Equities	236,417	15,473	(41,164)	62,877	273,603
Pooled investment vehicles	121,923	18,969	(29,504)	11,178	122,566
Derivatives - fwd foreign exchange	(32)	604	(265)	(307)	-
Derivatives - futures	-	3	(692)	689	-
	377,969	122,333	(121,339)	90,519	469,482
Other financial assets / (liabilities)					
Cash deposits	11,811			69	14,074
Broker balances	(73)			84	(18)
Dividend due etc	1,081			-	1,398
	12,819			153	15,454
Net financial assets	390,788			90,672	484,936

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.

Notes to the Financial Statements

8 Reconciliation of movement in investments and derivatives (cont)

Any 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.

	Market value at 31 March 2015 £000	Purchases at cost & derivative payments £000	Sales & derivative receipts £000	Change in market value £000	Market value at 31 March 2016 £000
Bonds	13,209	10,193	(4,284)	543	19,661
Equities	242,863	27,541	(31,081)	(2,906)	236,417
Pooled investment vehicles	105,943	12,172	(1,947)	5,755	121,923
Derivatives - fwd foreign exchange	-	31	(7)	(56)	(32)
	362,015	49,937	(37,319)	3,336	377,969
Other financial assets / (liabilities)					
Cash deposits	19,174			112	11,811
Broker balances	(17)			84	(73)
Dividend due etc	991			-	1,081
	20,148			196	12,819
Net financial assets	382,163			3,532	390,788

9 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2017

Contract settlement within	Currency bought	Currency sold	Local currency bought 000	Local currency sold 000	Asset value £000	Liability value £000
Up to one month	-	-	-	-	-	-
Open forward currency contracts at 31 March 2017					-	-
Net forward currency contracts at 31 March 2017						-
Prior year comparative						
Open forward currency contracts at 31 March 2016					-	(32)
Net forward currency contracts at 31 March 2016						(32)

At the year ended 31 March 2017 the Lothian Buses Pension Fund did not hold any Forward foreign exchange contracts.

Notes to the Financial Statements

10 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
Baillie Gifford	Global equities	112,761	28.9	124,570	25.7
In-house	Global high dividend	116,638	29.8	142,297	29.3
In-house	Private equity quoted	4,659	1.2	6,287	1.3
Total global equities		234,058	59.9	273,154	56.3
Baillie Gifford	Index linked gilts	28,326	7.2	-	0.0
In-house	Index linked gilts	19,771	5.1	73,793	15.2
Total inflation linked bonds		48,097	12.3	73,793	15.2
Baillie Gifford	Corporate bonds	27,221	7.0	30,100	6.2
In-house	Secured loans quoted	4	0.0	-	0.0
In-house	Secured loans unquoted	2,855	0.7	6,716	1.4
Total fixed income assets		30,080	7.7	36,816	7.6
Standard Life	Property	37,491	9.6	38,146	7.9
In-house	Infrastructure unquoted	18,007	4.6	39,243	8.1
In-house	Infrastructure quoted	6,660	1.7	3,661	0.8
In-house	Timber	8,022	2.1	8,361	1.7
Total other real assets		70,180	18.0	89,411	18.5
In-house	Cash	8,373	2.1	11,762	2.4
Total cash and sundries		8,373	2.1	11,762	2.4
Net financial assets		390,788	100.0	484,936	100.0

11 Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2016 £000	% of net assets 31 March 2016	Market value at 31 March 2017 £000	% of net assets 31 March 2017
Standard Life Property Fund	37,491	9.5	38,146	7.9
Baillie Gifford Inv Grade Bond Fund	27,221	6.9	30,100	6.2
Baillie Gifford Index Linked Gilt Fund	28,326	7.2	-	0.0

12 Investments representing more than 5% of any investment class

Bonds	Market value at 31 March 2016 £000	% of asset class 31 March 2016	Market value at 31 March 2017 £000	% of asset class 31 March 2017
UK Gov 1.125% Index Linked 22/11/37	1,213	6.2	10,490	14.3
UK Gov 0.125% Index Linked 22/03/44	3,142	16.0	10,003	13.6
UK Gov 1.25% Index Linked 2055	2,341	11.9	8,634	11.8
UK Gov 0.125% Index Linked 22/03/68	1,981	10.1	7,624	10.4
UK Gov 0.625% Index Linked 22/03/40	1,228	6.2	7,225	9.9
UK Gov 0.125% Index Linked 22/03/58	1,847	9.4	6,300	8.6
UK Gov 0.25% Index Linked 22/03/52	1,133	5.8	4,203	5.7
UK Gov 0.375% Index Linked 22/03/62	919	4.7	3,650	5.0
UK Gov 2% Index Linked 26/01/35	1,360	6.9	3,405	4.6
Pooled funds				
Standard Life Property Fund	37,491	30.8	38,146	31.0
Baillie Gifford Inv Grade Bond Fund	27,221	22.3	30,100	24.4
Baillie Gifford Index Linked Gilt Fund	28,326	23.2	-	0.0

13 Securities lending

During the year Lothian Buses Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2017, £17.4m (2016 £10.4m) of securities were released to third parties. Collateral valued at 105.24% (2016 110.26%) of the market value of the securities on loan was held at that date.

14 Financial Instruments

14a 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 Financial Statements

14a Classification of financial instruments

	31 March 2016			31 March 2017		
Financial assets	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
Investment assets						
Bonds	19,661	-	-	73,313	-	-
Equities	236,417	-	-	273,603	-	-
Pooled investments	121,923	-	-	122,566	-	-
Cash	-	11,811	-	-	14,074	-
Other balances	-	1,291	-	-	1,398	-
	378,001	13,102	-	469,482	15,472	-
Other assets						
City of Edinburgh Council	-	400	-	-	385	-
Cash	-	2,867	-	-	2,440	-
Debtors	-	828	-	-	744	-
	-	4,095	-	-	3,569	-
Assets total	378,001	17,197	-	469,482	19,041	-
Financial liabilities						
Investment liabilities						
Derivative contracts	(32)	-	-	-	-	-
Other investment balances	-	-	(283)	-	-	(18)
	(32)	-	(283)	-	-	(18)
Other liabilities						
Creditors	-	-	(452)	-	-	(362)
Liabilities total	(32)	-	(735)	-	-	(380)
Total net assets	377,969	17,197	(735)	469,482	19,041	(380)
Total net financial assets			394,431			488,143

14b Net gains and losses on financial instruments

	2015/16 £000	2016/17 £000
Designated as fair value through fund account	3,336	90,519
Loans and receivables	196	153
Financial liabilities at amortised cost	-	-
Total	3,532	90,672

Notes to the Financial Statements

14c 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 debt, 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.

Notes to the Financial Statements

14c Valuation of financial instruments carried at fair value (cont)

	31 March 2017 Level 1 £000	 Level 2 £000	 Level 3 £000	 Total £000
Investment assets				
Designated as fair value through fund account	341,849	73,313	54,320	469,482
Loans and receivables	15,472	-	-	15,472
Total investments assets	357,321	73,313	54,320	484,954
Investment liabilities				
Designated as fair value through fund account	(18)	-	-	(18)
Total investment liabilities	(18)	-	-	(18)
Net Investment assets	357,303	73,313	54,320	484,936

	31 March 2016 Level 1 £000	 Level 2 £000	 Level 3 £000	 Total £000
Investment assets				
Designated as fair value through fund account	329,457	19,661	28,883	378,001
Loans and receivables	13,102	-	-	13,102
Total investments assets	342,559	19,661	28,883	391,103
Investment liabilities				
Designated as fair value through fund account	(315)	-	-	(315)
Total investment liabilities	(315)	-	-	(315)
Net Investment assets	342,244	19,661	28,883	390,788

14d Reconciliation of fair value measurements within level 3

Pooled investments	Market value at 31 March 2016	Level 3 transfers in	Level 3 transfers out	Purchases at cost & derivative payments	Sales & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2017
Infrastructure	18,007	-	-	18,781	(2,306)	4,456	305	39,243
Timber	8,022	-	-	-	(889)	188	1,040	8,361
Secured loans	2,854	-	-	3,953	(291)	3	197	6,716
	28,883	-	-	22,734	(3,486)	4,647	1,542	54,320

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

15 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. Options are not used by the Fund.

Notes to the Financial Statements

15 Nature and extent of risk arising from financial instruments (cont)

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	20.5%
Private Equity	30.0%
Timber and Gold	18.0%
Secured Loans	8.0%
Corporate Bonds	5.5%
Index-Linked Gilts	10.9%
Infrastructure	18.0%
Property	13.0%
Cash	1.1%

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.

	Value at 31 March 2017 £000	% of fund %	Potential Change +/- %	Value on increase £000	Value on decrease £000
Equities - Developed Markets	266,867	55.1	20.5	321,575	212,159
Private Equity	6,287	1.3	30.0	8,173	4,401
Timber and Gold	8,361	1.7	18.0	9,866	6,856
Secured Loan	6,717	1.4	8.0	7,254	6,180
Corporate Bonds	30,100	6.2	5.5	31,764	28,436
Index-Linked Gilts	73,793	15.2	10.9	81,801	65,785
Infrastructure	42,903	8.8	18.0	50,626	35,180
Property	38,146	7.9	13.0	43,105	33,187
Cash and forward foreign exchange	11,762	2.4	1.1	11,892	11,632
Total [1]	484,936	100.0	16.7	566,055	403,817
Total [2]			13.9	552,240	417,632
Total [3]			13.9	552,287	n/a

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

15 Nature and extent of risk arising from financial instruments (cont)

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].

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 2017, cash deposits represented £16.5m, 3.3% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	2,384	3,270
Northern Trust Company - cash deposits	Aa2	8,509	9,882
The City of Edinburgh Council - treasury management	See below	918	922
Total investment cash		11,811	14,074
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	2,867	2,440
Total cash		14,678	16,514

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.

Notes to the Financial Statements

15 Nature and extent of risk arising from financial instruments (cont)

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.

(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.

(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	505	18
Goldman Sachs	Aaa-mf	4	-
Bank call accounts			
Bank of Scotland	A1	248	336
Royal Bank of Scotland	A3	40	5
Santander UK	Aa3	-	1
Barclays Bank	A1	256	-
Svenska Handelsbanken	Aa2	261	1
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa1	1,717	3,001
UK Government Treasury Bills	Aa1	754	-
		3,785	3,362

[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 2017 was 'Aa1').

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 2017, the Fund had no over-the-counter foreign currency derivatives.

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 Financial Statements

15 Nature and extent of risk arising from financial instruments (cont)

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 89% (2016 93%)) of the Fund's investments could be converted to cash within three months in a normal trading environment.

16 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.

17 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 £488m (2016 £374m). This figure is used for statutory accounting purposes by Lothian Buses Pension Fund and complies with the requirements of IAS26.

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 2016 % p.a.**	**31 March 2017 % p.a.**
Inflation/pensions increase rate	2.2	2.4
Salary increase rate	4.2	4.4
Discount rate	3.5	2.6

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 2016		**31 March 2017**	
	Males	**Females**	**Males**	**Females**
Current pensioners	20.4 years	22.9 years	20.4 years	22.9 years
Future pensioners (assumed to be currently 45)	23.5 years	25.9 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 Financial Statements

18 Debtors

	2015/16 £000	2016/17 £000
Contributions due - employer	576	581
Contributions due - members	158	153
Sundry debtors	94	10
	828	744

Analysis of debtors

	31 March 2016 £000	31 March 2017 £000
Administering Authority	1	1
Lothian Buses Limited	818	733
Other entities and individuals	9	10
	828	744

19 Creditors

	31 March 2016 £000	31 March 2017 £000
Benefits payable	275	201
Miscellaneous creditors and accrued expenses	177	161
	452	362

Analysis of creditors

	31 March 2016 £000	31 March 2017 £000
Other entities and individuals	452	362
	452	362

20 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.

Total contributions during year	2015/16 £000	2016/17 £000
Standard Life	6	8
Prudential	61	70
	67	78

Total value at year end	31 March 2016 £000	31 March 2017 £000
Standard Life	170	155
Prudential	315	294
	485	449

Notes to the Financial Statements

21 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 Service of the Council is responsible for administering the three Pension Funds. The Service receives an allocation of the overheads of the Council, based on the amount of central services consumed. In turn, the Service 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.

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 2016 £000	31 March 2017 £000
Year end balance of holding account	400	385
	400	385

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 2017, the fund had an average investment balance of £3.0m (2016 £9.5m). Interest earned was £12.1k (2016 £12.2k).

Year end balance on treasury management account	31 March 2016 £000	31 March 2017 £000
Held for investment purposes	918	922
Held for other purposes	2,867	2,440
	3,785	3,362

Scheme employer - Lothian Buses Limited

Lothian Buses Limited are (by definition) a related party to the scheme. The employer contributions to the Fund can be found in note 3 (page 70) of the notes to the Financial Statements.

Governance

As at 31 March 2017, all members of the Pensions Committee, with the exception of Councillor Bill Cook and Richard Lamont, and all members of the Pensions Board, were members of the Lothian Pension Fund or Lothian Buses Pension Fund, with one member of the Pensions Board in reciept of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board 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.

21 Related party transactions (cont)

With effect from 1 May 2015, all the employees listed below, with the exception of the Executive Director of Resources, 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 2016 £000	Accrued CETV as at 31 March 2017 £000
Hugh Dunn*	Acting Executive Director of Resources, City of Edinburgh Council	755	1,251
Clare Scott*	Chief Executive Officer, Lothian Pension Fund	175	221
Bruce Miller	Chief Investment Officer, Lothian Pension Fund	185	267
Struan Fairbairn	Chief Risk Officer, Lothian Pension Fund	30	46
John Burns	Chief Finance Officer, Lothian Pension Fund	474	538
Esmond Hamilton	Financial Controller, Lothian Pension Fund	161	200

* Also disclosed in the financial statements of the City of Edinburgh Council.

Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2016 £000	31 March 2017 £000
Short-term employee benefits	318	380
Post-employment benefits - employer pension contributions	65	78

Key management personnel employed by LPFE, had accrued pensions totalling £81,825 (1 April 2016: £68,004) and lump sums totalling £100,185 (1 April 2016: £68,004) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

22 Contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds invested in private debt, timber and infrastructure. 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 2016 £000	31 March 2017 £000
Outstanding investment commitments	6,722	12,462
	6,722	12,462

23 Contingent assets and liabilities

At 31 March 2017 the Fund had entered into negotiations for an infrastructure co-investments in which it is exposed to the potential risk of investment abort costs. Lothian Buses Pension Fund's exposure to this is approximately £1.6k.

There were no contingent assets at year end.

24 Impairment losses

No impairment losses have been identified during the year.

Lothian Buses Pension Fund

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 16 November 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 as 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 £45 million.

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 Funding Strategy Statement.

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.

Lothian Buses Pension Fund

Actuarial Statement for 2016/17

The key financial assumptions adopted for the 2014 valuation were as follows:

Financial assumptions	31 March 2014 % p.a. Nominal	31 March 2014 % p.a. Real
Discount rate	5.0%	2.3%
Pay increases*	5.0%	2.3%
Price inflation/Pension increases	2.7%	-

*2% p.a. for 2014/15 and 2015/16, reverting to 5.0% 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	20.4 years	22.6 years
Future Pensioners *	23.5 years	25.9 years

*Future pensioners are assumed to be at the 2014 valuation aged 45.

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 Fund's experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements and any potential changes to assumptions at the 2017 valuation). Real bond yields have fallen sharply which places a higher value on liabilities. The effect of this will have been partially offset by strong asset returns. The funding level is therefore likely to have worsened over the period.

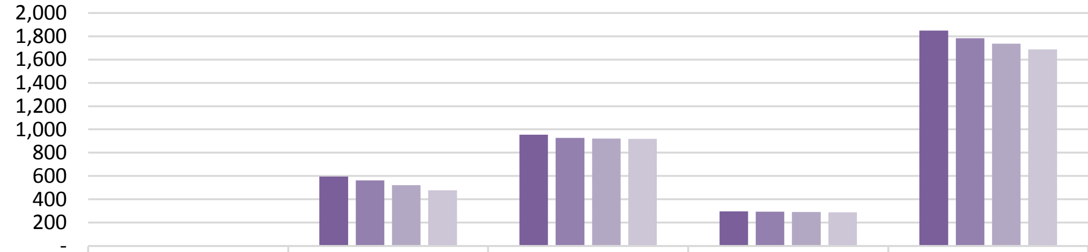
The next actuarial valuation will be carried out as at 31 March 2017 with the results signed off within 12 months. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

28 April 2017

Scottish Homes Pension Fund

Scottish Homes Pension Fund membership



	Active	Deferred	Pensioners	Dependants	Total
31 March 2014	-	595	956	298	1,849
31 March 2015	-	562	928	293	1,783
31 March 2016	-	522	922	291	1,735
31 March 2017	-	478	919	289	1,686

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 time. Both 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 of that year, with a reducing equity allocation, and corresponding increases in the bond allocation dependent on the funding level. The target funding levels from 2014 to 2026 are shown in the table below along with the corresponding target equity allocations.

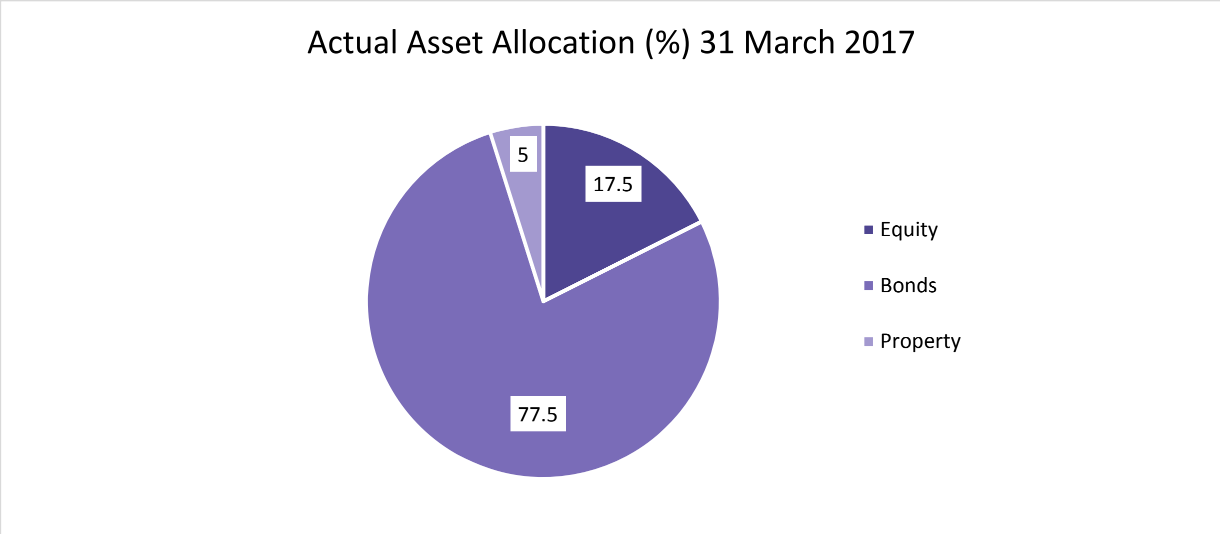
Year [1]	Target Funding Level %	Target Equity Allocation %
2014	91.5	30
2017	93.0	25
2020	94.5	20
2023	95.5	15
2026	96.5	10

[1] The Scottish Government guarantee agreement sets out the increasing target funding levels every 3 years until 2044.

Over 2016/17, the actual funding level fluctuated above and below the target funding level reflecting movements in market interest rates and fund asset prices. Action was taken to vary the equity allocation between 30% and 17.5% over the year, consistent with the funding approach. The strategic asset allocation at the end of the 2016 and 2017 financial years are shown below.

	Strategic Allocation 31 March 2016 %	Strategic Allocation 31 March 2017 %
Equities	30.0	17.5
Bonds	65.0	77.5
Property	5.0	5.0
Cash	-	-
Total	**100.0**	**100.0**

During 2016/17, the equity allocation was reduced on four occasions from 30% to 17.5%. These changes were made to take advantage of movements in financial markets, which caused the funding level to trend higher over the course of the year. The actual allocations at 31 March 2017 are shown in the pie chart below.



Due to the requirement to divest on a regular basis, an analysis of a cash flow based strategy was undertaken which looked at alternative asset portfolios to demonstrate the effect on future cash flows for the Fund. As a result, the Fund implemented changes within the current funding approach to enhance income generation and to improve matching of cash flows from bond investments with the expected timing of pension payments. Management of the equity and bond portfolios was brought in-house.

These changes followed on from a review of the investment strategy during 2015/16 and further work undertaken in relation to the proposals to the Scottish Government to change and update its funding agreement. The Scottish Government has agreed to consider alternatives to the existing funding approach. The current bond-focused investment strategy provides income yield of less than 2%, and so the Fund is required to sell assets on a regular basis to pay pensions. The latest work concluded that a less prescriptive investment and funding strategy would allow a higher-yielding investment strategy and a more flexible approach to setting contributions. Further development of the alternative funding strategies will be taken forward in 2017/18 as part of the 2017 actuarial valuation.

Investment performance

The objectives of the Fund are:

• over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;

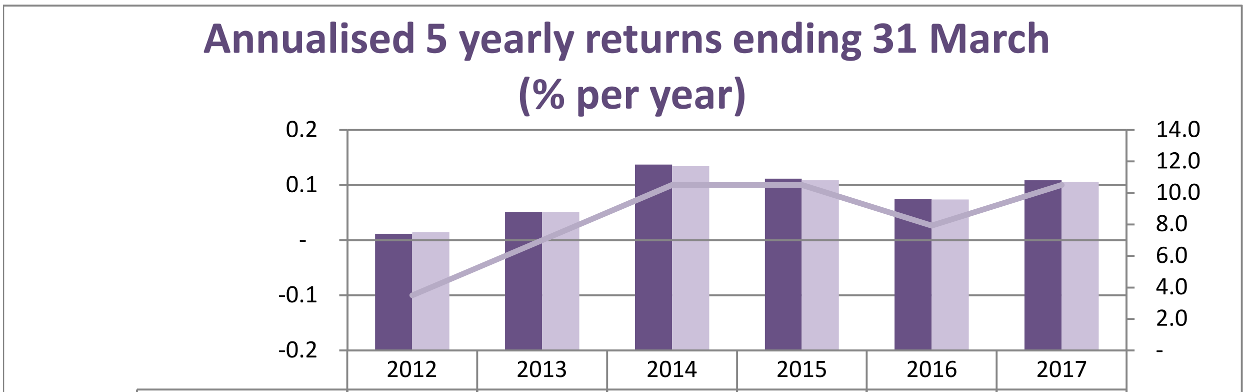
• over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund's annualised performance over the year and longer-term periods is shown in the table below. The Fund has performed broadly in line with its benchmark over all time periods.

Annualised returns to 31 March 2017 (% per year)	**1 year**	**5 years**	**10 years**
Scottish Homes Pension Fund	18.9	10.8	9.1
Benchmark	18.7	10.7	9.1
Actuarial Valuation Assumptions *	3.4	3.8	4.1
Retail Price Index (RPI)	3.1	2.3	2.8
Consumer Price Index (CPI)	2.3	1.4	2.3
National Average Earnings	2.4	1.9	2.0

* estimated

The absolute performance of Scottish Homes Pension Fund over the 12-month period was 18.9% and 5 year performance was 10.8% per annum. Over 2016/17, all asset classes generated healthy positive returns of 22.7%, 14.5%, and 6.2% from equities, bonds and property, respectively. While equities and bonds performed in line with their benchmarks, property outperformed during the property, respectively. While equities and bonds performed in line with their benchmarks, property outperformed during the period. The Fund's risk has been marginally lower than that of the benchmark over the last year and 5 years. Since inception in July 2005, the Fund has returned +9.3% per annum, in line with its benchmark but well ahead of broad measures of inflation and national average earnings.



	2012	2013	2014	2015	2016	2017
Fund	7.4	8.8	11.8	10.9	9.6	10.8
Benchmark	7.5	8.8	11.7	10.8	9.6	10.7
Relative (LHS)	-0.1	-	0.1	0.1	0.0	0.1

Scottish Homes Pension Fund

Fund Account for year ended 31 March 2017

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from the Scottish Government's contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

2015/16 £000		Note	2016/17 £000
	Income		
675	Contributions from the Scottish Government	***3***	675
-	Transfers from other schemes		-
675			**675**
	Less: expenditure		
6,890	Pension payments including increases		6,789
472	Lump sum retirement payments		563
7	Lump sum death benefits		-
290	Transfers to other schemes	***4***	120
53	Administrative expenses	***5b***	68
7,712			**7,540**
(7,037)	**Net withdrawls from dealing with members**		**(6,865)**
	Returns on investments		
799	Investment income	***6***	877
1,962	Change in market value of investments	***7, 10b***	26,569
(169)	Investment management expenses	***5c***	(212)
2,592	**Net returns on investments**		**27,234**
(4,445)	**Net increase/(decrease) in the Fund during the year**		**20,369**
154,720	**Net assets of the Fund at 1 April 2016**		150,275
150,275	**Net assets of the Fund at 31 March 2017**	***10***	**170,644**

Scottish Homes Pension Fund

Net Assets Statement as at 31 March 2017

This statement provides a breakdown of type and value of all net assets at the year end.

31 March 2016 £000		Note	31 March 2017 £000
	Investment Assets		
59,749	Bonds		127,970
-	Equities - UK		4,450
-	- Overseas		23,771
88,661	Pooled investment vehicles		7,998
7,788	*- UK managed fund - Property*		*7,998*
44,928	*- UK managed fund - Equity*		-
35,945	*- UK managed fund - Gilts*		-
11	Cash Deposits		3,602
177	Other investment assets		459
148,598			**168,250**
	Investment Liabilities		
-	Other investment assets		-
-			-
148,598	**Net investment assets**	***8***	**168,250**
	Current assets		
95	The City of Edinburgh Council	***16***	146
1,610	Cash balances	***11, 16***	2,232
22	Debtors	***14***	31
1,727			**2,409**
	Current liabilities		
(50)	Creditors	***15***	(15)
(50)			**(15)**
1,677	**Net current assets**		**2,394**
150,275	**Net assets of the Fund at 31 March 2017**	***10***	**170,644**

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

JOHN BURNS FCMA CGMA

Chief Finance Officer, Lothian Pension Fund

27 September 2017

Note 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 Financial Statements

1 Statement of Accounting Policies

The statement of accounting policies for all Funds can be found on page 112.

2 Events after the Reporting Date

There have been no events since 31 March 2017, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

3 Contributions from the Scottish Government

	2015/16 £000	2016/17 £000
Deficit funding	575	575
Administration expenses	100	100
	675	675

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, an agency of the Scottish Government.

Following the actuarial valuation at 31 March 2014, deficit funding of £575,000 per year is being paid by the Scottish Government over the period April 2015 to March 2018. In addition, the Scottish Government agreed to pay £100,000 every year towards the cost of ongoing administration.

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.

4 Transfers out to other pension schemes

	2015/16 £000	2016/17 £000
Group transfers	-	-
Individual transfers	290	120
	290	120

5a Total Management expenses

	2015/16 £000	2016/17 £000
Administrative costs	38	38
Investment management expenses	149	149
Oversight and governance costs	35	93
	222	280

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 management expenses in note 5b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

Notes to the Financial Statements

5b Administrative expenses

	2015/16 £000	2016/17 £000
Employee Costs	23	26
The City of Edinburgh Council - other support costs	3	3
System costs	7	7
Actuarial fees	12	24
External audit fees	1	1
Printing and postage	2	2
Depreciation	1	1
Office costs	2	3
Sundry costs less sundry income	2	1
	53	68

The Investment and Pensions Service of the Council is responsible for administering the three Pension Funds. The Service receives an allocation of the overheads of the Council. In turn the Service apportioned 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 apportioned on a defined basis.

5c Investment management expenses

	2015/16 £000	2016/17 £000
External management fees - invoiced	52	50
External management fees - deducted from capital (direct)	52	55
External management fees - deducted from capital (indirect)	-	-
Transaction costs	1	40
Employee costs	25	29
Custody fees	17	14
Engagement and voting fees	2	2
Performance measurement fees	5	5
Consultancy fees	2	2
System costs	5	6
Legal fees	-	3
The City of Edinburgh Council - other support costs	3	3
Office costs	2	2
Sundry costs less sundry income	3	1
	169	212

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 2016/17 or 2015/16.

Notes to the Financial Statements

6 Investment income

	2015/16 £000	2016/17 £000
Income from fixed interest securities	512	536
Dividends from Equities	-	62
Income from pooled investments - property	277	265
Interest on cash deposits and sundries	10	16
	799	879
Irrecoverable withholding tax	-	(2)
	799	877

7 Reconciliation of movement in investments

	Market value at 31 March 2016 £000	Purchases at cost £000	Sales & proceeds £000	Change in market value £000	Market value at 31 March 2017 £000
Bonds	59,749	97,017	(37,319)	8,523	127,970
Equities	-	28,285	-	(64)	28,221
Pooled investment vehicles	88,661	9,569	(108,262)	18,030	7,998
	148,410	134,871	(145,581)	26,489	164,189
Other financial assets / (liabilities)					
Cash deposits	11			80	3,602
Dividend due etc	177			-	459
	188			80	4,061
Net financial assets	148,598			26,569	168,250

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.

	Market value at 31 March 2015 £000	Purchases at cost £000	Sales & proceeds £000	Change in market value £000	Market value at 31 March 2016 £000
Bonds	54,147	5,698	-	(96)	59,749
Pooled investment vehicles	97,503	13,987	(24,887)	2,058	88,661
	151,650	19,685	(24,887)	1,962	148,410
Other financial assets / (liabilities)					
Cash deposits	244			-	11
Dividend due etc	173			-	177
	417			-	188
Net financial assets	152,067			1,962	148,598

Notes to the Financial Statements

8 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
State Street	UK equities	10,060	6.8	-	-
Total UK equities		10,060	6.8	-	-
State Street	N American equities	13,752	9.2	-	-
State Street	European (ex UK) equities	8,994	6.1	-	-
State Street	Pacific (ex Japan) equities	3,617	2.4	-	-
State Street	Japanese equities	4,834	3.3	-	-
State Street	Emerging markets equities	3,672	2.5	-	-
Total regional overseas equities		34,869	23.5	-	-
In-house	High Div Equity			29,037	17.3
Total global equities		-	-	29,037	17.3
In-house	UK Index linked gilts	59,937	40.3	128,477	76.4
State Street	UK Fixed interest gilts	19,777	13.3	-	-
State Street	UK Index linked gilts	16,167	10.9	-	-
Total fixed interest and inflation linked bonds		95,881	64.5	128,477	76.4
Schroders	Property	7,788	5.2	7,998	4.8
Total property		7,788	5.2	7,998	4.8
In-house	Cash		-	2,738	1.5
Total cash		-	-	2,738	1.5
Net financial assets		148,598	100.0	168,250	100.0

Notes to the Financial Statements

9a Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
UK Gov 1.25% Index Linked 22/11/27	-	-	11,905	7.0
UK Gov 4.125% Index Linked 22/11/17	-	-	10,955	6.4
UK Gov 2.5% Index Linked 17/07/24	-	-	10,637	6.2
UK Gov 2.5% Index Linked 16/04/20	-	-	10,538	6.2
UK Gov 1.875% Index Linked 22/11/22	-	-	10,517	6.2
UK Gov 1.125% Index Linked 22/11/27	26,386	17.4	9,003	5.3
State Street UK Index Linked Gilts Over 15 Years	16,167	10.8	-	-
State Street UK Conventional Gilts Over 15 Years	19,777	13.2	-	-
UK Gov 1.25% Index Linked 22/11/32	16,380	10.9	7,614	4.5
State Street MPF North America Equity Index	13,752	9.2	-	-
UK Gov 1.125% Index Linked 22/11/37	11,321	7.5	7,800	4.6
State Street MPF UK Equity Index	10,060	6.7	-	-
State Street MPF Europe ex-UK Equity Index	8,994	6.0	-	-
Schroders UK Real Estate Income Units	7,788	5.2	7,998	4.7

9b Investments representing more than 5% of asset class

Bonds	Market value at 31 March 2016 £000	% of total 31 March 2016 %	Market value at 31 March 2017 £000	% of total 31 March 2017 %
UK Gov 1.25% Index Linked 22/11/27	-	-	11,905	9.3
UK Gov 4.125% Index Linked 22/11/17	-	-	10,955	8.6
UK Gov 2.5% Index Linked 17/07/24	-	-	10,637	8.3
UK Gov 2.5% Index Linked 16/04/20	-	-	10,538	8.2
UK Gov 1.875% Index Linked 22/11/22	-	-	10,517	8.2
UK Gov 1.125% Index Linked 22/11/27	26,386	44.2	9,003	7.0
UK Gov 1.125% Index Linked 22/11/37	11,321	18.9	7,800	6.1
UK Gov 1.25% Index Linked 22/11/32	16,380	27.4	7,614	5.9
UK Gov 0.75% Index Linked 22/03/34	3,472	5.8	3,315	2.6
Pooled funds				
Schroders UK Real Estate Income Units	7,788	8.8	7,998	100.0
State Street UK Index Linked Gilts Over 15 Years	16,167	15.5	-	-
State Street UK Conventional Gilts Over 15 Years	19,777	22.3	-	-
State Street MPF North America Equity Index	13,752	15.5	-	-
State Street MPF UK Equity Index	10,060	11.3	-	-
State Street MPF Europe ex-UK Equity Index	8,994	10.1	-	-
State Street MPF Japan	4,834	5.5	-	-

Notes to the Financial Statements

10 Financial Instruments

10a 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 2016			31 March 2017		
Financial assets	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
Investment assets						
Bonds	59,749	-	-	127,970	-	-
Equities	-	-	-	28,221	-	-
Pooled investments	88,661	-	-	7,998	-	-
Cash	-	11	-	-	3,602	-
Other balances	-	177	-	-	459	-
	148,410	188	-	164,189	4,061	-
Other assets						
City of Edinburgh Council	-	95	-	-	146	-
Cash	-	1,610	-	-	2,232	-
Debtors	-	22	-	-	31	-
	-	1,727	-	-	2,409	-
Assets total	148,410	1,915	-	164,189	6,470	-
Financial liabilities						
Other liabilities						
Creditors	-	-	(50)	-	-	(15)
Liabilities total	-	-	(50)	-	-	(15)
Total net assets	148,410	1,915	(50)	164,189	6,470	(15)

Total net financial instruments	150,275	170,644

10b Net gains and losses on financial instruments

	2015/16 £000	2016/17 £000
Designated as fair value through fund account	1,962	26,569
Loans and receivables	-	-
Financial liabilities at amortised cost	-	-
Total	1,962	26,569

Notes to the Financial Statements

10c 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 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.

	31 March 2017			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	36,219	127,970	-	164,189
Loans and receivables	4,061	-	-	4,061
Total investment assets	40,280	127,970	-	168,250
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total investmentliabilities	-	-	-	-
Net investment assets	40,280	127,970	-	168,250

Notes to the Financial Statements

10c Valuation of financial instruments carried at fair value (cont)

	31 March 2016			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Designated as fair value through fund account	88,661	59,749	-	148,410
Loans and receivables	188	-	-	188
Total financial assets	88,849	59,749	-	148,598
Financial liabilities				
Designated as fair value through fund account	-	-	-	-
Total financial liabilities	-	-	-	-
Net financial assets	88,849	59,749	-	148,598

11 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 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.

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.

11 Nature and extent of risk arising from financial instruments (cont)

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 by the Fund's investment adviser KPMG:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Index-Linked Gilts	10.9%
Property	13.0%
Cash	1.1%

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.

	Value at 31 March 2017 £000	% of fund %	Potential Change +/- %	Value on increase £000	Value on decrease £000
Equities - Developed Markets	29,037	17.3	20.5	34,990	23,084
Index-Linked Gilts	128,476	76.4	10.9	142,418	114,534
Property	7,998	4.8	13.0	9,038	6,958
Cash	2,739	1.5	1.1	2,769	2,709
Total [1]	168,250	100.0	12.5	189,214	147,286
Total [2]			9.5	184,192	152,308
Total [3]			8.6	182,767	n/a

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

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 [1].

11 Nature and extent of risk arising from financial instruments (cont)

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 are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2017, cash deposits represented £5.8m, 3.4% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Held for investment purposes			
Northern Trust Company - cash deposits	A2	11	3,602
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,610	2,232
Total cash		1,621	5,834

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.

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.

(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.

(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

11 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2017	Balances at 31 March 2016 £000	Balances at 31 March 2017 £000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	215	12
Goldman Sachs	Aaa-mf	2	-
Bank call accounts			
Bank of Scotland	A1	105	223
Royal Bank of Scotland	A3	17	3
Santander UK	Aa3	-	1
Barclays Bank	A1	109	-
Svenska Handelsbanken	Aa2	111	-
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa1	730	1,993
UK Government Treasury Bills	Aa1	321	-
		1,610	2,232

[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 2017 was 'Aa1').

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.

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.

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.

All of the Fund’s investments could be converted to cash within three months in a normal trading environment.

12 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.

13 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 £145m (2016 £130m). 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.

Notes to the Financial Statements

13 Actuarial present value of promised retirement benefits (cont)

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.

	31 March 2016 % p.a.	31 March 2017 % p.a.
Inflation/pensions increase rate	2.2%	2.4%
Discount rate	3.5%	2.6%

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 2016		31 March 2017	
	Males	Females	Males	Females
Current pensioners	24.5 years	25.4 years	24.5 years	25.4 years
Future pensioners (assumed to be currently 45)	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.

14 Debtors

	31 March 2016 £000	31 March 2017 £000
Sundry debtors	22	31
	22	31

Analysis of debtors

	31 March 2016 £000	31 March 2017 £000
Administering Authority	1	1
Other entities and individuals	21	30
	22	31

15 Creditors

	31 March 2016 £000	31 March 2017 £000
Benefits payable	8	-
Miscellaneous creditors and accrued expenses	42	15
	50	15

Analysis of creditors

	31 March 2016 £000	31 March 2017 £000
Other entities and individuals	50	15
	50	15

16 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 Service of the Council is responsible for administering the three Pension Funds. The Service receives an allocation of the overheads of the Council, based on the amount of central services consumed. In turn, the Service 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.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund pays a cash sum to the Council leaving a working balance in the account.

	31 March 2016 £000	31 March 2017 £000
Year end balance of holding account	95	146
	95	146

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 2017, the fund had an average investment balance of £2.1m (2016 £2.2m). Interest earned was £8k (2016 £10.5k).

Year end balance on treasury management account	31 March 2016 £000	31 March 2017 £000
Held for investment purposes	-	-
Held for other purposes	1,610	2,232
	1,610	2,232

Scheme Guarantor

As the scheme guarantor (by definition) a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 3 (page 96) of the notes to the Financial Statements.

Governance

As at 31 March 2017, all members of the Pensions Committee, with the exception of Councillor Bill Cook and Richard Lamont, and all members of the Pensions Board, were members of the Lothian Pension Fund or Lothian Buses Pension Fund, with one member of the Pensions Board in reciept of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board 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.

With effect from 1 May 2015, all the employees listed below, with the exception of the Executive Director of Resources, 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:

Notes to the Financial Statements

16 Related party transactions (cont)

Name	Position held	Accrued CETV as at 31 March 2016 £000	Accrued CETV as at 31 March 2017 £000
Hugh Dunn*	Acting Executive Director of Resources, City of Edinburgh Council	755	1,251
Clare Scott*	Chief Executive, Lothian Pension Fund	175	221
Bruce Miller	Chief Investment Officer, Lothian Pension Fund	185	267
Struan Fairbairn	Chief Risk Officer, Lothian Pension Fund	30	46
John Burns	Chief Finance Officer, Lothian Pension Fund	474	538
Esmond Hamilton	Financial Controller, Lothian Pension Fund	161	200

* Also disclosed in the financial statements of the City of Edinburgh Council.

Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2016 £000	31 March 2017 £000
Short-term employee benefits	318	380
Post-employment benefits - employer pension contributions	65	78

Key management personnel employed by LPFE, had accrued pensions totalling £81,825 (1 April 2016: £68,004) and lump sums totalling £100,185 (1 April 2016: £68,004) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee are also remunerated by City of Edinburgh Council.

17 Contingent assets/liabilities and contractual commitments

There were no contingent liabilities or contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

Scottish Homes Pension Fund

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 authority's Funding Strategy Statement, dated 16 November 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 Financial Strategy Statement.

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's 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 (RPI) curve less 0.8% p.a.
Discount rate (deferreds and pensioners)	Bank of England nominal yield curve

Scottish Homes Pension Fund

Actuarial Statement for 2016/17

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. The funding level at 31 March 2017 is estimated to be 96%, an increase of 7% since the formal funding valuation at 31 March 2014.

The next actuarial valuation will be carried out as at 31 March 2017 with the results signed off within 12 months. 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

20 Waterloo Street

Glasgow

G2 6DB

28 April 2017

Statement of Accounting Policies and General Notes

1 Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarise the transactions of the Funds for the 2016/17 financial year and report on the net assets available to pay pension benefits as at 31 March 2017. The Financial Statements 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 Financial Statements.

2 Summary of significant accounting policies

General

a) Basis of consolidation

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Lothian Buses Pension Fund and Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

As LPFE Limited commenced trading on 1 May 2015, the prior year comparative figures consist only of the results of Lothian Pension Fund. Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited and LPFI Limited are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area. The purpose of LPFE Limited is to provide staff services in respect of investment and general management of the Funds. LPFI Limited's purpose is to provide FCA regulated services to the Funds and other Local Government Pension Scheme funds in Scotland and Northern Ireland. It is considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

Fund account - revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they are payable as certified by 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.

c) 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 Funds 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.

d) Investment income

i) Interest income

Interest income is recognised in the Funds accounts 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.

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 Lothian Pension 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

e) 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.

f) Taxation

i) Pension Funds

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.

ii) Controlled entities - LPFE Limited and LPFI Limited

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Funds. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They are calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

g) 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 Funds. The Division's costs include charges from LPFE Limited and LPFI Limited for services rendered. 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 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.

h) 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.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided 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.

h) Investment management expenses (cont'd)

In June 2016, CIPFA revised and updated its guidance "Accounting for Local Government Pension Scheme Management Costs". Whilst the underlying principle of transparency of investment costs remains unchanged, there has been a degree of relaxation to full cost disclosure. Specifically, for complex "fund of funds" structures, the new guidance states that "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account......If pension funds wish to provide information about the total cost of "fund of fund" investments, this should be included as part of the Investments section in the Annual Report". The impact of this is that investment management costs deducted from any underlying fund in a "fund of funds" investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs the decision has been made not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees - deducted from capital (indirect)" in the notes on 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 investment management team are charged to the Funds. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) 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

j) 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 at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Funds has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments - Equities	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	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.	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Forward foreign exchange derivatives	Level 1	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.	Not required	Not required
Government bonds - fixed interest / index linked gilts	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Unquoted Pooled investments - unitised	Level 2	Closing bid price where bid offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by John Finley FRICS of independent valuers, Carrott-Jones LLP in accordance with RICS Valuation Standards (9th Edition)	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines (2012)	EBITDA multiple Revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Funds' own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Funds have determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Lothian Pension Fund Unquoted	Assessed Valuation range (+ or -)	Value at 31 March 2017 £m	Value on increase £m	Value on decrease £m
Private Equity	30%	129.3	168.1	90.5
Infrastructure	18%	663.2	782.4	543.8
Timber	18%	132.5	156.4	108.2
Private Secured Loans	8%	89.2	96.3	82.1
Property	13%	389.7	440.4	339.0
		1,403.9	1,643.6	1,163.6

Lothian Buses Pension Fund Unquoted	Assessed Valuation range (+ or -)	Value at 31 March 2017 £m	Value on increase £m	Value on decrease £m
Infrastructure	18%	39.2	46.3	32.1
Timber	18%	8.4	9.9	6.9
Private Secured Loans	8%	6.7	7.2	6.2
		54.3	63.4	45.2

Scottish Homes Pension Fund has no assets valued at Level 3.

k) 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.

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.

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 Funds 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 IAS26, 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 pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

i) Investment and Pensions service division

Staff working on the administration of the Funds that are employed by the City of Edinburgh Council are eligible to join Lothian Pension Fund. As these people are employees of the Council, it's the Council that accounts for the benefits of the defined benefits scheme under IAS19. The Council recharges employment costs to the Funds, including employer contributions to Lothian Pension Fund.

ii) Controlled entity - LPFE Limited

The employees of LPFE Limited are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by the Scheme Actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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 2017/18 Code:

- IAS 12, Income Taxes
- IAS 39, Financial Instruments: Recognition and Measurement
- IFRS 7, Financial Instruments: Disclosures
- IFRS 9, Financial Instruments
- IFRS 15, Revenue from Contracts with Customers
- IFRS 16, Leases

The amendments are generally minor or 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, timber and secured loan investments at 31 March 2017 was £1,014.2m (2016 £716.2m).

For the Lothian Buses Pension Fund, the value of unquoted private equity, infrastructure and timber investments at 31 March 2017 was £54.3m (2016 £26.0m).

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 Funds' 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 Funds.

5 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; 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 amounts 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 2017 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 the Funds assets. The Funds' 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 2017	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	11	913
1 year increase in member life expectancy	4	320
0.5% increase in salary increase rate	4	320
0.5% increase in pensions increase rate	7	565

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 2017	**Approx % increase in liabilities**	**Approx monetary amount**
	%	**£m**
0.5% decrease in discount rate	11	54
1 year increase in member life expectancy	4	18
0.5% increase in salary increase rate	4	18
0.5% increase in pensions increase rate	7	34

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 2017	**Approx % increase in liabilities**	**Approx monetary amount**
	%	**£m**
0.5% decrease in discount rate	6	9
1 year increase in member life expectancy	4	6
0.5% increase in pensions increase rate	6	9

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments are not publicly listed and therefore there is a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

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. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) 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 responsibilities of the Administering Authority

The Administering Authority's responsibilities require it to:

- Make arrangements for the proper administration of the financial affairs of the 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 the Council's accounting arrangements, including those of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund. For the Funds, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

- 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.

HUGH DUNN
Head of Finance of the City of Edinburgh Council
27 September 2017

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the Funds' Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code of Practice), is required to present a true and fair view of the financial position of the Funds at the accounting date and their income and expenditure for the year (ended 31 March 2017).

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, 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 Chief Finance Officer, Lothian Pension Fund, 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 Funds as at 31 March 2017, and their income and expenditure for the year ended 31 March 2017.

JOHN BURNS, FCMA CGMA
Chief Finance Officer, Lothian Pension Fund
27 September 2017

Independent auditor's report to the members of City of Edinburgh Council as administering authority for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund and the Accounts Commission

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Lothian Pension Fund and its group, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the funds) for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund Group Fund Account, the Lothian Pension Fund Group Net Assets Statement, the Lothian Buses Fund Account, the Lothian Buses Net Asset Statement, the Scottish Homes Fund Account, the Scottish Homes Net Asset Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the funds during the year ended 31 March 2017 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 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

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

Responsibilities of the Chief Finance Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual accounts

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

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

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Nick Bennett, (for and on behalf of Scott-Moncrieff)
Exchange Place 3
Semple Street
Edinburgh EH3 8BL

27 September 2017

Annual Governance Statement

Roles and responsibilities

The City of Edinburgh Council (the "Council") has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland. This responsibility is for three separate Funds: Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the "Funds").

The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Funds. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

The role of Administering Authority is carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Investment and Pensions Division of the Resources Directorate of the Council
- Investment Strategy Panel
- LPFE Limited and LPFI Limited, wholly owned subsidiaries of the Council in its capacity as Administering Authority of Lothian Pension Fund.

Further details on the above arrangements can be founding the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Funds, the City of Edinburgh Council is responsible for ensuring that its business, including that of the Funds, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. 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 overall 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. The Pensions Committee has delegated responsibility for additional arrangements specific to the Funds.

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 Funds operate within the wider governance framework of the Council to which is added arrangements specific to the Funds themselves. The governance framework comprises the systems, processes, cultures and values by which the Funds are directed and controlled. It also describes the way the Funds engage with and accounts to its stakeholders. It enables 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 framework also applies to any subsidiary companies including LPFE Limited and LPFI Limited which are members of the Council's Group.

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 Governance and Democratic Services Manager reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. Internal Audit has also reviewed the annual assurance questionnaire process in relation to Arms-Length Companies and has found that this provides the Chief Executive with a level of assurance on the adequacy of the governance arrangements. The Council's Corporate governance framework meets 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:

Elements of the governance framework specific to the Funds include:

- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan.

- With effect from April 2015 the Pensions Regulator is responsible for setting standards of governance and administration for the Local Government Pension Scheme. The Funds have taken steps to fully integrate compliance with these standards within the overall governance framework operated by the Funds.

- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Pension Board 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 and Disclosure in the Local Government Pension Scheme.

- 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.

- Benchmarking of services in terms of standards and cost against other pension funds.

- LPFE Limited and LPFI Limited operating within their respective constitutional documentation and the relevant companies regulations.

- LPFI Limited operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority regulations.

Elements of the governance framework of the Council that are relevant to the Funds include:

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2016-2020.

- A performance management framework, incorporating internal and public performance reporting, which focuses on continuous improvement of our services, applying reliable improvement methods to ensure that services are consistently well designed based on the best evidence are a delivered on a right first time basis.

- The Council is embedding a culture of commercial excellence to ensure that our services always deliver Best Value. Focused work is underway to further improve standards in buying practices and processes across the Council.

Elements of the governance framework of the Council that are relevant to the Funds include (cont'd):

- The submission of reports, findings and recommendations from 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, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.

- The Section 95 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. For the Funds, the Section 95 officer responsibility has sub-delegated to the Chief Finance Officer, Lothian Pension Fund.

- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for 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 Council's Governance and Democratic Services Manager, reporting to the Head of Strategy and Insight, has responsibility for advising the Council on corporate governance arrangements.

- The Governance, Risk and Best Value Committee, and for 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. Also providing independent scrutiny of financial and non-financial performance, approving and monitoring the progress of the Internal Audit risk based plan, and monitoring 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 Service Area Risk Register, Resources Senior Management Team Risk Register and Council Risk Register all identify risks and proposed treatment and 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. For fund matters, the Pensions Committee and Pensions Audit Sub-Committee are responsible 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 Governance and Democratic Services Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. For the Pension Funds, a policy on Committee and Board member training has been adopted.

Elements of the governance framework of the Council that are relevant to the Pension Funds include (cont'd):

- Mandatory training for councillors newly appointed to the Pensions Committee is programmed within the Induction and Training programme for Elected Members following the 2017 Local Government Election. This focuses on Governance, Investment management and strategy and how the Pension Scheme works. Committee members will also be reminded of the requirement to undertake a minimum of 21 hours of training per financial year to fulfil their role on the Pension Committee.

- 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.

- The directors of LPFE Limited and LPFI Limited have obligations to report to the Council/Pensions Committee being the sole shareholder. In addition, the Board and staff of LPFI Limited are each individually regulated by the Financial Conduct Authority and so bound by the associated Principles and Standards of governance best practice.

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 Pension Funds. Following the establishment of the wholly-owned subsidiary companies, LPFE Limited and LPFI 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 Governance and Democratic Services Manager has reviewed the effectiveness of the Code.

The Chief Internal Auditor has also provided an assurance statement on the effectiveness of the system of internal control. The opinion in the assurance statement states: "Internal Audit have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Funds. We consider the Funds' framework to be operating at the higher end of the 'generally adequate but with enhancements required' category."

In compliance with standard accounting practice, the then Acting Executive Director of Resources 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 2017. It is the then Acting Executive Director of Resources' opinion that "reasonable assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal control".

The Chief Finance Officer of Lothian Pension Fund has provided a statement of the effectiveness of the internal financial control system for the year ended 31st March 2017 for the Funds. It is the Chief Finance Officer's opinion "that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal control for the Lothian Pension Find, Lothian Buses Pension Fund and Scottish Homes Pension Fund."

Certification

It is our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the Group in its administration of the Funds. We consider the governance and internal control environment operating during the financial year from 1 April 2016 to 31 March 2017 to provide reasonable and objective assurance that any significant risks impacting on the Group and its ability to achieve its objectives in properly administering the Funds have and will continue to be identified and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed through the governance structures and processes established for the Group and summarised herein. We will continue to review and enhance, as necessary, our governance arrangements.

ANDREW KERR	**HUGH DUNN**	**CLARE SCOTT**
Chief Executive	**Head of Finance**	**Chief Executive Officer**
of the City of Edinburgh Council	**of the City of Edinburgh Council**	**of Lothian Pension Fund**
27 September 2017	**27 September 2017**	**27 September 2017**

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 describes arrangements at 31 March 2017 and since the introduction of new governance arrangements on 1 April 2015.

Principle		Full Compliance	Comments
Structure	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	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: - Five City of Edinburgh elected members - Two external members, one drawn from the membership of the Funds and one drawn from the employers that participate in the Funds.
	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	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Funds' Pension Board. Membership includes five employer representatives and five member representatives. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board attend the Pensions Audit Sub Committee.
	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	Yes	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is delegated to the Executive Director of Resources, who takes advice from the Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The Investment Strategy Panel consists of the Executive Director of Resources, Chief Executive of the Lothian Pension Fund, Chief Finance Officer, Chief Investment Officer and three experienced external industry advisers. The Pensions Committee receives annual updates from LPFE Limited and LPFI Limited.

Principle		Full Compliance	Comments
Representation	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	The Pension Board consists of a mix of representatives: - Five employer representatives from non-administering authority employers; - Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	Yes	An Independent Professional Observer was appointed in March 2013 to help Committee scrutinise advice. Three external investment advisers sit on the Investment Strategy Panel. 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 funds. A non-executive director was appointed to the board of LPFI Limited on 7 February 2017.
	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	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That committee or board 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	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The non-elected members confirm that they have read, signed and will abide by a Code of Conduct (specifically tailored for the Committee and Board) prior to their appointment to the Pensions Committee and Pension Board. The elected members are required to read, sign and abide by the Councillors' Code of Conduct.
	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	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board.

Voting	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 of 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 Nomination and Appointments Policy of the Funds, available on the Funds' website, clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board.
Training / Facility Time / Expenses	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 Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the Funds' website www.lpf.org.uk. Board members and staff working for LPFI Limited also attend separate training for the purposes of their knowledge, understanding and compliance with Financial Conduct Authority regulations.
	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 and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.
	c) That the administering authority considers the adoption of annual training plans for committee and board members and maintains a log of all such training.	Yes	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	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.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of each such meetings. Further meetings are held if necessary.
	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	

Access	That subject to any rules in the council's constitution, all members of main and secondary committees or boards 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 Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who holds surgeries ahead of Committee meetings.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Committee deals with all matters relating to both the administration and investment of the Funds. 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 Funds. The Convener of the Pensions Committee is also a member of the Scottish LGPS Scheme Advisory Board which considers matters on a national level.
Publicity	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	Governance documents, policies and details of Pension Board membership are on the Funds' website. The Funds also communicates regularly with employers and scheme members.

ANDREW KERR
Chief Executive
of the City of Edinburgh Council
27 September 2017

HUGH DUNN
Head of Finance
of the City of Edinburgh Council
27 September 2017

CLARE SCOTT
Chief Executive Officer
of the Lothian Pension Fund
27 September 2017

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.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration Strategy
- Communications strategy
- Funding Strategy Statement
- Service Plan
- Training and attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP
Auditor:	Nick Bennett, Scott Moncrieff
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 Limited
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.

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
Telephone: 0131 529 4638
Web: www.lpf.org.uk
Fax: 0131 529 6229

Address: Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX

Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

LPFE Limited

Financial Statements

For the year ended 31 March 2017

Registered number SC497543

LPFE LIMITED

Financial statements

For the year ended 31 March 2017

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LPFE LIMITED

Company information

Board of Directors:	*Chairman*
	Hugh Dunn
	Executive Directors
	Clare Scott Alasdair Rankin Katy Miller
Company Secretaries:	D.W Company Services Limited Struan Fairbairn
Registered office	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc Barclays Bank plc
Auditor:	Scott-Moncrieff Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFE LIMITED

Directors' report

For the year ended 31 March 2017

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

Principal Activity

The principal activity of the company is the provision of seconded staff to the City of Edinburgh Council and LPFI Limited in support of the administration of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund (the "Funds") and, separately, to Falkirk Council in its capacity as the administering authority of the Falkirk Council Pension Fund. All these pension funds are part of the Local Government Pension Scheme in Scotland.

Results, Dividends and Mutual Trading Surplus

The profit for the year after tax was £6,275 (2016 - £60,454 loss) and after allowing for items included under "Other comprehensive income" a loss of £396,275 (2016 - £142,454). The directors do not recommend payment of a dividend.

The company's aim is to make a modest trading surplus before adjustments required under IFRS. After allowing for an addition to costs of £2,464 (2016 - £26,697) in respect of accrued holiday pay and £22,000 (2016 - £62,000) for adjustments to pension costs under IAS19, the underlying trading profit is £30,739 (2016 - £28,243). The additional costs recognised under "Other comprehensive income" amounting to £402,550 (2016 - £82,000) all relate to further adjustments required by IAS19 and the related deferred tax.

Under the mutual trading agreement with the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund), the company is required to consider if any of profit arising from the mutual trade can be returned to the Council. Although there was an underlying trading profit of £30,739 (2016 - £28,243), Company Law requires that only "distributable profits" are available for distribution. The company's auditor has confirmed that the various adjustments required under IFRS must be taken into account when determining if profits are distributable. As a result, there are no distributable profits available for return to the Council (acting in its capacity as the administering authority of the Lothian Pension Fund) in respect of the period.

Business Review

The company is wholly owned by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) and has entered into a shareholder agreement with the Council to appropriately address certain governance matters. The company also has a loan facility provided by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) for the purpose of the provision of short term working capital.

Staffing services are provided to the City of Edinburgh Council for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and anticipates the provision of staffing services to LPFI Limited, also wholly owned by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund).

The company has entered into appropriate admission arrangements with the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) to enable the employees of the company to be members of the Lothian Pension Fund and in relation to the company's obligations as an employer in that fund.

HMRC has agreed that any profits arising as a result from trade between the company and the City of Edinburgh Council will be covered by the "Mutual Trading" rules and so not subject to Corporation Tax.

The company also has a secondment agreement with the Falkirk Council to provide investment staff to assist with certain aspects of the administration of the Falkirk Council Pension Fund as part of a mutually beneficial collaboration between those LGPS funds.

Future Prospects

The company's future prospects are primarily linked to the needs of the City of Edinburgh Council in its administration of the Funds. The company is securely funded by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) which means that it is able to adapt to any future staffing requirements.

At its meeting on 20 March 2017, Pensions Committee agreed that the remaining pension fund staff, employed by the City of Edinburgh Council, should be transferred to LPFE Limited subject to the appropriate consultation with staff and trades unions and any legal and risk analysis being concluded to the Executive Director of Resources' satisfaction.

Directors

The directors who served during the period were:

Hugh Dunn	
Clare Scott	
Alasdair Rankin	
Martin Glover	(resigned 19 August 2016)
Katy Miller	(appointed 25 October 2016)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its results for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

Date: ……………. 2017

Hugh Dunn
Chairman

LPFE LIMITED

Independent auditor's report to the members of LPFE Limited

For the year ended 31 March 2017

We have audited the financial statements of LPFE Limited for the year ended 31 March 2017 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and 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 regards the financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit on the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its results for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter(s) Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Directors' Report has been prepared in accordance with applicable legal requirements.

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

Matters on Which We Are Required to Report by Exception

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

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

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: ………………2017

LPFE LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

	Note	2017 £	2016 £
Continuing Operations			
Revenue	1e	1,189,855	904,074
Gross profit		1,189,855	904,074
Administrative expenses		(1,176,881)	(959,895)
Profit/(loss) from operations	2	12,974	(55,821)
Finance costs	3	(6,720)	(9,968)
Profit/(loss) before tax		6,254	(65,789)
Corporation tax credit	4	21	5,335
Profit/(loss) for the year		6,275	(60,454)
Other comprehensive income:			
Those that are not recyclable net of tax:			
Recognition of opening retirement benefit obligation	15	-	(281,000)
Actuarial (losses)/gains on retirement benefit obligation period	15	(483,000)	163,000
Deferred tax charge thereon	10	80,450	36,000
Total comprehensive loss for the year		(396,275)	(142,454)

The accompanying notes on pages 11 to 26 form part of these financial statements

LPFE LIMITED

Statement of Financial Position

As at 31 March 2017

	Note	As at 31 March 2017 £	As at 31 March 2016 £
Non-current assets			
Deferred tax asset	10	116,450	36,000
Total non-current assets		116,450	36,000
Current assets			
Trade and other receivables	7	166,801	129,681
Cash and cash equivalents	8	13,381	5,065
Total current assets		180,182	134,746
Total assets		296,632	170,746
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	11	1	1
Retained earnings	12	(538,729)	(142,454)
		(538,728)	(142,453)
Liabilities			
Non-current liabilities			
Retirement benefits obligation	15	685,000	180,000
Total non-current liabilities		685,000	180,000
Current liabilities			
Trade and other payables	9	150,360	133,199
Total current liabilities		150,360	133,199
Total liabilities		835,360	313,199
Total equity and liabilities		296,632	170,746

The financial statements were authorised for issue by the Board of Directors on ………………… 2017 and were signed on its behalf by:

………………………………………
Director

Registered number SC497543

The accompanying notes on pages 11 to 26 form part of these financial statements

LPFE Limited

Statement of Changes in Equity

As at 31 March 2017

	Note	Share Capital £	Retained Earnings £	Total £
Comprehensive income				
Loss for the year		-	(60,454)	(60,454)
Other comprehensive income				
Share capital issued	11	1	-	1
Recognition of opening retirement benefit obligation	15	-	(281,000)	(281,000)
Actuarial gains on retirement benefit obligation in period	15	-	163,000	163,000
Deferred tax on retirement benefit obligation	10	-	36,000	36,000
Balance at 31 March 2016		1	(142,454)	(142,453)

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2016		1	(142,454)	(142,453)
Comprehensive income				
Profit for the year		-	6,275	6,275
Other comprehensive income				
Actuarial losses on retirement benefit obligation in year	15	-	(483,000)	(483,000)
Deferred tax on retirement benefit obligation	10	-	80,450	80,450
Balance at 31 March 2017		1	(538,729)	(538,728)

LPFE LIMITED

Statement of Cash Flows

For the year ended 31 March 2017

	2017 £	2016 £
Cash flow from operating activities		
Profit for the period	6,275	(60,454)
Adjustments for:		
Defined benefit pension – current service cost	172,000	174,000
Defined benefit pension – employer contribution	(156,000)	(121,000)
Defined benefit pension – finance costs	6,000	9,000
Other finance costs	720	968
Changes in assets and liabilities:		
(Increase)/decrease in receivables and other financial assets	(19,008)	(123,524)
Increase/(decrease) in payables	17,342	133,005
Cash flows from operations	27,329	11,995
Interest paid	(901)	(774)
Net cash flows from operating activities	26,428	11,221
Cash flow from investing activities	-	-
Net cash flows from investing activities	-	-
Cash flow from financing activities		
Share capital issued		1
Movement in loan facility	(18,112)	(6,157)
Net cash flows from financing activities	(18,112)	(6,156)
Net increase in cash and cash equivalents	8,316	5,065
Cash and cash equivalents at beginning of year	5,065	-
Cash and cash equivalents at end of year	13,381	5,065
Cash at bank and in hand	13,381	5,065

The accompanying notes on pages 11 to 26 form part of these financial statements

LPFE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2017

1. Statement of significant accounting policies

The financial statements of LPFE Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

Adoption of new and revised standards

The Company has adopted the following new and amended IFRSs as of 1 April 2016.

- IAS1, Presentation of Financial Statements
- IAS19, Employee Benefits
- IFRS7, Financial Instruments: Disclosures

None of these have materially impacted the financial statements of the company.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 March 2017, and with potential effect.

International Accounting Standards and Interpretations	Effective for annual periods beginning on or after
IAS 7, Statement of Cash Flows*	1 January 2017
IAS 12, Income Taxes*	1 January 2017
IAS 39, Financial Instruments: Recognition and Measurement	1 January 2018
IFRS 7, Financial Instruments: Disclosures	1 January 2018
IFRS 9, Financial Instruments	1 January 2018
IFRS 15, Revenue from Contracts With Customers	1 January 2018
IFRS 16, Leases*	1 January 2019

*Not yet adopted for use in the European Union

The directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the company's financial statements in the period of initial application.

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

1. Statement of significant accounting policies (continued)

a. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred income tax

The company is a mutual trader and is therefore not liable to corporation tax on surpluses generated from mutual trade. The tax charge for the period is based on the profit for the year from non-mutual trade, adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

1. Statement of significant accounting policies (continued)

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of seconded staff in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer.

All revenue is stated net of the amount of value added tax (VAT).

f. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

g. Share capital

Ordinary shares are classified as equity.

1. Statement of significant accounting policies (continued)

h. Employee benefits

The company contributes to a defined benefits scheme operated on behalf of its employees.

The employees of LPFE Limited participate in the Lothian Pension Fund, which is part of the Local Government Pension Scheme in Scotland and is administered by the City of Edinburgh Council.

The current service cost for the period is charged to the Statement of Profit or Loss and Other Comprehensive Income. The assets of the scheme are held separately from those of the company in independently administered funds. The company has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity through other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

i. Financial instruments

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of comprehensive income.

Trade payables
Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

1. Statement of significant accounting policies (continued)

i. Financial instruments (continued)

Loans
All interest bearing loans and other borrowings are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with other borrowings. Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the statement of comprehensive income using the effective interest method, being recognised in the statement of comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

j. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

k. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key estimates – defined benefit pension obligation

IAS 19, Employee Benefits requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the Group's retirement benefit obligation and pension assets (see note 15 for further details).

2. Profit/(loss) from operations

	2017 £	2016 £
Profit/(loss) from operations has been determined after deducting:		
Auditors' remuneration:		
Audit services	4,800	4,750
Non-Audit services	3,798	2,250

3. Finance costs

	2017 £	2016 £
Loan interest payable to group entities (note 14)	720	968
Pension interest costs (note 15)	6,000	9,000
	6,720	9,968

4. Corporation tax credit

	2017 £	2016 £
Current tax:		
Corporation tax credit	(21)	(5,335)
Tax on profits for the year	(21)	(5,335)

Corporation tax credit is calculated at 20% of the assessable profits for the year.

The credit for the year can be reconciled to the loss per the income statement as follows:

	2017 £'000	2016 £'000
Profit/(loss) for the year before taxation	6,254	(65,789)
Profit/(loss) for the year at the effective rate of corporation tax of 20% (2016 – 20%)	1,251	(13,158)
Effects of:		
Mutual trade adjustment	(1,753)	6,406
Expenses not deductible for tax purposes	438	1,466
Trading losses carried forward	42	-
Other adjustments	1	(49)
Current tax credit	(21)	(5,335)

5. Employee benefits expense

The average number of persons employed by the company (including directors) during the year was 11 (2016: 11).

The aggregate payroll costs were as follows:

	2017 £	2016 £
Wages and salaries	849,767	675,817
Social security costs	104,078	67,389
Defined benefit pension obligation - current service cost	172,000	174,000
	1,125,845	917,206

6. Directors' remuneration

One director received emoluments from the company during the period. The director's emoluments for the period were as follows:

	2017 £	2016 £
Aggregate emoluments	92,000	78,384
Employer pension contributions	18,860	16,068

The director had an accrued pension of £16,799 (2016: £13,919) and a lump sum of £11,843 (2016: £10,973) at the end of the year.

All other directors are employed by the City of Edinburgh Council.

7. Trade and other receivables

	2017 £	2016 £
Trade receivables	29,433	27,295
Amounts due from group entities	137,354	102,366
Prepayments and accrued income	14	20
	166,801	129,681

The directors consider the fair value of receivables to be in line with carrying values.

8. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	13,381	5,065

9. Current liabilities

	2017 £	2016 £
Trade payables	3,109	308
Accruals and deferred income	39,813	36,581
Social security and other taxes	107,425	96,116
Amounts due to group entities	13	194
	150,360	133,199

10. Deferred tax

	2017 £	2016 £
At 31 March 2016	36,000	-
Charge for the year to other comprehensive income	80,450	36,000
At 31 March 2017	116,450	36,000
The elements of deferred tax are as follows:		
Defined benefit pension scheme liability	116,450	36,000
	116,450	36,000

11. Share Capital

	2017 £	2016 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	1	1
	1	1

12. Reserves

	Retained Earnings £
Loss for the period	(60,454)
Transfer of opening retirement benefit obligation	(281,000)
Actuarial gains on retirement benefit obligation	163,000
Deferred tax on retirement benefit obligation	36,000
At 31 March 2016	(142,454)
Profit for the year	6,275
Actuarial loss on pension plan	(483,000)
Deferred tax on retirement benefit obligation	80,450
At 31 March 2017	(538,729)

13. Controlling interest

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statement into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address:

Account Dept.
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

14. Related party transactions

	2017 £	2016 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Sale of services during the period	1,073,448	819,720
Receivables at the period end	104,803	90,874
Loan facility balance receivable at the period end	24,269	6,157
Interest payable during the period	720	968
Interest payable but still accruing at the period end	13	194
Lothian Buses Limited (company under common control)		
Balance receivable for group tax losses surrendered	1,321	5,335
LPFI Limited (company under common control)		
Sale of services during the period	6,940	-
Receivables at the period end	6,940	-
Balance receivable for group tax losses surrendered	21	-

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Total compensation paid in relation to key management personnel during the period was as follows:

	2017 £	2016 £
Short-term employee benefits	380,321	318,192
Post-employment benefits - employer pension contributions	77,616	65,228
	457,937	383,420

Key management personnel had accrued pensions totalling £81,825 (2016: £68,004) and lump sums totalling £100,185 (2016: £92,156) at the end of the period.

All other key management personnel are employed by the City of Edinburgh Council.

15. Retirement benefits obligation

The Lothian Pension Fund, which is administered by the City of Edinburgh Council, is part of the Local Government Pension Scheme in Scotland. This is a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit or loss so to spread the cost of pensions over employees' working lives. The contributions are determined by a qualified actuary.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2014 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

The group's share of the fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, were comprised as follows:

		2017		**2016**
	%	**£'000**	**%**	**£'000**
Equity Securities:				
Consumer	15%	425	15%	319
Manufacturing	15%	429	12%	247
Energy and Utilities	7%	210	8%	167
Financial Institutions	7%	197	8%	178
Health and Care	6%	166	7%	139
Information Technology	5%	140	6%	126
Other	7%	195	6%	120
Debt Securities:				
Corporate Bonds (investment grade)	0%	0	0%	0
UK Government	10%	284	6%	135
Other	0%	6	3%	53
Private Equity:				
All	3%	91	4%	92
Real Estate				
UK Property	7%	191	9%	179
Investment Funds and Unit Trusts:				
Equities	0%	0	0%	0
Commodities	0%	8	0%	6
Bonds	1%	42	1%	17
Infrastructure	9%	253	7%	139
Other	2%	60	2%	50
Cash and Cash Equivalents:				
All	5%	131	6%	130
	100%	2,828	100%	2,097

15. Retirement benefits obligation (continued)

The amounts recognised in the statement of financial position are determined as follows:	**2017 £'000**	**2016 £'000**
Fair value of plan assets	2,828	2,097
Present value of scheme liabilities	(3,513)	(2,277)
Net pension liability	(685)	(180)

The movement in the defined benefit obligation over the year is as follows:

	2017 £'000	**2016 £'000**
Brought forward	2,277	2,107
Current service cost	172	174
Interest cost on obligation	86	69
Plan participants contributions	76	54
Benefits paid	0	0
Actuarial losses arising from changes in financial assumptions	902	(378)
Actuarial losses arising from changes in demographic assumptions	0	0
Other actuarial (gains)	0	251
Balance at year end	3,513	2,277

The movement in the fair value of plan assets of the year is as follows:

	2017 £'000	**2016 £'000**
Brought forward	2,097	1,826
Benefits paid		0
Interest income on plan assets	80	60
Contributions by employer	156	121
Contributions by member	76	54
Return on assets excluding amounts included in net interest	419	36
Balance at year end	2,828	2,097

15. Retirement benefits obligation (continued)

The amounts recognised in the Statement of Profit or Loss are as follows:

	2017 £'000	2016 £'000
Interest received on pension scheme assets	(80)	(60)
Interest cost on pension scheme liabilities	86	69
Finance (income)/cost	6	9
Current service cost	172	174
	178	183

Amounts recognised in other comprehensive income:

	2017 £'000	2016 £'000
Transfer of opening retirement benefit obligation on 1 May 2015	-	(281)
Actuarial (losses) in the defined benefit obligation	(902)	127
Actuarial gains in the fair value of defined benefit assets	419	36
	(483)	(118)

The principal actuarial assumptions used in this valuation were:

	2017	2016
Inflation/pension increase rate	2.4%	2.2%
Salary increase rate	4.4%	4.2%
Discount rate	2.7%	3.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have the opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

15. Retirement benefits obligation (continued)

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Change in assumption	Approximate % increase to employer liability		Approximate increase to employer liability (£'000)	
	2017	2016	2017	2016
0.5% decrease in real discount rate	14%	14%	508	319
0.5% increase in the salary increase rate	7%	7%	237	156
0.5% increase in the pension increase rate	7%	7%	252	155

Mortality rates:

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge at to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancy at age 65 are summarised below:

	Male	Female
Current pensioners	22.1	23.7
Future pensioners	24.2	26.3

Expected employer contributions to the benefit plans for the year ended 31 March 2018 are £157,000, based on a pensionable payroll cost of £764,000.

16. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The company did not enter into any transactions that would be classed derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	Note	2017 £	2016 £
Financial Assets			
Cash and cash equivalents	8	13,381	5,065
Trade and other receivables	7	166,801	129,681
Total Financial Assets		180,182	134,746
Financial Liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	9	150,360	133,199
Total Financial Liabilities		150,360	133,199

16. Financial Risk Management (continued)

Financial Risk Management Policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. As at 31 March 2017 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers.

The nature of the company's business means that it currently only has two customers. By far the largest customer is the City of Edinburgh Council and the company is securely funded by the Council. The smaller customer is Falkirk Council. Given the financial stature of both Councils the credit risk faced by the company is considered to be very small.

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

16. Financial Risk Management (continued)

b. Liquidity Risk (continued)

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Note	Within 1 Year 2017 £	1 to 5 Years 2017 £	Total 2017 £
Financial liabilities due for payment				
Trade and other payables	9	(150,360)	-	(150,360)
Total expected outflows		(150,360)	-	(150,360)
Financial assets — cash flows realisable				
Cash and cash equivalents	8	13,381	-	13,381
Trade and other receivables	7	166,801	-	166,801
Total anticipated inflows		180,182	-	180,182
Net inflow of financial instruments		29,822	-	29,822

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £250,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in the City of Edinburgh Council settling invoices for seconded staff.

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

LPFI Limited

Financial Statements

For the year ended 31 March 2017

Registered number SC497542

LPFI LIMITED

Financial statements

For the year ended 31 March 2017

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LPFI LIMITED

Company information

Board of Directors:	*Chairman*
	Hugh Dunn
	Executive Directors
	Struan Fairbairn John Burns William Miller Clare Scott
	Non-executive Director
	Leslie Robb
Company Secretary:	D.W. Company Services Limited
Registered office:	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFI LIMITED

Directors' report

For the year ended 31 March 2017

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

Principal Activity

The principal activity of the company is the provision of FCA regulated investment services to Lothian Pension Fund and other Local Government Pension Scheme funds in Scotland and Northern Ireland.

Results, Dividends and Mutual Trading Surplus

The profit for the year after tax was £432. The directors do not recommend payment of a dividend.

The company's aim is to make a modest trading surplus.

Under the mutual trading agreement with the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund), the company is required to consider if any of profit arising from the mutual trade can be returned to the Council. Company Law requires that only "distributable profits" are available for distribution. None of the profit for the year is attributable to the mutual trade.

Business Review

The company is wholly owned by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) and has entered into a shareholder agreement with the Council to appropriately address certain governance matters. The company also has a loan facility provided by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) for the purpose of the provision of short term working capital.

LPFI Limited does not employ staff directly, staffing and business support services are provided to company under an intra-group resourcing agreement with the City of Edinburgh Council and LPFE Limited. LPFE Limited is also wholly owned by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund).

HMRC has agreed that any profits arising as a result from trade between the company and the City of Edinburgh Council will be covered by the "Mutual Trading" rules and so not subject to Corporation Tax.

The company was granted authorised status by the FCA on 24 June 2016. In December of 2016, LPFI Limited started work with its first client on an infrastructure investment project and a second project was in progress at the year end.

Future prospects

The company's prospects are linked to Lothian Pension Fund's requirement for FCA regulated investment services and the Fund's plans to work with other LGPS funds in the collaborative provision of such services. The company is securely funded by the City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) which means that it can adapt to future trading needs.

The 2017/18 financial year should see significant expansion of the company's operations.

Directors

The directors who served during the year were:

Hugh Dunn
Struan Fairbairn
John Burns
William Miller
Clare Scott
Leslie Robb (appointed 7 February 2017)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its results for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

Date: …………………2017

Hugh Dunn
Chairman

LPFI LIMITED

Independent auditor's report to the members of LPFI Limited

For the year ended 31 March 2017

We have audited the financial statements of LPFI Limited for the year ended 31 March 2017 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and 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 regards the financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit on the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter(s) Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Directors' Report has been prepared in accordance with applicable legal requirements.

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

Matters on Which We Are Required to Report by Exception

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

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

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: …………….. 2017

LPFI LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

	Note	2017 £	2016 £
Continuing Operations			
Revenue	1e	23,988	-
Gross profit		23,988	-
Administrative expenses		(23,348)	-
Profit from operations	2	640	-
Finance costs	3	(100)	-
Profit before income tax expense		540	-
Corporation tax charge	4	(108)	-
Profit for the year	11	432	-
Other comprehensive income		-	-
Total comprehensive income for the year		432	-

The accompanying notes on pages 10 to 20 form part of these financial statements

LPFI LIMITED

Statement of Financial Position

As at 31 March 2017

	Note	As at 31 March 2017 £	As at 31 March 2016 £
Current assets			
Trade and other receivables	6	13,246	-
Cash and cash equivalents	7	70,661	1
Total current assets		83,907	1
Total assets		83,907	1
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	10	50,000	1
Retained earnings	11	432	-
		50,432	1
Liabilities			
Non-current liabilities			
Trade and other payables	9	16,000	-
Total non-current liabilities		16,000	-
Current liabilities			
Trade and other payables	8	17,475	-
Total current liabilities		17,475	-
Total liabilities		33,475	-
Total equity and liabilities		83,907	1

The financial statements were authorised for issue by the Board of Directors on ……………….. 2017 and were signed on its behalf by:

……………………………………….
Director

Registered number SC497542

The accompanying notes on pages 10 to 20 form part of these financial statements

LPFI LIMITED

Statement of Changes in Equity

As at 31 March 2017

	Note	Share Capital £	Retained Earnings £	Total £
Share movements				
Share allotted upon incorporation	10	1	-	1
Comprehensive income				
Profit for the year		-	-	-
Balance at 31 March 2016		1	-	1

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2016		1	-	1
Comprehensive income				
Profit for the year		-	432	432
Share movements				
Shares allotted during the year	10	49,999	-	49,999
Balance at 31 March 2017		50,000	432	50,432

The accompanying notes on pages 10 to 20 form part of these financial statements

LPFI LIMITED

Statement of Cash Flows

For the year ended 31 March 2017

	2017 £	2016 £
Cash flow from operating activities:		
Profit for the year	432	-
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(13,246)	-
Increase in payables	17,475	-
Cash flows from operating activities	4,661	-
Cash flow from financing activities:		
Loans from group entities	16,000	-
Share capital issued	49,999	1
Net cash flows from financing activities	65,999	1
Net increase in cash and cash equivalents	70,660	1
Cash and cash equivalents at beginning of year	1	-
Cash and cash equivalents at end of year	70,661	1
Cash at bank and in hand	70,661	1

The accompanying notes on pages 10 to 20 form part of these financial statements

1. Statement of significant accounting policies

The financial statements of LPFI Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

Adoption of new and revised standards

The Company has adopted the following new and amended IFRSs as of 1 April 2016.

- IAS1, Presentation of Financial Statements
- IAS19, Employee Benefits
- IFRS7, Financial Instruments: Disclosures

None of these have materially impacted the financial statements of the company.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 March 2017, and with potential effect.

International Accounting Standards and Interpretations	Effective for annual periods beginning on or after
IAS 7, Statement of Cash Flows*	1 January 2017
IAS 12, Income Taxes*	1 January 2017
IAS 39, Financial Instruments: Recognition and Measurement	1 January 2018
IFRS 7, Financial Instruments: Disclosures	1 January 2018
IFRS 9, Financial Instruments	1 January 2018
IFRS 15, Revenue from Contracts With Customers	1 January 2018
IFRS 16, Leases*	1 January 2019

*Not yet adopted for use in the European Union

The directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the company's financial statements in the period of initial application.

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

1. Statement of significant accounting policies (continued)

a. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

1. Statement of significant accounting policies (continued)

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of FCA-regulated service in the United Kingdom. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined with reference to contractual rates as labour hours and direct expenses are incurred.

All revenue is stated net of the amount of value added tax (VAT).

f. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

g. Share capital

Ordinary shares are classified as equity.

1. Statement of significant accounting policies (continued)

h. Financial instruments

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of comprehensive income.

Trade payables
Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Loans
All interest bearing loans and other borrowings are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with other borrowings. Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the statement of comprehensive income using the effective interest method, being recognised in the statement of comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

i. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

j. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. The directors are satisfied that the accounting policies are appropriate and that there are no significant estimates or judgements used in the preparation of the financial statements.

2. Profit from operations

	2017 £	2016 £
Profit from operations has been determined after deducting:		
Auditors' remuneration:		
Audit services	3,250	-
Non-Audit services	1,600	-

3. Finance costs

	2017 £	2016 £
Loan interest payable to group entities (note 13)	100	-
	100	-

4. Corporation tax charge

	2017 £	2016 £
Current tax:		
Corporation tax charge	108	-
Tax on profits for the year	108	-

Corporation tax expense is calculated at 20% of the assessable profits for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2017 £	2016 £
Profit for the year before taxation	540	-
Profit for the year at the effective rate of corporation tax of 20% (2016 – 20%)	108	-

5. Employee Benefits Expense

The aggregate payroll costs for the year consisted of fees paid to a non-executive director who was appointed during the year. These were as follows:

	2017	2016
	£	£
Wages and salaries	2,000	-
Social security costs	89	-
	2,089	-

No pension benefits were accrued by the director during the year. All other staff are employed by LPFE Limited, a company under common control, and an appropriate portion of their employment costs recharged. All other directors are employed by LPFE Limited, a company also under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the payroll costs noted above, the company was also charged £2,344 (2016: £nil) for services provided by directors employed by LPFE Limited during the year.

6. Trade and other receivables

	2017	2016
	£	£
Trade debtors	3,988	-
Prepayments	9,258	-
	13,246	-

The directors consider the fair value of receivables to be in line with carrying values.

7. Cash and cash equivalents

	2017	2016
	£	£
Cash at bank and in hand	70,661	-

8. Trade and other payables

	2017	2016
	£	£
Accruals	5,745	-
Social security and other taxes	4,233	-
Corporation tax	87	
Amounts due to group entities	7,410	
	17,475	-

9. Non-current liabilities

	2017 £	2016 £
Amounts due to group entities	16,000	-
	16,000	-

10. Share Capital

	2017 £	2016 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	50,000	1
	50,000	1

The company issued 49,999 Ordinary shares of £1 each during the year at par value.

11. Reserves

	Retained Earnings £
Profit for the period	-
At 31 March 2016	-
Profit for the year	432
At 31 March 2017	432

12. Controlling interest

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statement into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address:

Account Dept.
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

13. Related parties

	2017 £	2016 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Staff and other cost recharges	360	-
Payables at the period end	360	-
Loan facility balance payable at the period end	16,000	-
Interest payable during the period	100	-
Interest payable but still accruing at the period end	89	-
LPFE Limited (company under common control)		
Staff and other cost recharges	6,940	-
Payables at the period end	6,940	-
Balance payable for group tax losses utilised	21	-

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Compensation paid in relation to key management personnel during the period was as follows:

	2017 £	2016 £
Short-term benefits	2,000	-
	2,000	-

All other key management personnel are employed by LPFE Limited, a company also under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the compensation noted above, the company was also charged £2,344 (2016: £nil) for services provided by key management personnel employed by LPFE Limited during the year.

14. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The company did not enter into any transactions that would be classed derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	Note	2017	2016
		£	£
Financial Assets			
Cash and cash equivalents	7	70,661	-
Trade and other receivables	6	13,246	-
Total Financial Assets		83,907	-
Financial Liabilities			
Current liabilities - Trade and other payables	8	17,475	-
Non-current liabilities - Trade and other payables	9	16,000	-
Total Financial Liabilities		33,475	-

Financial Risk Management Policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. As at 31 March 2017 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers. Given the financial stature of its customers the credit risk faced by the company is considered to be very small.

14. Financial Risk Management (continued)

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Note	Within 1 Year 2017 £	1 to 5 Years 2017 £	Total 2017 £
Financial liabilities due for payment				
Trade and other payables	8	(17,475)	(16,000)	(33,475)
Total expected outflows		(17,475)	(16,000)	(33,475)
Financial assets — cash flows realisable				
Cash and cash equivalents	7	70,661	-	70,661
Trade and other receivables	6	13,246	-	13,246
Total anticipated inflows		83,907	-	83,907
Net inflow of financial instruments		66,432	(16,000)	50,432

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £75,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in customers settling invoices for services provided.

14. Financial Risk Management (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

Appendix 5

Scott-Moncrieff
Exchange Place,
3 Semple Street
Edinburgh
EH3 8BL

Dear Sirs

Lothian Pension Funds

This representation letter is provided in connection with your audit of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund Annual Report and Financial statements for the period ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Funds during the period from 1 April 2017 to 31 March 2017 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the period) in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and making a statement about contributions.

By a resolution of the board, passed today, I am directed to confirm to you, in respect of the financial statements of the Funds for the period ended 31 March 2017 the following:-

1. We have fulfilled our responsibilities for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and for making accurate representations to you.
2. We have provided you with:
    - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - additional information that you have requested from us for the purpose of the audit; and
    - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We acknowledge as trustees our responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.
5. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    - management
    - employees who have significant roles in internal control
    - others where the fraud could have a material effect on the financial statements.
6. We are not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to us by employees, former employees, regulators or other third parties.

7. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered when preparing the financial statements.

8. We confirm that, in our opinion, the assumptions that have been used in determining fair values, whether such values are disclosed or applied in the financial statements, are reasonable and reflect our ability and intent to carry out specific courses of action, where this is relevant to the determination of those values.

9. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

10. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the trustees, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Funds. Any significant changes in those values since the accounting reference date have been disclosed to you.

11. We have disclosed to you the identity of the company's related parties and all related party relationships and transactions of which we are aware.

12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

13. In particular, no trustee, shadow trustee, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Funds at any time during the year.

14. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold;
- assets pledged as collateral.

15. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

16. We have no plans to abandon activities or other plans or intentions that will result in any excess or obsolete stocks, and no stock is stated at an amount in excess of net realisable value.

17. The Funds have satisfactory title to all assets and there are no liens or encumbrances on the Funds' assets, other than as disclosed in the financial statements.

18. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

19. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards as adopted by the European Union require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

20. The Funds have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

21. To the best of our knowledge and belief, the information disclosed in the financial statements in respect of parties which control the Funds is complete and accurate.

22. Except as disclosed in the financial statements, the results for the year were not materially affected by:

    - any change in accounting policies;
    - transactions of a type not usually undertaken by the Funds I group;
    - circumstances of an exceptional or non-recurrent nature; or
    - charges or credits relating to prior periods.

23. There is no pending or potential litigation against the Funds and there are no contingencies of a material amount for which provision has not been made in the financial statements.

24. We confirm that we have reviewed going concern considerations and are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion we have taken into account all relevant matters of which we are aware and have considered a future period of at least one year from the date on which the financial statements were approved.

25. We confirm that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements. A list of uncorrected misstatements is attached to the representation letter.

Yours faithfully

....

John Burns

Chief Finance Officer (Section 95 Officer for the Pension Funds)

The City of Edinburgh Council

10.00am, Thursday 26 October 2017

City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit - referral from the Finance and Resources Committee

Item number	8.5
Report number	
Wards	All

Executive summary

On 28 September 2017, the Finance and Resources Committee considered a report that summarised the principal findings arising from the Council's 2016/17 external Audit. The report has been referred to the City of Edinburgh Council for noting.

Terms of Referral

City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Terms of referral

1.1 The principal findings arising from the Council's 2016/17 external audit concluded that the Council had a strong track record of maintaining expenditure within budgeted levels, effective financial management and a well-developed financial strategy.

1.2 It additionally noted that the Council was open and transparent in the way it conducts its business and demonstrated strong self-awareness of areas of poor performance.

1.3 A number of opportunities for further improvement have been identified and progress against these will be tracked and reported to the Finance and Resources Committee over the coming months.

1.4 The Finance and Resources Committee agreed:

1.4.1 To note that, following the audit process, it was anticipated that an unqualified audit opinion would be issued on the Council's Annual Accounts for 2016/17.

1.4.2 To refer the audited Annual Accounts for 2016/17 to Council for noting.

1.4.3 To note the audited Annual Accounts would be signed and submitted to the external auditor.

1.4.4 To note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 2 of the auditor's report would be reported to the Finance and Resources Committee during the year.

For Decision/Action

2.1 The Finance and Resources Committee has referred the report to the City of Edinburgh Council for noting.

Background reading / external references

Finance and Resources Committee 28 September 2017.

Laurence Rockey

Head of Strategy and Insight

Contact: Stuart McLean, Governance Officer

E-mail: stuart.mclean@edinburgh.gov.uk | Tel: 0131 529 4106

Links

Appendices	Appendix 1 - report by the Executive Director of Resources

Governance, Risk and Best Value Committee

10am, Tuesday, 26 September 2017

City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Item number	7.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The report summarises the principal findings arising from the Council's 2016/17 external audit. While primarily focused on the review of the financial statements, the wider scope aspects of the audit include consideration of the Council's financial management, financial stability, governance and transparency and arrangements to secure and demonstrate value for money.

The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters but the accompanying 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 concludes that the Council has a strong track record of maintaining expenditure within budgeted levels, effective financial management and a well-developed financial strategy. It additionally notes that the Council is open and transparent in the way it conducts its business and demonstrates strong self-awareness of areas of poor performance. A number of opportunities for further improvement have, however, been identified and progress against these will be tracked and reported to the Committee over the coming months.

·EDINBVRGH·
THE CITY OF EDINBURGH COUNCIL

Report

City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit

1. Recommendations

1.1 Members are asked to:

1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2016/17;

1.1.2 refer the audited Annual Accounts for 2016/17 to the Finance and Resources Committee for approval and thereafter to Council for noting;

1.1.3 note that, following approval by the Finance and Resources Committee, the audited Annual Accounts will be signed and submitted to the external auditor; and

1.1.4 note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 2 of the auditor's report will be reported to the Committee during the year.

2. Background

2.1 The Council submitted its unaudited Annual Accounts to the external auditor by the required date of 30 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 28 September. The external auditor will also attend the Finance and Resources Committee meeting.

2.3 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:

- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
- The overall scope and approach to the audit, including any expected limitations, or additional requirements;
- Expected modifications to the audit report;
- Management representations requested by him/her;
- Unadjusted misstatements other than those that are clearly trivial;
- Material weaknesses in internal control identified during the audit;
- Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
- Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3. Main report

3.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's significant trading organisations (STOs). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2016/17, to meet the statutory requirement to break even.

3.2 A number of potential adjustments which are not considered material, either individually or in aggregate, have been discussed and agreed with Council officers and been incorporated in the audited accounts. These adjustments have no impact on the Council's reported outturn for the year. Given that, as of the time of writing, the accounts remain to be finalised, members will be advised of any further material changes at the Committee's meeting.

3.3 One such matter relates to the Council's depreciation policy, which it is recommended be revised to provide for depreciation in the year of an asset's purchase or creation. Council officers have agreed to review the current policy with a view to implementing the changes in preparing the financial statements for 2017/18.

3.4 As was noted in the External Audit Plan considered by the Governance, Risk and Best Value Committee on 9 March 2017, the 2016/17 audit reflects a revised approach to best value agreed by the Accounts Commission in June 2016. This "wider scope" audit comprises four elements:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

3.5 The key messages from the audit are presented on page 1 of the Scott-Moncrieff report, 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 6 to 14)

3.6 Scott-Moncrieff has provided an unqualified opinion on the financial statements and other prescribed matters, albeit it has 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 2016/17 was £191,000, forming part of a cumulative three-year deficit of £498,000, reflecting the impact of a continuing downturn across both in-house catering and external hospitality.

3.7 The Council has on-going plans for investment in this area, with a dedicated Catering Manager now in post with a view to re-designing the service to deliver improvements in performance.

3.8 The auditor's report intimates that there were no material adjustments to the unaudited accounts, confirming the in-year underspend of £1.058m previously transferred to the Council Priorities Fund.

Financial management (pages 16 to 20)

3.9 The report notes that the Council has a strong record of delivering against budget, with overall revenue expenditure maintained within approved levels for ten successive years and levels of capital expenditure slippage comparing favourably in both absolute terms and with other councils. Financial management arrangements are also assessed to be effective, with the majority of approved savings then delivered and no significant weaknesses identified within the internal control framework. The report does, however, identify opportunities for improvement in the transparency of in-year financial reporting and potential changes in this area will be examined with a view to implementing these during the year.

Financial sustainability (pages 22 to 27)

3.10 The report notes that the Council has a well-developed financial strategy, informed by a clear understanding of future pressures and their impact on its medium-term financial position, forming part of a wider set of interlinked and complementary strategies. The Council's reserves management arrangements are also assessed to be effective.

Governance and transparency (pages 29 to 34)

3.11 The report notes that, once the new political administration was formed, the Council quickly developed a medium-term business plan, informed by a clear understanding of the issues affecting it and its wider operating environment. Council business is assessed to be undertaken in an effective, open and transparent way and governance arrangements for arm's length organisations have been strengthened through the creation of the Governance Hub.

3.12 Recognising the extent of change in the make-up of Council following the May 2017 elections, the report notes the comprehensive training programme put in place for new and returning members and the good attendance levels achieved.

3.13 The report comments favourably on the effectiveness of the Council's response to the PPP1 school emergency and, following publication of the subsequent Cole Inquiry report, prompt actioning of the recommendations.

3.14 The Council's risk management arrangements and framework to prevent, or identify, fraud and irregularity are also assessed to be effective.

Value for money (pages 36 to 39)

3.15 The report notes that the Council can demonstrate improvement in performance against its priorities, with 60% of comparable performance indicators within the top two quartiles of Scotland's local authorities. In some areas where performance is less strong, including Health and Social Care, although action plans have been developed, these have not yet resulted in demonstrable improvements in performance.

4. Measures of success

4.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2017.

4.2 Agreed measures are implemented to address any actions identified within the Annual Audit Report in accordance with the timescales indicated.

5. Financial impact

5.1 There is no direct additional impact arising from the report's contents, although the on-going effectiveness of the Council's current financial management and planning arrangements has been noted.

6. Risk, policy, compliance and governance impact

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.

6.2 The Council's arrangements for risk management, fraud prevention and internal control, as well as its wider governance framework, have been assessed to operate effectively.

7. Equalities impact

7.1 There is no direct relevance of equalities and rights issues to the report's contents.

8. Sustainability impact

8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

9. Consultation and engagement

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 one request for further information under these Regulations during this period. Additionally, an individual lodged an objection with Audit Scotland, with a hearing convened.

10. Background reading/external references

Unaudited Annual Accounts, 2016/17, City of Edinburgh Council, 29 June 2017

City of Edinburgh Council External Audit Plan, 2016/17, Governance, Risk and Best Value Committee, 9 March 2017

Andrew Kerr

Chief Executive

Stephen S. Moir

Executive Director of Resources

Contact: Jo McStay, Interim Strategy and Insight Senior Manager

E-mail: jo.mcstay@edinburgh.gov.uk | Tel: 0131 529 7950

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

11. Appendices

Appendix 1 – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2016/17 Audited Annual Accounts

Scott-Moncrieff
business advisers and accountants

City of Edinburgh Council

2016/17 Annual Audit Report to the Council and the Controller of Audit

September 2017

Contents

Key messages

Annual accounts

The annual accounts for the year ended 31 March 2017 are due to be approved by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters.

We have, however, drawn attention in our independent auditor's report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three- year period to 2016/17. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the council for their assistance with our work.

Wider scope

Financial sustainability

The council has a well-developed Financial Strategy that accounts for the impact of key service pressures such as demographic change, and areas of investment and development, including the City Regional Deal.

The council's reserves increased during 2016-17and are managed in line with key financial risks. In the most recent update, the council identified the need to address a further savings gap estimated at £91.6 million by 2020-21.

Financial management

The council has a strong track record of delivering against budget. The annual accounts records an overall underspend of £1.06 million in 2016-17.

Financial management is effective but we identified opportunities to enhance the effectiveness of financial scrutiny by improving consistency in the reporting of outturn projections.

Governance and transparency

The council's new administration has quickly set out an updated Business Plan which sets out clear council priorities and an understanding of challenges for the medium term.

The council is open and transparent in the way that it conducts its business, and we identified the Governance Hub as a key improvement in the way that council companies are managed.

Value for money

The council can demonstrate strong self-awareness and performance reports draw on trend analysis, as well as benchmarking with other councils.

The council acts to tackle area of poor performance, including developing improvement plans. In some service areas, including waste, roads and delayed discharges performance remains poor.

Key facts

- The Council spent £1.564billion on the provision of public services in 2016/17.
- Cash backed reserves held by the Council were £253.911million as at 31 March 2017; of which £141.826million relates to general fund balances.
- £128.801million of the general fund balance was earmarked for future purposes with the remainder representing an unallocated general fund of £13.025million.
- The Council delivered 98% of its 2016/17 approved capital programme of £204.026million.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
September 2017

1

Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2016-17.

We carry out our audit in accordance with Audit Scotland's revised Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

At the City of Edinburgh Council, we have designated the Governance, Risk and Best Value Committee as "those charged with governance".

Introduction

1. Audit Scotland appointed Scott-Moncrieff as auditor to the City of Edinburgh Council (the "Council") for the five year period from 2016-17 to 2020-21. The appointment is made under the Local Government (Scotland) Act.

2. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Governance, Risk and Best Value Committee at the outset of our audit. The audit was planned in accordance with the revised Code of Audit Practice issued by Audit Scotland in May 2016.

3. We use this report to summarise our :

- opinion on significant issues arising from our external audit for the year ended 31 March 2017; and
- consideration of the wider dimensions of public audit work, as set out in Exhibit 1, below.

Exhibit 1: Audit Dimensions within the new Code of Audit Practice

Source: Code of Audit Practice, May 2016

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

- Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
- An audit of the annual accounts;
- A review of governance arrangements, internal controls and financial systems;
- A review of arrangements for governance and transparency, financial management, financial sustainability and value for money;
- An appraisal of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
- Any other work requested by Audit Scotland, for example, local performance audit work; and
- Provision of an opinion on a number of grant claims and returns.

5. As part of our audit, we have also made use of the work of other inspection bodies, the council's internal audit service and Audit Scotland.

6. The council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not

absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

7. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the council assess its significance and prioritise the actions required.

8. We would like to thank all members of the council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

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

11. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.

2

Annual accounts

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

In this section we summarise the findings from our audit of the 2016/17 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2017 are due to be approved for signature by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report:

- **An unqualified opinion on the annual accounts; and**
- **An unqualified opinion on other prescribed matters.**

We have, however, drawn attention to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2016/17.

Good administrative processes were in place

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

1. The council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the council and the auditor in relation to the annual accounts are outlined in Appendix 1.

2. In this section we summarise the findings from our audit of the 2016/17 annual accounts.

Overall conclusion

An unqualified audit opinion on the annual accounts

3. The annual accounts for the year ended 31 March 2017 will be considered by the Governance, Risk and Best Value Committee on 26 September 2017 and approved for signature by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report:

   - An unqualified opinion on the annual accounts; and
   - An unqualified opinion on other prescribed matters.

4. We have however, drawn attention in our audit report to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 17). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

Good administrative processes were in place

5. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

Our assessment of risks of material misstatement

6. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Revenue recognition

Under ISA 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the council could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2016/17 External Audit Plan

7. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the council's revenue recognition policy is appropriate and has been applied reasonably.

2. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Noted in 2016/17 External Audit Plan

8. We have not identified any indications of management override in the year. We have reviewed the council's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.

9. During our review of the financial controls processes however, we did note a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. Compensating controls are in place which mitigate against the opportunity for individuals to achieve monetary gain. These include, for example, control account reconciliations and preparation and presentation of financial monitoring reports to the council. There does however remain a risk that individuals post journals to manipulate the reported financial position; with no monetary gain involved. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.

Action plan point 1

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Associated spend with new financial systems

In August 2015 the council awarded CGI the contract for the provision of ICT services. Following a transition of services in late 2015 and early 2016, the CGI contract went live on 1 April 2016. The council has reported a number of benefits from the first phase of implementation of the contract, including significantly increased network bandwidth in council schools and council offices.

A further 12 projects will be delivered through 2016 and 2017 as part of the CGI contract, with joint governance arrangements in place involving the council, CGI and supply chain partners. Most of these projects have commenced, although officers have acknowledged that timescales for implementation of some projects, such as Enterprise Integration and Enterprise Resource Planning have slipped due to technical and resource challenges.

The council is however currently reviewing the expenditure incurred to date and the associated accounting treatment. There is a risk that this is not correctly accounted for in the 2016/17 annual accounts.

Noted in 2016/17 External Audit Plan

10. At the outset, the contract with CGI was expected to save the council at least £45million over the first seven years. Since the contract commenced in 2016, the council has reported that CGI has underperformed on the contractual commitments. Most major programmes are at least 12 months late and there are several still in a state of re-plan which is impacting on the council's ability to transform services. In some cases the revised delivery date has meant that the council has been unable to realise the benefits and/or savings envisaged. Improvements have been made during the year; however this has not been at the pace required by the council or in line with the contract.

11. A paper was presented to the Governance, Risk and Best Value Committee in August 2017, giving members an overview of the services delivered by CGI including options available to the council regarding contractual remedies.

12. As a consequence of the delay in the delivery of the planned improvements as part of the ICT contract, capital expenditure within 2016/17 annual accounts was limited to £1.341million. No further payments had been made at 31 March 2017 as milestone triggers had not been met. From audit work performed we are satisfied that this expenditure has been appropriately accounted for in the annual accounts.

Other risk factors

13. Further to the identification of significant audit risks (Exhibit 2), we also identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

School closures

14. Following the collapse of a wall at Oxgangs Primary in January 2016, property surveys were undertaken at other schools built as part of the same schools PPP1 contract. In April 2016, 17 schools were closed temporarily as a consequence of the survey findings, and alternative accommodation arrangements put in place for school pupils. A range of remedial work was undertaken by the PPP operator, Edinburgh Schools Partnership (ESP), with a phased return of schools to the Council in operable condition between May and August 2016, prior to commencement of the new school term.

15. Under the unavailability clause of the PPP1 contract and following the school closures, the

council, in 2016/17, withheld unitary charge payments of £5.36million.

16. Through review of the accounting entries in relation to the retention of the unitary charge we noted that only the financing and service elements of the charge have been withheld, the capital element has been paid throughout 2016/17. This reduces the PPP1 liability in accordance with the original contract terms and conditions and is in accordance with relevant accounting standards. We are satisfied that appropriate accounting treatment has been applied. Further information relating to the schools closure is included in paragraphs 165 – 175.

Significant trading operations

17. The council's Edinburgh Catering Services – Other Catering trading operation has previously failed to breakeven over a three year period. The council has put in place a number of measures addressing the profitability of the service going forward, including a new pricing policy and reductions in vending equipment. The catering service is also included within the scope of the property and asset management strategy which is being pursued by the council.

18. Despite these actions the trading operation has failed to breakeven in 2016/17, reporting a deficit of £0.191million and a cumulative three year deficit of £0.489million.

19. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The council has failed to comply with this statutory requirement for the three year period ending 31 March 2017 in respect of the trading operation. We have reported this matter in our independent auditor's report.

20. The council has on-going plans for investment in the trading operation. Over the past three years the Corporate Facilities Management service has been under review. Due to this, the service has been operating under the leadership of property managers rather than a dedicated catering manager. This post was filled in July 2017. The new catering manager is responsible for the staff canteen and coffee shops and is looking to redesign the service to deliver improvements in performance. Short-term actions are already in progress including the introduction of Electronic Point of Sale (EPOS) technology to facilitate card payments on site at Waverley Court and City Chambers staff restaurants and coffee shops.

21. In addition to this, the posts of Performance Manager and Commercial Manager within the Facilities Management service have been filled in June and August 2017 respectively. These posts will be responsible for improving scrutiny and oversight of the Other Catering operation.

Revised financial statement formats

22. From 2016/17 the Code requires authorities to present service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services.

23. The council has fully complied with the new requirements of the Code. The CIES has been presented in line with council directorates. Prior year figures have been restated. The notes to the financial statements include an Expenditure and Funding Analysis which demonstrates how the funding available to the council has been used in providing services in comparison to the amounts recorded in the CIES.

Loans Fund Accounting

24. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the council does not have arrangements in place to comply with the new accounting practices.

25. From audit work performed we concluded that the council has appropriate arrangements in place to comply with the Regulations.

Group accounting

26. The council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. For 2016/17 this also includes consolidating the Edinburgh Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.

27. During the planning stages of our audit we reviewed the structure of the group and during the audit sought to gain an understanding of significant audit risks, materiality and extent of the audit work performed for the significant components.

28. In respect of consolidation of the Edinburgh Integrated Joint Board and other group companies we have concluded that the council's share of results has been appropriately consolidated into the group accounts.

29. In early 2017, the council confirmed that operational activities undertaken by EDI, Parc Craigmillar and Waterfront Edinburgh would in future be delivered through an in-house Council Model. A transition period would ensure business as usual for existing projects operated by the companies and a commitment was made to honour all contractual arrangements in place for key projects.

30. No time frame for enacting this decision was given and in the absence of a known date by which activities, assets and liabilities, including properties are to be transferred all companies have continued to prepare accounts on a going concern basis. This is set out in note 1 to the EDI Group Limited accounts. The external auditors have also drawn attention to this basis for accounting within their audit certificate.

Our application of materiality

31. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

32. Our initial assessment of materiality for the group annual accounts was £14.1million and for the council single entity annual accounts £12.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £15.4million for the group and £12.6million for the council and it remained at these levels throughout our audit.

33. Our assessment of materiality is set with reference to three key benchmarks: gross expenditure (2%), surplus/deficit on provision of services (10%) and useable reserves (2%). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the council and its group.

34. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Group	6.9	8.4	10.8
Council	5.6	6.9	8.8

35. We agreed with the Governance, Risk and Best Value Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Governance, Risk and Best Value Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

36. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

37. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in aggregate. These have been reported to the Head of Finance and are included as an appendix to the letter of representation. The letter covers a number of issues and we have

requested that it be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

38. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2017. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

39. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

40. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

41. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

42. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

43. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

44. As part of our audit we reviewed the council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[1] as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

45. In 2016/17, two letters were received citing objections to the annual accounts. For one it was determined that points raised did not constitute an objection to the accounts. In relation to the other, a hearing has been scheduled with regard to the points raised.

Management commentary

46. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

47. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

48. As part of our audit we also reviewed the council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). We considered the extent to which the council's management commentary included relevant information in respect of:

- The context of the annual accounts;
- Insight into the priorities of the council and strategies adopted to achieve these priorities and objectives;
- Information on future plans;

[1] Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

- KPIs which measure progress against objectives/priorities; and
- Information on the principal risks and uncertainties facing the council.

49. From our review of the 2016/17 management commentary, we noted, in our view, areas which could be further developed. In particular:

- More information in respect of the overall group;
- More performance information (both financial and non-financial).

The council updated the draft accounts to reflect our comments.

Annual governance statement

50. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the council to continue to progress improvements in the council's governance arrangements.

51. We have reviewed the Council's Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with *Delivery of Good Governance in Local Government: Framework (2016).*

Remuneration report

52. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Depreciation and amortisation policy

53. The council's current accounting policy is not to provide for depreciation or amortisation in the year of an asset's purchase. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), depreciation/amortisation should be charged over an asset's useful life, starting from when the asset is available for use. The depreciation and amortisation charge in the council's 2016/17 annual accounts is understated by up to £5.36million (calculated as the maximum possible impact). This has been categorised as an unadjusted difference and detailed in the letter of representation.

Charitable trust funds

54. The council administers seven charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to seven, with further plans in place to wind up the Usher Hall Conservation Trust in 2017/18.

55. The total charitable trust fund balance as at 31 March 2017 amounts to £14.671million, an increase of £0.173million in comparison with the prior year.

56. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

57. We have audited the council's 2016/17 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
- The council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds.

Common good fund

58. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing

assets for on-going use for the population or contributing to specific local projects/initiatives.

59. The Common Good Fund stands separate from the council's accounts and has been described as "the ancient patrimony of the community".

60. During 2016/17, a surplus of £104,000 was generated from the common good fund. Two capital receipts were generated following the sale of 6-8 Market Street and land at St James Quarter.

61. In 2016, the council's Finance and Resources Committee approved the use of the common good fund for planned maintenance of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. As at 31 March 2017; £1.890million remained in this fund. Overall common good funds stood at £2.402million as at 31 March 2017.

62. The Community Empowerment (Scotland) Act 2015 obliges local authorities to establish and maintain a register of property which is held by the authority as part of the common good. The Act received Royal Assent on 25 July 2015; some provisions came into force in 2015 and the remaining provisions are likely to come into force during the latter part of 2017.

63. The Scottish Government issued draft guidance for consultation on 30 June 2017, with responses invited by 29 September 2017. The consultation concerns the statutory guidance related to Part 8 of the Community Empowerment (Scotland) Act 2015 – common good registers - and asks for views on issues such as timescales, information about assets, local consultation, publicising proposals and disposal and use of common good property.

64. Each local authority will be required to publish a list of property which it proposes to include on its Common Good register and to consult on this list. There will be no requirement on local authorities to make checks or confirm title beforehand. Individuals and community bodies can make a case for property to be included in or excluded from the register. Each local authority will have time to investigate and respond to representations before making a final decision as to inclusion on the list. The common good register is required to be published within six months of the end of this consultation period.

65. The council has begun to collate information regarding those properties historically considered to be common good, specifically those included on the "common good register of assets for accounting purposes", relevant parks and other assets with a public function. Work has also progressed on developing a methodology for assessing all properties' common good status, taking into account the relevant legal tests.

66. Progress is being accelerated by seconding a solicitor from an external legal firm to Legal Services to release a council solicitor to work on the project and additional administrative support has also been appointed.

Related party transactions

67. The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

68. The councillors' register of interests is one way that the council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the council does not identify and report all related party transactions in its annual accounts.

Action plan point 2

Qualitative aspects of accounting practices and financial reporting

69. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property plant and equipment, provisions, pension liabilities and arrears. We consider the estimates made, and the related disclosures, to be appropriate to the council.
The potential effect on the annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made).
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

3

Financial management

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

Financial management

The council has a strong track record of delivering against budget. Financial management arrangements appear effective and have been strengthened by the introduction of monthly budget review and challenge meetings.

The transparency and scrutiny of financial reporting could be further improved by providing consistency in outturn projections.

Our testing of internal controls identified no significant internal control weaknesses.

Financial performance

70. The council's annual accounts for 2016/17 record an overall underspend of £1.058million, equating to 0.11% of the council's total net expenditure. The council has been able to deliver services within budget for the tenth successive year.

Exhibit 3: Extract from the 2016-17 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Communities and Families	342.7	341.8	(0.8)
Place	66.7	68.4	1.7
Resources	132.0	130.9	(1.2)
Health and Social Care	186.7	187.8	1.1
Chief Executive	41.4	41.3	(0.1)
Safer and Stronger Communities	25.6	25.5	(0.1)
Lothian Valuation JB	3.7	3.7	-
GF Services	**798.9**	**799.4**	**0.5**

General Fund Services

71. The 2016-17 Outturn Statement (Exhibit 3) shows that the council spent a total of £799.4 million on the provision of services against a budget of £798.9 million.

72. Two services exceeded budgets during the year, the Place Directorate, and the Health and Social Care services delegated by Edinburgh Integrated Joint Board.

73. The Place Directorate faced significant financial pressures (£5.7million), including the closure of Mortonhall Crematorium for a significant part of the financial year. Despite management actions and offsetting underspends in other service areas, the Directorate recorded an overspend of £1.7million.

74. The council agreed an additional £1.1million contribution to Health and Social Care in January 2017, which meant that General Fund services delivered an overall underspend of £0.6million.

Health and Social Care

75. Throughout the financial year, the Edinburgh Integrated Joint Board (IJB) reported significant overspend against the approved budget, primarily as a result of failing to achieve the savings targets for Council-delivered services and ongoing pressures in prescribing and nursing for services delivered by NHS Lothian. In 2016-17, there was an overspend of £8.0m on Council-delivered services, although this was offset by an agreed non-recurring contribution of £6.9m from the Social Care Fund. As a result, the additional contribution approved by the council of £1.1million allowed the IJB to meet its financial targets.

76. Performance reports, including financial reports were made to the Health, Social Care and Housing Committee in 2016-17. In addition, the level of overspend was included in revenue budget monitoring reports to the Finance and Resources Committee. However, there is scope to improve the transparency of reporting and level of financial scrutiny applied to Health and Social Care spending, including any approval for additional resources.

Corporate budgets

77. There were a number of key movements in other income and expenditure. As a result of higher council tax income (£0.7million), and lower payments made under the council tax reduction scheme (£2.95 million), the council was able to make a contribution to earmarked reserves of £3m during 2016-17. Other underspends, including lower than anticipated loan charges, meant that the council was able to meet additional early release costs of £1.6 million in 2016-17.

Budget monitoring and control

78. The council's Finance and Resources Committee receives quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny.

79. We did, however, note that financial scrutiny could be enhanced by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.

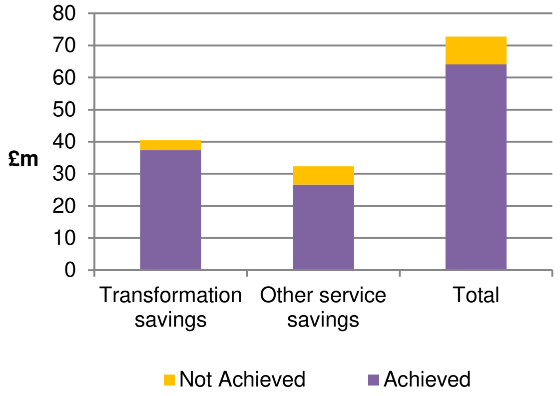
Audit Plan Point 3

Savings Programme

80. When the 2016-17 budget was agreed, the council had identified the need to achieve a challenging target of £72.8 million of savings in year.

81. The council's transformation programme identified £70 million of savings, with £40.5 million to be delivered in 2016-17. In addition, a further £32.3 million of savings proposals were identified in the budget process. As Exhibit 4 highlights, the council achieved £64.1 million of savings in 2016-17.

Exhibit 4: The Council achieved 88% of its approved savings in 2016-17

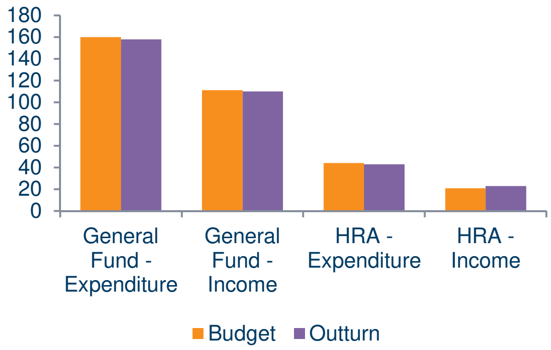


Source: 2016-17 Outturn Report

Capital Expenditure

82. During 2016/17 the council made total capital additions of over £140 million. Of this, £98.7 million were general fund additions and £41.97 million were HRA additions. Outturn against the Capital Investment Programme has been summarised in Exhibit 5.

Exhibit 5: Capital Outturn was broadly in line with budget in 2016-17



Source: Capital Outturn Report 2016/17

83. A net underspend of £1.745million against budgeted General Fund expenditure is a result of slippage on a number of projects, offset by an acceleration of £6.4million on Asset Management Works. Key areas of slippage include altering the procurement approach on early learning and childcare estates improvements (£3.3million); delays in securing traffic management for Road Asset

Management projects (£2.7million); and delays in delivering Boroughmuir High School (£1.7million).

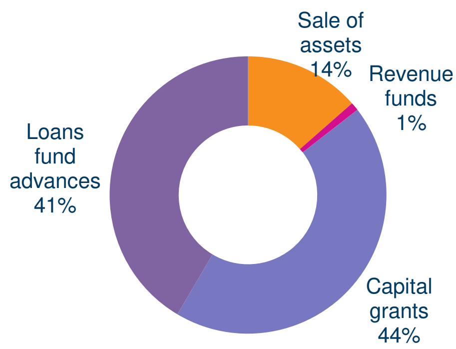
84. Capital receipts generated from the sale of assets were £12.36million, compared to a budget of £24.58million. This deficit reflects a number of sales that are now due to be settled later than originally expected. The deficit is offset by an increase in income from developers' and other contributions, resulting in capital income being £1.28million below budget.

85. An underspend of £0.68million against the HRA was largely due to a low number of tenants participating in the kitchen and bathrooms programme; the heating programme was accelerated to reduce the overall underspend in line with the agreed strategy. Capital receipts were £1.99million above budget due to a spike in council house sales prior to the abolition of Right to Buy in August 2016.

86. The net underspend on gross General Fund expenditure represents a variance of 1.09% against the revised budget (variance of 6.59% was reported for the 2015/16 outturn position). This demonstrates the success of the capital monitoring team in effectively managing the capital programme and accelerating projects where appropriate to offset slippages elsewhere. Progress on major projects is reported to the Governance, Risk and Best Value Committee on a quarterly basis, summarising activity and any issues relating to timescales or budgets. Each project is allocated a RAG rating to reflect the current level of risk and enable the council to manage the overall programme effectively.

87. Capital expenditure was funded as shown in Exhibit 6.

Exhibit 6: Sources of Capital Funding



Source: Capital outturn report 2016-17

Systems of internal control

88. We have evaluated the council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended.

89. As reported more fully in our Review of Internal Financial Controls report to management, we consider that the council has well-designed systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses in the council's accounting and internal control systems during our final audit. Our conclusions have been reached following consideration of the following key financial systems, as set out in our external audit plan.

Exhibit 7: Key financial systems evaluated in 2016-17

Council tax	Non domestic rates	Cash receipts and banking
Housing rents	Sundry income	Payroll
Treasury management	Members remuneration / expenses	Expenditure

ICT controls

90. Our IT audit work for 2016/17 has focused on the effectiveness of security management controls within CGI over the council's ICT network. The review has considered a wide range of control areas including security management plans, management and monitoring of privileged user accounts, patch management processes, security monitoring, incident management and internal and external security testing. Prior to conducting our review, we were aware that council ICT management had raised concerns with CGI regarding the lack of assurance on security management arrangements. This resulted in a specific team being commissioned within CGI (the 'Red Team') to develop and implement a Security Improvement Plan (SIP). The SIP was agreed in May 2017.

91. Our audit report is in the process of being agreed with CGI and council ICT management. We have raised a number of recommendations from our audit work, a significant number of which are graded as high risk. Whilst our audit work has recognised that there has been improvement in security management processes within CGI, they lack the level of maturity that we would expect at this stage of the contract. A number of key processes which underpin effective security are under-developed or developing, for example, processes in relation to patching, configuration management, security hardening and vulnerability management. There are also weaknesses in relation to the management and monitoring of privileged user access.

92. There is a need to assign implementation dates for all actions contained within various security management action plans, in particular, the Security Improvement Plan and PSN compliance actions. It was not clear whether these dates were the deadline for formal approval by the council or agreement by the joint Security Working Group.

93. There is also a need to implement patching and security hardening policies and a programme of internal vulnerability testing of the council network. Our final report on this area will be presented to the Governance, Risk and Best Value Committee in October 2017.

Internal audit

94. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the council's total audit resource. Each year we consider whether it is the most effective use of the council's total audit resource to place reliance on the work of internal audit. When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

95. We have reviewed the council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent. Overall we concluded that we will place reliance on the work of internal audit where appropriate.

96. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required at least once every five years. The Head of Audit and Inspection of North Lanarkshire Council completed an External Quality Assessment Review (EQAR) in 2016/17. The review concluded that the council's internal audit service fully conforms with the PSIAS.

4

Financial sustainability

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

Financial sustainability

The council has a well-developed Financial Strategy and has a clear understanding of future pressures and the impact on the medium term financial position.

The council has recently identified the need to secure additional savings of £91.6million in the period to 2020-21 and is developing the proposals and programme management necessary to deliver on this challenging target.

There is an effective approach to the management of reserves, highlighting significant risks identified in the budget process, quantifying these wherever possible, and establishing provisions to mitigate the risk. The council's current level of reserves is in line with other councils in Scotland.

Financial planning

97. The council developed its Financial Strategy in 2015-16 and has updated the assumptions and forecasts underpinning the framework every 6 months since then. The Long Term Financial Plan covers five financial years and includes a range of assumptions on inflationary pressures, demographic change, new legislative requirements and estimates of government funding.

98. The Plan is reviewed by the Finance and Resources Committee on a regular basis and is used to inform the development of budget proposals.

99. We reviewed the analysis used to produce the current Revenue and Capital Budget Framework 2018-23 and we were satisfied that it was based on a good level of understanding about services, emerging service pressures and up to date expectations of future government funding.

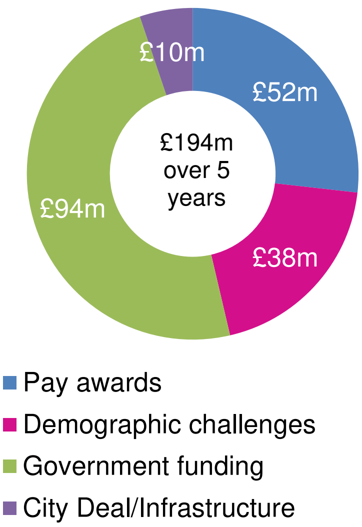
Delivering a sustainable financial position

100. The Scottish Government sets out the financial settlement for councils in December each year. The council uses the settlement figures to update assumptions, and to refine budget proposals before the budget is finalised. The budget for 2017-18 was approved by the council at its meeting in February 2017. The budget framework also set out an indicative balanced budget for 2018-19. At the time, additional savings requirements of £15.4m and £10.9m were highlighted in 2019-20 and 2020-21 respectively, which would require to be met from the identification of additional savings and/or income.

101. The Finance and Resources Committee recently received an update on the budget framework. This report sets out a greater financial challenge in the 5 years covered by the plan. As Exhibit 8, overleaf, indicates, movements in the key assumptions include:

- Increases in the provisions made for pay awards. The pay award assumption has been revised to 2% for 2018-19 to 2022-23 inclusive, resulting in an annual incremental increase in provision of £2.6m for each financial year.
- Decreased government grant funding, following independent research on likely public spending in Scotland. The assumed changes in grant funding have been revised to annual reductions of 2.9%, 3.7% and 3.2% respectively over the period from 2018-19 to 2020-21. This accounts for a further reduction in estimated grant income of £59m over the life of the plan
- Additional investment in infrastructure, partly as a result of the City Deal and commitments within the Local Development Plan.

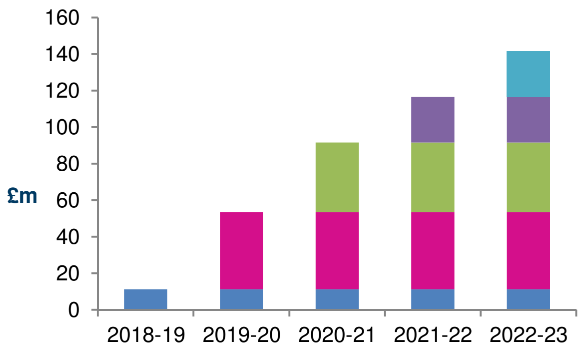
Exhibit 8: A number of key assumptions have been updated since the 2017-18 budget was approved, with a significant impact on the projected financial position in the period to 2022-23



Note: The total financial gap has been offset by revised changes to assumptions relating to Council Tax income (£38million) and others (£14 million). The total gap by 2022-23 is estimated to be £141.60m.

Source: Revenue and capital budget framework 2018/23 – progress update, Sept 2017

Exhibit 9: The council's most recent financial estimates highlight an increased and significant cumulative savings gap in the period to 2022-23



Source: Revenue and capital budget framework 2018/23 – progress update, Sept 2017

102. The creation of the Scottish Government's Social Care Fund has made additional funding available for the Integrated Joint Board to reflect the significant demographic and cost pressures. As a result, the council has reduced its anticipated allocations to the Edinburgh Integrated Joint Board to assume a flat-cash allocation. This level of anticipated delegated budget compares favourably to the overall position across the Council where the assumed revenue reduction is 9.6% over the period to 2022-23. The council estimates that, overall, savings of £91.6 million are required in the period to 2020-21. As Exhibit 9 highlights, the paper to the Finance and Resources Committee outlines a cumulative savings gap of £142million by 2022-23.

103. The council will use the latest long term financial plan to inform the budget process during the period from October until the 2018-19 budget is approved in February 2018. Until there is a clear savings plan in place to address the funding gap, there is a risk to the council's reserves position and future service delivery.

Managing reserves

104. The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make provisions for future spending. The General Fund is the largest of the council's reserves, accounting for 56% of the total usable reserves.

105. As part of the budget preparation process, the council considers an annual Risks and Reserves report. This report outlines the key financial risks associated with the budget process, including:

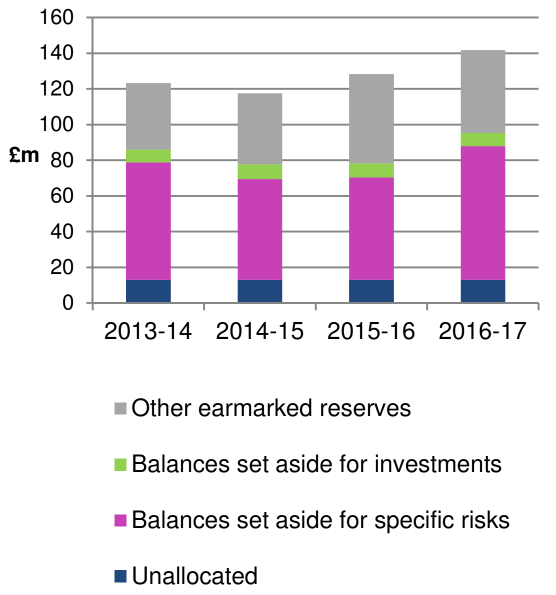
- The achievement of transformation and other savings
- Volatile demand and therefore funding to deliver the planned outcomes of the Edinburgh Integration Joint Board
- Demographic changes leading to rising service demands.

106. The report for members quantifies the risk wherever possible, and outlines the mitigating actions taken, including factoring in best estimates to the long term financial plan, and holding specific reserves to manage the risks.

107. The council has agreed to hold a sum of £13.025 million as an unallocated element of the General Fund. This is lower than normal practice for Scottish local authorities, but is mitigated by the earmarked balances for specific risks, and for areas of investment, including the Council Priorities Fund.

108. Exhibit 10 below confirms that the council's General Fund balance increased by £13.4 million during 2016-17, primarily as a result of contributions for projects that were received during 2016-17 but set aside to match expenditure, a £1.058 million underspend against budget, and expenditure incurred under the Council Tax Reduction Scheme falling significantly lower than budgeted (£2.95 million).

Exhibit 10: The council's General Fund balance increased in 2016-17



Source: Annual Accounts 2014-15 to 2016-17

109. The balances set aside for specific risks increased from £57.4million in 2015-16 to £74.9million in 2016-17. The earmarked balances held include:

- Additional contributions of £13million, in line with the Financial Strategy, for specific projects relating to welfare reform and potential additional works relating to the programme of inspection of council buildings following the PPP1 school closures
- An additional contribution to the Council Priorities Fund of £3million.

110. The council also holds balances for specific investments to meet the costs of transformation, and to shift towards preventative expenditure. The balances held fell from £7.8million in 2015-16 to £7.4million in 2016-17.

Usable reserves

111. Exhibit 11 summarises the movements on the council's usable reserves in 2016-17. We note that the City of Edinburgh council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements in place (Exhibit 12).

112. Other usable reserves include the Renewal and Repairs Fund and Housing Revenue Account (HRA). The HRA is the statutory fund used to record all income and expenditure for the management of, and investment in, council homes. Under statute, all expenditure on homes let by the council is funded through the rent and related service charges paid by its tenants.

113. The council's surplus on the HRA is transferred to the Renewal and Repairs Fund to leave a nil balance as part of the preparation of the annual accounts. In 2016-17, the HRA made a contribution of £11.9million to the Renewal and Repairs Fund. This balance is earmarked for future capital investment in new affordable homes through the 21st Century Homes programme and as a contingency to manage the impact of welfare reform.

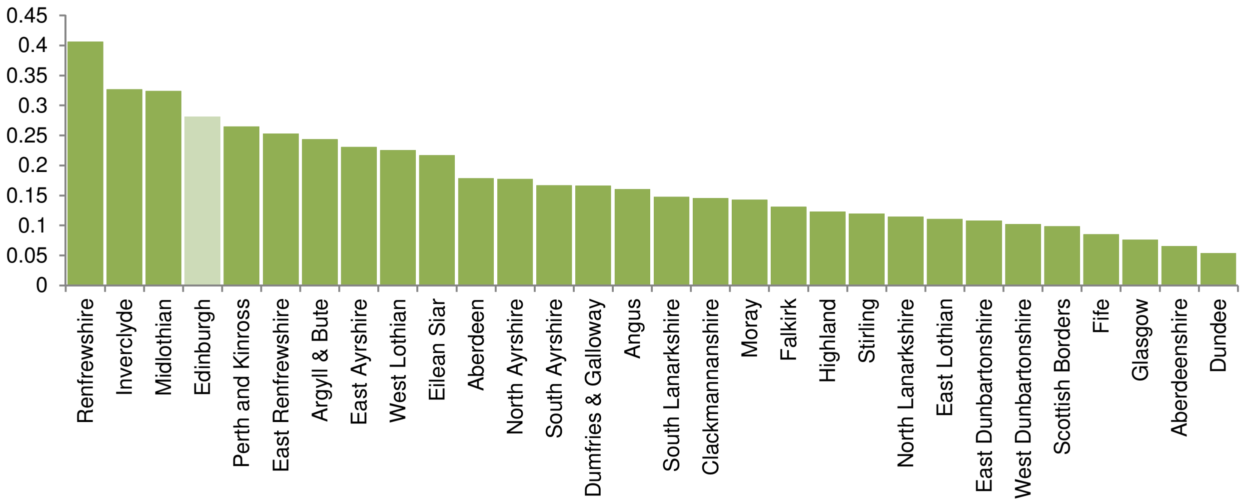
114. Other usable reserves include the Capital Fund and Capital Grants Unapplied Fund.

Exhibit 11: The council's usable reserves increased by £15.9million in 2016-17

Movement in the council's usable reserves	2014/15 £million	2015/16 £million	2016/17 £million	Movement In year
General Fund	117.5	128.4	141.8	£13.4m
Renewal and Repairs Fund	35.8	38.1	50.1	£12m
Capital Grants unapplied	4.4	2.7	0.8	£(1.9m)
Capital Fund	31.7	68.8	61.2	£(7.6m)
Total usable reserves	**189.4**	**238.0**	**253.9**	**£15.9m**

Source: Annual Accounts 2014-15 to 2016-17

Exhibit 12: Councils' usable reserves as a proportion of net cost of services



Source: Audit Scotland database complied from draft Annual Accounts 2016-17. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

Links to other strategies

115. The council's Strategic Framework identifies a suite of interlinked strategies necessary to deliver the coalition's commitments, the Business Plan and the strategic outcomes agreed with Community Planning partners on the Edinburgh Partnership. Key priorities and service developments have to be balanced with financial pressures and delivering longer term financial sustainability.

116. Audit Scotland's Best Value Follow Up report in February 2016 noted the significant progress that the council had made in strategic planning. The council's long term financial plan is a key part of the strategic framework, and the 2016-20 business plan was also supported by a Workforce Strategy and Corporate Asset Strategy.

117. As we note within the financial management section of this report, the council reports that it has delivered significant change and savings through its transformation programme.

Workforce planning

118. The Workforce Strategy 2015-20 approved in March 2015 set out the council's plans to reduce its workforce by an estimated 2,000 by 2017 through a Voluntary Early Release Arrangement (VERA).

119. As at July 2017, the council reported that 923.4 full time equivalent (FTE) staff had left the organisation under the VERA scheme, with an estimated recurring saving of £38 million per year. The council's basic payroll costs have fallen from £405.4 million at June 2015 to £386.6 million in June 2017.

120. The most recent People Strategy 2017-20 update (February 2017) outlines the actions taken to date, including an extensive leadership development programme, and reaffirms the strategic themes for developing the council's workforce. The Strategy sets a high level vision for the workforce. The Strategy will be underpinned by a more detailed People Plan but at the time of our review this was not yet in place.

Audit Plan Point 4

Embedding change

121. The council's transformation programme was established in February 2015. Each of the organisational reviews set out within the original transformation programme has now either been completed or is approaching completion.

122. The council is continuing to develop its overall Change Strategy, but we understand that all future major change initiatives will be overseen by a Change Board led by the Corporate Leadership Team. The council has established plans for the Project Management methodology, and for reporting progress to the Change Board using dashboard progress reports.

123. The council's embedding change programme has sought to ensure that key themes from transformation, such as people and workforce change, customer focus, technology and asset management have been embedded in service implementation plans. Transformation and savings proposals will therefore form part of service delivery and management arrangements, rather than being separate activities.

124. Our early conclusion on these plans is that a single Board to consider all major change initiatives will provide a clear view of progress on savings and change necessary to deliver. We will, however, continue to consider the effectiveness of reporting progress to committee.

Asset management

125. The council's Property and Asset Management Strategy was approved in September 2015 and set out a business case that aimed to deliver £9million of recurring annual savings as part of the council's wider Transformation Programme.

126. The Asset Management Strategy forms part of the overall Transformation Programme and outlines a sustainable future operating model for property and facilities management based on:

- Service redesign;
- Estate rationalisation; and
- Investment in the portfolio.

127. The most recent asset management transformation progress update to the Finance and Resources Committee highlights a number of financial and non-financial benefits, including forecast recurring annual savings of £5.3million by 2018-19. Good progress has been made in preparing Waverley Court to allow subletting and the estates rationalisation programme is

ongoing.

128. The council has historically reported low performance in relation to the national indicator measuring the suitability of accommodation for current use under the Local Government Benchmarking Framework. In 2015-16, Edinburgh's results were the lowest in Scotland, at 59.3%, against a Scottish average of 79.6%. As part of the transformation programme, condition surveys have been carried out across 70% of the estate to date to quantify and prioritise spend or management of the property to secure improvements.

129. As part of the strategic planning framework, the asset management strategy is being revised to ensure that it reflects the needs of locality planning.

Looking forward

Edinburgh Trams

130. In September 2017, the Transport and Environment Committee considered an updated Outline Business Case (OBC) for the Edinburgh Tram York Place to Newhaven project.

131. The capital cost of the project is estimated to be £165.2 million through to project completion and the construction programme is estimated to be approximately three years plus four months for testing and commissioning. Subject to approval by Council, the line is projected to be open to passengers in the second quarter of 2022.

132. A public interest inquiry has been convened to establish why the original Edinburgh Trams project incurred delays, cost more than originally budgeted and through reductions in scope delivered significantly less than projected. The Chair, Lord Hardie, will issue a report on the findings once all evidence has been assessed. The oral hearing started on Tuesday 5 September 2017, and we will consider how the council uses the outcomes to learn lessons for the next stage of the project.

City Deal

133. In July 2017, Heads of Terms were agreed for the Edinburgh and South East Scotland City Region Deal. The heads of terms are an agreement between the Scottish Government, the six local authorities in the region and the UK Government. Both governments are committed to jointly investing £600m over the next 15 years and regional partners have committed to adding up to £500m, overall representing a deal worth £1.1 billion.

134. The city region deal aims to drive investment and address inclusion across the regional area. The Council will work with the Scottish Government and local authority partners East Lothian, Fife, Midlothian, Scottish Borders and West Lothian Councils to deliver a range of key commitments, including:

- £300m for world leading data innovation centres
- £140m for crucially needed A720 city bypass at the Sheriffhall Roundabout and transport improvements across west Edinburgh
- £20m capital funding for new world class concert hall
- £25m regional skills programme to support improved career opportunities for disadvantaged groups
- £65m of new funding for housing to unlock strategic development sites

135. The deal is expected to conclude before the end of the financial year. We will monitor the implications for the council's medium term financial plan, and arrangements to monitor the impact on outcomes throughout the term of our engagement.

Local Development Plan

136. In September 2017, the council initiated a consultation exercise to help shape the next Local Development Plan (LDP). The council's LDP provides the vision for how communities will grow and develop in the future. The consultation and key appraisals such as the impact on education, the environment and transport may therefore have significant implications for the council's financial planning.

5

Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer and section 95 officer, the council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Organisations usually involve those charged with governance in monitoring these arrangements.

Governance and transparency

The council's new administration has quickly set out an updated Business Plan for the medium term, based on a clear understanding of future pressures. The council continues to engage with local communities on the longer term Edinburgh 2050 vision.

The council is open and transparent in the way that it conducts its business, with the public able to attend meetings or view webcasts online.

Following the Public Pound arrangements continue to improve and have been enhanced by the establishment of a Governance Hub for council companies.

The serious incident at Oxgangs Primary School revealed failings by the council in the scrutiny and quality assurance arrangements for the original PPP1 development. The council responded in a fast, transparent and comprehensive way to the challenges it faced.

Leadership and vision

137. Scottish local government elections were held in May 2017. In Edinburgh, there was a significant turnover in elected members as only 28 of the 63 councillors returned, with the remaining 35 being new to the council. The political balance of the council has also changed. In the period to May 2017, the council was run by a Labour/SNP administration. At the election, the SNP became the largest party and the Minority Administration is formed from members from the SNP and Labour parties, with an SNP member serving as the council Leader.

138. Once the coalition was finally agreed, the Administration quickly published revised coalition commitments. Plans to develop a revised Business Plan by December 2017 were brought forward, and the council agreed the plan in August 2017. The revised Plan signals a continuity of vision and strategy for Edinburgh, which is informed by *Edinburgh 2050,* the consultation on the long term vision for the city.

139. The renewed Business Plan (2017-21) is supported by the Financial Strategy, People Strategy, Digital Strategy, Asset Strategy and a developing Economic Strategy. Work is also underway to develop the Performance Framework necessary to monitor progress against the Plan.

140. We are satisfied that the council has clarity on its priorities and that the long term plans necessary to achieve these are in place or planned for delivery in 2017-18.

Community Empowerment

141. The Community Empowerment Act (2015) aims to give community bodies new rights and to boost community empowerment and engagement. The Act introduces new requirements for Scottish local authorities, including the introduction of asset transfers to community group, and participatory budgeting.

142. One of the key priorities within the Business Plan is to deliver a council that works for all, including more empowered, transparent and improved public services. The coalition has committed to devolved decision making, and ensuring that 1% of the council's discretionary budget will be allocated through participatory decision making.

143. There are plans in place to devolve decision making to four multi-agency Locality Committees. Cross-party working groups have been established to lead the planning and engagement across each of the four localities. Locality Improvement Plans will feed into the council's business planning process.

144. We are satisfied that the council has shown a commitment to community empowerment, and the approach to locality planning provides a strong basis to involve citizens in decisions about services.

Governance arrangements

145. The council reviewed its political management arrangements in June 2017. As part of the review, consideration was given to the relative workload of the 8 existing committees and the evolution of national priorities and structural change, such as the establishment of Integrated Joint Boards.

146. The council has agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. The structure will continue to be supported by the Governance, Risk and Best Value Committee, which performs the role of an Audit Committee but with an extended remit for scrutiny.

147. Under the revised arrangements, the Corporate Policy and Strategy Committee will provide scrutiny of the services delegated to the Integration Joint Board. We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee.

Audit Plan Point 5

Local Code of Governance

148. In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been concluded at the time of our report.

149. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparation for the annual accounts process.

Audit Plan Point 6

Transparency

150. Each of the council's committee meetings is held in public and the papers for committees are available at least 6 days in advance of the meeting. The committee meetings are also filmed and available to view from the council's website. We therefore concluded that the council is open and transparent in the way that it conducts committee business.

Committee effectiveness

151. It is too early to conclude on the effectiveness of the revised committee arrangements. We have, however, attended and observed a number of council and committee meetings over the period August 2016 to August 2017.

152. During our observations, we noted that papers were well-prepared, allowing questions to focus on the issues presented. Committee members appeared to be well-prepared and asked appropriate questions.

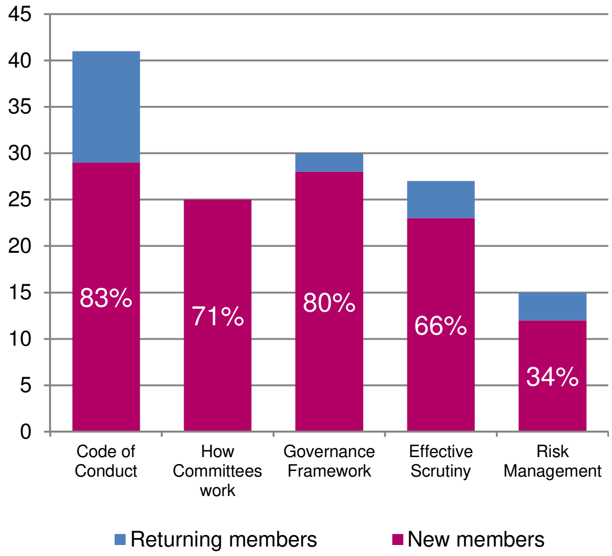
153. We take a particular interest in the work of the Governance, Risk and Best Value Committee. Our early observations are that the committee operates well, with a clear understanding of its role, and benefits from an experienced Chair. We will continue to review the effectiveness of the Committee throughout our appointment, to ensure that the key functions we expect to be performed by an audit committee are delivered by the council's committee structure. Good practice is available in CIPFA's *Audit Committees: Practical Guidance for Local Authorities and Police*.

Training for elected members

154. During May to August 2017, the council provided a comprehensive programme of induction and training sessions for the new and returning elected members. The programme included 31 sessions that were repeated to help attendance.

155. We reviewed attendance rates for some of the key training sessions (Exhibit 13). We noted that attendance rates were generally good for new elected members, although only 15 members attended training for risk management.

Exhibit 13: Attendance at the member induction and training programme was generally good for new elected members



Source: Elected member training attendance records.

Note: Percentage rates in white relate to the proportion of new members who attended training

Risk Management

156. Public sector bodies face increasing demand for quality services at a time of significant financial pressure. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources.

157. The council's internal auditors reviewed the risk management arrangements in November 2016. They found that as a result of reorganisation, dedicated risk roles within Directorates had been disbanded and there was a need to review and update the council's risk management strategy.

158. In February 2017, the council appointed an in-house Chief Risk Officer. The Chief Risk Officer reports to the Head of Legal and Risk and chairs the quarterly Corporate Leadership Team's Risk and Assurance Committee, the quarterly directorate SMT Risk and Assurance Committees and the Risk Management Steering Group. Each directorate has established its own risk lead who chairs the individual directorate Risk Management Group.

159. The Corporate Leadership Team's risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top ten prioritised risks, current mitigating controls and further actions to be delivered.

160. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation.

Following the Public Pound

161. The council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf, including the EDI Group, Edinburgh Trams and Lothian Buses. While the ALEO is responsible for the delivery of the services, the council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides. The council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.

162. In June 2016, the council received a report outlining the proposed response to the findings of an internal audit review of council companies. Internal audit identified four areas of concern:

- the independence of elected members as directors of companies;
- governance reporting to council committees;
- the council observer role; and
- the annual assurance process for council companies.

163. The Governance, Risk and Best Value Committee continue to scrutinise the performance, risks and financial standing of the ALEOs.

164. We are satisfied that the council's following the public pound arrangements appear to be well-developed and improving. The council is one of the case study sites for Audit Scotland's national performance audit on ALEOs, which is due to report in Spring 2018.

Good Practice: Governance Hub

In June 2016, the council agreed to establish a Governance Hub, chaired by the Chief Executive. The Hub first met in October 2016 and brings together representatives from each of the council companies. The remit of the Hub is to:

- provide oversight of the council's companies;
- scrutinise the business plan, past performance and accounts;
- scrutinise compliance of the shareholder's agreement;
- identify risks to the council;
- provide an opportunity to raise issues directly with the council's Chief Executive; and
- provide an opportunity for dialogue with the council.

The Hub has been used to clarify the role of council observers at company board meetings. As a result, guidance has been developed and circulated to council observers to help maintain consistency in the role. We also noted that arrangements have been made to improve the annual assurance process.

Edinburgh Schools

165. In 2001, the council entered into a Public Private Partnership (known as PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership Limited (ESP). This arrangement was subsequently supplemented by a further agreement in April 2004, requiring ESP 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 set standard.

166. On the morning of Friday 29 January 2016 a section of brickwork wall at Oxgangs Primary School (one of the PPP1 schools), weighing approximately 9 tons, collapsed onto the pathway below. Due to the early hour, no one was in the vicinity of the wall that collapsed and no injuries resulted. However in slightly different circumstances this event could have resulted in considerable injury or even fatalities. Subsequent structural surveys undertaken across the remainder of the PPP1 estate resulted in the temporary closure of a total of 17 schools and two other facilities in early April, with the last schools not re-opening until August.

Managing the Emergency School Closures

167. The need for the temporary closure of schools was identified three days before the schools were due to return from Easter Holidays. The council's incident management team quickly put in place a communications strategy and parents, stakeholders and the media were informed about the closures. The Communities and Families department, working with parents, pupils, head teachers and schools staff, the PPP1 contractors and other public sector agencies arranged temporary arrangements to be put in place for over 8,300 primary, secondary and nursery pupils. This was a huge undertaking which involved a relocation strategy across alternative accommodation and the transportation of pupils across 61 alternative schools.

168. Responsibility for rectifying the issues at Oxgangs Primary School and the issues subsequently identified across the PPP1 estate lay with ESP. The council agreed that an independent inquiry should be held into matters relating to the closure of Edinburgh schools. The council appointed Professor John Cole CBE, to lead the independent inquiry. The report of the inquiry was published in February 2017 and concluded that:

- the council had a sound rationale for their decision to adopt the PPP methodology for the funding and procurement of the PPP1 schools.
- the primary cause of the collapse of the wall at Oxgangs school was poor quality construction in the building of the wall and the failure to achieve the required building requirements in relation to the wall ties particularly in the outer leaf of the cavity wall. The issues were ultimately the responsibility of the design and build contractor in charge of the site.
- there were fundamental and widespread failures of the quality assurance processes of the various contractors and sub-contractors, who built or oversaw the building of the PPP1 schools.

- an appropriate level of independent scrutiny over the PPP1 contract by the council was missing.
- the council failed to appreciate the demands of the PPP process and as a result under-resourced the team that represented or advised the client side in the PPP1 contract relationship.
- there was a misunderstanding within the council of the role of Building Standards in the monitoring of construction quality.

169. The decision to close all 17 PPP1 schools required the council to relocate over 8300 pupils within the shortest possible time. Within 12 days of this decision alternative teaching accommodation, transport and catering arrangements had been put in place for all pupils. The Inquiry concluded that this was a remarkable feat to have achieved within an extremely short time.

170. The inquiry report also identified a number of specific or wider lessons which could be learnt by the council, the construction industry and public bodies generally.

171. The council has agreed and is implementing a detailed action plan which addresses the 40 separate recommendations included in the report. The council's response to the action plan includes: the resourcing of full time clerks of works on all projects with a value in excess of £2m, greater emphasis being applied to ensure procured design and construction services are quality checked and a recognition of the limitations of true risk transfer on PPP/Design Build Facilities Management type project, notably in relation to reputational risk and disruption to services.

172. Since the PPP1 problems the council has carried out a risk based assessment on properties on the council estate. The risk assessment has led to a programme of inspections to cover whether similar issues existed on any other council properties. The inspections are currently in progress but to date five properties have been identified which have similar problems and work has been undertaken to remedy these.

Additional costs incurred by the council as a result of PPP1 incident

173. Under the PPP1 contract, the council pays ESP a monthly "unitary charge" which covers both the provision of facilities management services and reimbursement of capital expenditure and interest associated with upfront construction. The temporary closure of all schools under the PPP1 contract led to the unavailability clauses coming into effect. This resulted in unitary charge amounting to £5.36 million being withheld by the council. A final negotiated settlement has been agreed in principle with ESP. As a result there will not be any overall direct cost to the council from this incident.

Overall conclusion

174. Having been faced with a very serious incident impacting on a large number of pupils across a significant number of schools the council responded in a fast, transparent and comprehensive way to the challenges it faced.

175. The wall collapse at Oxgangs Primary School revealed very serious defects in the construction of the school and other schools under the PPP1 contract. Other similar defects have been found in a small number of other council buildings. The Cole inquiry identified that the primary failure to achieve the required building requirements lay with the contractor in charge of the site. However there were significant failings by the council in the scrutiny and quality assurance arrangements put in place during the construction of these schools. Wider lessons were also highlighted for the construction industry and public sector.

Fraud and irregularity

176. In accordance with the Code of Audit Practice, we have reviewed the council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the council's arrangements for fraud and irregularity to be operating effectively.

177. The council's Corporate Fraud Investigation Team reported on their work in an Annual Report to the Finance and Resources Committee in September 2017. The team identified customer fraud in excess of £0.45million in 2016-17 and recovery action is ongoing where possible.

National Fraud Initiative

178. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the

Cabinet Office for the UK as a whole to identify fraud and error.

179. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

180. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council's participation in NFI. We submitted an assessment of the council's participation in the exercise to Audit Scotland in June 2017. Overall we concluded that the council has actively participated in the NFI exercise.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

181. The council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

6

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the council's own reporting of its performance.

Value for money

The council can demonstrate improvements in performance against key partnership and coalition priorities.

Performance indicators that can be compared against other Scottish local authorities highlight improvement against a range of services, and 60% of indicators are in the top two quartiles.

The council can demonstrate strong self awareness, and acts to tackle areas of poor performance, but in a number of key areas, including delayed discharges, interventions have not yet improved outcomes.

Performance Framework

182. The strategic planning framework includes the coalition's commitments, the council's Business Plan and the Community Plan, which is due to be refreshed and agreed with public sector partners in March 2018.

183. The council is refreshing the Performance Framework to support the implementation of the Business Plans, and ensure that elected members have the assurance they need, including performance and progress reporting.

184. The revised Performance Framework is expected to be in place by December 2017.

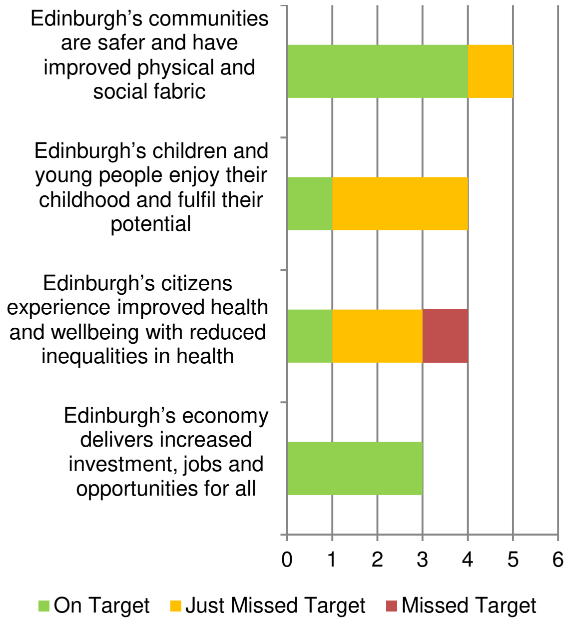
Public Performance reporting

185. Currently, the public performance arrangements are based on council-wide performance reports that are presented to the council on a six-monthly basis. Public performance reports include:

- A six monthly update on coalition pledges
- An annual report against the strategic outcomes in the Edinburgh Partnership Community Plan
- Annual comparator reports on a range of performance indicators included in the Local Government Benchmarking Framework
- An Annual Performance Overview report.

186. The final report on the previous Administration's coalition pledges was considered in December 2016. The report summarised the progress and achievements towards meeting the priorities set out in the Capital Coalition Agreement in April 2012 and shows that all 53 pledges are reported as being achieved or on track.

Exhibit 14: The Edinburgh Partnership reported good progress against outcomes



Source: Edinburgh Partnership Annual Performance Overview

187. In August 2017, the council received the annual report on performance against the Edinburgh Partnership Community Plan (summarised in Exhibit 14) as part of the Annual Performance Overview. The report demonstrated improvements against a range of outcome indicators including:

- Educational attainment measures
- Positive destinations for school leavers

- The creation and safeguarding of jobs.

Statutory performance indicators

188. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applied to 2016-17, reinforced the Accounts Commission's focus on public performance reporting (PPR) and local authorities' requirement to take responsibility for the performance information they report.

189. Two Statutory Performance Indicators (SPIs) were prescribed in 2016-17:

SPI 1: Each council will report a range of information setting out:

- Its performance in improving local public services (including with partners)
- Its performance in improving local outcomes (including with partners)
- Its performance in engaging with communities and service users, and responding to their views and concerns
- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

190. At the time of our reporting, the council were preparing the Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17. We were therefore unable to conclude in full on the achievement of SP1 1.

Action Plan Point 7

191. The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including key areas for improvement and trends was presented to the council in August 2017.

192. Exhibit 15 highlights that over 60% of Edinburgh's performance indicators are within the top 2 quartiles of Scottish councils.

193. There are a number areas highlighted as continuing poor performance, including:

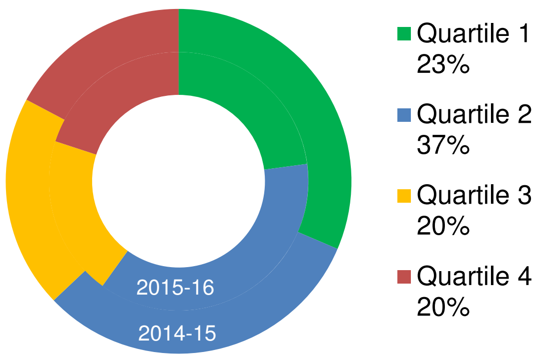
- The cost of environmental health services (32nd out of 32 authorities)
- The Percentage of adults satisfied with the refuse collection services (32nd)
- Cost of maintenance per kilometre of roads (27th)
- Accommodation that is suitable for current use (32nd).

194. We are satisfied that the council has a good level of self awareness about performance. The Council has performed poorly on a range of important indicators within the roads and waste departments. Improvement plans have been established to secure change, which are monitored by the Transport and Environment Committee and scrutinised by the Governance, Risk and Best Value Committee.

195. Within 2016-17 performance outcomes, we note that some improvement has been observed in recycling rates. In 2016-17, the citywide recycling rate for 2016/17 was 43%, this represents a 1% improvement on the 42% achieved in 2015/16. Increases continue in the tonnage of food waste collected for recycling, with an increase of 7% collected in 2016/17 compared to the previous year.

196. Other improvements in 2016-17 include Council Tax collection, where the council achieve its best ever collection rate at the same time as a 19% reduction in the unit costs of collection.

Exhibit 15: Performance against Local Government Benchmarking Framework



Source: Local Benchmarking Framework Annual Report

Delayed discharges

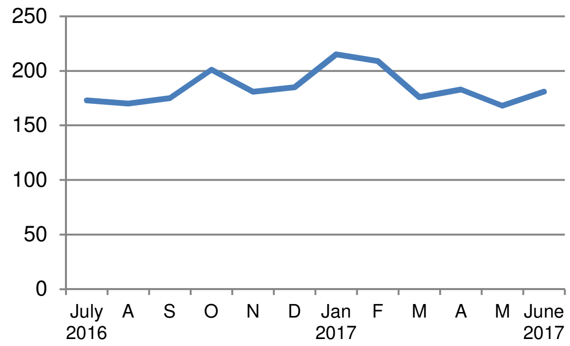
197. We note in paragraph 147 that the council has not yet received the Annual Report from the Edinburgh Integrated Joint Board. During 2016-17, the IJB noted that the level of delayed discharges in the city presents a risk to the partnership in providing the right care at the right time. To reflect the importance and urgency of the number and length of delayed discharges the IJB received regular updates on performance and whole system delays throughout the year.

198. A 'star chamber' meets weekly where locality and hub managers are held to account for performance and any issues having a negative impact can be escalated immediately.

199. We do, however, note that performance has continued to worsen in the period to June 2017 (Exhibit 16), despite the focus given to the issue. We also note that Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.

Action plan point 8

Exhibit 16: Delayed discharges continue to present a significant risk to the council and the IJB



Source: Whole System Delays – Recent Trends, Report to Edinburgh IJB, July 2017

Other Scrutiny

200. The council's Local Scrutiny Plan was prepared by the Local Area Network (LAN) of scrutiny partners in May 2017. The Plan was presented to the Governance, Risk and Best Value Committee in August 2017.

201. The LAN noted the significant reductions in staff arising from transformation activities to date, as well as the potential for the remaining reviews to result in further reductions. The LAN is therefore keen to understand how staff reductions have been distributed across council departments and services and the potential impact of the loss of both numbers and skills and will explore these issues in more detail with the council during 2017/18.

Good Practice: Commercial Excellence

The Council's Commercial Excellence programme was created in 2013. The programme provides a strategic approach to procurement and purchasing activity, with the aim to make savings and improve contract management and partnership working.

Since then, the Council received "superior performance" in the last Procurement Capability Assessment, and was awarded 85.4% in the latest Procurement and Commercial Improvement Programme assessment, carried out by Scotland Excel. This places the Council as f the best performing local authority in Scotland.

Recent examples of success include:

- Award of the contract for Receipt and Processing of Recyclable Materials from Kerbside and Communal Collections. The Contract represents a saving of £1.7 million over the cost of continuing the current recyclables processing arrangements across the period.
- The Contractor Works Framework will consolidate the current strands into one framework providing suitably experienced and qualified contractors, maximising economies of scale, improving contract management efficiencies and rationalising the portfolio of contractors. It is anticipated that the framework will deliver financial efficiencies of £2m over the contract duration through rationalising the number of suppliers, consolidating spend and promoting contract compliance.

- The Council has adopted a contract for Business Travel Services, which it is estimated will generate savings of £106,181 over four years. Other non-financial benefits include the ability to choose travel packages in real time, greater flexibility in travel options and having access to a larger choice of accommodation.

Care Inspectorate

202. The joint inspection of services for older people in Edinburgh was carried out by the Care Inspectorate and Health Improvement Scotland between August and December 2016.

203. The inspection was focused around the nine quality indicators and identified a number of areas of weakness, as shown in Exhibit 17 below. Seventeen specific recommendations for improvement were raised, which were accepted by Edinburgh IJB.

204. The IJB has published a detailed improvement plan in response to the recommendations. Progress against the plan is monitored by an Improvement Board and the IJB's Performance and Quality Sub-Group oversees delivery of the improvement plan on behalf of the IJB.

Exhibit 17: Findings from the joint inspection of services for older people in Edinburgh

Quality indicator	Evaluation	Evaluation criteria
Key Performance Outcomes	Weak	**Excellent** – outstanding, sector leading **Very good** – major strengths **Good** – important strengths with some areas for improvement **Adequate** – strengths just outweigh weaknesses **Weak** – important weaknesses **Unsatisfactory** – major weaknesses
Getting Help at the Right Time	Weak	
Impact on Staff	Adequate	
Impact on the community	Adequate	
Delivery of key processes	Unsatisfactory	
Strategic planning and plans to improve services	Weak	
Management and support of staff	Adequate	
Partnership working	Adequate	
Leadership and direction	Weak	

Best Value

205. The Best Value work carried out this year focussed on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management.

206. We have reported the results of our work within the relevant sections of this report and we are satisfied that there are sound arrangements for financial and service planning through the adoption of the Financial Strategy, Business Plan and interlinked People Strategy and Asset Strategy.

6

Appendices

Appendix 1: Respective responsibilities of the council and the Auditor

Responsibility for the preparation of the annual accounts

The council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance is responsible for the preparation of the council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Head of Finance is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code.

The Head of Finance is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code;
- they 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;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our 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 accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Finding rating	**Assessment rationale**
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences***;*** *or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences***;*** *or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Medium** **Paragraph ref** 9	During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.	While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process. **Responsible Officer:** Corporate Finance Senior Manager **Completion Date:** March 2018

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Medium** **Paragraph ref** 68	The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts. It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely	The Council has robust arrangements to remind councillors of their duties under the Act. • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. For the new Council in May 2017: • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017).

Action plan point	Issue & Recommendation	Management Comments
		• We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017; • We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality. We will continue to remind regularly councillors of their duties under the Act. **Responsible Officers:** Governance and Democratic Services Manager Councillors **Completion Date:** Ongoing

Action plan point	Issue & Recommendation	Management Comments
3 **Rating** **Medium** **Paragraph ref** **79**	The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny. In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.	Based on a best-practice review oreporting elsewhere, opportunities to improve further the clarity and transparency of existing financial reporting will be actively considered with a view to a phased implementation of any resulting changes. Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined. **Responsible Officers**: Head of Finance **Completion Date**: February 2018

Action plan point	Issue & Recommendation	Management Comments
4 **Rating** **Medium** **Paragraph ref** **120**	The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce. The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.	People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September. **Responsible Officer:** Head of Human Resources **Completion Date:** September 2017

Action plan point	Issue & Recommendation	Management Comments
5 **Rating** **Medium** **Paragraph ref** **147**	We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board. The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.	The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017. **Responsible Officer:** Interim Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date**: October 2017

Action plan point	Issue & Recommendation	Management Comments
6 **Rating** **Medium** **Paragraph ref** **149**	In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.	The Council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017. As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration. **Responsible Officer:** Governance and Democratic Services Manager **Completion Date**: November 2017

Action plan point	Issue & Recommendation	Management Comments
7	Each council will report a range of information setting out: • Its performance in improving local public services (including with partners) • Its performance in improving local outcomes (including with partners) • Its performance in engaging with communities and service uses, and responding to their views and concerns • Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources. The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the Council.	A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking. **Responsible Officers:** Interim Strategy and Insight Senior Manager **Completion Date**: March 2018
Rating		
Medium		
Paragraph ref		
190		

Action plan point	Issue & Recommendation	Management Comments
8	The Council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	Performance is closely monitored at: • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. **Responsible Officers:** Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director **Completion Date**: December 2017
Rating		
High		
Paragraph ref		
198		

Scott-Moncrieff
business advisers and accountants

2016/2017

AUDITED ANNUAL ACCOUNTS

The City of Edinburgh Council

Annual Accounts

Year to 31 March 2017

CONTENTS

MANAGEMENT COMMENTARY

Basis of Accounts

The Audited Annual Accounts present the financial position and performance of the Council, together with the financial position of the wider Council Group for the year to 31 March 2017.

The Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. In 2016/17, the Annual Accounts have been prepared using the management structure as a reporting basis, rather than the previously used SeRCOP. This is due to a change in the Code of Practice. Year on year comparisons are indicative of what the management structure would have represented although this is further complicated by the Council-wide transformation reviews.

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 over half a million citizens across the 102 square mile Council area.

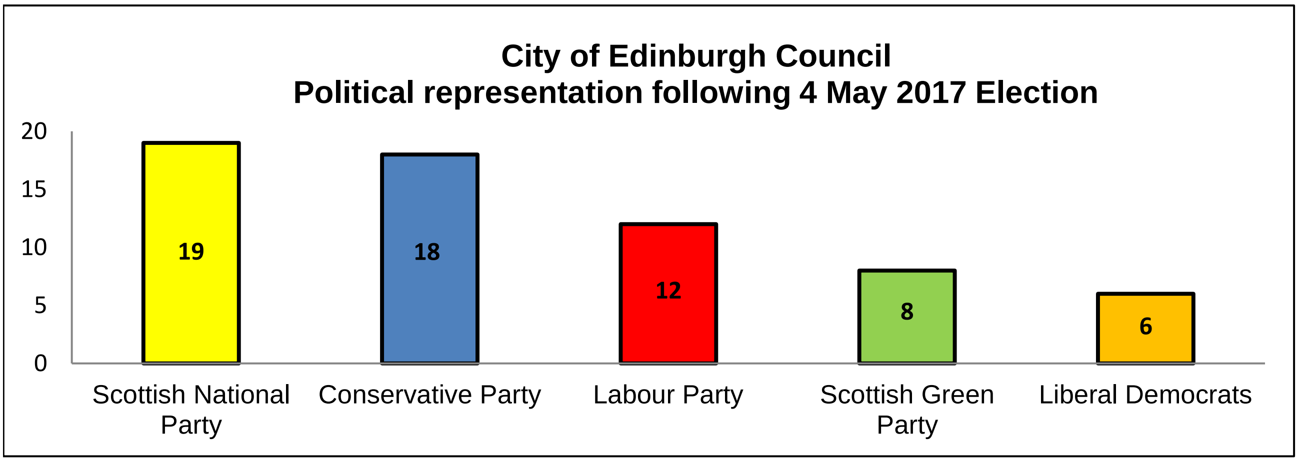
The Council has been undergoing a significant Transformation Programme which has revised the key services and their structure. The current structure is still fluid but the tables below indicate the latest position.

Communities and Families	Place	Health and Social Care
Schools and Lifelong Learning	Environment (inc. parks, cemeteries)	Edinburgh Integrated Joint Board
Children's social work	Transport (inc. parking)	Older people's services
Community education	Roads, bridges and flood prevention	Learning and Physical disabilities
Libraries and Sports	Housing and Regulatory Services	Mental Health
Early Years	Planning and building standards	Substance Misuse

Chief Executive	Resources	Safer and Stronger Communities
Strategy and Insight	Customer and Business Support	Community safety
Communications	Finance	Homelessness services
ICT	Legal and Risk	
	Human Resources	
	Property and Facilities Management	

Further comprehensive 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 63 **Councillors** representing 17 wards within the city, split as follows:



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, for those in office during the financial year, are disclosed in the Remuneration Report from page 141 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.

A new Council strategic planning and performance framework was agreed in June 2015. This framework was developed to provide both a simple and clear articulation of the Council's vision and purposes and a concise set of shared strategic themes and principles around which all Council services can be built. Following these principles, the framework adopted a single vision for the city, shared with all Council partners, to ensure that Edinburgh is a thriving, sustainable capital city in which all forms of deprivation and inequality are reduced.

The **Council Business Plan for 2017/22** describes our Commitments to the city, our strategic aims and outcomes, our challenges, how we'll measure success and the future of our organisation. The plan sets out overlapping strategic themes common to the work of all service areas. The strategic aims are underpinned by our 52 commitments to the city. These are to:

- **Deliver an economy for all**
- **Build for a future Edinburgh**
- **Deliver a sustainable future**
- **Deliver for our children and families**
- **Deliver a Council that works for all**

To deliver our vision and strategic aims, we have set out 20 associated outcomes, these are set out in the diagram below. These outcomes link to our 52 commitments to the city which will be prioritised over the duration of this plan and into the future.

City	A Vibrant City	Citizens lead healthy and active lives with improved wellbeing	Every citizen and community can participate in the cultural life of our city	Our places and localities make Edinburgh a great and unique place to visit and study	Our economy thrives with excellent and equal opportunities for business, employment and innovation
City	A City of Opportunity	Everyone, regardless of wealth and background can fulfil their potential and benefit from the city's success	All children and young people have the best start in life and are able to reach their full potential	Citizens are socially connected and able to participate and develop throughout their lifetime	Everyone has access to suitable housing, facilities and amenities
City	A Resilient City	Communities are safe, strong and able to cope with change	Our built and natural environment is protected and enhanced	Edinburgh is a low carbon, connected city with transport and infrastructure that is fit for the future	Edinburgh is clean, attractive and well looked after
Council	A Forward Looking Council	We deliver value for money services through optimising our use of resources and building on the capabilities of our talented workforce	We provide services that are focused on prevention and early intervention	We plan our services to ensure we can continue to meet the needs of citizens and communities into the future	Our organisation is flexible and adaptable and embraces change
Council	An Empowering Council	A leading Council in community engagement and empowerment, giving citizens confidence to make decisions and act on issues	We place our customers at the heart of all that we do, we are responsive, accessible and fair to all	We work with our partners and communities to deliver services locally	We are an open, honest, inclusive and transparent organisation

Achieving all these commitments in a period of reducing budgets and increasing demand is a challenge, but one the Council is determined to meet.

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 then 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.

The Corporate Leadership Team's (CLT) **prioritised risks** as at January 2017 are outlined below. The report reflects the current highest priority risks of the Council along with the key controls in place to mitigate them. The directional symbols indicate the current assessment of risk profile between escalation, static or reducing.

1. Capital asset management ⟷

With reduced resources and a heightened need for structural inspection and maintenance the current asset management plan may be insufficient to cover the immediate need for capital improvements (e.g. improvement of highways, post PPP1 structural reviews and other capital infrastructure) which could result in continued under-investment and assets that are not fit for purpose or meet health and safety consequences now and in the future.

2. ICT transformation and change programme ↑

Key deliverables, benefits and timescales for achieving IT transformation may not be achieved in line with business expectations, requirements and contractual agreements. This will result in adverse impacts on service delivery and the Council's ability to operate, its finances or its reputation.

3. Business continuity ↑

A sudden high impact event causes buildings, people, systems to be non-operational for an unacceptable period of time.

4. Increased service with less resource ⟷

Funding reductions, legislative changes and increased demographic pressure, the requirements of the Local Development Plan and the anticipated need for further cost efficiencies will create an unexpected material pressure on our infrastructure, capital and revenue funding, the execution of our strategy and business plan with associated adverse reputational impact.

5. Budget management ⟷

Material overspends on service budgets may impact upon the funding of other services.

6. Cyber security and data privacy ↓

A significant cyber breach occurs resulting in sizeable loss of data integrity, confidentiality or availability with adverse reputational impact.

7. Customer expectations ↑

Customer dissatisfaction around delivery of customer facing services (eg waste, roads, delayed discharge) may lead to increased complaints with consequential increased financial strain and reputational damage.

8. Health and Social Care procurement ↓

Through either lack of CEC resource and/or provider capacity, the Council may be unable to secure appropriate contracts with its providers or deliver appropriate services as directed by the IJB. As a result we may be unable to deliver our own commitments and those of the H&SC partnership's strategic plan.

9. Health and Safety ⟷

Non-compliance with Council Health and Safety policies and procedures and legal and regulatory requirements could lead to avoidable employee or 3rd party injury or ill health and/or regulatory fines and liability claims, and associated reputational damage.

10.ICT service delivery ⟷

The current stresses in the new IT provider's service delivery / management are such that it may not be able to recover service standards in the immediate future and there may be a sustained period of outage, degraded performance, or errors in processing for one or more services. This will result in adverse impacts on service delivery, the Council's ability to operate, its finances or its reputation and loss of confidence in the strategic alliance.

Other Risks, Challenges and Uncertainties

Per the March 2017 Accounts Commission Report, '**Local Government in Scotland Performance and challenges 2017**', all Councils in Scotland face futher challenges and uncertainties. These have been noted as;

- The United Kingdom's decision to leave the European Union will have an impact on councils' work. The Council has set up a working group to plan for a number of scenarios to mitigate this risk.
- The Scottish Government is currently considering a local democracy bill. This is still at an early stage so the details and impact on the Council are not known.

MANAGEMENT COMMENTARY

Performance Overview

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 continues to be reported each month to the Corporate Leadership Team and half-yearly to Council 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 some sixty 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 2016/17 has also been provided through a range of other channels, including the **Edinburgh People Survey**, audits and inspections. Performance against a suite of local-level, outcome-focused "quality of life" indicators is in addition monitored on a regular basis, with corresponding areas for improvement identified.

Council Performance

An **overview of the Council's performance during 2016/17** was reported to Council on 24 August 2017. Across the suite of Council performance reporting, there are areas where good progress has been made, along with a range of challenges and opportunities to continue to make improvements in 2017/18. Educational attainment (particularly for those in the 20% most deprived areas of Edinburgh), supporting unemployed people into work and learning and emergency street lighting repairs all showed improvement over the previous year. Household planning applications and emergency road defect repairs are, however, areas which continue to be challenging.

The joint inspection of services for older people in Edinburgh was carried out by the Care Inspectorate and Health Improvement Scotland in late 2016. The inspection was focused around nine quality indicators and identified a number of areas of weakness. Seventeen specific recommendations for improvement were raised, which were accepted by the Edinburgh Integration Joint Board (IJB). The IJB has published a detailed improvement plan in response to the recommendations. Progress against the plan is monitored by an Improvement Board and the IJB's Performance and Quality Sub-Group oversees its delivery on behalf of the IJB.

The Edinburgh People Survey, carried out in Autumn/Winter 2016, found satisfaction with waste collection was low and this perception was strongly associated with the collection method used. In response to these findings, a comprehensive action plan was agreed in November 2016 focusing on several key areas including missed and delayed bin collections. To date, good progress has been made as the action plan is implemented and this area continues to be a focus for service improvement.

Best Value

The effectiveness of the Council's arrangements to secure best value is subject to regular assessment, both as an integral part of the annual financial statements audit and in greater depth through a Scotland-wide medium-term cycle of review. **The key findings of the most recent assessment** were reported to the Governance, Risk and Best Value Committee on 24 October 2016. In noting the continuing progress made against the recommendations contained within the December 2014 Best Value follow-up report, the assessment concluded that:

- there is a strong focus on addressing the Council's financial plans, with clear evidence of increasing levels of savings delivery, informed by robust and proactive scrutiny and challenge;

- the Council's performance arrangements continue to provide a robust and comprehensive assessment of the delivery of its priority outcomes, assisted by the adoption of an organisation-wide workforce plan informed by good practice.

MANAGEMENT COMMENTARY

Financial Performance

Comparative Performance

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 2016/17 data will not be available in sufficient time for inclusion in the unaudited or audited annual accounts. An overview of the Council's 2015/16 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.

For the period covered by the accounts, progress in delivering the Capital Coalition's Pledges was furthermore reported to Council on a six-monthly basis, with the final assessment being considered on 15 December 2016.

Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 21. 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 summarised in the Movement in Reserves Statement (pages 18 to 19).

An Expenditure and Funding Analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found in Note 2 and the Expenditure and Income Analysed by Nature in Note 3.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below.

	Budget 2016/17 £000	Actual 2016/17 £000	(Under) / Over Spend £000
General Fund services	814,789	814,370	(419)
Centrally funded release costs	14,000	15,610	1,610
Dividend and other interest received	(8,802)	(9,552)	(750)
Loans charges / interest on revenue balances	113,071	112,188	(883)
Net contribution to earmarked balances	4,285	7,285	3,000
Total expenditure to be funded	**937,343**	**939,901**	**2,558**
Council Tax	(244,131)	(244,796)	(665)
Council Tax Reduction Scheme	26,357	23,406	(2,951)
Total - Council Tax income account	(217,774)	(221,390)	(3,616)
General revenue funding	(344,919)	(344,919)	0
Distribution from non-domestic rate pool	(374,650)	(374,650)	0
Funding	**(937,343)**	**(940,959)**	**(3,616)**
Transfer to Council Priorities Fund	**0**	**(1,058)**	**(1,058)**

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.

MANAGEMENT COMMENTARY

Financial Performance - continued

Budget performance - General Fund - continued

The approved budget for 2016/17 was underpinned by an unprecedented level of savings, many affecting key frontline service areas, as well as a need to manage demographic and other demand-led pressures, particularly in fostering, adoption, out-of-authority placements and older people's care. Despite this, thanks to close tracking of the delivery of these savings and early identification of any required mitigating actions, the provisional outturn for the year shows a slight overall underspend of £1.058m, comprised as shown in the following sections.

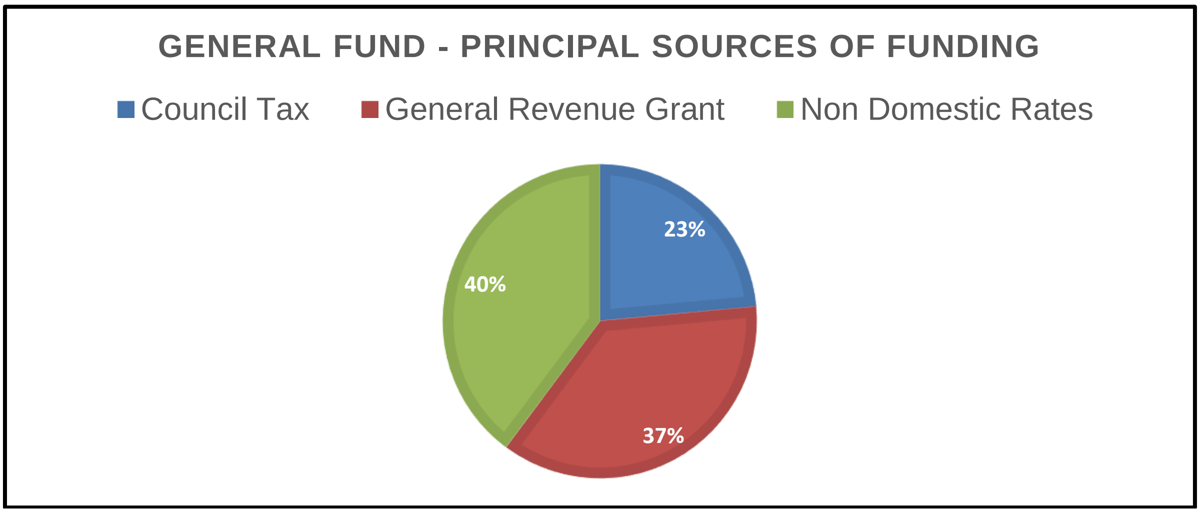
The main variances in the Council's outturn position arose in the following areas:

- An underspend within General Fund services of £0.419m, primarily due to underspends against the revised budgets for all services except for Place, unfavourable movements in non service specific payments and provisions during the year and favourable movements in net cost of benefits.
- Centrally funded release costs variance of £1.610m, as a result of £15.610m costs incurred as part of the Transformation Programme, see page 9, funded from underspends elsewhere within the General
- A reduction of £1.633m 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.
- Additional Council Tax receipts, compared to budget, of £0.665m, mainly as a result of additional properties on which tax can be levied, and a reduction in exemptions. A further saving of £2.951m compared to budget was achieved on the Council Tax Reduction Scheme.
- The Council transferred a net sum of £7.285m to earmarked reserves during 2016/17. The Council's reserves are covered on page 8 of the management commentary and in more detail in note 12.1.
- The surplus of £1.058m returned in 2016/17 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 12.1.

Principal Sources of Funding - General Fund

The principal sources of funding used by the Council during the year were:

	£000
Council Tax, net of Council Tax Reduction Scheme (CTRS)	221,390
General revenue funding	344,919
Distribution from non-domestic rates pool	374,650
Total	940,959



MANAGEMENT COMMENTARY

Financial Performance - continued

Reserves

General Fund

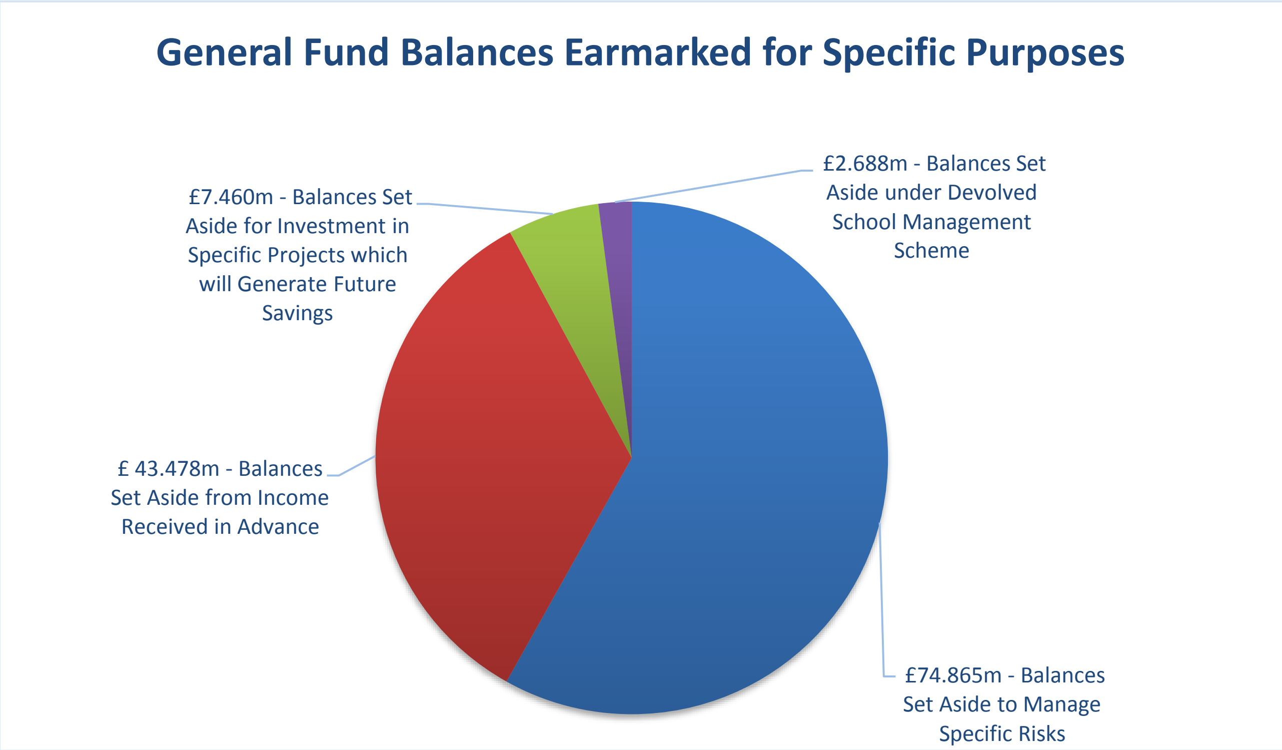
The Council's General Fund reserves comprise two elements:

- 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 of 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 January 2017, as part of the 2017/18 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 or actual contributions to the unallocated General Fund for 2016/17.

In addition, the Council has a further £128.801m of balances earmarked for specific purposes. Details can be seen in note 12 to the Financial Statements. The chart below highlights the split of these balances.



These balances 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 staff release costs and the insurance fund.
- Balances set aside from income received in advance are primarily from grant income, due to timing differences between the receipt of the grant income and the planned expenditure thereof.
- 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.
- 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.

In summary, the level of reserves at 31 March 2017, 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.

Other Reserves

The Council holds other usable reserves; these are the Capital Grants Unapplied Account with a balance of £0.766m, the Capital Fund with a balance of £61.178m and the Renewal and Repairs Fund with a balance of £50.141m.

MANAGEMENT COMMENTARY

Financial Performance - continued

Treasury Management Strategy and Loans Fund

The Annual Treasury Strategy for 2016/17 was approved on 2 February 2016 and the **2017/18 Annual Treasury Strategy** was approved on 23 February 2017. The Treasury Strategy aims to:

- ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
- secure new funding at the lowest cost; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks.

On-Going and Future Developments

PPP1 Incident

As was noted in 2015/16's Annual Accounts, 17 schools falling within the remit of the PPP1 contract were closed in April 2016 due to the findings of property surveys following an earlier wall collapse at Oxgangs Primary School. Necessary remedial works subsequently undertaken by the contractor were deemed to have brought the properties back to an equivalent value to that prior to identification of the defects and thus no impairment was reflected in the 2015/16 financial statements.

The Council nonetheless incurred additional costs of some £3m as a result of the unavailability of the schools and two other facilities between April and August 2016. Subject to finalisation of the terms of settlement, however, it is not anticipated that there will be any direct cost to the Council arising from this incident.

At the meeting of the **Finance and Resources Committee** on 23 January 2017, members approved that any excess of contractual deductions due over costs incurred be earmarked to take forward any necessary remedial work identified through the programme of property surveys undertaken in buildings of similar construction. The extent and associated cost of these works will be reported to Committee once the programme of inspections has been completed.

Transformation Programme

The Council continues to operate in a challenging environment with increases in demand for services within ongoing financial constraints. In response, the Council has developed a Transformation Programme aimed at building a lean and agile organisation, centred on customers, services and communities. On 25 June 2015, Council approved a report on the **Transformation Programme** which set out the future operating model for the Council.

The programme has an associated savings target by 2018/19 of £70 million, with 99% of these savings by value currently assessed to be on track. As most Organisational Reviews have either been completed or are approaching completion, however, the programme is now moving focus onto working with the Council's Corporate Leadership Team and Directorates to identify and deliver change programmes and projects that will allow it to further transform service delivery through the new structures and realise further savings.

As at 6 September 2017, staff accounting for approximately 933 FTE have left or are confirmed to be leaving the organisation under Voluntary Early Release Arrangements (VERA) or Voluntary Redundancy (VR) arrangements. The one-off cost associated with these cases is £39.5m and the overall payback is 13.5 months, which is in line with the original planning assumptions.

MANAGEMENT COMMENTARY

Financial Performance - continued

Budget framework

On 9 February 2017, the Council set a balanced budget for 2017/18 and an indicative balanced budget for 2018/19 as part of a longer-term framework. As in 2016/17, delivery of approved savings and prompt identification and management of underlying or emerging risks and pressures will be key to maintaining financial stability in the coming year. Looking forward, in view of recent financial settlements, economic forecasts and wider infrastructure-linked requirements, it is anticipated that a comprehensive update of the Council's budget framework to be considered by the Finance and Resources Committee in October 2017 will show a significant increase in the overall savings requirement over the period of the framework. Proposals to address this requirement will then be developed over the following months.

Local Development Plan

The **Edinburgh Local Development Plan (LDP)** was adopted on 24 November 2016. To support the growth of Edinburgh and to ensure the city grows in a sustainable way, new infrastructure provision and enhancements associated with new development (particularly additional school, transport and green space provision) must be delivered. The Council has identified the infrastructure actions required to help deliver the growth and these are set out in the LDP Action Programme. While an element of this capital-related infrastructure requirement, estimated at around £450m, will be met through developers' contributions, a range of other potential funding options, including borrowing by the Council, are being considered to address the shortfall. Work is also underway to quantify with greater accuracy the additional associated revenue expenditure requirement, with an update report anticipated to be considered by Committee in due course.

Edinburgh and South-East Scotland Region City Deal

The City Region Deal brings together local authorities and public sector partner organisations across the South-East of Scotland and serves as a mechanism for accelerating growth by pulling in significant government investment. By investing this funding in infrastructure, skills and innovation, the region's economic performance will be significantly improved, which will not only generate funds to pay back this initial investment but also draw in significant additional funding from the private sector.

The City Region Deal is also about providing greater autonomy and decision-making powers for the region to help partners deliver public services more effectively and to tackle inequality and deprivation. **A £1.1bn deal** from the UK and Scottish Governments was confirmed on 20 July 2017. Both governments are committed to jointly investing £600m over the next 15 years and regional partners have committed to adding up to £500m, overall representing a deal worth £1.1bn. In addition, it is anticipated the deal will generate over £5bn worth of Gross Value Added (GVA) over the same period.

Welfare Reform

The Council continues to support citizens through the changes and challenges resulting from welfare reform. The Welfare Reform Core Group meets quarterly to agree the delivery of the key actions to achieve the outcomes of mitigating risks of hardship and worsening inequality, providing targeted and tailored support to vulnerable individuals and families and responding promptly and effectively to crisis needs for housing, heat and food. Changes affecting the level of temporary accommodation-related management fee eligible to be met through Housing Benefit have the potential to hasten significant additional expenditure pressures in 2017/18 and the position will be kept under review as the Council moves towards full introduction of Universal Credit in June 2018.

MANAGEMENT COMMENTARY

Financial Performance

Financial Ratios

Financial ratios relating to Council Tax, debt and borrowing are shown below.

Council Tax	2016/17	2015/16	Notes on Ratios
In-year collection rate	96.42%	96.10%	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	23.50%	22.50%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS).
Debt and Borrowing - Prudence			**Notes on Ratios**
Capital Financing Requirement	£1,616.0m	£1,633.0m	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	£1,543.3m	£1,622.9m	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.
Debt and Borrowing - Affordability			**Notes on Ratios**
Financing costs to net revenue stream - General Fund	11.92%	11.80%	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. The financing costs continue to fall however due to reduced overall funding within the general fund, the relative percentage is rising.
Financing costs to net revenue stream - HRA	34.48%	33.23%	
Impact of capital investment on Council Tax	-0.55%	-0.61%	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	-1.62%	0.45%	

Key Statistics

Actual expenditure within budget for 10th successive year
£39.6m of savings approved for 2017/18 financial year
No external borrowing since 2012/13 (except Salix borrowing which is interest free) - annual interest savings of £6.6m compared to 2012/13
Investment returns continue to out-perform benchmark whilst maintaining security of investments

MANAGEMENT COMMENTARY

Financial Performance - continued

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.

In January 2016, the Council approved the five year Housing Revenue Account Budget Strategy. The two aims of the strategy are to expand and accelerate the Council's affordable and low cost house-building programme and, secondly, to prioritise investment in services that reduce the cost of living for tenants.

The strategy has been informed and expanded based on extensive consultation with tenants on their priorities for future investment and rent levels. Many Council tenants are experiencing real and significant financial hardship and there are not sufficient homes being built in the housing market which meet current need and demand and the challenge of a growing population. In response to this the investment strategy includes the significant expansion of the Council's affordable homes programme from 3,000 to 8,000 over the next ten years. The city's main developing housing associations have since matched the Council's house-building target. This partnership has agreed to deliver 16,000 new affordable and low cost homes over the next ten years, making it one of the largest Council led house-building programmes in the UK.

Delivery in 2016/17 has been strong. The current 21st Century Homes programme has around 1,800 quality, new energy efficient homes completed, under construction or in procurement, with a further 660 homes at detailed design stage. The programme has been a catalyst for wider regeneration and has brought the Council recognition as a successful house builder, which has been evidenced through awards.

Progress on measures to reduce tenants' cost of living has also been strong. The heating replacement programme has accelerated delivery by 40% and the kitchen and bathroom programme by 50% on 2015/16 levels. The 2016/17 Capital Programme prioritised investment in energy efficiency measures to alleviate fuel poverty and contribute to Council and national carbon saving targets. All Council homes need to meet the Energy Efficiency Standard for Social Housing (EESSH) by 2020. The Capital Programme also focused delivery on an external fabric programme to improve energy efficiency in blocks across the city, through a combination of insulation and external render upgrades.

In addition to this, tenants have benefited from further modernisation investment to common areas including lift car upgrades, stair windows, door entry systems and external fabric improvements. New initiatives, identified through the 2016/17 budget consultation, such as the tenants discount card and new, lower cost energy suppliers, have been introduced and will, along with the community gardens programme and energy advice services be further expanded in 2017/18.

The majority of the delivery of the 2016/17 capital investment programme is through a new Housing Asset Management framework. The new framework has had a positive impact on value for money and quality to customers, achieving savings of up to 20% on certain elements of the programme. The new framework also gives the Council more flexibility and includes performance measures enabling robust contract management.

In 2016, like many other areas of the Council, the Housing Service has undergone a transformational change process, adopting a new service model. The twin objectives of increasing efficiency and delivering better integrated local services have driven this transition and the service has now adopted a patch based model. There are around 100 patches across Localities, each with its own dedicated housing officer. This model of working has been heavily shaped by feedback from customers and other local residents.

MANAGEMENT COMMENTARY

Financial Performance - continued

Housing Revenue Account - continued

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. 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 satisfaction with the overall housing service is very high with many areas of satisfaction being top quartile or above average compared to other local authorities. The results show that the Council continues to be in the top three local authorities for satisfaction with the service, the local neighbourhood and quality of homes. There has also been a 14% increase in the number of tenants who think their rent provides value for money, placing the Council above average and amongst the top performing local authorities in this area.

In line with the HRA Business Plan, at the end of 2016/17 the HRA was balanced after making a contribution of £11.886m to the Renewal and Repairs Fund. These funds are earmarked for future capital investment in new homes through 21st Century Homes.

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:

Capital expenditure	Revised Budget 2016/17 £000	Actual 2016/17 £000	(Slippage) / Acceleration £000
General Fund services	159,722	157,976	(1,746)
Housing Revenue Account	44,304	43,627	(677)
Total capital expenditure	204,026	201,603	(2,423)
Capital receipts and other contributions			
- General Fund services	(35,791)	(28,325)	7,466
- Housing Revenue Account	(16,000)	(21,247)	(5,247)
Government and other grants			
- General Fund services	(75,140)	(81,329)	(6,189)
- Housing Revenue Account	(5,274)	(2,015)	3,259
Total capital income	(132,205)	(132,916)	(711)
Balance to be funded through borrowing			
- General Fund services	48,791	48,322	(469)
- Housing Revenue Account	23,030	20,365	(2,665)
Total advances from loans fund	71,821	68,687	(3,134)

Expenditure on General Fund services slipped in total by £1.746m. The majority of slippage related to delays on the Boroughmuir High School replacement, Early Years improvement projects and major carriageway and footway refurbishment, caused by factors largely out with the Council's control, however acceleration in the programme of Asset Management Works largely offset the slippage in these projects. Expenditure on the Housing Revenue Account slipped by £0.677m.

The Council received £41.626m of general capital grant. The support provided through general capital grant enables the Council to direct resources to its own priorities.

MANAGEMENT COMMENTARY

Financial Performance - continued

Capital Expenditure - continued

Capital expenditure for the year totalled £201.603m. Major capital projects undertaken during the year included:

- Educational properties - £41.816m;
- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £30.534m;
- Social housing through the housing development fund - £36.871m;
- Roads, carriageways and other infrastructure - £29.096m;
- Health and Social Care establishments - £4.527m;
- New Industrial Units - £1.278m;
- Recreational venues (including libraries, parks and open spaces) - £1.010m; and
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £13.093m.

Group Accounts

CEC Holdings Ltd

- **EDI Group Ltd (subsidiary of CEC Holdings Ltd)**
  The EDI Group was established in 1988 by The City of Edinburgh Council to carry out the development of Edinburgh Park, now regarded as one of the principal business parks in Europe. Since then, the company has grown steadily, developing land and property on its own or through joint ventures with developers, landowners, local authorities and other public sector bodies.

  In early 2017, the Council conducted a review of its approach to the use of surplus land and its interactions with the property market. For land and buildings which are no longer being used for Council activities, the Council has concluded that the default position will be that the land or building is used to deliver affordable housing, meaning that EDI has no future pipeline of projects. As a result, the Council has concluded that in the longer term it should not have an arm's length development company. The Council has therefore now instructed the directors to begin a process of closure, although no specific timescale has been set and it is anticipated that all current contractual obligations will be fulfilled.

- **Edinburgh International Conference Centre (EICC) Ltd (subsidiary of CEC Holdings Ltd)**
  EICC Ltd operates a prime conference venue in the centre of Edinburgh. The Centre was built in 1995 and since that time has welcomed 1.3 million delegates from more than 120 countries, generating £545m of economic impact for the city region. The Centre's principal remit is to:

  - procure the successful and continued operation of the Centre as a venue for conferences, exhibitions, trade shows, annual general meetings, cultural and sporting events, award ceremonies and other such events in a global market place with international and national customers so as to maximise the economic benefit to the City of Edinburgh;
  - insure, maintain and upgrade the Centre from time to time as necessary to carry on its business; and
  - operate on a prudent commercial basis in accordance with the Business Plan.

  In 2016, the Centre made a small loss before tax from continuing operations of £0.127m. Trading conditions during the year remained difficult due to the depressed state of the global economy, continuing pressures on clients' budgets and increased competition from a number of conference centres worldwide. Despite, the Centre's underlying operating profitability improved. Looking forward, the current level of bookings for 2017, high volume of enquiries received and increase in the number of short-lead bookings augurs well for the current and future years.

Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board was formally delegated the functions and resources of the Council's Health and Social Care Service and NHS Lothian's Community Health Partnership, with effect from 1 April 2016. An assessment was undertaken on the relationship of the Council with the Edinburgh Integration Joint Board and on the basis of level of control, being fifty percent Board representation and materiality levels, this Joint Venture has been consolidated into the Group accounts for the year to 31 March 2017, see note 9.3.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Lothian Valuation Joint Board (LVJB)

As reported to its meeting on 18 September 2017, the Board reported an audited overall outturn underspend of £0.262m against a revised budget of £6.118m during 2016/17. The reported surplus was mainly due to the achievement of additional savings within employee costs, premises and supplies and services expenditure relative to budget assumptions. The cost of Individual Electoral Registration (IER) was fully funded by grant, with the Board also receiving a one-off grant in respect of the EU Referendum.

Looking forward, LVJB faces a number of financial and operational risks including:

- Some uncertainty over continuing Cabinet Office funding support for IER;
- On-going workload and cost pressures arising from appeals associated with the 2017 revaluation;
- Potential changes arising from the review of the system of local property-based taxation but with an assumption that corresponding funding will be made available by the Scottish Government;
- Implementation of the Board's Transformation and Cultural Change Programme; and
- Continuing pressure on the level of grant and other funding available to the Board's constituent authorities.

Festival City Theatres Trust

2016/17 was another strong year for the Trust, with an exciting and innovative programme of work resulting in a substantial increase in both attendances and income, with the latter increasing by 25% year-on-year.

Maintaining its prominence for two of the leading theatres in the country - the opulent King's Theatre and the grand Festival Theatre - the Trust hosted the exclusive Scottish performances for over a quarter of the shows in its programme. The theatres hosted some of the major productions in the Edinburgh International Festival and its theatres were also important venues for another nine of Edinburgh's other Festivals.

The Trust achieved its most successful-ever Christmas season and also extended its pioneering work for people living with dementia by presenting the UK's first dementia-friendly opera, in collaboration with Scottish Opera, and the first dementia-friendly performance in Scotland of a major touring musical. The Trust also strengthened its commitment to nurturing young talent with an extensive programme of work with young people including showcases of young disabled artists and youth dance and the establishment of the Attic Collective, a Theatre Repertory Company for emerging artists aged 18-26.

Edinburgh Leisure

Edinburgh Leisure operates over fifty sport and leisure facilities across the city on behalf of the Council, attracting over four million visits each year. The range of facilities include sport and leisure centres, swim centres, golf courses, tennis courts, bowling greens and sports pitches. Edinburgh Leisure also deliver coaching activities, programmes and initiatives for people of all ages and abilities; services that will help Edinburgh become a more active and healthy city. In 2016/17, an overall outturn operational surplus of £0.442m was achieved against a backdrop of increasing competition, increasing cost pressures and a reduced payment for service from the Council.

Edinburgh Leisure continues to work with the Council and other stakeholders on a range of projects. Progress has been made with the Community Access to Schools programme and Edinburgh Leisure is now managing community access to sports facilities at James Gillespie's High School, Portobello High School and Queensferry Community High School.

Transport for Edinburgh Ltd

The core purpose of Transport for Edinburgh Ltd (TfE) is to deliver a high-quality and integrated transport service. It also delivers profit through a strong commercial focus and drive for efficiency across all of its activities. TfE's long-term vision is to be an integral part of the future success of the city and the Lothians, by providing world-class, environmentally-friendly and socially-inclusive public transport.

The Group retained a substantial share of the local public transport market in Edinburgh and, with the creation of East Lothian Buses, the wider region during 2016. Year-on-year revenue increased by 3.9%, with a profit from operations margin of 8.9%. The Group faced significant cost pressures in 2016, however, and management of these pressures through on-going service efficiencies has continued to form a key focus in 2017.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Group

Net assets for 2016/17 include a combined group pension liability of £722.078m (2015/16 £426.753m), 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 2017. 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.

ANDREW KERR	STEPHEN S. MOIR	ADAM MCVEY
Chief Executive	Executive Director of Resources	Council Leader
28 September 2017	28 September 2017	28 September 2017

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 Acting Executive Director of Resources.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- to 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
- to 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 28 September 2017.

ADAM MCVEY
Council Leader

28 September 2017

The Section 95 Officer's responsibilities
The Section 95 Officer 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 Section 95 Officer 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 Section 95 Officer 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 2017.

HUGH DUNN, CPFA
Head of Finance
Section 95 Officer

28 September 2017

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.

2016/17	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Renewal and Repairs Fund £000**
Balance at 31 March 2016	128,396	0	38,194
Movement in reserves during 2016/17			
Total Comprehensive Income and Expenditure	(6,826)	17,594	0
Adjustments between accounting basis and funding basis under regulations (Note 11)	20,317	(5,708)	0
Net (increase) / decrease before transfers to statutory reserves	13,491	11,886	0
Transfer (to) / from other statutory reserves (Note 12.3)	(61)	(11,886)	11,947
Increase / (decrease) in year	13,430	0	11,947
Balance at 31 March 2017	**141,826**	**0**	**50,141**

2016/17	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Council's Total Usable Reserves £000**	**Group Usable Reserves £000**
Balance at 31 March 2016	2,657	68,793	238,040	40,418
Movement in reserves during 2016/17				
Total Comprehensive Income and Expenditure	0	0	10,768	12,522
Adjustments between accounting basis and funding basis under regulations (Note 11)	(1,891)	(7,615)	5,103	0
Net (increase) / decrease before transfers to statutory reserves	(1,891)	(7,615)	15,871	12,522
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	(24,424)
Increase / (decrease) in year	(1,891)	(7,615)	15,871	(11,902)
Balance at 31 March 2017	**766**	**61,178**	**253,911**	**28,516**

2016/17	**Total Usable Reserves £000**	**Council's Unusable Reserves £000**	**Group Unusable Reserves £000**	**Total Reserves £000**
Balance at 31 March 2016	278,458	1,731,418	108,366	2,118,242
Movement in reserves during 2016/17				
Total Comprehensive Income and Expenditure	23,290	(214,358)	(22,989)	(214,057)
Adjustments between accounting basis and funding basis under regulations (Note 11)	5,103	(5,103)	0	0
Net (increase) / decrease before transfers to statutory reserves	28,393	(219,461)	(22,989)	(214,057)
Transfer (to) / from other statutory reserves (Note 12.3)	(24,424)	0	24,424	0
Increase / (decrease) in year	3,969	(219,461)	1,435	(214,057)
Balance at 31 March 2017	**282,427**	**1,511,957**	**109,801**	**1,904,185**

MOVEMENT IN RESERVES STATEMENT

2015/16 Comparative Data	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000
Balance at 31 March 2015	117,524	0	35,833
Movement in reserves during 2015/16			
Total Comprehensive Income and Expenditure	(14,291)	15,568	0
Adjustments between accounting basis and funding basis under regulations (Note 11)	25,268	(13,312)	0
Net (increase) / decrease before transfers to statutory reserves	10,977	2,256	0
Transfer (to) / from other statutory reserves (Note 12.3)	(105)	(2,256)	2,361
Increase / (decrease) in year	10,872	0	2,361
Balance at 31 March 2016	**128,396**	**0**	**38,194**

2015/16 Comparative Data	Capital Grants Unapplied Account £000	Capital Fund £000	Council's Total Usable Reserves £000	Group Usable Reserves £000
Balance at 31 March 2015	4,349	31,721	189,427	9,876
Movement in reserves during 2015/16				
Total Comprehensive Income and Expenditure	0	0	1,277	33,004
Adjustments between accounting basis and funding basis under regulations (Note 11)	(1,692)	37,072	47,336	
Net (increase) / decrease before transfers to statutory reserves	(1,692)	37,072	48,613	33,004
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	(2,462)
Increase / (decrease) in year	(1,692)	37,072	48,613	30,542
Balance at 31 March 2016	**2,657**	**68,793**	**238,040**	**40,418**

2015/16 Comparative Data	Total Usable Reserves £000	Council's Unusable Reserves £000	Group Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2015	199,303	1,449,087	99,107	1,747,497
Movement in reserves during 2015/16				
Total Comprehensive Income and Expenditure	34,281	160,634	175,830	370,745
Adjustments between accounting basis and funding basis under regulations (Note 11)	47,336	(47,336)	0	0
Net (increase) / decrease before transfers to statutory reserves	81,617	113,298	175,830	370,745
Transfer (to) / from other statutory reserves (Note 12.3)	(2,462)	0	2,462	0
Increase / (decrease) in year	79,155	113,298	178,292	370,745
Balance at 31 March 2016	**278,458**	**1,562,385**	**277,399**	**2,118,242**

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 2017

Re-stated 2015/16 £000		**Notes**	**Gross Expend. £000**	**Income £000**	**Net Expend. £000**
	SERVICES				
416,628	Communities and Families		370,456	(18,805)	351,651
238,374	Place		308,406	(168,126)	140,280
(25,441)	Housing Revenue Account		74,306	(102,065)	(27,759)
216,635	Health and Social Care		459,388	(270,429)	188,959
85,434	Resources		193,477	(40,257)	153,220
0	Chief Executive		48,151	(6,231)	41,920
0	Safer and Stronger Communities		73,623	(48,002)	25,621
3,744	Lothian Valuation Joint Board		3,744	0	3,744
(156)	Net cost of benefits		196,866	(197,235)	(369)
20,942	Early release costs		15,610	0	15,610
2,501	Other non-service specific costs		14,225	(256)	13,969
(7,568)	Subsidiary Companies		158,684	(172,631)	(13,947)
951,093	**COST OF SERVICES**		1,916,936	(1,024,037)	892,899
(35,949)	Other Operating Income	13.			(12,009)
106,779	Financing and Investment Income and Exp.	14.			93,155
(1,032,322)	Taxation and Non-Specific Grant Income	15.			(999,442)
(10,399)	**SURPLUS ON PROVISION OF SERVICES**				(25,397)
2,750	Associates and Joint Ventures Accounted for on an Equity Basis				273
2,612	Taxation of Group entities	15.			1,895
(5,037)	**GROUP (SURPLUS)**				(23,229)
(3,169)	Surplus on Revaluation of Non-Current Assets			(40,474)	
16	Deficit / (Surplus) on Revaluation of Available for Sale Financial Assets			(16)	
(37,286)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(428,706)	
(285,852)	Changes in Financial and Demographic Assumptions / Other Experience			672,917	
(39,417)	Other Unrealised (Gains) / Losses			33,565	
(365,708)	Other Comprehensive Income and Expend.				237,286
(370,745)	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				214,057

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 2017

Re-stated 2015/16			Gross Expend.	Income	Net Expend.
£000	**SERVICES**	**Notes**	**£000**	**£000**	**£000**
416,628	Communities and Families		370,456	(18,805)	351,651
238,374	Place		308,406	(168,126)	140,280
(25,441)	Housing Revenue Account		74,306	(102,065)	(27,759)
216,635	Health and Social Care		459,388	(270,429)	188,959
85,434	Resources		193,477	(40,257)	153,220
0	Chief Executive		48,151	(6,231)	41,920
0	Safer and Stronger Communities		73,623	(48,002)	25,621
3,744	Lothian Valuation Joint Board		3,744	0	3,744
(156)	Net cost of benefits		196,866	(197,235)	(369)
20,942	Early release costs		15,610	0	15,610
2,501	Other non-service specific costs		14,225	(256)	13,969
958,661	**COST OF SERVICES**		1,758,252	(851,406)	906,846
(35,947)	Other Operating Income	13.			(12,061)
108,331	Financing and Investment Income and Exp.	14.			93,889
(1,032,322)	Taxation and Non-Specific Grant Income	15.			(999,442)
(1,277)	**SURPLUS ON PROVISION OF SERVICES**				(10,768)
2,294	Deficit / (Surplus) on Revaluation of Non-Current Assets			(40,473)	
(37,286)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(428,706)	
(285,852)	Changes in Financial and Demographic Assumptions / Other Experience			672,917	
(8,823)	Other Unrealised (Gains) / Losses			10,620	
(329,667)	Other Comprehensive Income and Expend.				214,358
(330,944)	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				203,590

RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		**£000**
(330,944)	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)	203,590
(761)	Subsidiary and associate transactions included in the Council's CIES	(6,197)
(34,840)	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	10,030
(4,200)	Associates and Joint Ventures	6,634
(370,745)	Group total Comprehensive (Income) / Expenditure for the year	214,057

In 2015/16 income and expenditure related to the Chief Executive service area was reported within Resources and Safer and Stronger Communities predominantly within Place.

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 assets of the Group (assets less liabilities) are matched by the reserves held by 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.

(re-stated) 31 March 2016 £000		Notes	31 March 2017 £000	£000
3,665	Intangible Assets	18.		2,665
1,030,623	Council Dwellings		1,037,991	
1,613,201	Other Land and Buildings		1,715,607	
177,742	Vehicles, Plant, Furniture and Equipment		175,062	
872,920	Infrastructure Assets		835,684	
12,964	Community Assets		14,562	
2,420	Surplus Assets		2,421	
89,688	Assets under Construction		38,927	
3,799,558	**Property, Plant and Equipment**	16.		3,820,254
17,450	Investment Properties	17.		16,821
31,116	Heritage Assets	19.		31,127
43,746	Assets Held for Sale	24.		13,498
733	Available for Sale Financial Assets			726
202	Deferred Tax			351
17,936	Other Long-Term Assets (Pension)			0
11,516	Long-Term Investments			11,970
32,315	Investments in Associates and Joint Ventures			32,188
94,648	Long-Term Debtors	22.		106,970
4,052,885	**Long-Term Assets**			4,036,570
13,022	Short-Term Investments		26,477	
683	Assets Held for Sale	24.	29,359	
64,311	Available for Sale Financial Assets	20.	967	
17,661	Inventories	21.	16,166	
96,379	Short-Term Debtors	22.	86,930	
118,712	Cash and Cash Equivalents	23.	159,831	
310,768	**Current Assets**			319,730
(69,444)	Short-Term Borrowing		(70,334)	
(174,802)	Short-Term Creditors	25.	(169,542)	
(13,004)	Provisions	26.	(12,863)	
(257,250)	**Current Liabilities**			(252,739)

GROUP BALANCE SHEET

(re-stated) 31 March 2016 £000		Notes	31 March 2017 £000	£000
(1,298,249)	Long-Term Borrowing		(1,243,890)	
(219,947)	Other Long-Term Liabilities		(207,484)	
(9,072)	Deferred Tax		(5,490)	
(17,877)	Deferred Liability	20.	(22,357)	
(3,066)	Liabilities in Associates and Joint Ventures		(9,573)	
(439,950)	Other Long-Term Liabilities (Pensions)		(710,582)	
(1,988,161)	**Long-Term Liabilities**			(2,199,376)
2,118,242	**Net Assets**			**1,904,185**
856,303	Revaluation Reserve		873,986	
1,376,129	Capital Adjustment Account		1,403,268	
(47,214)	Financial Instruments Adjustment Account		(45,390)	
2	Available for Sale Financial Assets Reserve		0	
(438,940)	Pensions Reserve		(705,786)	
(14,862)	Employee Statutory Adjustment Account		(14,121)	
108,366	Group Unusable Reserves		109,801	
1,839,784	**Unusable Reserves**	28.		1,621,758
2,657	Capital Grants Unapplied Account		766	
68,793	Capital Fund		61,178	
38,194	Renewal and Repairs Fund		50,141	
128,396	General Fund		141,826	
40,418	Group Usable Reserves		28,516	
278,458	**Usable Reserves**	12.		282,427
2,118,242	**Total Reserves**			**1,904,185**

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA
Head of Finance
28 September 2017

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 fund 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'.

(re-stated) 31 March 2016 £000		Notes	31 March 2017 £000	£000
3,665	Intangible Assets	18.		2,665
1,030,623	Council Dwellings		1,037,991	
1,583,123	Other Land and Buildings		1,684,810	
105,961	Vehicles, Plant, Furniture and Equipment		98,891	
871,874	Infrastructure Assets		834,928	
12,964	Community Assets		14,562	
2,420	Surplus Assets		2,421	
89,688	Assets under Construction		38,927	
3,696,653	**Property, Plant and Equipment**	16.		3,712,530
17,250	Investment Properties	17.		16,471
31,116	Heritage Assets	19.		31,127
43,746	Assets Held for Sale	24.		13,498
23,474	Long-Term Investments			23,436
99,274	Long-Term Debtors	22.		111,684
3,915,178	**Long-Term Assets**			3,911,411
13,022	Short-Term Investments		25,709	
683	Assets Held for Sale	24.	29,359	
64,311	Available for Sale Financial Assets	20.	967	
2,699	Inventories	21.	3,048	
86,401	Short-Term Debtors	22.	74,388	
97,991	Cash and Cash Equivalents	23.	133,142	
265,107	**Current Assets**			266,613
(69,444)	Short-Term Borrowing		(70,334)	
(148,008)	Short-Term Creditors	25.	(142,671)	
(11,532)	Provisions	26.	(10,551)	
(228,984)	**Current Liabilities**			(223,556)

BALANCE SHEET

(re-stated) 31 March 2016			31 March 2017	
£000		Notes	£000	£000
(1,308,889)	Long-Term Borrowing	20.	(1,254,590)	
(216,137)	Other Long-Term Liabilities	20.	(205,867)	
(17,877)	Deferred Liability	20.	(22,357)	
(438,940)	Other Long-Term Liabilities (Pensions)	43.9	(705,786)	
(1,981,843)	**Long-Term Liabilities**			(2,188,600)
1,969,458	**Net Assets**			**1,765,868**
856,303	Revaluation Reserve		873,986	
1,376,129	Capital Adjustment Account		1,403,268	
(47,214)	Financial Instruments Adjustment Account		(45,390)	
2	Available for Sale Financial Assets Reserve		0	
(438,940)	Pensions Reserve		(705,786)	
(14,862)	Employee Statutory Adjustment Account		(14,121)	
1,731,418	**Unusable Reserves**	28.		1,511,957
2,657	Capital Grants Unapplied Account		766	
68,793	Capital Fund		61,178	
38,194	Renewal and Repairs Fund		50,141	
128,396	General Fund		141,826	
238,040	**Usable Reserves**	12.		253,911
1,969,458	**Total Reserves**			**1,765,868**

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA
Head of Finance
28 September 2017

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 Group 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.

(re-stated) 2015/16 £000		**Notes**	**Year ended 31 March 2017 £000**	**£000**
	Operating Activities			
(10,399)	Surplus on the Provision of Services		(25,397)	
2,612	Adjustment to Surplus / (Deficit) for Taxation of Group entities		1,895	
(148,629)	Adjustments to Surplus on the Provision of Services for non-cash movements		(166,853)	
(36,247)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(34,672)	
(192,663)	Net cash flows from operating activities			(225,027)
	Investing Activities			
131,664	Net cash flows from investing activities	31.		140,572
	Financing Activities			
37,791	Net cash flows from financing activities	32.		43,336
(23,208)	**Net increase in cash and cash equivalents**			(41,119)
(95,504)	Cash and cash equivalents at 1 April			(118,712)
(118,712)	Cash and cash equivalents at 31 March	23.		(159,831)
(23,208)	**Net increase in cash and cash equivalents**			(41,119)

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.

(re-stated) 2015/16 £000		**Notes**	**Year ended 31 March 2017 £000**	**£000**
	Operating Activities			
(1,277)	Surplus on the Provision of Services		(10,768)	
(137,132)	Adjustments to Surplus on the Provision of Services for non-cash movements		(152,742)	
(37,798)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(35,405)	
(176,207)	Net cash flows from operating activities	29.		(198,915)
	Investing Activities			
126,970	Net cash flows from investing activities	31.		120,978
	Financing Activities			
33,194	Net cash flows from financing activities	32.		42,786
(16,043)	**Net increase in cash and cash equivalents**			(35,151)
(81,948)	Cash and cash equivalents at 1 April			(97,991)
(97,991)	Cash and cash equivalents at 31 March	23.		(133,142)
(16,043)	**Net increase in cash and cash equivalents**			(35,151)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The Annual Accounts for the year ended 31 March 2017 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 discount 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 9 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, 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 Corporate Finance Senior Manager, 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 (the price that would be received for the asset in its highest and best use).

  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.

    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.

- **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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.12 Leases - continued

- **Operating Leases - continued**

  - **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.

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 requirements, 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 requirements, 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 reported in accordance with the current management structure. 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 8.968% (PPP1 scheme), 5.895% (PPP2 scheme) and 8.197% (James Gillespie's High School) 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 Fair Value measurement - surplus assets and investment properties

Surplus assets, investment properties and relevant financial instruments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

In measuring the fair value, the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Appropriate valuation techniques have been applied, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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. Work is on-going to establish and maintain a common good register, in accordance with the Community Empowerment (Scotland) Act 2015.

- **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 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 their 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.
  - Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.18 Property, Plant and Equipment - continued

- **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.

- **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 Operational Estate Manager (Projects).

- **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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.18 Property, Plant and Equipment - continued

- **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. 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.

1.19 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

1.19 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.
  - Available for sale financial assets - provides a mechanism to recognise the unrealised gains and losses on the revaluation of financial assets (such as investment bonds).
  - 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.

1.20 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.

1.21 Value Added Tax

Value added tax (VAT) is excluded from the financial statements unless it is not recoverable from HM Revenue and Customs.

1.22 Group Account Consolidation

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.
- 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. Expenditure and Funding Analysis - Council

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, fees and charges, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on Page 21.

2016/17	**Net Expend. Chargeable to the General Fund and HRA Balances**	**Adjustments**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Communities and Families	341,807	9,844	351,651
Place	68,388	71,892	140,280
Housing Revenue Account	0	(27,759)	(27,759)
Health and Social Care	187,838	1,121	188,959
Resources	130,860	22,360	153,220
Chief Executive	41,302	618	41,920
Safer and Stronger Communities	25,486	135	25,621
Lothian Valuation Joint Board	3,744	0	3,744
Net Cost of Services	**799,425**	**78,211**	**877,636**
Other income and expenditure			
Early release costs	15,610	0	15,610
Net cost of benefits	(369)	0	(369)
Other non-service specific costs	15,315	(1,346)	13,969
Net deficit on trading activities	0	191	191
Net income and changes in relation to investment properties and changes in their fair value	0	(600)	(600)
Interest and investment income	(9,552)	(117)	(9,669)
Interest payable and similar charges *(loan charges in management reporting)*	112,188	(23,697)	88,491
Net pension interest cost	0	15,476	15,476
Gains on disposal of assets	0	(12,061)	(12,061)
Contribution to Renewal and Repairs Fund	60	(60)	0
Contribution from Capital Fund	(2,120)	2,120	0
Contribution to General Fund	9,344	(9,344)	0
Income from Council Tax	(221,390)	0	(221,390)
Government Grants	(344,919)	0	(344,919)
Distribution from NDRI pool	(374,650)	0	(374,650)
Capital grants and contributions	0	(58,483)	(58,483)
Surplus on the provision of services	**(1,058)**	**(9,710)**	**(10,768)**

Opening General Fund and HRA Balance	128,396
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	14,488
Surplus on the provision of services	(1,058)
Closing General Fund and HRA Balance at 31 March	141,826

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 18.

The Council has undertaken a major programme of transformation during 2016/17. Whilst it is therefore difficult to fully compare net expenditure on services between years, net expenditure in 2015/16 has been broadly aligned where possible.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2015/16 Comparative Data	**Net Expend. Chargeable to the General Fund and HRA Balances**	**Adjustments**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Communities and Families	399,003	17,625	416,628
Place	146,237	92,137	238,374
Housing Revenue Account	0	(25,441)	(25,441)
Health and Social Care	207,482	9,153	216,635
Resources	79,810	5,624	85,434
Lothian Valuation Joint Board	3,744	0	3,744
Net Cost of Services	**836,276**	**99,098**	**935,374**
Other income and expenditure			
Early release costs	20,942	0	20,942
Net cost of benefits	(156)	0	(156)
Other non-service specific costs	5,111	(2,610)	2,501
Net deficit on trading activities	0	232	232
Net income and changes in relation to investment properties and changes in their fair value	0	(2,512)	(2,512)
Interest and investment income	(7,760)	(212)	(7,972)
Interest payable and similar charges *(loan charges in management reporting)*	116,765	(21,627)	95,138
Net pension interest cost	0	23,445	23,445
(Gains) / Losses on disposal of assets	0	(35,947)	(35,947)
Contribution to Renewal and Repairs Fund	105	(105)	0
Contribution from Capital Fund	(2,062)	2,062	0
Contribution from General Fund	(8,217)	8,217	0
Income from Council tax	(216,351)	0	(216,351)
Revenue support grant	(354,576)	0	(354,576)
Distribution from NDRI pool	(390,862)	0	(390,862)
Capital grants and contributions	0	(70,533)	(70,533)
Surplus on the provision of services	**(785)**	**(492)**	**(1,277)**

Opening General Fund and HRA Balance	117,524
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	11,657
Surplus on the provision of services	(785)
Closing General Fund and HRA Balance at 31 March	128,396

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 19.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2016/17	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families	4,478	1,363	2,135	7,976
Place	71,318	1,052	(1,147)	71,223
Housing Revenue Account	(15,350)	117	(640)	(15,873)
Health and Social Care	157	1,064	(1,538)	(317)
Resources	40,895	976	(188)	41,683
Chief Executive	1,325	35	95	1,455
Safer and Stronger Communities	0	264	(135)	129
Net Cost of Services	**102,823**	**4,871**	**(1,418)**	**106,276**
Other income and expenditure				
Other non-service specific costs	(470)	2,288	178	1,996
Net income and changes in relation to investment properties and changes in their fair value	0	0	779	779
Interest and investment income	(52)	0	0	(52)
Interest payable and similar charges	(40,245)	0	(1,399)	(41,644)
Net pension interest cost	0	15,476	0	15,476
Gains on disposal of assets	(12,061)	0	0	(12,061)
Capital grants and contributions	(58,483)	0	0	(58,483)
(Surplus) or deficit on the provision of services	**(8,488)**	**22,635**	**(1,860)**	**12,287**

Notes -

Adjustments for capital purposes include the replacement of depreciation and impairment costs with repayment of borrowing to the Loans Fund.

Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.

Other differences include reversal of the value of entitlement to accrued leave, the revaluation of investment properties and the timing differences for premiums and discounts associated with borrowing within the Loans Fund.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2016/17	**Total Statutory Adjusts. b/fwd**	**Presention Adjusts.**	**Use of Reserves**	**Total Adjusts.**
	£000	**£000**	**£000**	**£000**
Communities and Families	7,976	(108)	1,976	9,844
Place	71,223	35	634	71,892
Housing Revenue Account	(15,873)	0	(11,886)	(27,759)
Health and Social Care	(317)	0	1,438	1,121
Resources	41,683	(16,468)	(2,855)	22,360
Chief Executive	1,455	0	(837)	618
Safer and Stronger Communities	129	0	6	135
Net Cost of Services	**106,276**	**(16,541)**	**(11,524)**	**78,211**
Other income and expenditure				
Other non-service specific costs	1,996	(218)	(3,124)	(1,346)
Net deficit on trading activities	0	191	0	191
Net income and changes in relation to investment properties and changes in their fair value	779	(1,379)	0	(600)
Interest and investment income	(52)	0	(65)	(117)
Interest payable and similar charges	(41,644)	17,947	0	(23,697)
Net pension interest cost	15,476	0	0	15,476
Gains on disposal of assets	(12,061)	0	0	(12,061)
Use of reserves	0	0	(7,284)	(7,284)
Capital grants and contributions	(58,483)	0	0	(58,483)
(Surplus) or deficit on the provision of services	**12,287**	**0**	**(21,997)**	**(9,710)**

Notes -

Presentational adjustments relate primarily to the presentation of interest payments on finance leases *(including PPP schemes)* , trading operations and income and expenditure on investment properties for decision making purposes.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2015/16 Comparative Data	**Adjusts. For Capital Purposes £000**	**Net Change for Pensions Adjusts. £000**	**Other Differences £000**	**Total Statutory Adjusts. £000**
Communities and Families	39,839	3,310	(3,920)	39,229
Place	89,603	3,783	(948)	92,438
Housing Revenue Account	(22,968)	348	(565)	(23,185)
Health and Social Care	8,186	2,998	(583)	10,601
Resources	1,693	1,233	(323)	2,603
Net Cost of Services	**116,353**	**11,672**	**(6,339)**	**121,686**
Other income and expenditure				
Other non-service specific costs	3,194	(8)	(24)	3,162
Net income and changes in relation to investment properties and changes in their fair value	0	0	(1,146)	(1,146)
Interest and investment income	(98)	0	0	(98)
Interest payable and similar charges	(38,642)	0	(1,440)	(40,082)
Net pension interest cost	0	23,445	0	23,445
Gains on disposal of assets	(35,947)	0	0	(35,947)
Capital grants and contributions	(70,533)	0	0	(70,533)
(Surplus) or deficit on the provision of services	**(25,673)**	**35,109**	**(8,949)**	**487**

Notes -

Adjustments for capital purposes include the replacement of depreciation and impairment costs with repayment of borrowing to the Loans Fund.

Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.

Other differences include reversal of the value of entitlement to accrued leave, the revaluation of investment properties and the timing differences for premiums and discounts associated with borrowing within the Loans Fund.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2015/16 Comparative Data	**Total Statutory Adjusts. £000**	**Presention Adjusts. £000**	**Use of Reserves £000**	**Total Adjusts. £000**
Communities and Families	39,229	(18,238)	(3,366)	17,625
Place	92,438	1,144	(1,445)	92,137
Housing Revenue Account	(23,185)	0	(2,256)	(25,441)
Health and Social Care	10,601	0	(1,448)	9,153
Resources	2,603	(5)	3,026	5,624
Net Cost of Services	**121,686**	**(17,099)**	**(5,489)**	**99,098**
Other income and expenditure				
Other non-service specific costs	3,162	(222)	(5,550)	(2,610)
Net deficit on trading activities	0	232	0	232
Net income and changes in relation to investment properties and changes in their fair value	(1,146)	(1,366)	0	(2,512)
Interest and investment income	(98)	0	(114)	(212)
Interest payable and similar charges	(40,082)	18,455	0	(21,627)
Net pension interest cost	23,445	0	0	23,445
Gains on disposal of assets	(35,947)	0	0	(35,947)
Use of reserves	0	0	10,174	10,174
Capital grants and contributions	(70,533)	0	0	(70,533)
(Surplus) or deficit on the provision of services	**487**	**0**	**(979)**	**(492)**

Notes -

Presentational adjustments relate primarily to the presentation of interest payments on finance leases *(including PPP schemes)* , trading operations and income and expenditure on investment properties for decision making purposes.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council

2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2016/17	**Communities and Families**	**Place**	**Housing Revenue Account**	**Health and Social Care**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	260,950	78,491	8,198	88,769
Other service expenses	106,341	161,131	38,757	182,339
Support service recharges	0	0	8,450	0
Depreciation, amortisation and impairment	0	47	0	0
Interest payments	104	0	18,660	0
Debt repayments *(HRA only)*	0	0	16,585	0
Total Expenditure	**367,395**	**239,669**	**90,650**	**271,108**
Income				
Revenues from external customers	(6,790)	(125,954)	(87,797)	(20,284)
Income from recharges for services	(16)	(822)	(191)	(16)
Government grants and other contribs.	(18,782)	(44,505)	(2,610)	(62,970)
Interest and investment income	0	0	(52)	0
Total Income	**(25,588)**	**(171,281)**	**(90,650)**	**(83,270)**
Net Cost of Services	**341,807**	**68,388**	**0**	**187,838**

	Resources	**Chief Executive**	**Safer and Stronger Communities**	**Lothian Valuation Joint Board**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	67,540	11,398	19,813	0
Other service expenses	89,966	36,224	53,754	3,744
Support service recharges	63	0	0	0
Depreciation, amortisation and impairment	0	0	0	0
Interest payments	17,656	0	0	0
Debt repayments *(HRA only)*	0	0	0	0
Total Expenditure	**175,225**	**47,622**	**73,567**	**3,744**
Income				
Revenues from external customers	(24,537)	(1,069)	(35,199)	0
Income from recharges for services	(7,777)	(2,572)	0	0
Government grants and other contribs.	(12,051)	(2,679)	(12,882)	0
Interest and investment income	0	0	0	0
Total Income	**(44,365)**	**(6,320)**	**(48,081)**	**0**
Net Cost of Services	**130,860**	**41,302**	**25,486**	**3,744**

	Council Total	**Subsidiaries**	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	535,159	92,534	0	627,693
Other service expenses	672,256	56,941	0	729,197
Support service recharges	8,513	0	0	8,513
Depreciation, amortisation and impairment	47	9,209	0	9,256
Interest payments	36,420	0	0	36,420
Debt repayments *(HRA only)*	16,585	0	0	16,585
Net expend from Associates and Joint Ventures	0	0	2,222	2,222
Total Expenditure	**1,268,980**	**158,684**	**2,222**	**1,429,886**
Income				
Revenues from external customers	(301,630)	(143,277)	0	(444,907)
Income from recharges for services	(11,394)	0	0	(11,394)
Government grants and other contribs.	(156,479)	(29,354)	0	(185,833)
Interest and investment income	(52)	0	0	(52)
Net income from Associates and Joint Ventures	0	0	(1,949)	(1,949)
Total Income	**(469,555)**	**(172,631)**	**(1,949)**	**(644,135)**
Net Cost of Services	**799,425**	**(13,947)**	**273**	**785,751**

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2015/16 Comparative Data	**Communities and Families**	**Place**	**Housing Revenue Account**	**Health and Social Care**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	263,027	124,875	14,102	104,128
Other service expenses	140,435	268,518	38,527	180,888
Support service recharges	0	804	8,698	0
Depreciation, amortisation and impairment	0	52	0	0
Interest payments	18,238	0	19,509	0
Debt repayments *(HRA only)*	0	0	27,329	0
Total Expenditure	**421,700**	**394,249**	**108,165**	**285,016**
Income				
Revenues from external customers	(7,776)	(195,400)	(104,892)	(20,169)
Income from recharges for services	0	(6,173)	(274)	(20)
Government grants and other contribs.	(14,921)	(46,439)	(2,901)	(57,345)
Interest and investment income	0	0	(98)	0
Total Income	**(22,697)**	**(248,012)**	**(108,165)**	**(77,534)**
Net Cost of Services	**399,003**	**146,237**	**0**	**207,482**

2015/16 Comparative Data	**Resources**	**Lothian Valuation Joint Board**	**Total**
Expenditure	**£000**	**£000**	**£000**
Employee expenses	42,032	0	548,164
Other service expenses	74,134	3,744	706,246
Support service recharges	0	0	9,502
Depreciation, amortisation and impairment	0	0	52
Interest payments	0	0	37,747
Debt repayments *(HRA only)*	0	0	27,329
Total Expenditure	**116,166**	**3,744**	**1,329,040**
Income			
Revenues from external customers	(12,701)	0	(340,938)
Income from recharges for services	(7,818)	0	(14,285)
Government grants and other contribs.	(15,837)	0	(137,443)
Interest and investment income	0	0	(98)
Total Income	**(36,356)**	**0**	**(492,764)**
Net Cost of Services	**79,810**	**3,744**	**836,276**

2015/16 Comparative Data	**Subsidiaries**	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**
Employee expenses	91,797	0	639,961
Other service expenses	47,588	0	753,834
Support service recharges	0	0	9,502
Depreciation, amortisation and impairment	9,731	0	9,783
Interest payments	0	0	37,747
Debt repayments *(HRA only)*	0	0	27,329
Net expend from Associates and Joint Ventures	0	2,780	2,780
Total Expenditure	**149,116**	**2,780**	**1,480,936**
Income			
Revenues from external customers	(156,684)	0	(497,622)
Income from recharges for services	0	0	(14,285)
Government grants and other contribs.	0	0	(137,443)
Interest and investment income	0	0	(98)
Net income from Associates and Joint Ventures	0	(30)	(30)
Total Income	**(156,684)**	**(30)**	**(649,478)**
Net Cost of Services	**(7,568)**	**2,750**	**831,458**

NOTES TO THE FINANCIAL STATEMENTS

3. Expenditure and Income Analysed by Nature

Group

3.1 The authority's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows

	2016/17	2015/16
Expenditure	**£000**	**£000**
Employee expenses	645,753	673,200
Other service expenses	913,714	930,217
Support service recharges	8,513	9,502
Depreciation, amortisation and impairment	161,288	185,613
Interest payments	197,097	201,215
Net Interest in the profit/loss of associates and joint ventures	273	2,750
Total Expenditure	**1,926,638**	**2,002,497**
Income		
Fees, charges and other service income	(663,512)	(702,588)
Gain on the disposal of assets	(12,009)	(35,950)
Interest and investment income	(104,133)	(88,902)
Income from Council Tax and Non-Domestic Rates	(596,040)	(606,745)
Government grants and other contributions	(515,690)	(502,816)
Recognised capital income	(58,483)	(70,533)
Total Income	**(1,949,867)**	**(2,007,534)**
Surplus on the Provision of Services	**(23,229)**	**(5,037)**

Council

3.2 The authority's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows

	2016/17	2015/16
Expenditure	**£000**	**£000**
Employee expenses	553,218	583,516
Other service expenses	854,878	877,891
Support service recharges	8,513	9,502
Depreciation, amortisation and impairment	152,079	175,896
Interest payments	182,465	187,151
Total Expenditure	**1,751,153**	**1,833,956**
Income		
Fees, charges and other service income	(518,955)	(573,064)
Gain on the disposal of assets	(12,061)	(35,947)
Interest and investment income	(88,766)	(73,288)
Income from Council Tax and Non-Domestic Rates	(596,040)	(606,745)
Government grants and other contributions	(487,616)	(475,656)
Recognised capital income	(58,483)	(70,533)
Total Income	**(1,761,921)**	**(1,835,233)**
Surplus on the Provision of Services	**(10,768)**	**(1,277)**

NOTES TO THE FINANCIAL STATEMENTS

4. 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 2017/18 Code:

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 financial statements.

There are no new standards issued that require to be disclosed in the 2016/17 financial statements.

5. 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:

5.1 Provision of School Buildings

The Council is deemed to control the services provided under the Public Private Partnership agreements (PPP1 and PPP2) and the Design, Build, Finance and Maintain (DBFM) for James Gillespie's High School, for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1), Axiom Education Limited (PPP2) and Hub South East Scotland (JGHS).

The accounting policies for public private partnerships have been applied to these arrangements and the schools (valued at net book value of £562.171m at 31 March 2017) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

5.2 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 9 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.

6. 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

6. 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 £10.860m 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 £0.541m per annum.
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. Note 43.6 provides further information on the Council's pension liability.
Arrears	At 31 March, the Council had a balance of sundry debtors of £30.487m. A review of significant balances suggested that an impairment of doubtful debts of £4.823m (15.8%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate, a 5% increase in the rate of the impairment of doubtful debts would require an additional £1.524m to be set 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 £4.047m would be due to HM Revenue and Customs.

NOTES TO THE FINANCIAL STATEMENTS

6. 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 96.95% of Council Tax will be collected. An impairment for doubtful debts of £7.731m has been provided for in respect of sums due in the year. 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 £2.535m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £6.647m. A review of significant balances suggested that an impairment of doubtful debts of £5.757m (86.6%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There is a high level of arrears and the impairment set aside should help protect against additional welfare reforms such as Universal Credit and the reduction in the benefits cap announced in the UK government's budget, which will 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 £19.181m. If the discount factor is reduced by 1%, this would lead to a corresponding increase in the total value of council dwellings of £19.181m.

This list does not include assets and liabilities that are carried at fair value based on recently observed market prices.

7. Material Items of Income and Expense

The Council incurred costs of £15.610m (£20.943m 2015/16) related to staff release costs arising from the council-wide Transformation programme. These cost are included within the Comprehensive Income and Expenditure Statement.

8. Events After the Balance Sheet Date

A fatality occurred on 31 May 2017 in a tram related incident on Princes Street, which is the subject of an ongoing Police inquiry. No provision has been made within these statements for any financial implications that may arise.

NOTES TO THE FINANCIAL STATEMENTS

9. 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:

Subsidiaries:	**Shareholding**	
● CEC Holdings Limited	100.00%	
● Transport for Edinburgh Limited	100.00%	
Associates:		
● Edinburgh Leisure	33.33%	Board representation
● Festival City Theatres Trust	33.33%	Board representation
● Lothian Valuation Joint Board	61.19%	Funding percentage
● Common Good	100.00%	
Joint Venture	**Interest**	
● Edinburgh Integration Joint Board	50.00%	Board representation

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:

	Shareholding
● Capital City Partnership Limited	100.00%
● CEC Recovery Limited (formerly tie Limited)	100.00%
● Marketing Edinburgh Limited	100.00%
● LPFE Limited	100.00%
● LPFI Limited	100.00%

Unless otherwise stated, the accounts of these bodies may be obtained on application to the Corporate Finance Senior Manager, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.1 Subsidiary Companies

- **Capital City Partnership**

The company is a private company limited by guarantee and is a charitable organisation. The Council became the sole member of the company in January 2012.

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:	**31.03.17** **£000**	**31.03.16** **£000**
Net assets	877	1,149
Net (profit) / loss before taxation	(16)	180
Retained profit / (loss) carried forward	(123)	567

- **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:	**31.12.16** **£000**	**(re-stated)** **31.12.15** **£000**
Net assets	16,214	16,140
Net (profit) / loss before taxation	(464)	(185)
Retained profit / (loss) carried forward	(51,410)	(51,361)

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 2017 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:

	31.03.17 **£000**	**31.03.16** **£000**
Net assets	0	0
Net deficit before taxation	0	0
Retained profit / (loss) carried forward	(1)	(1)

- **LPFE Limited**

The company was incorporated on 11 February 2015 and commenced trading on 1 May 2015.

The principal activity of the company is the provision of staff to the City of Edinburgh Council and LPFI Limited in support of the administration of Pension Funds. All pension funds are part of the Local Government Pension Scheme in Scotland.

The audited results of the company are as follows:	**31.03.17** **£000**	14 months to **31.03.16** **£000**
Net liabilities	(539)	(142)
Net (profit) / loss before taxation	(6)	66
Retained profit / (loss) carried forward	(539)	(142)

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.1 Subsidiary Companies - continued

- **LPFI Limited**

The company was incorporated on 11 February 2015 and commenced trading during 2016/17.

The principal activity of the company is the provision of FCA-regulated services to the City of Edinburgh Council in support of the administration of Pension Funds. All pension funds are part of the Local Government Pension Scheme in Scotland.

The audited results of the company are as follows:	**31.03.17** **£000**	**31.03.16** **£000**
Net assets	50	0
Net (profit) / loss before taxation	(1)	0
Retained profit / (loss) carried forward	0	0

- **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:	**31.03.17** **£000**	**31.03.16** **£000**
Net assets	300	261
Net (profit) / loss before taxation	1	(2)
Retained profit / (loss) carried forward	300	261

- **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 are as follows:

	31.12.16 **£000**	**31.12.15** **£000**
Transport for Edinburgh Limited (Consolidated Group)		
Net assets	95,955	99,395
Net (profit) / loss before taxation	(14,165)	(8,936)
Retained earnings	9,779	18,320
Dividend paid	5,517	494

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

9. Subsidiaries and Associates - continued

9.2 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:	**31.03.17**	**31.03.16**
	£000	**£000**
Net assets / (liabilities)	(8,638)	657
Net operating (profit) / loss	944	1,524
Earnings / (Losses) carried forward	(8,638)	657

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% (2015/16 33.33%) Board Representation, is as follows:

	31.03.17	**31.03.16**
	£000	**£000**
Total Comprehensive (Income) and Expenditure	3,098	(2,365)
Net assets / (liabilities)	(2,879)	219
Total usable reserves	(2,879)	219

- **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:	**31.03.17**	**31.03.16**
	£000	**£000**
Net assets	3,261	3,734
Net operational (profit) / loss	359	597
Fund balances carried forward	3,261	3,734

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% (2015/16 33.33%) Board representation, is as follows:

	31.03.17	**31.03.16**
	£000	**£000**
Total Comprehensive Expenditure	158	148
Net assets	1,087	1,245
Total usable reserves	1,087	1,245

9. Subsidiaries and Associates - continued
9.2 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.

	31.03.17	31.03.16
	£000	£000
Deficit for the year	145	624
Net Liabilities	(10,940)	(5,008)
Usable reserves	1,011	749
Unusable reserves	(11,951)	(5,757)
Total reserves	(10,940)	(5,008)

The group share of the results of the Lothian Valuation Joint Board, based on a 61.19% (2015/16 61.22%) funding percentage is as follows:

	31.03.17	31.03.16
	£000	£000
Funding - requisitions	(3,744)	(3,746)
Other income	(1,320)	(1,312)
Total income	(5,064)	(5,058)
Deficit for the year	89	382
Net liabilities	(6,694)	(3,066)
Usable reserves	619	459
Unusable reserves	(7,313)	(3,525)
Total reserves	(6,694)	(3,066)

9.3 Joint Ventures

- **Edinburgh Integration Joint Board**

The Edinburgh Integration Joint Board (EIJB) was established by order of Scottish Ministers on 27 June 2015 under the Public Bodies (Joint Working) (Scotland) Act 2014.

The Board comprises 10 voting members, made up of five elected members appointed by the City of Edinburgh Council and five NHS non-executive directors appointed by NHS Lothian, along with a number of non voting members.

The expenditure incurred by the EIJB is covered in full by income received from the partner bodies, NHS Lothian and the City of Edinburgh Council. EIJB will therefore commission services from the parent bodies based on the approved strategic plan.

		10 months to
The most recent audited results of the company are as follows:	31.03.17	31.03.16
	£000	£000
Gross expenditure	676,164	97
Surplus for the year	(3,690)	0
Usable reserves	3,690	0

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.3 Joint Ventures - continued

- **Edinburgh Integration Joint Board**

  The group share of the results of the Edinburgh Integration Joint Board, based on a 50% (2015/16 50%) funding percentage is as follows:

		10 months to
	31.03.17	**31.03.16**
	£000	**£000**
Net assets	1,845	0
Usable reserves	1,845	0

9.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are unaudited.

9.5 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.

9.6 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 £138.317m (2015/16 £148.784m re-stated) representing the Council's share of the realisable surpluses or deficits in these companies.

10. 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 2017 was £4.072m (31 March 2016 £4.183m).

  The Expenditure Trust received interest of £0.043m during the year.

  £1.536m 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. Payments were also made to EICC Limited for construction services (£0.057m).

- **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 2017 was £0.810m (31 March 2016 £2.398m).

  Funds in the Income Trust have reduced by £1.593m during the year, relating to the transfer, noted above, to the International Conference Centre Expenditure Trust. The Income Trust received interest of £0.005m.

11. 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

11. Adjustments Between Accounting Basis and Funding Basis Under Regulations

2016/17	Usable Reserves: General Fund Balance £000	Usable Reserves: Housing Revenue Account Balance £000	Usable Reserves: Capital Receipts Reserve £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	131,514	19,345	0
Movements in the market value of investment properties	779	0	0
Amortisation and impairment of intangible assets	1,221	0	0
Capital grants and contributions applied	(50,897)	(7,587)	0
Capital funded from revenue	(2,056)	0	0
Revenue expenditure funded from capital under statute	35,529	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(69,061)	(16,585)	0
Capital expenditure charged against General Fund and HRA balances	(35,529)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(11,306)	(754)	27,922
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(27,922)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,400)	(498)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	86,883	2,016	0
Employer's pension contributions and direct payments to pensioners payable in the year	(64,761)	(1,503)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(599)	(142)	0
Total Adjustments	20,317	(5,708)	0

NOTES TO THE FINANCIAL STATEMENTS

11. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2016/17	Usable Reserves Capital Grants Unapplied Account £000	Usable Reserves Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(150,859)
Movements in the market value of investment properties	0	0	(779)
Amortisation of intangible assets	0	0	(1,221)
Capital grants and contributions applied	14	0	58,470
Capital funded from revenue	0	0	2,056
Revenue expenditure funded from capital under statute	0	0	(35,529)
Insertion of items not debited or credited to the CIES	0	0	0
Statutory provision for the financing of capital investment	0	(7,615)	93,261
Capital expenditure charged against General Fund and HRA balances	0	0	35,529
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,905)	0	1,905
Adjustments primarily involving the Capital Receipts Reserve			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(15,862)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	27,922
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,898
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(88,899)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	66,264
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	741
Total Adjustments	(1,891)	(7,615)	(5,103)

NOTES TO THE FINANCIAL STATEMENTS

11. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

	Usable Reserves		
2015/16 Comparative Data	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Capital Receipts Reserve £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	154,075	23,285	0
Movements in the market value of investment properties	(1,146)	0	0
Amortisation of intangible assets	1,289	0	0
Capital grants and contributions applied	(63,094)	(7,439)	0
Capital funded from revenue	(215)	0	0
Revenue expenditure funded from capital under statute	38,846	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(58,829)	(27,328)	0
Capital expenditure charged against General Fund and HRA balances	(38,846)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	(33,700)	(2,247)	120,492
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(120,492)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,440)	(488)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	104,720	2,676	0
Employer's pension contributions and direct payments to pensioners payable in the year	(70,594)	(1,693)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(5,798)	(78)	0
Total Adjustments	25,268	(13,312)	0

NOTES TO THE FINANCIAL STATEMENTS

11. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2015/16 Comparative Data	Usable Reserves: Capital Grants Unapplied Account £000	Usable Reserves: Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(177,360)
Movements in the market value of investment properties	0	0	1,146
Amortisation of intangible assets	0	0	(1,289)
Capital grants and contributions applied	1,593	0	68,940
Capital funded from revenue	0	0	215
Revenue expenditure funded from capital under statute	0	0	(38,846)
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	0	(18,069)	104,226
Capital expenditure charged against General Fund and HRA balances	0	0	38,846
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(3,285)	0	3,285
Adjustments primarily involving the Capital Receipts Reserve			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(84,545)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	55,141	65,351
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,928
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(107,396)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	72,287
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	5,876
Total Adjustments	(1,692)	37,072	(47,336)

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves

12.1 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.

Group Reserves	(re-stated) Balance at 01.04.16 £000	Net Transfers Out 2016/17 £000	Net Transfers In 2016/17 £000	Balance at 31.03.17 £000
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,361)	0	(49)	(51,410)
Capital grants unapplied account	2,729	(467)	0	2,262
Transport for Edinburgh Limited				
Revenue reserves	78,249	(8,541)	0	69,708
Total Usable Reserves - Subsidiaries	**29,617**	**(9,008)**	**(49)**	**20,560**
Associates and Joint Ventures				
Common Good Fund				
Earmarked revenue reserve	2,298	0	104	2,402
Edinburgh Leisure				
Earmarked revenue reserve	174	(45)	0	129
Revenue reserves	44	(3,052)	0	(3,008)
International Conference Centre Trusts				
Income Trust	2,398	(1,588)	0	810
Expenditure Trust	4,183	(111)	0	4,072
Festival City Theatres Trust				
Earmarked capital reserve	1,202	(118)	0	1,084
Revenue reserves	43	(40)	0	3
Lothian Valuation Joint Board				
Revenue reserves	459	0	160	619
Edinburgh Integration Joint Board				
Revenue reserves	0	0	1,845	1,845
Total Usable Reserves - Associates and Joint Ventures	**10,801**	**(4,954)**	**2,109**	**7,956**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**40,418**	**(13,962)**	**2,060**	**28,516**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

	(re-stated) Balance at 01.04.15 £000	Net Transfers Out 2015/16 £000	Net Transfers In 2015/16 £000	(re-stated) Balance at 31.03.16 £000
Group Reserves				
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(52,011)	0	650	(51,361)
Capital grants unapplied account	3,213	(484)	0	2,729
Transport for Edinburgh				
Revenue reserves	48,523	0	29,726	78,249
Total Usable Reserves - Subsidiaries	**(275)**	**(484)**	**30,376**	**29,617**
Associates and Joint Ventures				
Common Good Fund				
Earmarked revenue reserves	2,836	(538)	0	2,298
Edinburgh Leisure				
Earmarked revenue reserve	576	(402)	0	174
Revenue reserves	(2,722)	0	2,766	44
International Conference Centre Trusts				
Income Trust	3,551	(1,153)	0	2,398
Expenditure Trust	4,153	0	30	4,183
Festival City Theatres Trust				
Earmarked capital reserve	1,457	(255)	0	1,202
Revenue reserves	(64)	0	107	43
Lothian Valuation Joint Board				
Revenue reserves	364	0	95	459
Total Usable Reserves - Associates and Joint Ventures	**10,151**	**(2,348)**	**2,998**	**10,801**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**9,876**	**(2,832)**	**33,374**	**40,418**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued
12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.16 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31.03.17 £000
Council's Usable Reserves				
General Fund				
Unallocated General Fund	13,025	0	0	13,025
Balances held by schools under Devolved School Management (DSM)	2,804	(2,804)	2,688	2,688
Balances set aside for specific inv.	12,565	(4,011)	17,105	25,659
Contingency funding, workforce mgmt.	18,075	0	19	18,094
Council Priorities Fund	1,128	0	2,973	4,101
Dilapidations Fund	12,094	(450)	700	12,344
Energy Efficiency Fund	846	(830)	82	98
Insurance Funds	13,539	(99)	1,226	14,666
Licensing and Registration Income	1,394	0	1,699	3,093
Recycling balances	1,372	(211)	0	1,161
Revenue grants and contributions received in advance of planned expenditure	15,243	(9,301)	2,943	8,885
Council Tax Discount Fund	21,596	(250)	2,888	24,234
Spend to Save Fund and similar projects	7,017	(1,558)	1,903	7,362
Other earmarked balances	240	(17)	13	236
City Strategic Investment Fund	7,458	(1,278)	0	6,180
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	(11,886)	11,886	0
Total General Fund	128,396	(32,695)	46,125	141,826
Housing Revenue Account Balance	0	(11,886)	11,886	0
Renewal and Repairs Fund	38,194	0	11,947	50,141
Capital Fund	68,793	(8,165)	550	61,178
Capital Receipts Reserve	0	(27,922)	27,922	0
Capital Grants Unapplied Account	2,657	(1,905)	14	766
Total Usable Reserves - Council	**238,040**	**(82,573)**	**98,444**	**253,911**
Total Usable Reserves - Group	**278,458**	**(96,535)**	**100,504**	**282,427**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued
12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.15 £000	Inter-Fund Transfer 2015/16 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31.03.16 £000
General Fund					
Unallocated General Fund	13,025	0	0	0	13,025
Balances held by schools under DSM	1,054	0	(1,054)	2,804	2,804
Balances set aside for specific inv.	13,889	(3,000)	(2,661)	4,337	12,565
Contingency funding, workforce mgmt.	17,901	0	0	174	18,075
Council Priorities Fund	3,365	0	(3,022)	785	1,128
Dilapidations Fund	8,759	3,000	(402)	737	12,094
Energy Efficiency Fund	799	0	0	47	846
Insurance Funds	12,557	0	(250)	1,232	13,539
Licensing Income	1,402	0	(347)	339	1,394
Recycling balances	1,372	0	0	0	1,372
Revenue grants and contributions received in advance of planned expend.	14,077	0	(3,912)	5,078	15,243
Council Tax Discount Fund	18,636	0	0	2,960	21,596
Spend to Save Fund and similar projects	7,469	0	(4,729)	4,277	7,017
Other earmarked balances	219	0	0	21	240
City Strategic Investment Fund	3,000	0	(42)	4,500	7,458
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	0	(2,256)	2,256	0
Total General Fund	117,524	0	(18,675)	29,547	128,396
Housing Revenue Account Balance	0	0	(2,256)	2,256	0
Renewal and Repairs Fund	35,833	0	0	2,361	38,194
Capital Fund	31,721	0	(18,198)	55,270	68,793
Capital Receipts Reserve	0	0	(120,690)	120,690	0
Capital Grants Unapplied Account	4,349	0	(3,285)	1,593	2,657
Total Usable Reserves - Council	**189,427**	**0**	**(163,104)**	**211,717**	**238,040**
Total Usable Reserves - Group	**199,303**	**0**	**(165,936)**	**245,091**	**278,458**

12.2 Devolved School Management

A net credit balance of £2.688m (2015/16 £2.804m) is held within the General Fund in accordance with the Devolved School Management scheme.

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves

2016/17	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(32,695)	(11,886)	0	(27,922)
Transfers in	46,125	11,886	11,947	27,922
Total movements in fund	13,430	0	11,947	0
Recognised in Comprehensive Income and Expenditure Statement	13,491	11,886	0	0
Transfers to other earmarked reserves	(61)	(11,886)	11,947	0
Total movements in fund	13,430	0	11,947	0

	Capital Grants Unapplied £000	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(1,905)	(8,165)	(13,962)	**(96,535)**
Transfers in	14	550	2,060	**100,504**
Total movements in fund	(1,891)	(7,615)	(11,902)	**3,969**
Recognised in Comprehensive Income and Expenditure Statement	(1,891)	(7,615)	12,522	**28,393**
Transfers to other earmarked reserves	0	0	(24,424)	**(24,424)**
Total movements in fund	(1,891)	(7,615)	(11,902)	**3,969**

2015/16 Comparative Data	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(18,675)	(2,256)	0	(120,690)
Transfers in	29,547	2,256	2,361	120,690
Total movements in fund	10,872	0	2,361	0
Recognised in Comprehensive Income and Expenditure Statement	10,977	2,256	0	0
Transfers to other earmarked reserves	(105)	(2,256)	2,361	0
Total movements in fund	10,872	0	2,361	0

12. Usable Reserves - continued

12.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves - continued

2015/16 Comparative Data	**Capital Grants Unapplied £000**	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(3,285)	(18,198)	(2,832)	**(165,936)**
Transfers in	1,593	55,270	33,374	**245,091**
Total movements in fund	(1,692)	37,072	30,542	**79,155**
Recognised in Comprehensive Income and Expenditure Statement	(1,692)	37,072	33,004	**81,617**
Transfers to other earmarked reserves	0	0	(2,462)	**(2,462)**
Total movements in fund	(1,692)	37,072	30,542	**79,155**

13. Other Operating Expenditure

	2016/17		**Re-stated 2015/16**	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Gains on the disposal of non-current assets	(12,009)	(12,061)	(35,949)	(35,947)
	(12,009)	(12,061)	(35,949)	(35,947)

14. Financing and Investment Income and Expenditure

	2016/17		**Re-stated 2015/16**	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Interest payable and similar charges	88,756	88,491	95,552	95,138
Interest cost on defined benefit obligation	108,342	93,974	105,663	92,013
Interest receivable and similar income	(9,838)	(9,669)	(8,166)	(7,972)
Interest income on plan assets	(93,498)	(78,498)	(81,732)	(68,568)
Net income in relation to investment properties and changes in their fair value	(750)	(600)	(2,512)	(2,512)
Net (surplus) / deficit from trading activities	143	191	(2,026)	232
	93,155	93,889	106,779	108,331

15. Taxation and Non-Specific Grant Income

	2016/17		**2015/16**	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Council Tax income	(221,390)	(221,390)	(216,351)	(216,351)
Non-domestic rates	(374,650)	(374,650)	(390,862)	(390,862)
Non-ring fenced government grants	(344,919)	(344,919)	(354,576)	(354,576)
Capital grants and contributions	(58,483)	(58,483)	(70,533)	(70,533)
Taxation expenses	1,895	0	2,612	0
	(997,547)	(999,442)	(1,029,710)	(1,032,322)

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment

16.1 Depreciation

No depreciation is provided in the year of an 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 30 years, to reflect estimated useful life 3 years to 15 years, Group Companies

16.2 Capital Commitments

At 31 March 2017, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £226.111m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2016 were £76.678m.

	£000	Expected Completion Date
Leith Fort	1,000	Jul-17
Rising School Rolls 5 School extension	2,054	Aug-17
Nurseries phase 2	5,874	Aug-17
Boroughmuir New High School	6,982	Jan-18
St John's Primary School	11,977	Aug-19
WHEC upgrade Block A	3,739	2017-2018
Other property and infrastructure works	2,159	2017-2018
Kitchen and Bathroom upgrade	5,752	2017-2018
External Fabric highrise	5,035	2017-2018
Liberton High School electrical services and windows upgrade	734	2018-2019
Communities and Families Fire upgrade works	1,594	2019-2020
Gilmerton Primary School M&E upgrade	675	2019-2020
Water Tank upgrade works for Legionella	1,350	2019-2020
St James Quarter - Growth Accelerator Model	61,400	2020-2021
ICT capital investment / ICT transformational change investment	14,951	1 year
Water of Leith Phase 2 (flood defence work)	4,990	2 years
Granton to Roseburn land compensation	1,750	1 year
Calton Hill Project	2,500	Oct-17
North Sighthill	17,215	May-19
Small Sites Programme	28,938	Apr-19
Pennywell Town Centre	23,317	Sep-20
Pennywell Phases 1 to 4	22,125	Oct-24
	226,111	

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.3 Movements on Balances - Group

Movements in 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2016	1,066,016	1,724,709	312,416	1,376,084
Additions	41,395	32,436	18,756	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	22,765	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(14,354)	(25)	0
Derecognition - disposals	(15,580)	(148)	(3,532)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	0	83,765	0	0
At 31 March 2017	1,091,376	1,852,238	327,615	1,403,042
Accumulated Depreciation and Impairment				
At 1 April 2016	(35,393)	(111,508)	(134,674)	(503,164)
Depreciation charge	(18,975)	(42,269)	(21,205)	(64,194)
Depreciation charge written out to Revaluation Reserve	209	9,646	0	0
Depreciation written out to the Surplus on the Provision of Services	0	7,516	15	0
Derecognition - disposals	774	5	3,311	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other movements in cost or valuation	0	(21)	0	0
At 31 March 2017	(53,385)	(136,631)	(152,553)	(567,358)
Net book value				
At 31 March 2017	1,037,991	1,715,607	175,062	835,684
At 31 March 2016	1,030,623	1,613,201	177,742	872,920

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.3 Movements on Balances - Group

Movements in 2016/17

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2016	12,964	2,420	89,688	**4,584,297**
Additions	1,842	1	33,004	**154,392**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	**22,310**
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	**(14,623)**
Derecognition - disposals	0	0	0	**(19,260)**
Derecognition - other	0	0	0	**0**
Assets reclassified (to) / from held for sale	0	0	0	**3,065**
Other movements in cost or valuation	0	0	(83,765)	**0**
At 31 March 2017	14,562	2,421	38,927	**4,730,181**
Accumulated Depreciation and Impairment				
At 1 April 2016	0	0	0	**(784,739)**
Depreciation charge	0	0	0	**(146,643)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**9,855**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**7,531**
Derecognition - disposals	0	0	0	**4,090**
Derecognition - other	0	0	0	**0**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**
Other movements in cost or valuation	0	0	0	**(21)**
At 31 March 2017	0	0	0	**(909,927)**
Net book value				
At 31 March 2017	14,562	2,421	38,927	**3,820,254**
At 31 March 2016	12,964	2,420	89,688	**3,799,558**

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.4 Movements on Balances - Group Accounts

2015/16 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2015	1,047,151	1,841,517	300,619	1,350,760
Additions	31,257	34,385	20,673	25,324
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,931)	(24,783)	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(3,539)	(42,827)	0	0
Derecognition - disposals	(6,870)	(68,381)	(8,421)	0
Derecognition - other	0	0	(455)	0
Assets reclassified (to) / from held for sale	(52)	(20,069)	0	0
Other movements in cost or valuation	0	4,867	0	0
At 31 March 2016	1,066,016	1,724,709	312,416	1,376,084
Accumulated Depreciation and Impairment				
At 1 April 2015	(17,593)	(109,400)	(122,492)	(438,264)
Depreciation charge	(18,457)	(47,356)	(19,965)	(64,900)
Depreciation charge written out to Revaluation Reserve	211	26,224	0	0
Depreciation written out to the Surplus on the Provision of Services	216	11,667	0	0
Derecognition - disposals	228	6,698	7,377	0
Derecognition - other	0	0	455	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(49)	0
Other movements in cost or valuation	2	659	0	0
At 31 March 2016	(35,393)	(111,508)	(134,674)	(503,164)
Net book value				
At 31 March 2016	1,030,623	1,613,201	177,742	872,920
At 31 March 2015	1,029,558	1,732,117	178,127	912,496

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.4 Movements on Balances - Group
2015/16 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2015	12,192	12,634	50,330	**4,615,203**
Additions	1,328	137	44,485	**157,589**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	2,553	0	**(24,161)**
Revaluation decreases recognised in the Surplus on the Provision of Services	(556)	(142)	0	**(47,064)**
Derecognition - disposals	0	(2,917)	0	**(86,589)**
Derecognition - other	0	0	0	**(455)**
Assets reclassified (to) / from held for sale	0	(10,105)	0	**(30,226)**
Other movements in cost or valuation	0	260	(5,127)	**0**
At 31 March 2016	12,964	2,420	89,688	**4,584,297**
Accumulated Depreciation and Impairment				
At 1 April 2015	0	(10)	0	**(687,759)**
Depreciation charge	0	(41)	0	**(150,719)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**26,435**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,883**
Derecognition - disposals	0	16	0	**14,319**
Derecognition - other	0	0	0	**455**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**(49)**
Other movements in cost or valuation	0	35	0	**696**
At 31 March 2016	0	0	0	**(784,739)**
Net book value				
At 31 March 2016	12,964	2,420	89,688	**3,799,558**
At 31 March 2015	12,192	12,624	50,330	**3,927,444**

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.5 Movements on Balances - Council

Movements in 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2016	1,066,016	1,663,708	179,516	1,369,414
Additions	41,395	31,535	5,408	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	22,765	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(14,354)	(25)	0
Derecognition - disposals	(15,580)	(148)	0	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	0	83,765	0	0
At 31 March 2017	1,091,376	1,790,336	184,899	1,396,372
Accumulated Depreciation and Impairment				
At 1 April 2016	(35,393)	(80,585)	(73,555)	(497,540)
Depreciation charge	(18,975)	(42,087)	(12,468)	(63,904)
Depreciation charge written out to Revaluation Reserve	209	9,646	0	0
Depreciation written out to the Surplus on the Provision of Services	0	7,516	15	0
Derecognition - disposals	774	5	0	0
Derecognition - other				
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other movements in cost or valuation	0	(21)	0	0
At 31 March 2017	(53,385)	(105,526)	(86,008)	(561,444)
Net book value				
At 31 March 2017	1,037,991	1,684,810	98,891	834,928
At 31 March 2016	1,030,623	1,583,123	105,961	871,874

16. Property, Plant and Equipment - continued
16.5 Movements on Balances - Council

Movements in 2016/17

Cost or Valuation	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total Property Plant and Equipment £000**	**PPP Assets £000**
At 1 April 2016	12,964	2,420	89,688	**4,383,726**	583,781
Additions	1,842	1	33,004	**140,143**	34
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	**22,310**	6,951
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	**(14,623)**	0
Derecognition - disposals	0	0	0	**(15,728)**	0
Derecognition - other	0	0		**0**	0
Assets reclassified (to) / from held for sale	0	0	0	**3,065**	0
Other movements in cost or valuation	0	0	(83,765)	**0**	4,092
At 31 March 2017	14,562	2,421	38,927	**4,518,893**	594,858
Accumulated Depreciation and Impairment					
At 1 April 2016	0	0	0	**(687,073)**	(22,252)
Depreciation charge	0		0	**(137,434)**	(13,155)
Depreciation charge written out to Revaluation Reserve	0	0	0	**9,855**	2,720
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**7,531**	0
Derecognition - disposals	0	0	0	**779**	0
Derecognition - other	0	0	0	**0**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**	0
Other movements in cost or valuation	0	0	0	**(21)**	0
At 31 March 2017	0	0	0	**(806,363)**	(32,687)
Net book value					
At 31 March 2017	14,562	2,421	38,927	**3,712,530**	562,171
At 31 March 2016	12,964	2,420	89,688	**3,696,653**	561,529

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

16. Property, Plant and Equipment - continued

16.6 Movements on Balances - Council

2015/16 Comparative Data

Cost or Valuation	**Council Dwellings £000**	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**
At 1 April 2015	1,047,151	1,783,676	167,200	1,344,090
Additions	31,257	34,385	12,964	25,324
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,931)	(30,869)	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(3,539)	(42,827)	0	0
Derecognition - disposals	(6,870)	(65,455)	(193)	0
Derecognition - other	0	0	(455)	0
Assets reclassified (to) / from held for sale	(52)	(20,069)	0	0
Other movements in cost or valuation	0	4,867	0	0
At 31 March 2016	1,066,016	1,663,708	179,516	1,369,414
Accumulated Depreciation and Impairment				
At 1 April 2015	(17,593)	(79,214)	(63,173)	(432,929)
Depreciation charge	(18,457)	(47,091)	(10,788)	(64,611)
Depreciation charge written out to Revaluation Reserve	211	26,847	0	0
Depreciation written out to the Surplus on the Provision of Services	216	11,667	0	0
Derecognition - disposals	228	6,547	0	0
Derecognition - other	0	0	455	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(49)	0
Other movements in cost or valuation	2	659	0	0
At 31 March 2016	(35,393)	(80,585)	(73,555)	(497,540)
Net book value				
At 31 March 2016	1,030,623	1,583,123	105,961	871,874
At 31 March 2015	1,029,558	1,704,462	104,027	911,161

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.6 Movements on Balances - Council

2015/16 Comparative Data

	Community Assets £000	Surplus Assets £000	Total Assets Under Construction £000	Total Property Plant and Equipment £000	PPP Assets £000
Cost or Valuation					
At 1 April 2015	12,192	12,634	50,330	**4,417,273**	572,541
Additions	1,328	137	44,485	**149,880**	9,432
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	2,553	0	**(30,247)**	3,062
Revaluation decreases recognised in the Surplus on the Provision of Services	(556)	(142)	0	**(47,064)**	(1,254)
Derecognition - disposals	0	(2,917)	0	**(75,435)**	0
Derecognition - other	0	0	0	**(455)**	0
Assets reclassified (to) / from held for sale	0	(10,105)	0	**(30,226)**	0
Other movements in cost or valuation	0	260	(5,127)	**0**	0
At 31 March 2016	12,964	2,420	89,688	**4,383,726**	583,781
Accumulated Depreciation and Impairment					
At 1 April 2015	0	(10)	0	**(592,919)**	(15,231)
Depreciation charge	0	(41)	0	**(140,988)**	(13,085)
Depreciation charge written out to Revaluation Reserve	0	0	0	**27,058**	5,498
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,883**	566
Derecognition - disposals	0	16	0	**6,791**	0
Derecognition - other	0	0	0	**455**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**(49)**	0
Other movements in cost or valuation	0	35	0	**696**	0
At 31 March 2016	0	0	0	**(687,073)**	(22,252)
Net book value					
At 31 March 2016	12,964	2,420	89,688	**3,696,653**	561,529
At 31 March 2015	12,192	12,624	50,330	**3,824,354**	557,310

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings'.

16. Property, Plant and Equipment - continued

16.7 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 Operational Estate Manager, L. Turner 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. Where the Council has a planned replacement programme asset life is reviewed accordingly.

- 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.

Council assets	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Carried at historical cost	90,796	73,636	116,250	1,396,372
Valued at fair value as at:				
31 March 2017	0	238,328	0	0
31 March 2016	1,061	308,940	0	0
31 March 2015	1,425	274,751	67,674	0
31 March 2014	997,751	435,188	125	0
31 March 2013	343	459,493	850	0
Total cost or valuation	1,091,376	1,790,336	184,899	1,396,372

Council assets	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carried at historical cost	14,562	1	38,927	1,730,544
Valued at fair value as at:				
31 March 2017	0	0	0	238,328
31 March 2016	0	2,420	0	312,421
31 March 2015	0	0	0	343,850
31 March 2014	0	0	0	1,433,064
31 March 2013	0	0	0	460,686
Total cost or valuation	14,562	2,421	38,927	4,518,893

16. Property, Plant and Equipment - continued

16.8 Surplus Assets and Investment Properties - Fair Value Disclosure

Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair Value as at 31 March 2017**
	£000	**£000**	**£000**	**£000**
Surplus assets	0	2,421	0	2,421
Investment properties - advertising hoardings	0	16,471	0	16,471
Total cost or valuation	0	18,892	0	18,892

- There were no transfers between levels during the year.
- The fair value for surplus assets has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in similar locations. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's surplus assets, the assumption has been made that these would be disposed for highest and best use consideration.
- The fair value for investment properties has been based on the market approach using current rent receivable with a capitalisation rate applied. The rate reflects the return that an investor would expect from the capital employed. There is evidence of lettings from the Council's property information systems which have been used to determine valuation parameters and the level of observable inputs is significant, leading to the investment properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

17. Investment Properties

17.1 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.

	2016/17		**2015/16**	
	Group	**Council**	**Group**	**Council**
	£000	**£000**	**£000**	**£000**
Rental income from investment properties	(1,384)	(1,384)	(1,401)	(1,401)
Direct operating expenses arising from investment property	5	5	35	35
	(1,379)	(1,379)	(1,366)	(1,366)

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.

17. Investment Properties - continued

17.2 Movement in Fair Value

The following table summarises the movement in the fair value of investment properties over the year.

	2016/17		2015/16	
	Group	**Council**	**Group**	**Council**
	£000	**£000**	**£000**	**£000**
Value at 1 April	17,450	17,250	16,304	16,104
Additions:				
- Subsequent expenditure	0	0	0	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	(629)	(779)	1,146	1,146
Transfers				
- (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	16,821	16,471	17,450	17,250

NOTES TO THE FINANCIAL STATEMENTS

18. 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 £1.221m in 2016/17 (2015/16 £1.289m) was charged to the following services.

	2016/17 £000	2015/16 £000
Communities and Families	0	56
Health and Social Care	0	12
Chief Executive	1,221	1,221
Total amortisation	1,221	1,289

The movement on intangible asset balances during the year is as follows:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Balance at 1 April				
Gross carrying amount	8,557	8,557	8,557	8,557
Less: Accumulated amortisation	(4,892)	(4,892)	(3,603)	(3,603)
Net carrying amount at 1 April	3,665	3,665	4,954	4,954
Additions during the year				
- Purchased intangible assets	221	221	0	0
Impairment during the year	0	0	0	0
Amortisation for the period	(1,221)	(1,221)	(1,289)	(1,289)
Net carrying amount at 31 March	2,665	2,665	3,665	3,665
Comprising:				
Gross carrying amounts	8,778	8,778	8,557	8,557
Accumulated amortisation	(6,113)	(6,113)	(4,892)	(4,892)
Net carrying amount at 31 March	2,665	2,665	3,665	3,665

The following items of capitalised software are individually material within intangible assets.

	Carrying Amount		Remaining Amortisation Period
	2016/17 £000	2015/16 £000	31.03.17
Master data management software	444	666	2 years
Web-based solution software, including web forms	476	715	2 years
Integration engine software	405	608	2 years
Customer relationship management solutions	844	1,266	2 years
Security management software	143	213	2 years
Telephony system software	220	0	5 years

NOTES TO THE FINANCIAL STATEMENTS

19. Heritage Assets

19.1 Reconciliation of the Carrying Value of Heritage Assets

Movements in 2016/17

Cost or Valuation	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
At 1 April 2016	654	2,047	6,797
Additions	11	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	0
At 31 March 2017	665	2,047	6,797
Accumulated Impairment			
At 1 April 2016	0	0	0
At 31 March 2017	0	0	0
Net book value			
At 31 March 2017	665	2,047	6,797
At 31 March 2016	654	2,047	6,797

Cost or Valuation	**Libraries' Special Collections £000**	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
At 1 April 2016	1,975	19,643	31,116
Additions	0	0	11
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	0
At 31 March 2017	1,975	19,643	31,127
Accumulated Impairment			
At 1 April 2016	0	0	0
At 31 March 2017	0	0	0
Net book value			
At 31 March 2017	1,975	19,643	31,127
At 31 March 2016	1,975	19,643	31,116

19. Heritage Assets - continued

19.1 Reconciliation of the Carrying Value of Heritage Assets - continued

2015/16 Comparative Data

Cost or Valuation	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
At 1 April 2015	613	2,047	6,797
Additions	40	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	1	0	0
At 31 March 2016	654	2,047	6,797
Accumulated Impairment			
At 1 April 2015	0	0	0
At 31 March 2016	0	0	0
Net book value			
At 31 March 2016	654	2,047	6,797
At 31 March 2015	613	2,047	6,797

Cost or Valuation	**Libraries' Special Collections £000**	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
At 1 April 2015	1,975	19,643	31,075
Additions	0	0	40
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	1
At 31 March 2016	1,975	19,643	31,116
Accumulated Impairment			
At 1 April 2015	0	0	0
At 31 March 2016	0	0	0
Net book value			
At 31 March 2016	1,975	19,643	31,116
At 31 March 2015	1,975	19,643	31,075

19.2 Details of Heritage Assets

- Monuments and Statues are valued on a historic basis and valuations are carried out under the direction of the Council's Operational Estate Manager.
- 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.

19. Heritage Assets - continued

19.2 Details of Heritage Assets - continued

- 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.

20. Financial Instruments

20.1 Categories of Financial Instruments

The following categories of financial instrument are carried on the Council's Balance Sheet

	Long-Term		Current	Re-stated
	31.03.17	31.03.16	31.03.17	31.03.16
Investments	£000	£000	£000	£000
Loans and receivables	0	0	172,542	128,378
Available for sale	0	0	967	64,311
Unquoted equity investment at cost	23,436	23,474	0	0
Total investments	23,436	23,474	173,509	192,689
Debtors				
Loans and receivables	5,665	5,538	28,293	29,978
Total debtors	5,665	5,538	28,293	29,978
Borrowings				
Financial liabilities (principal amount)	(1,245,546)	(1,299,901)	(54,355)	(51,983)
Accrued interest	0	0	(16,019)	(17,513)
Cost of amortisation	(9,044)	(8,988)	30	35
Total borrowings	(1,254,590)	(1,308,889)	(70,344)	(69,461)

The Council's policy of investing in Treasury Bills with the intention of holding to maturity remains unchanged, despite the reclassification of Financial Instruments per Note 20.5.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial Instruments - continued
20.1 Categories of Financial Instruments - continued

	Long-Term	
	31.03.17	**31.03.16**
	£000	**£000**
Other Long-Term Liabilities		
PPP and finance lease liabilities	(205,517)	(215,787)
Deferred liability	(22,357)	(17,877)
Total other long-term liabilities	(227,874)	(233,664)

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 included in the Balance Sheet as a 'Deferred Liability' of £0.35m, and as a long-term investment.

Other deferred liabilities relate to income received in advance, which is required to be put on interest bearing deposit.

Further detail on the finance lease and PPP liabilities can be seen in notes 40 and 41.

	Current	
	31.03.17	**31.03.16**
Creditors	**£000**	**£000**
Financial liabilities at amortised cost	(23,548)	(15,277)
PPP and finance leases due within 1 year	(10,370)	(10,813)
Total creditors	(33,918)	(26,090)

20.2 Income, Expenses, Gains and Losses

	Financial Liabilities: Measured at Amortised Cost £000	Financial Assets: Loans and Receivables £000	Available for Sale £000	Unquoted Equity at Amortised Cost £000	Total £000
Interest expense	70,231	0	0	0	70,231
Total expense in Surplus on the Provision of Services	70,231	0	0	0	70,231
Interest income	0	(374)	(750)	0	(1,124)
Dividend Income	0	0	0	(6,000)	(6,000)
Total Interest and investment income	0	(374)	(750)	(6,000)	(7,124)
Net (gain) / loss for the year	70,231	(374)	(750)	(6,000)	63,107

In addition to the above interest expense, £1.849m (2015/16 £1.849m) 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 £0.211m (2015/16 £0.305m) of loans fund expenses charged to the Council.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial Instruments - continued

20.3 Fair Value of Assets and Liabilities

The Council has adopted IFRS 13 for the calculation of fair values. Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For Treasury Bills and shares in Money Market Funds, the fair value is taken from the market price. Financial assets classified as loans and receivables and all financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- Loans, including PWLB loans, borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans has been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of soft loan assets has been calculated using the cash flows implied by the appropriate market interest rate which has been deemed to be the appropriate PWLB rate plus a credit spread of between 2% and 5% depending on the party to whom the advance has been made.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:		**31.03.17**		**31.03.16**	
	Fair Value Level	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Public Works Loans Board	2	(1,034,769)	(1,400,491)	(1,086,887)	(1,365,967)
Salix	2	(1,736)	(1,791)	(2,004)	(2,042)
Market debt	2	(288,419)	(559,498)	(289,443)	(497,978)
Other long-term liabilities	n/a	(350)	(350)	(350)	(350)
Trade creditors	n/a	(23,548)	(23,548)	(15,277)	(15,277)
Finance Leases	3	(215,887)	(313,562)	(226,600)	(311,832)
Financial liabilities		(1,564,709)	(2,299,240)	(1,620,561)	(2,193,446)

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.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial Instruments - continued

20.3 Fair Value of Assets and Liabilities - continued

		31.03.17		31.03.16	
Investments held at Fair Value	**Fair Value Level**	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Treasury Bills	1	0	0	38,455	38,455
Money Market Funds	1	967	967	25,856	25,856
		967	967	64,311	64,311
Investment held at Amortised Cost					
Bank Call Accounts	n/a	17,646	17,646	41,028	41,028
Building Society Deposits	2	0	0	0	0
Local Authority Loans	2	154,896	154,927	87,350	87,357
Unquoted Equity investment at cost	n/a	23,436	23,436	23,474	23,474
		195,978	196,009	151,852	151,859
Debtors					
Loan Stock	n/a	4,714	4,714	4,626	4,626
Soft Loans	3	951	951	912	912
Other trade debtors	n/a	28,293	28,293	29,978	29,978
		33,958	33,958	35,516	35,516
Total Investments		230,903	230,934	251,679	251,686

20.5 Available for Sale Financial Assets

As part of the introduction of IFRS13, a review of the classification of Financial Instruments has been undertaken and as a result, investment in Treasury Bills and Money Market Funds have been reclassified as Available for Sale per the table below.

		31.03.17		31.03.16	
Investments held at Fair Value	**Fair Value Level**	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Treasury Bills	1	0	0	38,455	38,455
Money Market Funds	1	967	967	25,856	25,856
		967	967	64,311	64,311

There was no unrealised gain on the available for sale financial assets (2015/16 £1,857).

NOTES TO THE FINANCIAL STATEMENTS

21. Inventories

Movements in 2016/17 and 2015/16

	2016/17		2015/16	
	Group	Council	Group	Council
Fuel Stocks	£000	£000	£000	£000
Balance at 1 April	391	115	500	114
Purchases	21,863	2,461	22,162	2,162
Recognised as an expense in the year	(21,679)	(2,405)	(22,271)	(2,161)
Balance at 31 March	575	171	391	115
Gift Stock and Community Equipment	£000	£000	£000	£000
Balance at 1 April	1,423	1,423	1,165	1,165
Purchases	2,650	2,650	2,611	2,611
Held by a third party	37	37	34	34
Recognised as an expense in the year	(2,653)	(2,653)	(2,387)	(2,387)
Balance at 31 March	1,457	1,457	1,423	1,423
Construction and Other Raw Materials	£000	£000	£000	£000
Balance at 1 April	1,173	835	1,391	1,155
Purchases	20,394	4,832	17,324	3,413
Recognised as an expense in the year	(20,220)	(4,568)	(17,542)	(3,733)
Balance at 31 March	1,347	1,099	1,173	835
Items held for sale	£000	£000	£000	£000
Balance at 1 April	108	108	91	91
Purchases	317	317	376	376
Recognised as an expense in the year	(301)	(301)	(358)	(358)
Stock written off	(2)	(2)	(1)	(1)
Balance at 31 March	122	122	108	108
Work in Progress	£000	£000	£000	£000
Balance at 1 April	14,348	0	8,686	0
Purchases	0	0	5,662	0
Recognised as an expense in the year	(1,882)	0	0	0
Balance at 31 March	12,466	0	14,348	0
Clothing and Equipment	£000	£000	£000	£000
Balance at 1 April	95	95	90	90
Purchases	196	196	240	240
Recognised as an expense in the year	(208)	(208)	(235)	(235)
Balance at 31 March	83	83	95	95
Catering Stocks	£000	£000	£000	£000
Balance at 1 April	123	123	134	134
Purchases	2,862	2,862	2,847	2,847
Recognised as an expense in the year	(2,869)	(2,869)	(2,858)	(2,858)
Balance at 31 March	116	116	123	123

NOTES TO THE FINANCIAL STATEMENTS

21. Inventories - continued

Total	**2016/17 Group £000**	**2016/17 Council £000**	**2015/16 Group £000**	**2015/16 Council £000**
Balance at 1 April	17,661	2,699	12,057	2,749
Purchases	48,282	13,318	51,222	11,649
Held by a third party	37	37	34	34
Recognised as an expense in the year	(49,812)	(13,004)	(45,651)	(11,732)
Stock written off	(2)	(2)	(1)	(1)
Balance at 31 March	16,166	3,048	17,661	2,699

22. Debtors

22.1 Long-term Debtors

	2016/17 Group £000	**2016/17 Council £000**	**2015/16 Group £000**	**2015/16 Council £000**
Central government bodies	26,115	26,115	25,016	25,016
Other entities and individuals	186,556	191,270	182,042	186,668
Total long-term debtors before provision for impairment	212,671	217,385	207,058	211,684
Less: Provision for impairment	(105,701)	(105,701)	(112,410)	(112,410)
Total net long-term debtors	106,970	111,684	94,648	99,274

22.2 Analysis of Long-term Debtors

Long-term debtors comprise the following elements:

	2016/17 Group £000	**2016/17 Council £000**	**2015/16 Group £000**	**2015/16 Council £000**
Capital advances				
Police Scotland	14,198	14,198	16,151	16,151
Fire Scotland	1,043	1,043	2,052	2,052
Council Tax	80,121	80,121	90,417	90,417
Non-Domestic Rates	1,896	1,896	1,700	1,700
CEC Holdings	0	4,714	0	4,626
NHT Loans (see note 34.3)	60,255	60,255	47,162	47,162
House rents	5,492	5,492	5,252	5,252
Car loan scheme	71	71	131	131
Shared equity scheme (see note 34.2)	401	401	485	485
Scheme of assistance (see note 34.2)	920	920	901	901
Other debtors	48,274	48,274	42,807	42,807
	212,671	217,385	207,058	211,684

Long-term debtors include £14.198m (2015/16 £16.151m) and £1.043m (2015/16 £2.052m) for sums recoverable from Police Scotland and Fire Scotland respectively. These sums relate to monies advanced to the former joint boards for capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

22. Debtors - continued

22.3 Current Debtors

	2016/17 Group £000	2016/17 Council £000	Re-stated 2015/16 Group £000	Re-stated 2015/16 Council £000
Central government bodies	25,436	21,456	25,971	23,364
Other local authorities	688	406	1,473	1,078
NHS bodies	1,026	1,026	1,642	1,641
Public corporations and trading funds	9	9	33	33
Other entities and individuals	167,355	159,066	162,738	155,763
Total current debtors before provision for impairment	194,514	181,963	191,857	181,879
Less: Provision for impairment	(107,584)	(107,575)	(95,478)	(95,478)
Total net current debtors	86,930	74,388	96,379	86,401

22.4 Provision for Impairment

	2016/17 Group	2016/17 Council	2015/16 Group	2015/16 Council
Long-term provision for impairment	**£000**	**£000**	**£000**	**£000**
Council tax	(78,295)	(78,295)	(87,765)	(87,765)
Non-Domestic rates	(1,373)	(1,373)	(1,357)	(1,357)
Sundry debtors	(26,033)	(26,033)	(23,288)	(23,288)
Total long-term provision for impairment	(105,701)	(105,701)	(112,410)	(112,410)
Current provision for impairment	**£000**	**£000**	**£000**	**£000**
Council tax	(98,119)	(98,119)	(84,367)	(84,367)
Non-Domestic rates	(226)	(226)	(60)	(60)
Sundry debtors	(9,239)	(9,230)	(11,051)	(11,051)
Total current provision for impairment	(107,584)	(107,575)	(95,478)	(95,478)

23. 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.

	2016/17 Group £000	2016/17 Council £000	2015/16 Group £000	2015/16 Council £000
Cash held	387	387	385	385
Bank current accounts	12,610	(14,079)	2,972	(17,749)
Short-term deposits:				
With banks or building societies	17,646	17,646	41,028	41,028
With other local authorities	129,188	129,188	74,327	74,327
	159,831	133,142	118,712	97,991

NOTES TO THE FINANCIAL STATEMENTS

24. Assets Held for Sale

24.1 Non-Current Assets	2016/17 Group £000	2016/17 Council £000	2015/16 Group £000	2015/16 Council £000
Balance at 1 April	43,746	43,746	21,179	21,179
Additions	259	259	174	174
Revaluation gains/(losses) recognised in the revaluation reserve	4,660	4,660	893	893
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(1,893)	-1,893	0	0
Assets reclassified as held for sale: Property, Plant and Equipment	(3,116)	(3,116)	29,528	29,528
Assets sold	(913)	(913)	(2,517)	(2,517)
Transfers from non-current to current	(29,245)	(29,245)	(5,511)	(5,511)
Balance at 31 March	13,498	13,498	43,746	43,746

24.2 Current Assets	2016/17 Group £000	2016/17 Council £000	2015/16 Group £000	2015/16 Council £000
Balance at 1 April	683	683	8,503	8,503
Additions	3	3	49	49
Revaluation gains/(losses) recognised in the revaluation reserve	(500)	(500)	0	0
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(72)	(72)	0	0
Assets reclassified as held for sale: Property, Plant and Equipment	0	0	3	3
Assets sold	0	0	(13,383)	(13,383)
Transfers from non-current to current	29,245	29,245	5,511	5,511
Balance at 31 March	29,359	29,359	683	683

25. Creditors

	2016/17 Group £000	2016/17 Council £000	2015/16 Group £000	2015/16 Council £000
Central government bodies	(12,763)	(8,545)	(25,979)	(21,823)
Other local authorities	(9,116)	(8,065)	(8,278)	(7,136)
NHS bodies	(270)	(270)	(639)	(639)
Public corporations and trading funds	(1,082)	(1,082)	(11,500)	(11,500)
Other entities and individuals	(146,311)	(124,709)	(128,406)	(106,910)
	(169,542)	(142,671)	(174,802)	(148,008)

26. Provisions

Provision has been made within the Group Financial Statements for outstanding payments of £12.863m (2015/16 £13.004m).

Of this amount, £10.551m (2015/16 £11.532m) 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.

	Trams £000	**Equal Pay Claims £000**	**Council Tax Discounts £000**
Balance at 1 April 2016	(2,912)	(568)	(1,716)
Additional provisions made during the year	(233)	(295)	(172)
Amounts used during the year	27	401	0
Unused amounts reversed during the year	0	0	0
Balance at 31 March 2017	(3,118)	(462)	(1,888)

	Housing Benefit Subsidy £000	**Insurance Claims £000**	**Other Provisions £000**
Balance at 1 April 2016	(170)	(471)	(5,695)
Additional provisions made during the year	0	(245)	(33)
Amounts used during the year	0	166	483
Unused amounts reversed during the year	0	0	882
Balance at 31 March 2017	(170)	(550)	(4,363)

	Total Council Provisions £000	**Group Provisions £000**	**Total Provisions £000**
Balance at 1 April 2016	(11,532)	(1,472)	(13,004)
Additional provisions made during the year	(978)	(1,976)	(2,954)
Amounts used during the year	1,077	1,136	2,213
Unused amounts reversed during the year	882	0	882
Balance at 31 March 2017	(10,551)	(2,312)	(12,863)

NOTES TO THE FINANCIAL STATEMENTS

27. Usable Reserves

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 18 to 19) and Note 12.

28. Unusable Reserves

28.1 Summary of Unusable Reserves

	Balance as at: 31 March 2017 £000	31 March 2016 £000
Revaluation Reserve	873,986	856,303
Capital Adjustment Account	1,403,268	1,376,129
Financial Instruments Adjustment Account	(45,390)	(47,214)
Available for Sale Financial Assets Reserve	0	2
Pensions Reserve	(705,786)	(438,940)
Employee Statutory Adjustment Account	(14,121)	(14,862)
Total Council Unusable Reserves	1,511,957	1,731,418
Subsidiaries, Associates and Joint Ventures	109,801	108,366
Total Group Unusable Reserves	1,621,758	1,839,784

28.2 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.

		2016/17 £000		2015/16 £000
Balance at 1 April		856,303		905,886
Upward revaluation of assets	47,395		49,068	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(6,922)		(51,362)	
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service		40,473		(2,294)
Difference between fair value depreciation and historical cost depreciation	(18,868)		(18,860)	
Accumulated gains on assets sold	(3,922)		(28,429)	
Amount written off to the capital adjustment account		(22,790)		(47,289)
Balance at 31 March		873,986		856,303

NOTES TO THE FINANCIAL STATEMENTS

28. Unusable Reserves - continued

28.3 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 revaluation gains accumulated on property, plant and equipment prior to 1 April 2007.

Note 11 provides details of the source of the transactions posted to this account, except those involving the revaluation reserve.

		2016/17 £000		Re-stated 2015/16 £000
Balance at 1 April		1,376,129		1,340,067
Reversal of items relating to capital expenditure debited or credited to the CIES				
Charges for depreciation and impairment of non-current assets	(134,700)		(138,284)	
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(13,425)		(36,323)	
Amortisation of intangible assets	(1,221)		(1,289)	
Capital funded from revenue	2,056		215	
Revenue exp. funded from capital under statute	(35,529)		(38,846)	
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(12,061)		(35,947)	
	(194,880)		(250,474)	
Adjusting amounts written out of the revaluation reserve	22,790		47,289	
Net written out amount of the costs of non-current assets consumed in the year		(172,090)		(203,185)
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	27,922		120,491	
Capital grants and contributions credited to the CIES that have been applied to capital financing	58,470		68,940	
Application of grants from the capital grants unapplied account / capital fund	1,905		3,285	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	91,149		101,473	
Capital expenditure charged against the General Fund and HRA balances	35,529		38,846	
		214,975		333,035
Movements in the market value of investment properties credited to the CIES		(779)		1,146
Other unrealised losses debited to the CIES		(14,967)		(94,934)
Balance at 31 March		1,403,268		1,376,129

28. Unusable Reserves - continued

28.4 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.

		2016/17 £000		2015/16 £000
Balance at 1 April		(47,214)		(49,159)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,849		1,849	
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	48		79	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements		1,897		1,928
Difference between actual interest paid and interest rate assumed in equivalent interest rate calculation on transition		(73)		17
Balance at 31 March		(45,390)		(47,214)

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.

28.5 Available for Sale Financial Assets Reserve

The available for sale financial assets reserve provides a balancing mechanism for gains and losses arising on movements in fair value of financial assets (such as Treasury Bills and Money Market Funds).

	2016/17 £000	2015/16 £000
Balance at 1 April	2	0
Unrealised gains / (losses) on revaluation of assets	(2)	2
Balance at 31 March	0	2

28.6 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.

28. Unusable Reserves - continued
28.6 Pensions Reserve - continued

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.

	2016/17 £000	**2015/16 £000**
Balance at 1 April	(438,940)	(726,969)
Actuarial gains or (losses) on pension assets and liabilities	(244,211)	323,138
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	(88,899)	(107,396)
Employer's pension contributions and direct payments to pensioners payable in the year	66,264	72,287
Balance at 31 March	(705,786)	(438,940)

28.7 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.

		2016/17 £000		**2015/16 £000**
Balance at 1 April		(14,862)		(20,738)
Settlement or cancellation of accrual made at the end of the preceding year	14,862		20,738	
Amount accrued at the end of the current year	(14,121)		(14,862)	
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		741		5,876
Balance at 31 March		(14,121)		(14,862)

NOTES TO THE FINANCIAL STATEMENTS

28. Unusable Reserves - continued

28.8 Unusable Reserves - Group Members

	Balance as at: 31 March 2017 £000	31 March 2016 £000
Subsidiaries		
CEC Holdings Limited		
Capital financing account	64,466	64,466
Capital contribution	10,254	10,131
Transport for Edinburgh		
Revaluation reserve	11,309	11,309
Non Controlling Interest	8,110	8,527
Other Unusable Reserves	1,004	(4,514)
Total Unusable Reserves - Subsidiaries	95,143	89,919
Associates and Joint Ventures		
Common Good		
Capital adjustment account	(22)	(22)
Revaluation reserve	21,994	21,994
Lothian Valuation Joint Board		
Capital adjustment account	329	352
Employee statutory adjustment account	(58)	(57)
Pension reserve	(7,585)	(3,820)
Total Unusable Reserves - Associates and Joint Ventures	14,658	18,447
Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures	109,801	108,366

29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2016/17 Group £000	2016/17 Council £000	2015/16 Group £000	2015/16 Council £000
Cash paid to and on behalf of employees	567,959	567,959	578,770	578,770
General Revenue Grant	(344,919)	(344,919)	(354,576)	(354,576)
Non-Domestic Rates receipts from national pool	(374,650)	(374,650)	(390,862)	(390,862)
Other net operating cash payments / (receipts)	(47,305)	(47,305)	(9,539)	(9,539)
Net cash flows from subsidiary companies	(26,112)	0	(16,456)	0
Net cash flows from operating activities	(225,027)	(198,915)	(192,663)	(176,207)

NOTES TO THE FINANCIAL STATEMENTS

30. Cash Flow Statement - Operating Activities - continued
The cash flows for operating activities include the following items:

	2016/17		2015/16	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Interest received	(3,840)	(3,669)	(2,136)	(1,924)
Interest paid	87,805	87,431	97,540	97,072
Investment income received	(6,000)	(6,000)	(4,925)	(4,925)

31. Cash Flow Statement - Investing Activities

	2016/17		2015/16	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	179,388	165,139	142,625	134,928
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible	(25,146)	(24,916)	(121,467)	(118,016)
Net purchase of Short-Term and Long-Term Investments	(50,681)	(50,658)	77,288	77,334
Other payments for investing activities	48,507	42,990	44,348	43,854
Other receipts from investing activities	(11,496)	(11,577)	(11,130)	(11,130)
Net cash flows from investing activities	140,572	120,978	131,664	126,970

32. Cash Flow Statement - Financing Activities

	2016/17		2015/16	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Cash Receipts of Short- and Long-Term Borrowing	(193)	(70)	87,472	88,263
Other Receipts for Financing Activities	(37,700)	(37,700)	(20,784)	(20,784)
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	11,386	10,713	16,113	10,725
Repayment of short-term and long-term borrowing	69,843	69,843	(45,010)	(45,010)
Net cash flows from investing activities	43,336	42,786	37,791	33,194

33. Trading Operations

The Edinburgh Catering Service - Other Catering continues to meet the definition of significant trading operations under the terms of the Local Government in Scotland Act 2003, as amended.

The Refuse Collection service ceased to meet the definition of a significant trading operation, with effect from 1 July 2016. The service withdrew the trade waste provision to external parties and only now deals with domestic and internal refuse collection.

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.

	2016/17 £000	2015/16 £000	2014/15 £000	Cumulative £000
Turnover	902	980	1,297	n/a
Deficit	(191)	(232)	(66)	(489)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period, due to a continuing downturn in turnover on internal hospitality, an increase in other staffing and equipment costs.

There are ongoing plans to invest in the catering service to establish a dedicated catering team responsible for School and Welfare Catering and the STO Staff Catering Service. During 2016-17 the service was delivered through property managers but with no specific catering experience and no overall strategic catering expertise. It is envisaged that these new roles will be filled early in 2017 and will focus on Corporate catering as a priority. It is anticipated that changes to the service to address commercial issues will commence from August to October. Immediate short-term actions are being considered and will be implemented upon Corporate Leadership Group approval.

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

33.2 Refuse Collection, including Trade Waste

This trading operation provided refuse collection services for over 239,000 households and trade waste collection and disposal service to producers of commercial waste throughout the city. The Council approved the discontinuation of the trade waste services as part of the 2016/17 budget setting process, with effect from 1 July 2016. The trade waste provision represented the only element of external trading within this service and therefore was determined to change the status of the service to a Non-Trading Operation from 1 July 2016, upon its cessation. The turnover and deficit reported below for 2016/17 represents three months of trading.

	3 months to 30.06.2016 2016/17 £000	2015/16 £000	2014/15 £000	Cumulative £000
Turnover	3,906	16,723	17,155	n/a
Surplus / (deficit)	(470)	(242)	2,279	1,567

Refuse Collection achieved its statutory obligation to break even over the three-year period, up to 30 June 2016.

The results of Refuse Collection / Trade Waste are included within 'Place' in the Comprehensive Income and Expenditure Statement.

NOTES TO THE FINANCIAL STATEMENTS

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).

	2016/17 £000 Transport for Edinburgh Ltd.	**2015/16 £000** Transport for Edinburgh Ltd.	**2016/17 £000** Spartan Community Football Academy	**2015/16 £000** Spartan Community Football Academy
Opening Balance	861	824	52	51
New Loans	0	0	0	0
Increase in the Discounted Amount	38	37	5	4
Fair Value Adjustment	0	0	0	0
Loan Repayment	0	0	(3)	(3)
Balance Carried Forward	899	861	54	52
Nominal Value Carried Forward	1,000	1,000	102	105

Adjustments have been made under the requirements of IAS 39 Financial Instruments: Recognition and Measurement, 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 its general working capital purposes and funding its 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.

34. Financial Support and Guarantees - continued

34.2 Shared Equity Scheme / Scheme of Assistance

In 2010/11, the Council approved a shared equity scheme to help buyers purchase homes from PARC. 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.

Purchasers have the option to pay interest annually or accumulate charges on the same terms as the original equity. Sums due to the Council, including accrued interest, where owners have opted to defer interest, are included in long-term debtors.

The assisted purchase scheme was an initiative administered on behalf of the Council to allow home owners to enter into a lifetime mortgage agreement to finance repairs to their properties. Forty loans were made between 2007 and 2012, with an original loan principal value of £0.762m. These sums are included in long-term debtors.

The loans are repayable on sale of the property or on the death of the home owner. The amount repayable is a minimum of the original loan principal and a maximum of the orginal loan as a percentage of the property value on signing the agreement, as applied to the value on redeeming the loan.

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 scheme is underwritten by the Scottish Government, by way of a guarantee against the borrowing and associated interest costs. The Council works with the Scottish Government and SFT to procure private developers to build homes for mid-market rent and enter into joint ventures with the Council, by way of Limited Liability Partnerships through the NHT initiative.

Phase 1 and 2 of NHT are now complete and have delivered 518 new homes.

Phase 3 of NHT has been approved and will deliver up to 368 mid-market rent homes across three separate sites by December 2020. All NHT Phase 3 projects are now in contract and construction has commenced. The total required budget for NHT3 is £50.121m for three projects which will deliver up to 368 new affordable homes. Fruitmarket is the first NHT 3 project which is due to complete with Investment totalling £9.153m. £2.683m of expenditure was incurred in 2016/17 and the remaining balance of £6.470m spent in 2017/18.

The Council has advanced the following sums through the NHT scheme:

Developer	Development Site	Phase	Total No. of Units	2016/17 £000	Prior Years £000	Total £000
Places for People	Lochend North	1	126	0	13,323	13,323
Places for People	Lighthouse Court	1	62	0	6,492	6,492
Teague Homes Limited	Salamander Place / Leith Links	1	145	0	15,551	15,551
Miller Homes	Telford North	1	89	0	10,299	10,299
FP Newhaven Ltd	Sandpiper Road	2	96	10,410	1,498	11,908
Ediston Homes Ltd	Fruitmarket	3	24	2,683	0	2,683
			542	**13,093**	**47,163**	**60,256**

These sums are included within long-term debtors, as detailed in note 22.2.

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:

	2016/17 £000	2015/16 £000
Expenditure		
Payments to other local authorities in respect of:		
Area waste project	74	71
Educational services for children	1,727	2,176
Care services for children	1,644	1,653
Scottish Cities Alliance Investment Fund (see note 46.)	978	900
Others		
Business Improvement District Scheme - Payments to Schemes	4,797	3,478
Police Scotland - Community Police	2,561	2,560
Police Scotland - cab inspection	124	120
Scottish Cities Alliance Investment Fund (see note 46.)	0	180
Scottish Water - Integrated Water Catchment Model	84	84
NHS Lothian - Blue Badge medical assessments	44	43
Total Expenditure	**12,033**	**11,265**
Income		
Receipts in respect of library services:		
Health Boards	(19)	(19)
Scottish Prison Service	(24)	(16)
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	(1,233)	(1,377)
Receipts in respect of rates collection services:		
Scottish Water	(1,680)	(1,680)
Midlothian Council	(63)	(62)
BID Income Levy	(5,071)	(3,637)
Receipts in respect of property management		
Police Scotland	(60)	(61)
Receipts from other local authorities in respect of:		
Criminal justice services	(1,007)	(975)
Educating pupils	(649)	(634)
Pentland Hills Regional Park management	(78)	(78)
Care services for children	(797)	(958)
Risk Factory	(38)	(35)
Social work undertakings	(3,689)	(3,995)
City Mortuary	(250)	(292)
Scientific Services	(379)	(341)
Area waste project	(96)	(85)
Miscellaneous Licensing	(100)	(99)
Total Income	**(15,233)**	**(14,344)**

36. Audit Costs

The fees payable to Scott Moncrieff in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.561m (2015/16 £0.691m to Audit Scotland). The Council has re-charged £nil of the audit fee to Lothian Pension Funds in respect of its audit (2015/16 £0.048m) as it was invoiced directly this year. Similarly, £nil has been re-charged to The City of Edinburgh Council Charitable Trusts (2015/16 £0.04m) as they have also been charged directly.

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 2016/17 (2015/16 £0.002m) for the audit of 2015/16 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

37. Grant Income

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2016/17		2015/16	
Revenue Funding	**£000**	**£000**	**£000**	**£000**
Credited to taxation and non-specific grant income				
General revenue funding	(344,919)		(354,576)	
Non-domestic rates	(374,650)		(390,862)	
		(719,569)		(745,438)
Credited to services				
Government grants	(22,200)		(19,611)	
Department for Work and Pensions				
- Housing benefits	(199,556)		(202,668)	
- Other funding	(4,044)		(4,537)	
N.H.S. Lothian	(55,507)		(41,348)	
Other Local Authorities	(3,231)		(3,447)	
Scottish Water	(1,770)		(1,758)	
Lothian Road Income Trust	(65)		(621)	
Edinburgh Leisure	(708)		(684)	
Scottish Prison Service	(536)		(489)	
Lottery funding	(113)		(21)	
SportScotland	(889)		(881)	
		(288,619)		(276,065)
Total		(1,008,188)		(1,021,503)
Capital Funding				
Scottish Government		(53,049)		(63,499)
Transport Scotland		0		347
Other grants and contributions, including contributions from developers and individuals		(2,721)		(3,236)
Port of Leith Housing Association		(148)		(985)
Kirkliston Consortium		(1,179)		(1,979)
Henderson Global		0		533
Cruden Homes		0		(507)
Historic Scotland		0		(431)
Heritage Lottery Fund		(478)		(664)
Scottish Borders Council		0		(112)
Creative Scotland		(164)		0
Lothian Road Income Trust		(744)		0
Total		**(58,483)**		**(70,533)**

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

	2016/17 £000	2015/16 £000
• Revenue Expenditure		
Capital City Partnership	4,225	4,056
CEC Holdings (including EDI Group, EICC)	284	152
Edinburgh Festival Theatres	704	800
Edinburgh Leisure Limited		
Revenue funding	8,449	8,419
Other expenditure	30	52
Edinburgh Trams Ltd	714	688
Lothian Buses Limited		
Supported bus services	985	891
Other expenditure	1,536	1,457
NHS Bodies	2,356	2,294
Other Local Authorities	2,486	2,995
Scottish Government	208	163
Scottish Qualifications Authority	1,523	1,511
Subsidiaries / Voluntary Organisations		
Criminal Justice Bodies	592	678
Dean and Cauvin Charitable Trust	854	817
Edinburgh International Festival Society	2,317	2,409
Edinburgh Voluntary Organisations Council	1,185	151
Festivals Edinburgh Ltd	173	178
Handicab	448	448
Lifecare Edinburgh	288	342
Marketing Edinburgh	918	953
Royal Lyceum Theatre Co Ltd	358	369
Total Revenue Expenditure	**30,633**	**29,823**
• Revenue Income		
CEC Holdings Limited (EDI Group Limited)		
Loan interest	(200)	(221)
Edinburgh Festival Theatres	(150)	(149)
Edinburgh Trams	(2,318)	(3,217)
Edinburgh Tattoo	(401)	(401)
Professional services, rents, other grants and funding		
Other Local Authorities	(698)	(1,095)
Scottish Government	(86)	(404)
Lothian Health Board		
Change Fund	(6,994)	(5,881)
Resource transfers	(21,406)	(21,499)
Total Revenue Income	**(32,253)**	**(32,867)**

NOTES TO THE FINANCIAL STATEMENTS

38. Related Parties - continued

38.1 Subsidiaries and Other Organisations - Revenue Income and Expenditure - continued

	2016/17 £000	2015/16 £000
● Joint Board Requisitions		
Lothian Valuation Joint Board	3,744	3,744
Total Joint Board Requisitions	**3,744**	**3,744**
● Central Support Income		
Lothian Valuation Joint Board	(49)	(61)
Pension Funds	(264)	(279)
Total Central Support Income	**(313)**	**(340)**
● Interest on Revenue Balances		
Lothian Valuation Joint Board	3	3
Pension Funds	5	33
SESTRAN	1	0
Total Interest on Revenue Balances	**9**	**36**
● Loans Charges Recovered		
Lothian and Borders Fire and Rescue Board	(1,112)	(1,306)
Lothian and Borders Police Board	(2,771)	(3,060)
Total Loans Charges	**(3,883)**	**(4,366)**

38.2 Subsidiaries and Other Organisations - Capital Expenditure

	2016/17 £000	2015/16 £000
● Capital Expenditure		
CEC Holdings (including EDI Group, EICC)	1,155	2,021
Edinburgh Leisure	165	165
Hubco	9,204	15,773
Other Local Authorities	148	1,163
Scottish Government	3,352	5,565
Total Capital Expenditure	**14,024**	**24,687**

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 2017:

	2016/17 £000	**2015/16 £000**
CEC Holdings Limited (including all subsidiaries)	(535)	(442)
Edinburgh Military Tattoo	(11)	52
Hubco	(273)	(310)
Lothian and Borders Criminal Justice Authority	237	227
Scottish Fire and Rescue Service	674	676
Lothian Valuation Joint Board	(1,512)	(1,302)
NHS Bodies	14,158	1,411
Pension Funds	(499)	(1,981)
Scottish Government	620	14,006
Scottish Water	70	70
SESTRAN	(84)	613
SUSTRANS	1,246	872
Audit Scotland	374	465
	14,465	**14,357**

- **Other Indebtedness**

HM Revenue and Customs - VAT	9,170	8,089
HM Revenue and Customs - PAYE and NI	(9,041)	(9,035)
	129	**(946)**

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.

			Re-stated	
	2016/17		**2015/16**	
	£000	**£000**	**£000**	**£000**
Opening capital financing requirement		1,688,160		1,726,030
Capital Investment				
Property, plant and equipment	140,143		149,880	
Heritage Assets	11		40	
Assets held for sale	262		223	
Intangible assets	221		0	
Capital Receipts transferred to Capital Fund	420		55,141	
National Housing Trust - Consent to borrow (see note 34.3)	13,093		1,498	
Revenue expenditure funded from capital under statute	35,529		38,846	
Adjustments to PPP schools during the year	(9)		(9,195)	
		189,670		236,433
Sources of Finance				
Capital receipts	(27,922)		(65,351)	
Capital Funded from Current Revenue	(2,056)		(215)	
Government grants and other contributions	(91,017)		(112,974)	
Loans fund / finance lease repayments	(85,744)		(95,763)	
		(206,739)		(274,303)
Closing capital financing requirement		1,671,091		1,688,160
Explanation of movements in year				
(Decrease) / increase in underlying need to borrow		(17,069)		(83,209)
Voluntary debt repayment - HRA		0		(10,000)
Assets acquired under finance leases		0		0
Assets acquired under PFI/PPP contracts		0		0
(Decrease) / Increase in capital financing requirement		(17,069)		(93,209)

NOTES TO THE FINANCIAL STATEMENTS

40. Leases

40.1 Assets Leased in - Finance Leases

The Council has classified one building and its IT equipment as finance leases. The assets classified under these leases are included in property, plant and equipment in the Balance Sheet:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	7,380	6,707	12,658	9,523
Additions during the year	0	0	0	0
Reclassification to operating lease during the year	0	0	0	0
Repayments during the year	(3,470)	(2,797)	(5,278)	(2,816)
Value at 31 March	3,910	3,910	7,380	6,707
Other land and buildings	0	0	63	63
Vehicles, plant, equipment and furniture	3,910	3,910	7,317	6,644
Value at 31 March	3,910	3,910	7,380	6,707

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:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Finance lease liabilities:				
Current	2,476	2,476	3,310	2,797
Non-current	1,434	1,434	4,070	3,910
Finance costs payable	313	313	531	531
Minimum lease payments	4,223	4,223	7,911	7,238

The minimum lease payments will be payable over the following periods:

Minimum Finance Lease Repayments	at 31.03.17		at 31.03.16	
	Group £000	Council £000	Group £000	Council £000
Not later than one year	2,674	2,674	3,528	3,015
Later than one year and not later than five years	1,549	1,549	4,383	4,223
Later than five years	0	0	0	0
	4,223	4,223	7,911	7,238

Finance Lease Liabilities	£000	£000	£000	£000
Not later than one year	2,476	2,476	3,310	2,797
Later than one year and not later than five years	1,434	1,434	4,070	3,910
Later than five years	0	0	0	0
	3,910	3,910	7,380	6,707

40. Leases - continued

40.2 Assets Leased in - Operating Leases

The Group leases in property, vehicles and copying equipment 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.

In 2015/16, the Council revised its car leasing scheme which it now operates in association with an external provider. The amounts recognised as an expense during the year include £0.036m of contributions paid by employees towards cost of car leasing (2015/16 £0.047m).

Under these operating leases, the Group and Council is committed to paying the following sums, of which £0.002m is recoverable from employees (2015/16 £0.030m):

	2016/17		2015/16	
	Group	Council	Group	Council
Future Repayment Period	£000	£000	£000	£000
Not later than one year	1,896	1,398	2,467	2,074
Later than one year and not later than five years	4,978	3,842	5,402	4,350
Later than five years	5,915	4,479	6,755	5,286
	12,789	**9,719**	**14,624**	**11,710**
Value at 31 March				
Other land and buildings	11,838	9,680	13,613	11,598
Vehicles, plant, equipment and furniture	951	39	1,011	112
	12,789	**9,719**	**14,624**	**11,710**
Recognised as an expense during the year	2,573	2,027	2,565	2,094

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:

	2016/17	2015/16
	£000	£000
Not later than one year	11,965	14,625
Later than one year and not later than five years	39,169	41,975
Later than five years	150,186	151,887
	201,320	208,487

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 an agreed major 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 Gillespie's High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with Hub South East Scotland. 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:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Total £000
Payable in 2017/18	17,963	7,894	18,591	44,448
Payable within two to five years	79,230	33,259	71,370	183,859
Payable within six to ten years	122,315	41,894	79,957	244,166
Payable within eleven to fifteen years	138,386	53,972	68,900	261,258
Payable within sixteen to twenty years	102,267	53,301	48,280	203,848
Payable within twenty one to twenty five years	27,852	21,657	10,950	60,459
	488,013	211,977	298,048	998,038

Payments due under the following schemes have been inflated by 1.11% per annum for the PPP1 scheme, 1.67% per annum for the PPP2 scheme and 2.5% per annum for the James Gillespie's High School scheme, reflecting the terms of the separate contracts and assumed inflation of 2.5% per annum. The actual level of payment made in 2016/17 was adjusted to reflect non-availability of a number of school facilities over the period between April and August 2016.

The amounts disclosed as reimbursement of capital expenditure are included in creditors and other long-term liabilities on the Balance Sheet.

The unitary charges paid to the service providers include amounts to compensate them 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:

	2016/17 £000	2015/16 £000
Balance at 1 April	219,893	227,802
PPP unitary charge restatement adjustment	(8)	0
Repayments during the year	(7,908)	(7,909)
Balance at 31 March	211,977	219,893

NOTES TO THE FINANCIAL STATEMENTS

41. Public Private Partnerships and Similar Contracts - continued

41.2 Provision of Information Technology services

In 2015 the Council entered into a seven year contract with CGI for the provision of information technology services. This contract became operational on 1 April 2016.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift).

Future Repayment Period	£000
2017/18	34,762
2018/19 - 2021/22	94,987
2022/23	20,289
	150,038

The cost of information technology will be included in the Resources service area, with effect from 1 July 2017.

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: (renegotiated annually)

Future Repayment Period	£000
2017/18	5,975
2018/19 - 2019/20	8,641
	14,616

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):

Future Repayment Period	£000
2017/18	3,515
2018/19 - 2021/22	8,864
	12,379

41.5 Food Waste Contract

The Council entered into a twenty year contract with Alauna Renewable Energy to supply food waste treatment at Millerhill from 1 April 2016.

Future Repayment Period	£000	Inflationary Uplift
2017/18	521	**2.50%**
2018/19 - 2021/22	2,196	**2.50%**
2022/23 - 2026/27	2,942	**2.50%**
2027/28 - 2031/32	3,187	**2.50%**
2032/33 - 2035/36	2,748	**2.50%**
	11,594	

NOTES TO THE FINANCIAL STATEMENTS

41. Public Private Partnerships and Similar Contracts - continued

41.6 Residual Waste Contract

In 2016 the Council entered into a twenty five year contract with FCC to supply residual waste treatment at Millerhill. This contract will become operational from 1 October 2018.

Future Repayment Period	£000	Inflationary Uplift
2017/18	0	**2.50%**
2018/19 - 2021/22	23,984	**2.50%**
2022/23 - 2026/27	35,430	**2.50%**
2027/28 - 2031/32	37,379	**2.50%**
2032/33 - 2036/37	39,584	**2.50%**
2037/38 - 2041/42	42,079	**2.50%**
2042/43	8,743	**2.50%**
	187,199	

41.7 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 £18.442m.

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.

	2016/17		**2015/16**	
	£000	**%**	**£000**	**%**
Amount paid to Scottish Government in respect of teachers' pension costs	21,315		19,715	
As a percentage of teachers' pensionable pay		17.20		17.20
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 2015/16	19,765		19,296	

At 31 March 2017, creditors include £2.763m (2015/16 £2.731m) 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 2016/17 the Council paid an employer's contribution of £52.689m (2015/16 £55.446m) into the Lothian Pension Fund, representing 21.3% (2015/16 21.3%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The data is based on the lastest available valuations as at March 2014.

NOTES TO THE FINANCIAL STATEMENTS

43. Defined Pension Schemes - continued

43.1 Participation in Pension Scheme - continued

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.

	2016/17		2015/16	
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**
Cost of services:				
Service cost, comprising:				
Current service costs	66,394		82,023	
Past service costs	7,029		2,087	
Effect of Settlements	0		(159)	
		73,423		83,951
Financing and investment income:				
Net interest expense		15,476		23,445
Total post employee benefit charged to the surplus on the provision of services		88,899		107,396
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(428,706)		(37,286)	
Actuarial (gains) and losses arising on changes in financial assumptions	669,702		(253,389)	
Other experience	3,215		(32,463)	
		244,211		(323,138)
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		333,110		(215,742)
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(88,899)		(107,396)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		60,457		66,297
Contributions in respect of unfunded benefits		5,807		5,990
		66,264		72,287

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:

	2016/17 £000	2015/16 £000
Fair value of employer assets	2,747,964	2,247,877
Present value of funded liabilities	(3,368,139)	(2,605,380)
Present value of unfunded liabilities	(85,611)	(81,437)
Net liability arising from defined benefit obligation	(705,786)	(438,940)

43.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2016/17 £000	2015/16 £000
Opening fair value of scheme assets	2,247,877	2,144,897
Effect of settlements	0	(1,917)
Interest income	78,498	68,568
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	428,706	37,286
Contributions from employer	60,457	66,297
Contributions from employees into the scheme	13,845	16,502
Contributions in respect of unfunded benefits	5,807	5,990
Benefits paid	(81,419)	(83,756)
Unfunded benefits paid	(5,807)	(5,990)
Closing fair value of scheme assets	2,747,964	2,247,877

Reconciliation of Present Value of the Scheme Liabilities	2016/17 £000	2015/16 £000
Present value of funded liabilities	(2,605,380)	(2,782,482)
Present value of unfunded liabilities	(81,437)	(89,384)
Opening balance at 1 April	(2,686,817)	(2,871,866)
Current service cost	(66,394)	(82,023)
Interest cost	(93,974)	(92,013)
Contributions from employees into the scheme	(13,845)	(16,502)
Re-measurement gain / (loss):		
Change in financial assumptions	(669,702)	253,389
Change in demographic assumptions	0	0
Other experience	(3,215)	32,463
Past service cost	(7,029)	(2,087)
Effects of settlements	0	2,076
Benefits paid	81,419	83,756
Unfunded benefits paid	5,807	5,990
Closing balance at 31 March	(3,453,750)	(2,686,817)

43. Defined Pension Schemes - continued

43.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2016/17 £000	%	2015/16 £000	%
Consumer *	412,549	15	342,338	15
Manufacturing *	416,581	15	265,121	12
Energy and Utilities *	203,906	8	178,558	8
Financial Institutions *	191,883	7	190,391	8
Health and Care *	161,077	6	149,425	7
Information technology *	136,000	5	134,677	6
Other *	189,359	7	128,664	6
Sub-total Equity Securities	1,711,355		1,389,174	
Debt Securities:				
UK Government *	275,933	10	144,656	6
Other *	5,710	0	56,864	3
Sub-total Debt Securities	281,643		201,520	
Private Equity				
All *	31,954	1	25,228	1
All	56,808	2	73,078	3
Sub-total Private Equity	88,762		98,306	
Real Estate:				
UK Property	185,409	7	192,281	9
Sub-total Real Estate	185,409		192,281	
Investment Funds and Unit Trusts:				
Bonds *	6,153	0	6,032	0
Bonds	34,601	1	12,180	1
Commodities *	8,058	0	6,235	0
Infrastructure *	17,459	1	12,509	1
Infrastructure	228,444	8	136,998	6
Other	58,621	2	53,855	2
Sub-total Investment Funds and Unit Trusts	353,336		227,809	
Derivatives:				
Foreign Exchange *	0	0	(130)	0
Sub-total Derivatives	0		(130)	
Cash and Cash Equivalents				
All *	127,459	5	138,917	6
Sub-total Cash and Cash Equivalents	127,459		138,917	
Total Fair Value of Employer Assets	2,747,964	100	2,247,877	100

Scheme assets marked with an asterisk (*) have quoted prices in active markets.

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 2017 were those from the beginning of the year (i.e. 31 March 2016) and have not been changed during the year. The main assumptions in the calculations are:

Investment returns	
Actual return for period from 1 April 2016 to 31 December 2016	17.10%
Estimated return for period from 1 April 2016 to 31 March 2017	22.60%

Average future life expectancies at age 65:		**31.03.17**	**31.03.16**
Current pensioners	male	22.1 years	22.1 years
Current pensioners	female	23.7 years	23.7 years
Future pensioners	male	24.2 years	24.2 years
Future pensioners	female	26.3 years	26.3 years

Period ended	**31.03.17**	**31.03.16**
Pension increase rate	2.4%	2.2%
Salary Increase rate	4.4%	4.2%
Discount rate	2.6%	3.5%

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 2017 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 3-5%. 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 2017	**Approximate % Increase to Employer**	**Approximate Monetary Amount £000**
0.5% decrease in Real Discount Rate	11%	364,274
0.5% increase in the Salary Increase Rate	3%	118,190
0.5% increase in the Pension Increase Rate	7%	235,414

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 £000	%	Weighted Average Duration
Active members	2,025,773	60.2	23.1
Deferred members	394,911	11.7	22.4
Pensioner members	947,455	28.1	11.9
Total	3,368,139	100.0	18.3

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 2017 comprises approximately £65.846m (2015/16 £62.141m) in respect of LGPS unfunded pensions and £19.765m (2015/16 £19.296m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2017, 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.

Unusable Reserves	**2016/17 Pension Reserve £000**	**2015/16 Pension Reserve £000**
Council	(705,786)	(438,940)
Lothian Valuation Joint Board	(7,585)	(3,820)
	(713,371)	(442,760)

Usable Reserves	**2016/17 £000**	**2015/16 £000**
CEC Holdings	(1,757)	(1,010)
Festival City Theatres Trust	(116)	(75)
Edinburgh Leisure	(3,795)	(844)
Transport for Edinburgh Ltd	(3,039)	17,936
	(8,707)	16,007

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 2017

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Current service cost	0	(83,044)	(83,044)	(37%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(83,044)	(83,044)	(37%)
Interest income on plan assets	71,154	0	71,154	31.7%
Interest cost on defined benefit obligation	0	(89,880)	(89,880)	(40.1%)
Total Net Interest Cost	71,154	(89,880)	(18,726)	8.4%
Total included in Profit or Loss	71,154	(172,924)	(101,770)	(45.4%)

The Council's estimated contribution to Lothian Pension Fund for 2017/18 is £48.119m.

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 £10.933m, including accrued payments (2015/16 £7.994m).

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 Chief Executive Officer, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

44. 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 2017. 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 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.
- The Scottish Child Abuse Inquiry was set up in October 2015 to examine the abuse of children in care from the 1930s to the present day and has identified a number of care institutions it wishes to investigate, including four council establishments - Howdenhall Centre, St Katherine’s and two children’s homes that closed in the 1980s. The Council has set up a project team to support the inquiry, review historic records and ensure that the evidence required by the Inquiry can be provided. There is a possibility that these investigations may give rise to claims against local authorities in Scotland, including the Council.

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 10 March 2017 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2017/18 has been set at £1.833bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2017/18 has been set at £1.703bn. This is the expected upper level of borrowing and other short and 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 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.

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 31 March 2017, the Council had £25.7m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 87.4% were loans to other local authorities, a further 0.7% was held in two AAA rated Money Market Funds, leaving only 11.9% with banks. All of the monies held on deposit with banks at 31 March 2017 was in call or near call accounts.

The Council's principal cash holding under its treasury management arrangements at 31 March 2017 was £173.5 million (31 March 2016: £192.5m). This was held with the following institutions:

Summary	Standard and Poors Rating	Principal Outstanding 31.03.17 £000	Carry Value 31.03.17 £000	Fair Value 31.03.17 £000	Carry Value 31.03.16 £000
Money Market Funds					
Deutsche Bank AG, London	AAAm	942	947	947	25,672
Goldman Sachs	AAAm	19	20	20	183
Bank Call Accounts					
Bank of Scotland	A	17,310	17,314	17,314	12,608
Royal Bank of Scotland	BBB+	246	246	246	2,042
Santander UK	A	43	43	43	16
Barclays Bank	A-	3	3	3	13,048
Svenska Handelsbanken	AA-	32	34	34	13,295
HSBC Bank Plc	AA-	0	0	0	19
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see below)	n/a	154,832	154,896	154,927	87,350
UK Government Treasury Bills	AA	0	0	0	38,455
		173,427	173,503	173,534	192,688

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2017 would have been 'AA' from S&P) due to their tax raising powers and the perceived government support. Very few have their own credit rating, but of the £154.83m above, £11.43m is with a local authority which had an 'Aa2' credit rating from Moodys.

The Council's maximum exposure to credit risk in relation to its direct investments in banks and building societies of £17.6m 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 2017 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 2017 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2017 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2017. 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 £2.641m (2015/16 £2.769m), trade debtors past due date can be analysed by age as follows:

	2016/17 £000	2015/16 £000
Less than two months	14,823	13,163
Two to four months	1,292	1,055
Four to six months	1,002	786
Six months to one year	1,838	4,088
More than one year	9,338	10,886
Total	28,293	29,978

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 achieve 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.

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:

	2016/17 £000	2015/16 £000
Less than one year	(64,725)	(62,796)
Between one and two years	(64,419)	(66,155)
Between two and five years	(181,620)	(188,770)
Between five and ten years	(278,115)	(264,343)
More than ten years	(926,909)	(996,419)
Financial Liabilities	(1,515,788)	(1,578,483)

All trade and other payables are due to be paid in less than one year and trade creditors of £23.548m (2015/16 £15.277m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £16.019m (2015/16 £17.513m) nor net equivalent interest rate (EIR) adjustments of £9.014m (2015/16 £8.954m) to the carrying amounts of market debt shown in the financial liabilities are included.

The only investment which the Council has with a maturity of greater than one year is £4.6m 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.

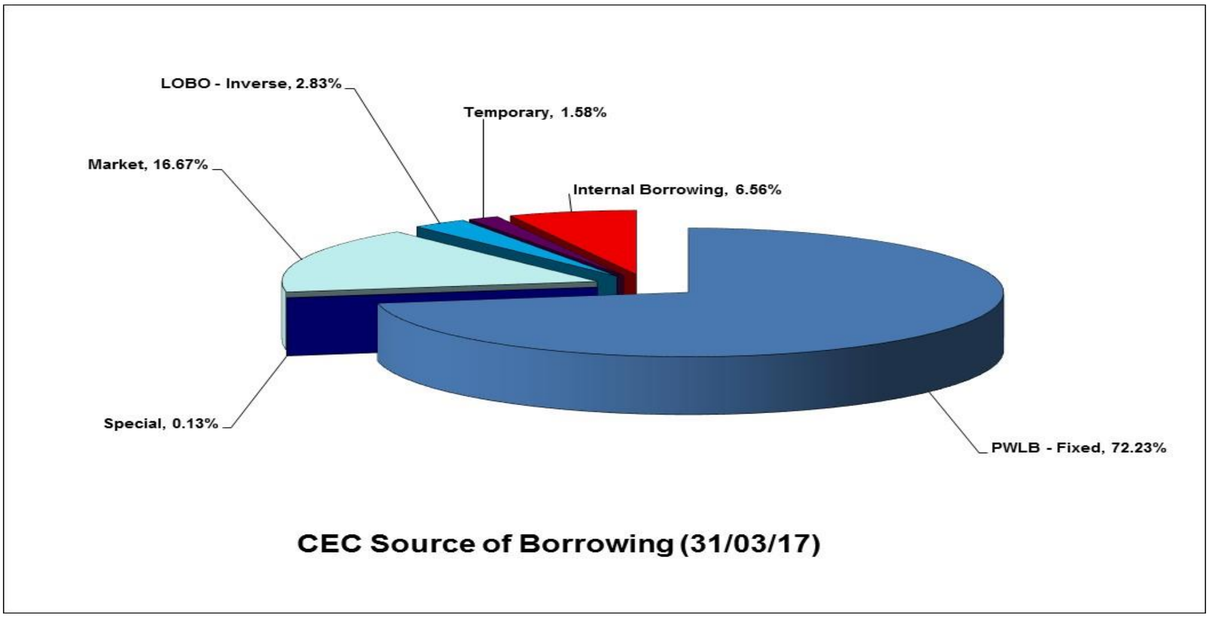
NOTES TO THE FINANCIAL STATEMENTS

45. Nature and Extent of Risks Arising from Financial Instruments - continued

45.6 Market risk - continued

Interest Rate 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.



If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(1,038)
Impact on Comprehensive Income and Expenditure Statement	(1,038)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Decrease in fair value of fixed rate borrowings liabilities	293,628

Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £23.436m (2015/16 £23.474m) 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.

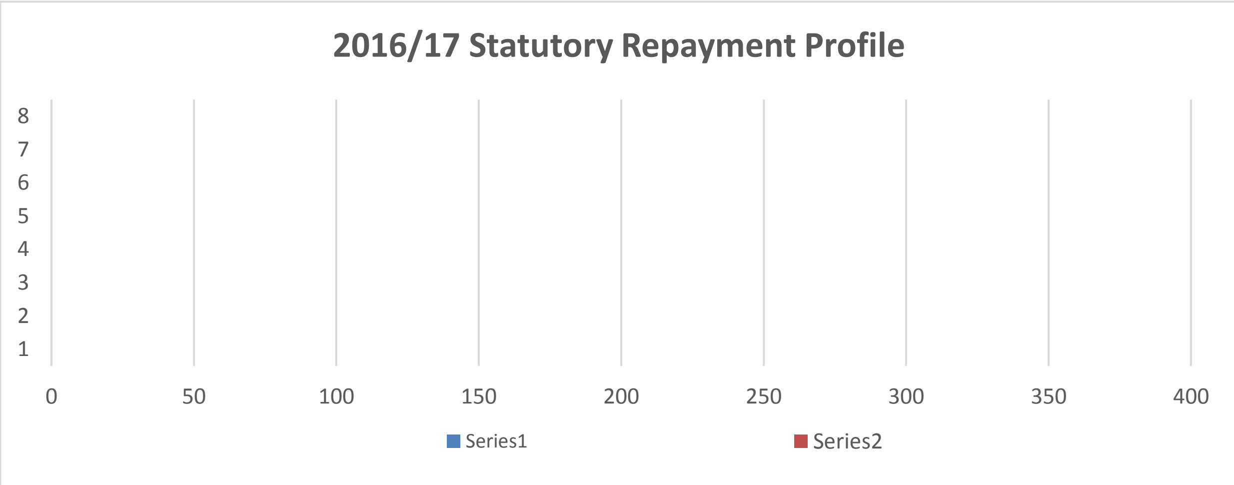
Foreign exchange risk

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.

NOTES TO THE FINANCIAL STATEMENTS

45.7 The **Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016** require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management.

The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund. All advances from the loans fund in the current year have a repayment profile set out using Option 1, the statutory method. All capital advances from the loans fund are repaid using the previous hybrid annuity structure with fixed principal repayments. The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.



46. 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 £0.98m was paid out to the respective lead authorities of the projects concerned.

	2016/17		2015/16	
	£000	**£000**	**£000**	**£000**
Balance as at 1 April		3,846		4,819
Contribution from Scottish Government		0		90
Investment income		7		17
Less: Payments made:				
Aberdeen City Council	(136)		(4)	
City of Edinburgh Council	(117)		(4)	
Dundee City Council	(33)		0	
Glasgow City Council	(269)		(409)	
Highland Council	0		(37)	
Perth and Kinross Council	(73)		(102)	
Stirling Council	(350)		(344)	
		(978)		(900)
Contribution to SCDI				
2014/15	0		(90)	
2015/16	0		(90)	
		0		(180)
Balance as at 31 March		**2,875**		**3,846**

As of April 2017, the Alliance had approved total project funding allocations of £5.79m (£4.66m April 2016), covering a range of initiatives spanning the areas of Infrastructure, Investment Promotion, Low Carbon and Smart Cities.

47. Business Improvement District Scheme

The Council acts as the Billing Authority for a number of Business Improvement Districts (BIDs). The Council collects a levy from the business rate payers on behalf of the BID bodies, Essential Edinburgh, Greater Grassmarket, Queensferry Ambition and Edinburgh's West End.

	2016/17 £000	2015/16 £000
Monies to be recovered from ratepayers at 1 April	349	190
BID Levy Income	5,071	3,637
Less: Payments made / due to schemes	(4,797)	(3,478)
Monies still to be recovered from ratepayers at 31 March	623	349

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

48. 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, with further plans in place to wind up of the Usher Hall Conservation Trust in 2017/18.

48.1 The funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value 31.03.17 £000	Market Value 31.03.16 £000
Lauriston Castle	SC020737	7,041	7,039
Jean F. Watson	SC018971	6,274	6,177
Edinburgh Education Trust	SC042754	919	852
Nelson Halls	SC018946	227	214
Boyd Anderson	SC025067	113	118
Usher Hall	SC030180	65	68
The Royal Scots Trust	SC018945	32	30
Total market value		14,671	14,498

These funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS

48. The City of Edinburgh Council Charitable Funds - continued

48.2 Financial Position of the Scottish Registered Charity Funds

Re-stated 2015/16 £000	Income and Expenditure Account	2016/17 £000
	Income	
(54)	Investment income	(73)
(2)	Other non-investment income	(14)
(56)		(87)
	Expenditure	
20	Prizes, awards and other expenses	22
13	Governance Costs	15
33		37
(23)	Surplus for the year	(50)

2015/16 £000	Balance Sheet	2016/17 £000
	Long-Term Assets	
1,843	Investments	2,066
5,236	Artworks - Jean Watson Trust	5,275
7,020	Heritable property	7,020
14,099	**Total Long-Term Assets**	14,361
	Current Assets	
420	Cash and bank	333
420		333
	Current Liabilities	
(21)	Creditors	(23)
(21)		(23)
14,498	**Total Assets less Liabilities**	14,671
	Funds	
3,194	Capital at 1 April	3,120
23	Surplus for the year	50
0	Realised and unrealised gains on investments	123
(97)	Realised and unrealised losses on investments	0
3,120		3,293
11,378	Revaluation reserve	11,378
14,498	**Funds at 31 March**	14,671

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

48. The City of Edinburgh Council Charitable Funds - continued

48.3 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.

The financial results of the fund are as follows:	31.03.17	Re-stated 31.03.16
	£000	£000
Income	(47)	(27)
Expenditure	45	7
Assets	6,278	6,178
Liabilities	(4)	(1)

- **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.

The financial results of the fund are as follows:	31.03.17	31.03.16
	£000	£000
Income	(1)	(1)
Expenditure	1	1
Assets	7,042	7,043
Liabilities	(1)	(4)

- **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.

The financial results of the fund are as follows:	31.03.17	31.03.16
	£000	£000
Income	(30)	(21)
Expenditure	13	17
Assets	921	857
Liabilities	(2)	(5)

48.4 Financial Position of Other Funds

2015/16	Income and Expenditure Account	2016/17
£000	**Income**	£000
0	Investment income	0
0		0
	Expenditure	
1	Administrative expenses	1
1		1
1	(Surplus) / Deficit for the year	1

2015/16	Balance Sheet	2016/17
£000	**Current Assets**	£000
45	Cash and bank	44
45		44
	Current Liabilities	
(1)	Balance with City of Edinburgh Council	(1)
(1)		(1)
44	**Total Assets less Liabilities**	43
45	**Capital at 1 April**	44
(1)	Deficit for the year	(1)
0	Compensation fund paid	0
44	**Capital at 31 March**	43

NOTES TO THE FINANCIAL STATEMENTS

49. Prior Period Adjustments

49.1 The following prior period adjustment has been made. The change is adopted retrospectively for the prior period 2015/16, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and

- **Asset Sales**
  In 2015/16 the Council recognised income and gains on the sale of land on a phased sale arrangement, the income being treated as a debtor in the balance sheet. The receipt from one of these asset sales was overstated. A prior period adjustment has been made to correct the debtor and gain.

- **CEC Holdings Ltd**
  In 2016/17 EDI Central Limited (part of EDI Group Ltd) adopted IFRS, which resulted in changes to accounting treatment of long term debtors and notional interest. A prior period adjustment has been made to reflect the newly adopted standards. EDI Central Limited is a subsidiary of CEC Holding Ltd.

49.2 Impact on Financial Statements

Movement in Reserves Statement	**2015/16 Statements £000**	**Asset Sales £000**	**CEC Holdings £000**	**2015/16 Re-stated £000**
Balance at 31 March 2015				
Group Usable Reserves	10,172	0	(296)	9,876
Total Usable Reserves	199,599	0	(296)	199,303
Total Reserves	1,747,793	0	(296)	1,747,497
Total Comprehensive Income and Expenditure				
Group Usable Reserves	32,916	0	88	33,004
Total Usable Reserves	34,392	0	88	34,480
Total Reserves	370,856	(199)	88	370,745
Net decrease between before transfers to reserves				
Group Usable Reserves	33,392	0	88	33,480
Total Usable Reserves	(83,298)	0	88	(83,210)
Total Reserves	370,856	(199)	88	370,745
Increase in year				
Group Usable Reserves	30,454	0	88	30,542
Total Usable Reserves	79,067	0	88	79,155
Council Unusable Reserves	282,530	(199)	0	282,331
Total Reserves	370,856	0	88	370,944
Balance at 31 March 2016				
Group Usable Reserves	40,626	0	(208)	40,418
Total Usable Reserves	278,666	0	(208)	278,458
Council Unusable Reserves	1,731,617	(199)	0	1,731,418
Total Reserves	2,118,649	(199)	(208)	2,118,242

49. Prior Period Adjustments - continued
49.2 Impact on Financial Statements - continued

Group Comprehensive Income and Expenditure Statement	2015/16 Statements £000	Asset Sales £000	CEC Holdings £000	2015/16 Re-stated £000
Cost of Services	953,846	0	(3)	953,843
Gain on Disposal of Fixed Assets	(36,148)	199	0	(35,949)
Financing and Investment Income	106,863	0	(84)	106,779
Taxation and Non-Specific Grant Income	(1,029,709)	0	(1)	(1,029,710)
Surplus on provision of service	(5,148)	199	(88)	(5,037)
Total Comprehensive Income and Expenditure	(370,856)	199	(88)	(370,745)

Council Comprehensive Income and Expenditure Statement	2015/16 Statements £000	Asset Sales £000		2015/16 Re-stated £000
Gain on Disposal of Fixed Assets	(36,146)	199	n/a	(35,947)
Surplus on Provision of Service	(1,476)	199	n/a	(1,277)
Total Comprehensive Income and Expenditure	(331,143)	398	n/a	(330,944)

Group Balance Sheet	2015/16 Statements £000	Asset Sales £000	CEC Holdings £000	2015/16 Re-stated £000
Short-term debtors	96,785	(199)	(208)	96,379
Net assets	2,118,649	(199)	(208)	2,118,242
Capital Adjustment Account	1,376,328	(199)	0	1,376,129
Unusable Reserves	1,839,983	(199)	0	1,839,784
Group Usable Reserves	40,626	0	(208)	40,418
Total Reserves	2,118,649	(199)	(208)	2,118,242

Council Balance Sheet	2015/16 Statements £000	Asset Sales £000		2015/16 Re-stated £000
Short-term debtors	86,600	(199)	n/a	86,401
Net assets	1,969,657	(199)	n/a	1,969,458
Capital Adjustment Account	1,376,328	(199)	n/a	1,376,129
Unusable Reserves	1,731,617	(199)	n/a	1,731,418
Total Reserves	1,969,657	(199)	n/a	1,969,458

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT
for the year ended 31 March 2017

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.

2015/16 £000		2016/17 £000	2016/17 £000
	EXPENDITURE		
27,765	Repairs and maintenance	27,469	
26,132	Supervision and management	21,069	
23,285	Depreciation and impairment of non-current assets	19,345	
5,609	Other expenditure	5,279	
1,073	Impairment of debtors	251	
83,864			73,413
	INCOME		
(93,015)	Dwelling rents	(95,674)	
(467)	Non-Dwelling rents (gross)	(496)	
(17,102)	Other income	(5,901)	
(110,584)			(102,071)
(26,720)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(28,658)
274	HRA share of corporate and democratic core		191
1,005	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		708
(25,441)	Net income for HRA Services		(27,759)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
(2,247)	Gain on sale of HRA fixed assets	(755)	
19,021	Interest payable and similar charges	18,162	
2,494	Interest cost on defined benefit obligation *(pension-related)*	2,410	
(98)	Interest and investment income	(52)	
(1,858)	Interest income on plan assets *(pension-related)*	(2,013)	
(7,439)	Capital grants and contributions	(7,587)	
9,873			10,165
(15,568)	Surplus for the year on HRA services		(17,594)

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2015/16 £000		2016/17 £000
0	Balance on the HRA at the end of the previous year	0
15,568	Surplus for the year on the HRA Income and Exp Account	17,594
(13,312)	Adjustments between accounting basis and funding basis under statute	(5,708)
2,256	**Net increase before transfers to reserves**	11,886
(2,256)	Contribution to renewal and repairs fund, via the General Fund	(11,886)
0	**Balance on the HRA at the end of the current year**	0

Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	Adjustments primarily involving the Capital Adjustment Account	
	Reversal of items debited or credited to the Income and Expenditure Statement	
23,285	Charges for depreciation and impairment of non-current assets	19,345
(7,439)	Capital grants and contributions applied	(7,587)
	Insertion of items not debited or credited to the Income and Expenditure Statement	
(27,328)	Statutory provision for the financing of capital investment	(16,585)
0	Capital funded from revenue	0
	Adjustments primarily involving the Capital Receipts Reserve	
(2,247)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(754)
	Adjustments primarily involving the Financial Instruments Adjustment Account	
(488)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(498)
	Adjustments primarily involving the Pensions Reserve	
2,676	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	2,016
(1,693)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,503)
	Adjustments primarily involving the Employee Statutory Adjustment Account	
(78)	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	(142)
(13,312)		(5,708)

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 2017 are as follows:

	2017		2016	
Types of Houses	**Number**	**Annual Average Rent (£)**	**Number**	**Annual Average Rent (£)**
Main provision Council dwellings				
1 Apartment	316	3,814.00	302	3,726.00
2 Apartment	5,367	4,266.00	5,459	4,177.00
3 Apartment	9,920	4,944.00	10,145	4,842.00
4 Apartment	3,353	5,693.00	3,426	5,579.00
5 Apartment	505	6,118.00	516	6,015.00
6 Apartment	9	6,164.00	9	6,043.00
7 Apartment	4	5,971.00	4	5,854.00
8 Apartment	1	5,971.00	1	5,854.00
Mid-market rent dwellings				
2 Apartment	23	5,556.00	21	5,447.00
3 Apartment	83	6,821.00	75	6,706.00
4 Apartment	22	8,598.00	22	8,430.00
	19,603		19,980	

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 £6.647m (£6.799m 2015/16) against which a provision amounting to £5.757m (£5.399m 2015/16), has been created in respect of non collectable debts.

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 £0.552m (2015/16 £0.464m). 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 2017

2015/16 £000			2016/17 £000	2016/17 £000
(300,827)	Gross council tax levied and contributions in lieu			(304,281)
49,860	Less:	- Exemptions and other discounts	50,057	
7,956		- Provision for bad debts	7,731	
24,255		- Council Tax Reduction Scheme	23,406	
2,689		- Other reductions	3,265	
84,760				84,459
(216,067)				(219,822)
(324)	Previous years' adjustments			(1,569)
(216,391)	**Total transferred to General Fund**			**(221,391)**

Notes to the Council Tax Income Account
The in-year collection rate for Council Tax was 96.4% (2015/16 96.1%).

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 was reduced by 25% where a dwelling had only one occupant or, with certain exceptions, 10% where the property was a second home, up until 31 March 2017. 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 2016/17

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	23,505	77	3,411	3,402	16,769	6/9	11,179	£779.33
B	£27,001 - £35,000	47,290	68	3,613	6,941	36,804	7/9	28,625	£909.22
C	£35,001 - £45,000	44,219	(24)	3,139	5,440	35,616	8/9	31,659	£1,039.11
D	£45,001 - £58,000	38,346	65	2,693	4,215	31,503	9/9	31,503	£1,169.00
E	£58,001 - £80,000	40,757	(31)	3,592	3,673	33,461	11/9	40,897	£1,428.78
F	£80,001 - £106,000	24,839	(27)	1,436	1,993	21,383	13/9	30,887	£1,688.56
G	£106,001 - £212,000	21,206	(100)	485	1,254	19,367	15/9	32,278	£1,948.33
H	Over £212,000	3,969	(28)	130	184	3,627	18/9	7,254	£2,338.00
					Total			214,282	
				Add:	Contributions in Lieu			437	
				Less:	Provision for Non-Payment			(6,549)	
					Council Tax Base			**208,170**	

From 1 April 2017, the nine year Council Tax freeze was lifted with Local Authorities able to increase Council Tax by up to 3 per cent. In addition the Scottish Government introduced an increase in the property band multipliers for properties in bands E to H, also effective from 1 April 2017.

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 2017

2015/16 £000		**2016/17 £000**	**2016/17 £000**
(444,260)	Gross rates levied and contributions in lieu		(458,112)
85,276	Less: - Reliefs and other deductions	82,424	
4,752	- Uncollectable debt written off and provision for impairment	4,986	
90,028			87,410
(354,232)			(370,702)
13,161	Previous years' adjustments		2,501
(341,071)	**Net Non-Domestic Rates Income**		**(368,201)**
	Allocated to:		
(341,540)	Contribution to National Non-Domestic Rates Pool		(368,712)
469	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		511
(341,071)			**(368,201)**

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2016	**Number**	**Rateable Value £000**
Shops, offices and other commercial subjects	14,403	647,060
Industrial and freight transport	2,733	73,224
Telecommunications	7	22
Public service subjects	363	48,622
Miscellaneous	2,733	139,715
	20,239	908,644

Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £368.712m (2015/16 £341.540m) is the non-domestic rates contributed by the Council through pooling arrangements for government grant purposes. The amount distributed to the Council under these arrangements was £374.650m (2015/16 £390.862m).

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 48.4p per £ in 2016/17 (2015/16 48.0p per £).

Properties with a rateable value greater than £35,000 (2015/16 £35,000) had their rate charges calculated using the poundage of 51.0p per £ (2015/16 49.3p 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 2016/17, the Council generated two capital receipts for the Common Good. 6-8 Market Street was sold with a receipt of £183,494 and land at St James Quarter was sold with a receipt of £42,000, both of which were credited to the Common Good Fund. There has been no reduction in the value of the existing Common Good assets in year.

In 2015/16, £2m of the common good fund was earmarked to be utilised to fund a planned property maintenance programme. To date, £110,000 of this funding has been used to fund Scott Monument Lighting work. The resulting balance of the Common Good Fund is £2.402m as at 31 March 2017. (£2.298m 2015/16). This is split £0.512m in the fund and £1.890m in the planned property maintenance fund.

COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

2016/17 Movements	**Common Good Fund £000**	**Property Maintenance Fund £000**	**Capital Adjust. Account £000**	**Reval. Reserve £000**	**Total Reserves £000**
Balance at 31 March 2016	298	2,000	(22)	21,994	24,270
Movement in reserves during 2016/17					
(Deficit) / Surplus on the provision of services	104	0	0	0	104
Revaluation Reserve	0	0	0	0	0
Total Comprehensive Income and Expenditure	104	0	0	0	104
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0
Net increase / decrease before transfers to earmarked reserves	104	0	0	0	104
Transfer (to) / from reserves	110	(110)	0	0	0
Increase / (decrease) in year	214	(110)	0	0	104
Balance at 31 March 2017	512	1,890	(22)	21,994	24,374

COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

2015/16 Comparative Data	Common Good Fund £000	Property Maintenance Fund £000	FFF Earmarked Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
Balance at 31 March 2015	1,654	0	1,182	(22)	21,860	24,674
Movement in reserves during 2015/16						
Surplus on the provision of services	(538)	0	0	0	0	(538)
Revaluation Reserve	0	0	0	0	134	134
Total Comprehensive Income and Expenditure	(538)	0	0	0	134	(404)
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0	0
Net increase / decrease before transfers to earmarked reserves	(538)	0	0	0	134	(404)
Transfer (to) / from reserves	(818)	2,000	(1,182)	0	0	0
Increase / (decrease) in year	(1,356)	2,000	(1,182)	0	134	(404)
Balance at 31 March 2016	298	2,000	0	(22)	21,994	24,270

COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16 £000		2016/17 £000	2016/17 £000
	EXPENDITURE		
38	Common Good Fund	130	
38	**TOTAL EXPENDITURE**		130
	INCOME		
0	**TOTAL INCOME**	0	
38	**COST OF SERVICES**		130
511	(Gain) / Loss on disposal of Fixed Assets	(225)	
(11)	Interest and investment income	(9)	
500	**Other Comprehensive Income and Expenditure**		(234)
538	**(Surplus) / Deficit on Provision of Services**		(104)
(134)	(Surplus) / Deficit on revaluation of non-current assets		0
404	**TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE**		(104)

COMMON GOOD FUND - BALANCE SHEET

31 March 2016 £000		31 March 2017 £000	31 March 2017 £000
21,892	Community Assets	21,892	
21,892	**Property, Plant and Equipment**		21,892
103	Heritage Assets	103	
103	**Long-term Assets**		103
322	Short-Term Investments	589	
1,953	Cash and Cash Equivalents	1,790	
2,275	**Current Assets**		2,379
24,270	**Net Assets**		**24,374**
21,994	Revaluation Reserve	21,994	
(22)	Capital Adjustment Account	(22)	
21,972	**Unusable Reserves**		21,972
298	Common Good Fund	512	
2,000	Earmarked Reserve	1,890	
2,298	**Usable Reserves**		2,402
24,270	**Total Reserves**		**24,374**

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA
Head of Finance
28 September 2017

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
Cost or Valuation			
At 1 April 2016	21,892	21,892	103
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0
At 31 March 2017	21,892	21,892	103
Accumulated Depreciation			
At 1 April 2016	0	0	0
At 31 March 2017	0	0	0
Net Book Value			
At 31 March 2017	21,892	21,892	103
At 31 March 2016	21,892	21,892	103
Cost or Valuation			
At 1 April 2015	21,757	21,757	104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	135	135	(1)
At 31 March 2016	21,892	21,892	103
Accumulated Depreciation			
At 1 April 2015	0	0	0
At 31 March 2016	0	0	0
At 31 March 2016	21,892	21,892	103
At 31 March 2015	21,757	21,757	104

1.2 Information on Assets Held

Assets owned by the Common Good Fund at 31 March 2017 include:

Monuments and statues	22
Parks and open spaces and other properties	32
Shops, industrial units and other commercial lettings	18

2. Usable Reserves

Movements in the Common Good's usable reserves are detailed in the Movement in Reserves Statement (on page 132).

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.

	2016/17		2015/16	
	£000	£000	£000	£000
Balance at 1 April		21,994		21,860
Upward revaluation of assets	0		134	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	0		0	
Deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Service		0		134
Derecognition of asset disposals				0
Balance at 31 March		21,994		21,994

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.

	2016/17	2015/16
	£000	£000
Balance at 1 April	(22)	(22)
Balance at 31 March	(22)	(22)

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 outlines how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 50 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 Governance and Democratic Services manager reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. Internal Audit has also reviewed the annual assurance questionnaire process in relation to Arms-Length Companies and has found that this provides the Chief Executive with a level of assurance on the adequacy of the governance arrangements. The Council's Corporate governance framework meets the principles of effective governance.

The key elements of the 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 2016-2020.The plan forms part of a single planning and performance framework that connects the strategic vision of the Council and its partners to the detailed operational plans which guide the delivery of our frontline services. The Plan was first approved by Council in January 2016 and included a commitment to provide an annual update of the Plan. This annual update was considered and agreed by Council in February 2017 to ensure that the priorities and direction of the Plan continue to remain relevant and focused on the needs of our customers and citizens.
- Empowered communities. The Council has created four localities and is using these to restructure and deliver a range of frontline services. This will ensure integrated local services and improved outcomes for citizens. This locality model operates in co-terminosity with our partners (such as police and fire services) enabling closer working and integration of services around our citizens. A Local Outcome Improvement Plan describes the work of the Council and our partners to deliver our shared vision and provide for improved outcomes across the city as a whole. Local Improvement Plans cover every area of the city and describe in detail our multi-agency approach to improve the delivery of services in our communities.
- 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 Team and Governance, Risk and Best Value Committee for scrutiny and challenge.
- 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 key elements of the framework are set out below - continued

- The Council's long term financial plan sets out how pressures arising from demographic change, inflation and legislative reform, coupled with reducing real-terms resource levels, will need to be addressed on a sustainable basis whilst still meeting the needs of our customers. This is aligned to a re-design of our service structures to make them more efficient and a transformation of the way that services are provided.
- Our programme of transformation focuses efforts on achieving priority outcomes by reducing internal business costs, applying channel shift to reduce the cost of simple transactions and enabling customers and staff to do more through self service.
- The Council is embedding a culture of commercial excellence to ensure that our services always deliver Best Value. The Council's Business Plan describes our determination to have class leading commercial and procurement practices that are sustainable and realise benefits for our customers and the local supply chain. We are also developing a more commercial approach in considering how we best use our assets and generate income in the context of our overall strategic objectives and management of risk. The Council received a "superior performance" rating through the independent Procurement Capability Assessment and the Procurement and Commercial Improvement Programme (PCIP) assessment is currently in progress.
- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and internal audit, to the Corporate Leadership Team, Governance, Risk and Best Value Committee and Council, where appropriate, supports effective scrutiny and service improvement activities.
- Performance Reports are considered on a monthly basis at the Corporate Leadership Team (CLT), with key indicators being reported and exceptions highlighted. A twice- yearly performance overview is reported to full Council and all Executive Committees, with inadequate performance highlighted within an accompanying exception report and reported to the appropriate team or committee.
- Audit actions are reviewed monthly by CLT and quarterly reviewed by GRBV. No significant control weaknesses were identified in either the Council's 2015/16 audit or the specific 2015/16 review of the Council's internal control framework. These assessments and prompt implementation of the recommendations have attested to the soundness of current controls although the Council recognises the importance of consolidating these improvements amidst significant organisational change.
- 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 and 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 Governance and Democratic Services Manager, reporting to the Head of Strategy and Insight, 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 key elements of the framework are set out below - continued

- A Council Governance Hub, chaired by the Chief Executive, has been established to scrutinise the management of Council companies, seek assurance over the delivery of services and to ensure that the Council is aware of any risks. This responds to areas for improvement recommended by internal audit - the independence of elected members as directors of companies; governance reporting to Council committees; the Council Observer role; and the annual assurance process for Council companies. The Hub provides oversight of the Council's companies, scrutinises the business plan, past performance and accounts; scrutinises compliance of the shareholder's agreement; identifies risks to the Council; provides an opportunity for Council Companies to raise issues directly with the Council's Chief Executive; and provides an opportunity for Council Companies to engage on issues of common interest and with the Council.

  Specific work has been undertaken on reviewing the role of the Council's observers on company boards to ensure that the correct officers with the right level of seniority are attending board meetings and are accountable internally. Council companies are required to report to the Governance Hub once a year with the forward plans then considered at the relevant Council committee and the accounts and past performance scrutinised by the Governance, Risk and Best Value Committee.

- 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 Governance and Democratic Services Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. The Council has revised its Councillor Induction and Training programme, drawing upon best practice from other organisations including The Scottish Parliament, informed by exit interviews conducted with councillors who indicated their intention not to stand again and also reflecting the views of political groups. Some distinctive features of the initial training programme included a Welcome Event, a Freshers Fayre, organised tours, each councillor being allocated a dedicated senior manager as a buddy to assist their assimilation and an informal evening reception at which their families could join them.

  The induction training itself is structured in two phases – concentrating initially on what is immediately required, mandatory training (Councillors Code of Conduct, etc.), that which is of practical necessity (how committees and the decision-making process works, how to deal with casework, etc.) and core training for quasi-judicial functions (licensing, planning etc) together with some introductory sessions for each service area. A Training Needs Analysis will then be undertaken over the summer to inform the second (Autumn) phase of training.

- 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. Under the mandatory policy awareness programme it is an annual requirement that officers confirm their awareness and understanding of these key policies.

- 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.

ANNUAL GOVERNANCE STATEMENT

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 Governance and Democratic Services Manager has reviewed the effectiveness of the Code and will report the result to the Governance, Risk and Best Value Committee in Autumn 2017 to ensure that the Council's annual governance practice is open, transparent and reflects best practice.

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 and Risk but had free access to the Chief Executive, all Executive Directors and Elected Members along with reporting directly to the Governance, Risk and Best Value Committee.

The Chief Internal Auditor and Council's Head of Strategy and Insight have provided an assurance statement on the effectiveness of the system of internal control, which was informed by:

- The work of the Corporate Leadership Team which develops and maintains the governance environment;
- The certified annual assurance statements provided by all Executive 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 Governance and Democratic Services 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 Chief Finance Officer 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 2017. It is the Chief Finance Officer's opinion that reasonable assurance can be placed upon its effectiveness.

Each Executive 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. These reviews have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.

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	ADAM MCVEY	STEPHEN S. MOIR
Chief Executive	Council Leader	Executive Director of Resources
28 September 2017	28 September 2017	28 September 2017

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 141 to 152 in this remuneration report has been audited by Scott Moncrieff. The other sections of the remuneration report were reviewed by Scott Moncrieff 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 2016. 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 Councillors' remuneration, Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC's recommendations were first implemented for councillors elected in the local government elections in May 2007. SLARC was stood down as a committee in February 2013, but the principles of its work continue.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17, the remuneration for the Leader of the City of Edinburgh Council was £50,682. 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 2016/17 this was £38,011. 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 £658,854. 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.

	No. 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%

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.

REMUNERATION REPORT

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/148 set the amount of salary for the Chief Executive of the City of Edinburgh Council for the period April 2015 to March 2017. Circular CO/148 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 Executive 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 was a joint appointment and the terms and conditions, including pay for the post, are those set by NHS Lothian, who employed the post holder directly. The Integration Joint Board Chief Officer is a joint appointment and the terms and conditions, including pay for the post, are set by the Council, who employ the post holder directly. The appropriate costs are then recharged to NHS Lothian and the Integration Joint Board.

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 142 and 143. 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. 2016/17 £**	**Total Remun. 2015/16 £**
A. Burns, Leader of the Council	50,682	0	104	50,786	50,436
D. Wilson, Lord Provost	38,011	0	1,679	39,690	38,462
S. Cardownie, *Depute Convener (from 28.05.15)*	25,341	0	117	25,458	24,247
S. Howat, Depute Leader of the Council *(from 12.03.15 until 09.03.16)*	n/a	n/a	n/a	n/a	37,130
F. Ross, Convener of Economy *(until 09.03.16)* Depute Leader of the Council *(from 10.03.16)*	38,011	0	812	38,823	33,540
D. Brock, Depute Convener *(until 18.05.15)*	n/a	n/a	n/a	n/a	4,860
R. Lewis, Convener of Culture and Sport	32,943	0	190	33,133	32,865
C. Day, Vice Convener Health, Social Care and Housing *(until 27.10.16)* Convener Education, Children and Families *(from 27.10.16)*	27,167	0	79	27,246	22,628
P. Godzik, Convener Education, Children and Families *(until 27.10.16)*	26,040	591	0	26,631	33,255
(full year equivalent)	*32,943*				
A. Rankin, Convener Finance and Resources	32,943	0	226	33,169	33,447
R. Henderson, Convener Health, Social Care and Housing	32,943	0	726	33,669	33,343
I. Perry, Convener Planning	32,943	0	180	33,123	32,831

REMUNERATION REPORT

Remuneration Paid - continued **Council's Leader, Civic Head and Senior Councillors**	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits--in-kind £	Total Remun. 2016/17 £	Total Remun. 2015/16 £
G. Barrie, Convener Regulatory *(until 09.03.16)* Convener Economy *(from 10.03.16)*	32,943	0	772	33,715	32,768
L. Hinds, Convener Transport and Environment	32,943	0	887	33,830	33,375
E. Milligan, Convener Licensing Board	30,409	0	0	30,409	30,287
M. Child, Convener Communities and Neighbourhoods	22,807	0	96	22,903	22,677
J. Balfour, Convener Governance, Risk and Best Value *(to 02.06.16)*	6,335	0	485	6,820	25,441
(full year equivalent)	*25,341*				
J. Mowat, Convener Governance, Risk and Best Value *(from 02.06.16)*	23,910	0	97	24,007	n/a
(full year equivalent)	*25,341*				
M. Bridgman, Convener Police and Fire Scrutiny *(until 09.03.16)* Convener Regulatory *(from 10.03.16)*	32,943	0	136	33,079	21,656
W. Henderson, Convener Police and Fire Scrutiny *(from 10.03.16)*	20,273	0	96	20,369	17,020
<u>Vice-Conveners</u>					
N. Austin-Hart, Vice Convener of Culture and Sport	22,807	0	0	22,807	22,581
G. Munro, Vice Convener of Economy	22,807	0	731	23,538	23,333
C. Fullerton, Vice Convener Education, Children and Families	22,807	0	116	22,923	22,692
B. Cook, Vice Convener Finance and Resources	22,807	0	0	22,807	22,581
A. Blacklock, Vice Convener Regulatory	22,807	0	762	23,569	23,386
A. McVey, Vice Convener Transport and Environment	22,807	0	730	23,537	23,307
D. Dixon, Vice Convener Planning *(from 12.03.15 until 09.03.16)*	n/a	n/a	n/a	n/a	22,471
A. Lunn, Vice Convener Planning *(from 10.03.16)*	22,807	0	729	23,536	17,796
J. Griffiths, Vice Convener Health, Social Care and Housing *(from 27.10.16)*	19,437	0	117	19,554	n/a
(full year equivalent)	*22,807*				
<u>Opposition Group Leaders</u>					
C. Rose, Conservative Group Leader	25,341	0	0	25,341	25,090
S. Burgess, Green Group Leader	25,341	0	817	26,158	26,026
Councillors					
N Work, Convener Lothian Valuation Joint Board *(Note 1)*	21,118	289	1,719	23,126	22,708

Notes:
1. The amount recharged to Lothian Valuation Joint Board in 2016/17 was £4,225 (2015/16 £4,183). 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):

	2016/17 £	2015/16 £
Salaries	1,280,368	1,271,704
Expenses		
Claimed by councillors	1,693	1,723
Paid directly by the Council	25,467	27,072
Total	1,307,528	1,300,499

Remuneration paid to Senior Officers	**Salary, Fees and Allowances**	**Compensation for Loss of Office**	**Total Remun. 2016/17**	**(re-stated) Total Remun. 2015/16**
Council's Senior Officers	**£**	**£**	**£**	**£**
A. Kerr, Chief Executive *(from 27.07.15)*	165,810	0	165,810	111,652
(full year equivalent)				*164,168*
S. Bruce, Chief Executive *(until 31.08.15)*	n/a	n/a	n/a	67,392
(full year equivalent)			n/a	*161,741*
A. Maclean, Deputy Chief Executive *(until 05.01.16)*	n/a	n/a	n/a	110,881
(full year equivalent)			n/a	*147,427*
A. Gaw, Executive Director of Communities and Families *(Acting Director from 05.01.16 until 15.03.17)*	148,901	0	148,901	35,272
(full year equivalent)				*147,427*
G. Tee, Director Children and Families *(until 31.12.15)*	n/a	n/a	n/a	145,816
(full year equivalent)			n/a	*147,427*
R. McCulloch-Graham, Integration Joint Board Chief Officer (*from 26.10.15)*	74,451	0	74,451	31,903
(full year equivalent)				*74,451*
P. Gabbitas, Director Health and Social Care *(until 31.07.15)*	n/a	n/a	n/a	24,587
(full year equivalent)			n/a	*82,928*
P. Lawrence, Executive Director of Place (*from 30.11.15)*	148,901	0	148,901	49,552
(full year equivalent)				*147,427*
J. Bury, Acting Director Services for Communities *(from 08.05.14* until 18.10.15)	n/a	n/a	n/a	67,380
(full year equivalent)			n/a	*134,760*
G. Ward, Director of Economic Development *(until 30.11.15)*	n/a	n/a	n/a	79,390
(full year equivalent)			n/a	*127,758*
M. Miller, Head of Safer and Stronger Communities and Chief Social Work Officer	102,256	0	102,256	101,243

REMUNERATION REPORT

Remuneration Paid - continued
Remuneration paid to Senior Officers - continued

Council's Senior Officers	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2016/17 £	Total Remun. 2015/16 £
H. Dunn, Head of Finance *(until 05.01.16)* and Acting Executive Director of Resources *(from 06.01.16)*	148,901	0	148,901	116,241
(full year equivalent)				*147,427*
M. Boyle, Head of Older People and Disability Service *(until 31.01.16)*	n/a	n/a	n/a	212,512
G. Crosby, Senior Manager Disabilities *(until 31.01.16)*	n/a	n/a	n/a	166,163
P. Campbell, Senior Manager Older People *(until 31.01.16)*	n/a	n/a	n/a	164,570
Total	789,220	0	789,220	1,631,981

Notes:

1. Remuneration shown above excludes any fees payable in respect of returning officer or other election duties. The approved remuneration for A Kerr for Returning Officer Duties in 2016/17 amounted to £41,358.
2. A. Kerr was appointed Chief Executive in July 2015. Salaries shown for A. Kerr and S. Bruce relate to the responsibilities as shown.
3. H. Dunn was appointed Acting Executive Director of Resources in January 2016. Salaries shown for H. Dunn and A. Maclean relate to the responsibilities as shown.
4. P. Lawrence was appointed Executive Director of Place in November 2015. Salaries shown for J. Bury and P. Lawrence relate to the responsibilities as shown.
5. A. Gaw was appointed Acting Director of Communities and Families in January 2016 until March 17 when this was made permanent. Salaries shown for A. Gaw and G. Tee relate to the responsibilities as shown.
6. R. McCulloch-Graham was appointed Integration Joint Board Chief Officer in October 2015. Salaries shown for R. McCulloch-Graham and P. Gabbitas relate to the responsibilities as shown.
7. P. Gabbitas was employed by NHS Lothian and 50% of his salary costs were recharged to the Council. The above figures therefore show the Council's share. R. McCulloch-Graham was employed by the Council with 50% of his salary costs reflected above.
8. Pay in lieu of notice is included within Salary, Fees and Allowances where applicable.

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 2016 and 2015 respectively.

Council's Subsidiary Companies	**Salary, Fees and Allowances £**	**Bonus £**	**Other Benefits £**	**Compensation for Loss of Office £**	**Total Remun. 2016/17 £**	**Total Remun. 2015/16 £**
E. Adair, Operations and Finance Director, EDI Group	104,412	0	1,253	0	105,665	105,744
H. Rissmann, Chief Executive, EICC *(until 31.03.15)*	n/a	n/a	n/a	n/a	n/a	51,665
(full year equivalent)						170,191
M. Dallas, Chief Executive, EICC	135,584	27,316	0	0	162,900	158,470
J. Donnelly, Chief Executive, Marketing Edinburgh Ltd *(Note 2)*	122,960	0	0	0	122,960	116,600
J. Rafferty, Chief Executive, Capital City Partnership *(until 1 December 2016)*	49,016	0	0	70,908	119,924	72,795
(full year equivalent)	*73,524*					
R. Hunter, Chief Executive, Capital City Partnership *(from 21 November 2016)*	20,204	0	0	0	20,204	n/a
(full year equivalent)					*48,490*	
<u>LPFE Limited</u>						
C. Scott, Chief Executive Officer *(from 01.05.16)*	92,000	0	0	0	92,000	78,384
(full year equivalent)						*85,236*
<u>Transport for Edinburgh</u>						
G. Lowder, Chief Executive *(from 07.01.16)*	138,983	14,180	684	0	153,847	n/a
(full year equivalent)					*156,664*	
<u>Lothian Buses Ltd.</u>						
I. Craig, Managing Director *(until 31.01.16)*	16,546	0	14,579	88,998	120,123	211,206
(full year equivalent)					*212,786*	
W. Campbell, Operations Director	n/a	n/a	n/a	n/a	n/a	116,076
W. Devlin, Engineering Director *(until 31.01.17)*	154,804	46,441	3,858	150,000	355,103	203,507
N. Strachan, Finance Director *(until 31.01.17)*	154,804	46,441	2,368	150,000	353,613	201,926
R. Hall, Managing Director *(from 01.05.16)*	110,188	33,000	0	0	143,188	n/a
(full year equivalent)					*214,500*	
<u>Edinburgh Trams Ltd.</u>						
T. Norris, Director and General Manager *(until 26.06.15)*	n/a	n/a	n/a	n/a	n/a	43,474
(full year equivalent)					n/a	80,705
L. Harrison, General Manager *(from 01.02.16)*	82,254	13,500	5,918	0	101,672	n/a
(full year equivalent)					*109,418*	
	1,181,755	180,878	28,660	459,906	1,851,199	1,359,847

Notes:

1. Other benefits paid relate to car allowance, healthcare and telephone provision, within Lothian Buses Ltd. Other benefits paid relate to relocation expenses and personal healthcare within Edinburgh Trams Ltd.
2. 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 £122,960 in 2016/17, of which £6,960 is VAT (2015/16 £116,600, £6,600).

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.

	2016/17	2015/16		2016/17	2015/16
£50,000 - £54,999	199	192	£135,000 - £139,999	1	1
£55,000 - £59,999	116	139	£140,000 - £144,999	1	1
£60,000 - £64,999	42	58	£145,000 - £149,999	3	1
£65,000 - £69,999	41	46	£150,000 - £154,999	0	0
£70,000 - £74,999	26	29	£155,000 - £159,999	0	0
£75,000 - £79,999	20	32	£160,000 - £164,999	0	1
£80,000 - £84,999	2	12	£165,000 - £169,999	1	1
£85,000 - £89,999	4	7	£170,000 - £174,999	0	0
£90,000 - £94,999	3	3	£175,000 - £179,999	0	0
£95,000 - £99,999	1	4	£180,000 - £184,999	0	0
£100,000 - £104,999	8	9	£185,000 - £189,999	0	0
£105,000 - £109,999	0	3	£190,000 - £194,999	0	0
£110,000 - £114,999	1	3	£195,000 - £199,999	0	0
£115,000 - £119,999	1	2	£200,000 - £204,999	0	0
£120,000 - £124,999	1	2	£205,000 - £209,999	0	0
£125,000 - £129,999	1	1	£210,000 - £214,999	0	1
£130,000 - £134,999	0	0			
			Total No. of Employees	**472**	**548**

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**	
	2016/17	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17 £000**	**2015/16 £000**
£0 - £20,000								
- Council	0	0	150	203	150	203	1,855	2,150
- Group companies	0	0	2	0	2	0	18	0
£20,001 - £40,000								
- Council	0	0	147	203	147	203	4,174	5,741
- Group companies	0	0	0	0	0	0	0	0
£40,001 - £60,000								
- Council	0	0	80	70	80	70	3,904	3,505
- Group companies	0	0	0	0	0	0	0	0
£60,001 - £80,000								
- Council	0	0	38	31	38	31	2,696	2,164
- Group companies	0	0	1	0	1	0	71	0
£80,001 - £100,000								
- Council	0	0	15	33	15	33	1,350	2,939
- Group companies	0	0	1	0	1	0	89	0
£100,001 - £150,000								
- Council	0	0	25	34	25	34	2,958	3,952
- Group companies	0	0	0	0	0	0	0	0
£150,001 - £200,000								
- Council	0	0	8	3	8	3	1,309	511
- Group companies	0	0	1	0	1	0	190	0
£200,001 - £250,000								
- Council	0	0	2	1	2	1	416	203
- Group companies	0	0	0	0	0	0	0	0
£250,001 - £300,000								
- Council	0	0	0	2	0	2	0	554
- Group companies	0	0	0	0	0	0	0	0
£300,001 - £350,000								
- Council	0	0	0	0	0	0	0	0
- Group companies	0	0	1	0	1	0	325	0
	0	0	471	580	471	580	19,355	21,719

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 the Local Government Pension Scheme (LGPS) became a career average pay scheme on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The scheme's normal retirement age for both councillors and employees is linked to the state pension age (but with a minimum of age 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 2016/17 were as follows:

Whole Time Pay	**Contribution rate**
On earnings up to and including £20,500 (2016 £20,500)	5.50%
On earnings above £20,500 and up to £25,000 (2016 £20,500 to £25,000)	7.25%
On earnings above £25,000 and up to £34,400 (2016 £25,000 to £34,400)	8.50%
On earnings above £34,400 and up to £45,800 (2016 £34,400 to £45,800)	9.50%
On earnings above £45,800 (2016 £45,8000)	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 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.

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 2017 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 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
Council's Leader and Civic Head					
A. Burns, Leader of the Council	10,795	10,739	Pension	7	1
			Lump Sum	3	0
D. Wilson, Lord Provost	8,096	8,054	Pension	5	1
			Lump Sum	2	0
Senior Councillors					
R. Lewis	7,017	6,980	Pension	3	1
			Lump Sum	0	0
F. Ross	8,096	7,044	Pension	3	1
			Lump Sum	0	0
S. Howat	n/a	7,789	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Godzik	5,546	6,980	Pension	4	0
			Lump Sum	2	0
A. Rankin	7,017	6,980	Pension	3	0
			Lump Sum	0	0
R. Henderson	7,017	6,980	Pension	5	1
			Lump Sum	2	0
I. Perry	7,017	6,980	Pension	5	1
			Lump Sum	2	0
G. Barrie	7,017	6,980	Pension	3	1
			Lump Sum	0	0
L. Hinds	7,017	6,980	Pension	6	0
			Lump Sum	7	1
E. Milligan	6,477	6,443	Pension	4	0
			Lump Sum	2	0
M. Child	4,858	4,832	Pension	8	0
			Lump Sum	15	0
M. Bridgman	7,017	4,454	Pension	5	1
			Lump Sum	1	0
W. Henderson	4,318	3,622	Pension	2	1
			Lump Sum	0	0
N. Austin Hart	4,858	4,832	Pension	4	1
			Lump Sum	2	1
G. Munro	4,858	4,832	Pension	4	2
			Lump Sum	1	0
D. Dixon	n/a	4,758	Pension	n/a	n/a
			Lump Sum	n/a	n/a
J. Mowat	5,093	n/a	Pension	2	n/a
			Lump Sum	0	n/a

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 31.03.17 £	**For year to 31.03.16 £**		**As at 31.03.17 £000**	**Difference from 31.03.16 £000**
A. Blacklock	4,858	4,832	Pension	4	1
			Lump Sum	2	0
A. McVey	4,858	4,832	Pension	2	0
			Lump Sum	0	0
A. Lunn	4,858	3,653	Pension	2	2
			Lump Sum	0	0
J. Griffiths	4,140	n/a	Pension	2	n/a
			Lump Sum	0	n/a
C. Rose	5,398	5,369	Pension	4	1
			Lump Sum	2	1
<u>Councillors</u>					
N. Work *(including role as Convener of Lothian Valuation Joint Board)*	4,498	4,475	Pension	4	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.

Senior Employees
The pension entitlements of senior employees for the year to 31 March 2017 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		
	For year to 31.03.17 £	**For year to 31.03.16 £**		**As at 31.03.17 £000**	**Difference from 31.03.16 £000**
A. Kerr, Chief Executive *(from 27.07.15) (including returning officer role)*	35,318	23,981	Pension	n/a	n/a
			Lump Sum	n/a	n/a
S. Bruce, Chief Executive *(until 31.08.15) (including returning officer role)*	n/a	14,422	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Maclean, Depute Chief Executive *(until 05.01.16)*	n/a	23,517	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Gaw, Executive Director of Communities and Families (Acting Director from 05.01.16 until 15.03.17)	31,716	24,031	Pension	67	18
			Lump Sum	141	35
G. Tee, Director Children and Families *(until 31.12.15)*	n/a	83,567	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer *(from 26.10.15)*	15,858	6,827	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Gabbitas, Director Health and Social Care *(Council proportion) (until 31.07.15)*	n/a	3,664	Pension	n/a	n/a
			Lump Sum	n/a	n/a

Pension Benefits - continued
Pension Rights - continued

Senior Employees	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
P. Lawrence, Executive Director of Place *(from 30.11.15)*	31,716	10,604	Pension	n/a	n/a
			Lump Sum	n/a	n/a
J. Bury, Acting Director Services for Communities *(from 08.05.14 until 18.10.15)*	n/a	14,419	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Ward, Director Economic Development *(until 30.11.15)*	n/a	16,979	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Miller, Head of Safer and Stronger Communities and Chief Social Work	21,781	21,666	Pension	42	3
			Lump Sum	82	1
H. Dunn, Head of Finance *(until 05.01.16)* and Acting Executive Director of Resources *(from 06.01.16)*	31,716	24,876	Pension	68	21
			Lump Sum	143	42
M. Boyle, Head of Older People and Disability Service *(until 31.01.16)*	n/a	55,481	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Crosby, Senior Manager Disabilities *(until 31.01.16)*	n/a	13,960	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Campbell, Senior Manager Older People *(until 31.01.16)*	n/a	45,989	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Total	168,105	383,983			

Notes:
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 was 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 2017, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 148. The contribution rate for P. Gabbitas was 14.7% in 2015/16.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

Council's Subsidiary Companies
The pension entitlements of senior employees within the Council's subsidiary bodies for the year to 31 March 2017 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 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
E. Adair, Operations and Finance Director, EDI Group	20,535	20,237	Pension	27	2
			Lump Sum	41	0
H. Rissmann, Chief Executive, EICC *(until 31.03.15)*	n/a	5,203	Pension	n/a	n/a
			Lump Sum	n/a	n/a

Pension Benefits - continued

Council's Subsidiary Companies - continued

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	**For year to 31.03.16 £**		**As at 31.03.17 £000**	**Difference from 31.03.16 £000**
M. Dallas, Chief Executive, EICC	17,821	16,836	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Lothian Buses Ltd.					
I. Craig, Managing Director	3,789	40,075	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Campbell, Operations Director	n/a	33,128	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Devlin, Engineering Director	75,587	33,128	Pension	49	3
			Lump Sum	83	0
N. Strachan, Finance Director	210,249	33,128	Pension	44	3
			Lump Sum	70	0
R. Hall, Managing Director	6,875	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Edinburgh Trams Ltd.					
T. Norris, Director and General Manager *(until 26.06.15)*	n/a	3,614	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L. Harrison, General Manager *(from 01.02.16)*	8,225	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Capital City Partnership					
J. Rafferty, Chief Executive *(until 01.12.16)*	9,558	14,073	Pension	32	2
			Lump Sum	67	1
LPFE Limited					
C. Scott, Chief Executive Officer	19,596	16,069	Pension	17	3
			Lump Sum	12	1
Total	372,235	215,491			

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 2016 and 31 December 2015 respectively.

E. Adair, J. Rafferty and C. Scott 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.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

ANDREW KERR
Chief Executive

28 September 2017

ADAM MCVEY
Council Leader

28 September 2017