

# Notice of meeting and agenda

## Finance and Resources Committee

**10.00am, Thursday 28 September 2017**

Dean of Guild Court Room, City Chambers, High Street, Edinburgh

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

### Contact

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## 1. Order of business

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

## 2. Declaration of interests

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

## 3. Deputations

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- 3.1 If any

## 4. Minutes

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- 4.1 Minute of the Finance and Resources Committee of 5 September 2017 (circulated) - submitted for approval as a correct record

## 5. Forward planning

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- 5.1 Finance and Resources Committee Key Decisions Forward Plan November 2017 to March 2018 (circulated)
- 5.2 Finance and Resources Committee Rolling Actions Log (circulated)

## 6 Business Bulletin

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- 6.1 Business Bulletin (circulated)

## 7. Executive decisions

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- 7.1 Revenue Budget Monitoring 2017-18 – Update - report by the Executive Director of Resources (circulated)
- 7.2 City of Edinburgh Council – 2016-17 Annual Audit Report to the Council and the Controller of Audit - joint report by the Chief Executive and the Executive Director of Resources (circulated)

**Please note:** The 2016/17 Annual Audit Report will be considered at Governance Risk and Best Value Committee on 26 September 2017. This report has been circulated in the event that it is referred to Finance and Resources Committee.

- 7.3 The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2016/17 Audit – report by the Executive Director of Resources (circulated)
- 7.4 Adoption of the Scotland Excel Framework Agreement for the Supply and Delivery of Education and Office Furniture – report by the Executive Director of Resources (circulated)
- 7.5 Adoption of the Scotland Excel Framework Agreement for the Supply and Distribution of Frozen Foods – report by the Executive Director of Resources (circulated)
- 7.6 Contract for Telecom Services (Mobile and Fixed Lines) - report by the Executive Director of Resources (circulated)
- 7.7 Community Empowerment (Scotland) Act 2015: Proposed Consultation Response on Common Good Matters - report by the Executive Director of Resources (circulated)
- 7.8 Framework Agreement – Reception, Handling and Transfer of Waste - report by the Executive Director of Place (circulated)
- 7.9 Systems Integration Feasibility for the Edinburgh Tram Extension – Award under Urgency Provisions - report by the Executive Director of Place (circulated)
- 7.10 Award of Contracts for the Delivery of Mental Health Wellbeing Services - report by the Interim Chief Officer, Edinburgh Health and Social Care Partnership (circulated)

## **8. Routine decisions**

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- 8.1 City Chambers – New Lease to Electoral Commission – report by the Executive Director of Resources (circulated)

**Note:** Councillors Doran and Mowat called for local Ward interest.

- 8.2 Proposed New Lease, Nelson Hall, 5 Spitalfield Crescent, Edinburgh – report by the Executive Director of Resources (circulated)

**Note:** Councillor Burgess, Dickie, Perry and Rose called for local Ward interest.

- 8.3 Restructure of Various Leases at Leith Links, Edinburgh – report by the Executive Director of Resources (circulated)

**Note:** Councillors Booth, McVey and Munro called for local Ward interest.

## **9. Motions**

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If any

## **Laurence Rockey**

Head of Strategy and Insight

### **Committee Members**

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Councillors Rankin (Convener), Donaldson (Vice-Convener), Bridgman, Corbett, Howie, Hutchison, Johnston, Miller, Neil Ross, Watt and Whyte.

### **Information about the Finance and Resources Committee**

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The Finance and Resources Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. The Finance and Resources Committee usually meets every eight weeks.

The Finance and Resources Committee usually meets in the Dean of Guild Court Room in the City Chambers on the High Street in Edinburgh. There is a seated public gallery and the meeting is open to all members of the public.

### **Further information**

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If you have any questions about the agenda or meeting arrangements, please contact Stuart McLean or Louise Williamson, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG, Tel 0131 529 4106 / 0131 527 4264 or e-mail [stuart.mclean@edinburgh.gov.uk](mailto:stuart.mclean@edinburgh.gov.uk) / [louise.p.williamson@edinburgh.gov.uk](mailto:louise.p.williamson@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/meetings](http://www.edinburgh.gov.uk/meetings)

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

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## Finance and Resources Committee

10.00am, Tuesday 5 September 2017

### Present

Councillors Rankin (Convener), Donaldson (Vice-Convener), Bridgman, Corbett, Howie, Hutchison, Johnston, Miller, Neil Ross, Watt and Whyte.

### 1. Minutes

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#### Decision

To approve the minute of the Finance and Resources Committee of 23 March 2017 as a correct record.

### 2. Key Decisions Forward Plan

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The Finance and Resources Committee Key Decisions Forward Plan for 5 to 28 September 2017 was submitted.

#### Decision

To note the Key Decisions Forward Plan from 5 to 28 September 2017.

(Reference – Finance and Resources Committee Key Decisions Forward Plan, submitted.)

### 3. Rolling Actions Log

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The Finance and Resources Committee Rolling Actions Log was submitted.

#### Decision

- 1) To note that the following actions would be considered by the Corporate Policy and Strategy Committee.

Action 1 - Transformation Programme: Progress Update

Action 2 - Governance of Major Projects – Progress Report

- 2) To agree to close Action 5 – Workplace Travel Planning Consultants – Award of Contract.

- 3) To otherwise note the rolling actions log.

(Reference – Rolling Actions Log, submitted.)

## 4. Business Bulletin

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### Decision

To note the Finance and Resources Committee Business Bulletin.

## 5. Appointments to Working Groups 2017/18

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The Committee was asked to appoint the membership of the Sub-Committees and Working Groups of the Finance and Resources Committee for the year 2017/18.

### Decision

- 1) To appoint the following members to the undernoted Working Groups:

#### **Joint Consultative Group**

Councillors Bridgman, Donaldson, Hutchison, Rae, Rankin, Neil Ross and Whyte

#### **Elected Member ICT and Digital Sounding Board**

Councillors Booth, Donaldson, Howie, Hutchison, Johnston, Rankin, Neil Ross and Watt

#### **Health and Safety Consultation Working Group**

Councillor Donaldson

- 2) To postpone the re-appointment of the Property Sub-Committee until such time as a meeting of the Sub-Committee was deemed necessary.
- 3) To approve the remits of the Joint Consultative Group, Elected Member ICT and Digital Sounding Board and the Council Health and Safety Consultation Forum 2017/18 as set out in Appendices 1 to 3 of the report by the Chief Executive.

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

## 6. Revenue Monitoring 2016/17 – Outturn Report

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Details were provided on the provisional 2016/17 revenue outturn position for the Council based on the unaudited financial statements. The unaudited outturn position showed an overall underspend of £1.058m, which equated to 0.11% of the Council's total net expenditure

### Decision

- 1) To note the report by the Executive Director of Resources and the provisional revenue underspend of £1.058 million for the year ended 31 March 2017 and that these monies had been set aside within the Council's Priorities Fund.
- 2) To note the contributions in 2016/17 to and from the General Fund as detailed in the report and refer the report to Council for ratification for use of funds.
- 3) To note the Housing Revenue Account was balanced after making a contribution of £11.9m to the Renewal and Repairs Fund.
- 4) To note that a report on the Common Good Fund was also considered by the Finance and Resources Committee on 5 September 2017.

- 5) To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

### **Declaration of Interests**

Councillor Whyte declared a non-financial interest in the above item as a Director of EDI.

(References – Act of Council No 16 of 29 June 2017; report by the Executive Director of Resources, submitted)

## **7. Capital Monitoring 2016/17 – Outturn and Receipts**

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Details were provided on the final outturn on the Council's Capital Programme for 2016/17 which included details of capital receipts and slippage/acceleration on projects within the Capital Investment Programme.

### **Decision**

- 1) To note the 2016/17 final unaudited capital positions on the General Fund and Housing Revenue Account (HRA).
- 2) To approve the revised Capital Investment Programme for 2017-2022.
- 3) To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

(References – Act of Council No 16 of 9 February 2017; report by the Executive Director of Resources, submitted)

## **8. Revenue Monitoring 2017/18 – Month Three Position**

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Details were provided on the projected overall position for the Council's revenue expenditure budget for 2017/18 based on analysis of period three data.

### **Decision**

- 1) To note the significant projected overspend position for the year.
- 2) To note the proposal to apply, subject to the outcome of the external audit process and ratification by Council, the 2016/17 in-year underspend and sums previously earmarked in respect of welfare reform-related changes to address pressures in 2017/18, together supporting the process of longer-term service redesign.
- 3) To instruct the Executive Director of Place, Chief Officer of the Edinburgh Health and Social Care Partnership and Head of Safer and Stronger Communities to identify, as a matter of urgency, proposed remedial measures to address the projected overspends in their respective areas.
- 4) To note that those Executive Directors whose Directorates were projecting a balanced or underspend position would be asked to identify opportunities for additional savings in their respective areas.



- 5) To note that, in light of the above, a further update would be included in the mid-year review to be considered at the Finance and Resources Committee's next meeting on 28 September 2017.
- 6) To note the balanced position projected on the Housing Revenue Account.
- 7) To refer the report to the Governance, Risk and Best Value Committee for consideration as part of its work programme.
- 8) To agree that a further report be submitted to the Finance and Resource Committee on 7 November 2017 regarding proposed savings arising from the integration of services.

(Reference – report by the Executive Director of Resources, submitted)

## **9. Resources Directorate – Revenue Budget Monitoring 2017/18 – Month Three Position**

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Details were provided of the Resources Directorate financial performance for 2017/18, based on actual expenditure and income to the end of June 2017 and expenditure and income projections for the remainder of the financial year.

### **Decision**

- 1) To note the Resources Directorate was currently projecting a £0.5m underspend for 2017/18.
- 2) To note the risks to the achievement of a balanced revenue budget projection.

(References – Act of Council No 2 of 9 February 2017; report by the Executive Director of Resources, submitted)

## **10. Chief Executive – Revenue Budget Monitoring 2017/18 – Month Three Position**

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Details were provided on the projected three-month revenue monitoring position for services reporting directly to the Chief Executive based on actual expenditure and income to the end of June 2017 and expenditure and income projections for the remainder of the financial year.

### **Decision**

- 1) To note that services reporting directly to the Chief Executive were currently projecting expenditure within the approved revenue budget for 2017/18.
- 2) To note the risks to the achievement of a balanced revenue budget projection.

(Reference – report by the Executive Director of Resources, submitted)

## **11 Capital Monitoring 2017/18 Three-Month Position**

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Details were provided on the overall position of the Council's capital budget at month three and the projected outturn for the year.

### **Decision**

- 1) To note the projected capital outturn positions on the General Fund and HRA at month three.
- 2) To note the prudential indicators at month three.
- 3) To refer the report to the Governance, Risk and Beat Value Committee as part of its workplan.

(References – Act of Council No 2 of 9 February 2017; report by the Executive Director of Resources, submitted)

## **12. Revenue and Capital Budget Framework 2018/23 – Progress Update**

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The Council had approved a balanced revenue budget for 2017/18 and an indicative balanced budget for 2018/19 as part of a longer-term framework, subject to delivery of approved budget savings.

An update was provided on the outcome of the review of the full range of expenditure and income factors impacting upon the council's activities which pointed to a significant savings in each of the next five financial years.

### **Motion**

- 1) To note the updates to a number of underlying assumptions contained within the budget framework.
- 2) To note the significant resulting increase in the projected funding gap in all years, including a need to identify additional savings for delivery in 2018/19.
- 3) To note that a further update would be provided to the Committee as part of the mid-year review report to be considered on 28 September 2017.
- 4) To agree that a further report be submitted following the publication of the Scottish Government's response to the Barclay Review, and that this report would outline the implications for the council and service users.

- moved by Councillor Whyte, seconded by Councillor Hutchison

### **Amendment**

- 1) To note the updates to a number of underlying assumptions contained within the budget framework.
- 2) To not the significant resulting increase in the projected funding gap in all years, including a need to identify additional savings for delivery in 2018/19.
- 3) To note that a further update would be provided to the Committee as part of the mid-year review report to be considered on 28 September 2017.
- 4) To note the publication of the Barclay Review into Non Domestic Rates and the potential adoption of some recommendations from April 2018; welcome proposals, among others, to end rates relief for independent schools, to exempt day nurseries from rates, to tighten rules for short term lets, and to seek to ensure student accommodation let commercially outside term time is liable for rates; acknowledge concern about the possible impact on Edinburgh Leisure of

the proposal to end rates relief on ALEOs providing sports facilities and a number of other recommendations which may impact negatively on income or services; and therefore call for a report within one cycle, as part of the budget process, setting out the potential budget impact for the period 2018-23

- moved by Councillor Corbett, seconded by Councillor Miller

### **Voting**

The voting was as follows:

For the motion - 9 votes  
For the amendment - 2 votes

(For the motion – Councillors Bridgman, Donaldson, Howie, Hutchison, Johnston, Rankin, Neil Ross, Watt and Whyte.

For the amendment – Councillors Corbett and Miller)

### **Decision**

To approve the motion by Councillor Whyte.

(References – Finance and Resources Committee, 23 March 2017 (item 3(b)); report by the Executive Director of Resources, submitted.)

## **13. Treasury Management: Annual Report 2016/17**

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An update was provided on Treasury Management activity in 2016/17.

### **Decision**

- 1) To note the Annual Report on Treasury Management for 2016/17.
- 2) To refer the report to Council for approval and subsequent referral by Council to the Governance, Risk and Best Value Committee for their scrutiny.

(Reference – report by the Executive Director of Resources, submitted)

## **14. Fraud Prevention and Detection – Annual Report**

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Details were provided on fraud prevention and detection activities undertaken by Internal Audit and the Corporate Fraud investigation Team in 2016/17.

### **Decision**

To note the report by the Executive Director of Resources.

(References – Corporate Policy and Strategy Committee, 9 June 2015 (item 14); report by the Executive Director of Resources, submitted.)

## **15. Contract Awards and Procurement Programme (Period 1 January – 30 June 2017)**

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An update was provided on the scope of contracts awarded between 1 January and 30 June 2017.

## **Decision**

- 1) To note the report by the Executive Director of Resources and the authorisations made under delegated authority.
- 2) To note that a further report would be submitted to Committee in six months time.

(Reference – report by the Executive Director of Resources, submitted)

## **16. Carbon Reduction Commitment (CRC) Annual Report**

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Details were provided on the Council's Carbon Reduction Commitment carbon footprint for the financial year 2016/17.

### **Decision**

- 1) To note the Council's carbon footprint for the financial year 2016/17.
- 2) To note that the annual report had been submitted to the Environmental Agency by the statutory deadline of the end of July.
- 3) To note that the Carbon Reduction Commitment handbook had been subject to its annual review and updated as appropriate.

(Reference – report by the Executive Director of Resources, submitted)

## **17. Finance Policies – Assurance Statement**

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Details were provided on the main results of the review of policies falling within the remit of the Head of Finance.

### **Decision**

To note that the Finance policies detailed in the report by the Executive Director of Resources had been reviewed and were considered to remain current, relevant and fit for purpose.

(References – Act of Council No 14 of 29 June 2017; report by the Executive Director of Resources, submitted)

## **18. Consultants Costs 2016/17**

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Details were provided of expenditure on consultants for the provision of professional services during 2016/17. Revenue expenditure of £6.847m and capital expenditure of £2.877m was incurred on consultants for the year ended 31 March 2017 which was contained within approved budget resources for 2016/17.

### **Decision**

- 1) To note the revenue and capital expenditure for consultants in the financial year 2016/17.

- 2) To note the one-off revenue costs on external professional support incurred in 2016/17 to achieve delivery of major Council projects, including the Commercial Excellence and Transformation Programme projects, which had been progressed to achieve significant future years' savings.

(References – Finance and Resources Committee, 25 August 2009 (item 11); report by the Executive Director of Resources, submitted.)

## **19. Property Conservation – Legacy Debt**

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Approval was sought for the extension of delegated authority which had been granted to the Chief Executive for Project Joule (statutory repairs) debt to 31 March 2018 and to extend similar delegated authority to legacy statutory repairs debt.

### **Decision**

To delegate authority (with power to sub-delegate to any relevant Council officer he considered appropriate) to the Chief Executive in relation to Project Joule (statutory repairs) and legacy statutory repairs to write off sums and to approve any settlement by way of compensation, refund and / or write-off or otherwise, subject to the following limits:

- (a) the aggregate amount written off and / or paid shall not exceed the amount of the Council's bad debt provision in respect of statutory notice work;
- (b) any proposed settlement by the Chief Executive shall not exceed £100,000 per owner; and
- (c) the delegated authority shall expire on 31 March 2018 unless earlier renewed by the Finance and Resources Committee.

(References – Corporate Policy and Strategy Committee, 23 February 2016 (item 7); report by the Executive Director of Resources, submitted)

## **20. Adoption of the Scotland Excel Fostering and Continuing Care Framework**

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Approval was sought for the award of the Scotland Excel Fostering and Continuing Care Framework for the provision of fostering services.

### **Decision**

- 1) To approve the award of the Scotland Excel Fostering and Continuing care framework for the provision of fostering services.
- 2) To note that the framework started on 25 March 2017 and would operate for two years, with the option to extend for a further two months.

(Reference – report by the Executive Director for Communities and Families, submitted)

## **21. Adoption of the Scotland Excel Multi Lot Framework Agreement for the Supply and Delivery of Educational Materials 09-16**

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Approval was sought to adopt and mobilise the Scotland Excel multi lot Framework Agreement to the most economically advantageous organisations identified, following a competitive tendering process, for the Supply and Delivery of Educational Materials 09-16.

### **Decision**

To approve the adoption and mobilisation of the Scotland Excel Framework for the Supply and Delivery of Educational Materials 09-16.

(Reference – report by the Executive Director for Communities and Families, submitted)

## **22. Extension of Contract for Consultancy Services for Roseburn to Union Canal Cycle Route**

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Approval was sought to extend the existing contract for the consultancy services required for the design of the Roseburn to Union Canal Cycle Route.

### **Decision**

- 1) To approve the extension of the WSP contract for consultancy services required for the Roseburn to Union Canal Cycle Route.
- 2) To approve the increased costs to the Council of £121,491 to be met from the Council's 2017/18 Capital budget for cycling improvements.

(References – Finance and Resources Committee, 4 June 2015 (item 26); report by the Executive Director of Place, submitted)

## **23. Asset Management Strategy Transformation Programme - Update**

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The Committee considered a progress report on the implementation of the Asset Management Strategy (AMS) for Property and Facilities Management.

### **Decision**

- 1) To note the continued progress in each of the key AMS Transformation Programme work streams.
- 2) To note the Management Information dashboard reports provided in Appendix 1 to the report by the Executive Director of Resources.

(References – Finance and Resources Committee, 23 February 2016 (item 6), report by the Executive Director of Resources, submitted.)

## **24. Craigmillar Regeneration – Award of Contracts**

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Approval was sought to award two contracts to CCG (Scotland) Ltd (CCG) with a combined estimated contract value of £34,531,895.

## **Decision**

- 1) To agree a project budget of £26,403,558 for the development of 194 homes and associated works at Craigmillar town centre and designate the Executive Director of Place, or nominated delegate, to award the contract to CCG under the Scottish Procurement Alliance (SPA) framework, providing the contract value does not exceed £25,000,000.
- 2) To agree a project budget of £10,739,151 for the development of 75 homes and associated works at Greendykes G and designate the Executive Director of Place, or nominated delegate, to enter into the building contract and other ancillary documents with CCG to the value of £9,531,895.
- 3) To note that both projects formed part of funding requirements presented within the Housing Revenue Account (HRA) five year capital programme approved by Council on 21 January 2016.
- 4) To note the Council would seek authority to initiate the compulsory purchase of a share of a small area of land within the Craigmillar town site if agreement could not be reached with the owner.

(References – Health Social Care and Housing Committee, 10 November 2015 (item 8), report by the Executive Director of Place, submitted.)

## **25. The Venchie: Proposed New Lease for Subjects at 61 Niddrie Mains Terrace, Edinburgh**

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Approval was sought to grant a 25 year lease of subjects at 61 Niddrie Mains Terrace, Edinburgh (“the subjects”) to the Venchie Children & Young People’s Project Limited (“the Venchie”)

### **Decision**

- 1) To approve the grant of a new 25 year lease to the Venchie on the terms and conditions outlined in the report and on such other terms and conditions that may be proposed by the Executive Director of Resources.
- 2) To approve the transfer of the asset from the HRA to the General Fund.

(References – Finance and Resources Committee, 1 December 2016 (item 24); report by the Executive Director of Resources, submitted)

## **26. National Care Home Contract – Outcome of Negotiations**

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The results of national negotiations led by COSLA to determine the National Care Home Contract (NCHC) terms and conditions for 2017/18 were provided.

### **Decision**

- 1) To note and agree the baseline fee uplift of £0.832m (2.8%) with effect from 10 April 2017.
- 2) To note that any enhanced payments made to care home providers in 2017/18 would be made on the basis of demonstrated quality.
- 3) To agree the Edinburgh concession to the NCHC as set out in the main report.



- 4) To agree to apply a reduction of £25 per week on all rates for shared rooms.

(Reference – report by the Interim Chief Officer, Edinburgh Health and Social Care Partnership, submitted)

## **27. Workforce Dashboard**

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Details regarding VERA (Voluntary Early Release Agreement) and VR (Voluntary Redundancy) together with other data (staffing numbers, staff without roles, absence and agency numbers) were provided.

### **Decision**

To note the workforce information contained in the dashboard.

(References – Finance and Resources Committee, 23 March 2017 (item 8); report by the Executive Director of Resources, submitted)

## **28. Edinburgh Shared Repairs Service (ESRS) – Missing Share**

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Approval was sought to implement the use of the missing share power under section 50 of the Housing (Scotland) Act 2006, following the completion of the pilot scheme.

### **Decision**

- 1) To note the results of the pilot scheme of 3 projects approved by the Finance and Resources Committee in June 2016 and the cost benefits assessed.
- 2) To approve the use of the powers for local authorities in accordance with Section 50 of the Housing (Scotland) Act 2006.
- 3) To agree that the Council would recover the payments made in relation to missing shares including associated administrative expenses and interest.

(References – Finance and Resources Committee, 9 June 2016 (item 27); report by the Executive Director of Resources, submitted)

## **29. Common Good Annual Performance 2016-17**

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An update was provided concerning the outturn position for the Common Good Fund and the performance of its cash investments for the 2016/2017 financial year. Updates were also provided on the Common Good Property Planned Maintenance Fund and current issues affecting the Common Good in Edinburgh.

### **Decision**

To note the contents of the report by the Executive Director of Resources.

(References – Finance and Resources Committee, 23 February 2017 (item 17); report by the Executive Director of Resources, submitted)

## **30. Property Insurance Tender 2017**

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Approval was sought to award contracts for the provision of property insurance for the Council.



## **Decision**

To approve the award of the contracts for the provision of property insurance for the Council from 1 October 2017 until 30 September 2022 with two, 24-month discretionary extensions to the following tenderers:

- Lot 1 for owned and operational properties and an excess of £1,000,000 to Risk Management Partners with an estimated total value of £2,298,170.
- Lot 2 for Leased-out industrial and commercial properties to Zurich Municipal with an estimated total value of £1,847,973.
- Lot 3 for Leased-out theatres to Maven Public Sector with an estimated total value of £490,768.

(References – Finance and Resources Committee 19 March 2015 (item 14); report by the Executive Director of Resources, submitted)

### **31. Transportation of Food Containers – 2017-2022**

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Approval was sought to appoint a single supplier to deliver and uplift food containers from school production kitchens and deliver to school dining centres (including lunch clubs), within the City of Edinburgh.

#### **Decision**

To approve the appointment of a single supplier to deliver and uplift food containers within the City of Edinburgh to Sheridan Myers Management Services LLP (SMMS) for a period of 3 years with an option to extend for a further 2 periods of 12 months each.

(Reference – report by the Executive Director of Resources, submitted)

### **32. Adoption of the Scotland Excel Framework Agreement for Outdoor Play Equipment and Artificial Surfaces 02-15**

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Approval was sought for the adoption and implementation of the the Scotland Excel Framework Agreement for Outdoor Play Equipment and Artificial Surfaces 02-15.

#### **Decision**

To approve the adoption and implementation of the Scotland Excel Framework for Outdoor Play equipment and Artificial Surfaces 02-15.

(Reference – report by the Executive Director for Communities and Families, submitted)

### **33 Proposed New Lease at 52 High Street, Edinburgh.**

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Approval was sought to grant of a new 25 year lease to Robert Newman and Stephanie Davidson on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 25 year lease to Robert Newman and Stephanie Davidson of retail premises at 52 High Street, Edinburgh, on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **34. Proposed New Lease at 263 Canongate, Edinburgh**

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Approval was sought to grant a new 10 year lease to Cranachan & Crowdie Ltd, on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 10 year lease to Cranachan & Crowdie Ltd of retail premises at 263 Canongate, Edinburgh, on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **35. Proposed New Lease at 5 Hamilton Place, Edinburgh**

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Approval was sought to grant of a new 15 year lease to Intercontinental Catering Limited on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 15 year lease to Intercontinental Catering Limited of restaurant premises at 5 Hamilton Place, Edinburgh, on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources. .

(Reference – report by the Executive Director of Resources, submitted)

### **36. Proposed New Lease at 60F Colinton Road, Meggetland, Edinburgh**

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Approval was sought to grant a new 25 year lease to Saint Andrew Boat Club on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 25 year ground lease to Saint Andrew Boat Club at 60F Colinton Road, Edinburgh, on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **37. Proposed New Lease of 32 Market Street, Edinburgh**

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Approval was sought to grant a new 30 year lease to Beds and Bars Ltd on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 30 year lease to Beds and Bars Ltd of 32 Market Street on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **38. Proposed New Lease at 328 Lawnmarket, Edinburgh**

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Approval was sought to grant a new 25 year lease to Dildar, Surinder and Galab Singh on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new 25 year lease to Dildar Singh, Surinder Singh and Galab Singh of retail premises at 328 Lawnmarket, Edinburgh, on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **39. Proposed Lease Extension at 129 Lauriston Place, Edinburgh**

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Approval was sought to grant a 10 year lease extension on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a 10 year lease extension to Edinburgh Art Shop Limited of retail premises at 129 Lauriston Place, Edinburgh, on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **40. Proposed Lease Renewal at 65 Bruntsfield Place, Edinburgh**

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Approval was sought for a 15-year lease extension on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve a new lease of the property at 65 Bruntsfield Place on the terms and conditions outlined in the report and on other terms to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **41. Proposed Excambion of Land at Manse Road and Liston Place, Kirkliston**

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Approval was sought for the excambion (exchange) of the two areas of land on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve the excambion of land between the Council and Mr Imtiaz Ahmad on the terms and conditions outlined in the report and on any other terms and conditions to be agreed by the Executive Director of Resources.

(References – Finance and Resources Committee 14 January 2016 (item 32); report by the Executive Director of Resources, submitted)

### **42. Proposed Sale of Land at Broomhouse Street South**

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Authority was sought to dispose of the site to Merged One LLP on the terms and conditions outlined in the report by the Executive Director of Resources.

## **Decision**

To approve the sale of land to Merged One LLP on the terms and conditions outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

### **43. Proposed Sale of Land at Saughton Road North, Edinburgh, for Electricity Substation**

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Approval was sought for the disposal of 564 sq.m land at Union Park, Saughton Road North, to Scottish Power Distribution PLC, together with a servitude right of access for over part of the park for laying cables.

## **Decision**

- 1) To approve the sale of land to Scottish Power Distribution PLC under the terms and conditions outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.
- 2) To approve the granting of a related servitude for the laying of cables.

(Reference – report by the Executive Director of Resources, submitted)

### **44. Proposed Sale of Land at Gyle Park, Edinburgh, for Electricity Substation**

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Approval was sought for the disposal of approximately 340 sq.m of land at Gyle Park, Glasgow Road, Edinburgh, to Scottish Power Distribution PLC, together with a servitude right of access over part of the park for maintenance and laying cables.

## **Decision**

- 1) To approve the sale of land, to Scottish Power Distribution PLC, under the terms and conditions outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.
- 2) To approve the granting of a related servitude right of access for maintenance and laying cables.

(Reference – report by the Executive Director of Resources, submitted)

## **45. Proposed Ground Lease at Port Edgar**

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Approval was sought to grant a new ground lease to the Port Edgar Yacht Club for a period of 67 years on the terms and conditions to be agreed by the Executive Director of Resources.

### **Decision**

To approve the lease of land extending to 0.155 hectares (0.38 acres) or thereby to Port Edgar Yacht Club in accordance with the terms set out in the report and on such other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

## **46. Rose Street Lane South – Proposed Lease of Airspace**

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Approval was sought to grant a new 50 year lease of the airspace to Coal Pension Properties Limited on the terms and conditions outlined in the report by the Executive Director of Resources.

### **Decision**

To approve the lease of the airspace at Rose Street Lane South to Coal Pension Properties Limited on the terms and conditions as outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

## **47. Summary Report on Property Transactions Concluded Under Delegated Authority**

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Details were provided of property transactions concluded in terms of the Council's 'Scheme of Delegation to Officers'.

### **Decision**

To note the 61 transactions detailed in the Appendix attached to the report by the Executive Director of Resources had been concluded in terms of the Council's 'Scheme of Delegation to Officers'.

(References – Finance and Resources Committee 23 March 2017 (item 24); report by the Executive Director of Resources, submitted)

## **48. Re-employment and Re-engagement of Staff**

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The Committee agreed under Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 7(A) of the Act.

Details were provided on the number of employees who had returned to employment with the Council following their departure by VERA or VR since March 2016

## **Decision**

To note the report by the Executive Director of Resources.

(References – Finance and Resources Committee 17 March 2016 (item 9); report by the Executive Director of Resources, submitted)

## **50. Settlement Agreement with Viridor Waste Management Ltd**

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The Committee agreed under Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 8 and 10 of Part 1 of Schedule 7(A) of the Act

## **Decision**

To continue the report until the next meeting of the Finance and Resources Committee.

(Reference – report by the Executive Director of Resources, submitted)

## Finance and Resources Committee – 28 September 2017 October 2017 to January 2018

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
1.	1 Gorgie Road, Edinburgh: Proposed Sale of Former Public Convenience	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 <a href="mailto:graeme.mcgartland@edinburgh.gov.uk">graeme.mcgartland@edinburgh.gov.uk</a>	
2.	Proposed Sale of Land and Excambion at West Granton Road	7 November 2017		Executive Director of Resources Lead Officer: Craig Dalgliesh 0131 529 3173 <a href="mailto:craig.dalgliesh@edinburgh.gov.uk">craig.dalgliesh@edinburgh.gov.uk</a>	
3.	Minute of Amendment to Gas Servitude - Ingliston	7 November 2017		Executive Director of Resources Lead Officer: Lindsay Glasgow 0131 469 3312 <a href="mailto:lindsay.glasgow@edinburgh.gov.uk">lindsay.glasgow@edinburgh.gov.uk</a>	
4.	New Lease - Festival Theatre	7 November 2017		Executive Director of Resources Lead Officer: Andrew Field	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
				0131 529 7354 <a href="mailto:andrew.field@edinburgh.gov.uk">andrew.field@edinburgh.gov.uk</a>	
5.	Servitude for Attenuation Tank - Colinton Mains Park	7 November 2017		Executive Director of Resources Lead Officer: Andrew Field 0131 529 7354 <a href="mailto:andrew.field@edinburgh.gov.uk">andrew.field@edinburgh.gov.uk</a>	
6.	Gas Servitude - Glasgow Road Underpass	7 November 2017		Executive Director of Resources Lead Officer: Mark Penman 0131 529 4188 <a href="mailto:mark.penman@edinburgh.gov.uk">mark.penman@edinburgh.gov.uk</a>	
7.	Overhead Power Lines - Sie Harry Lauder Road	7 November 2017		Executive Director of Resources Lead Officer: Mark Penman 0131 529 4188 <a href="mailto:mark.penman@edinburgh.gov.uk">mark.penman@edinburgh.gov.uk</a>	
8.	Community Asset Transfer Request - Gilmerton Dykes Bothy	7 November 2017		Executive Director of Resources Lead Officer: Shaun Crosby 0131 469 5228 <a href="mailto:shaun.crosby@edinburgh.gov.uk">shaun.crosby@edinburgh.gov.uk</a>	
9.	Servitude of new water pipe - Meggetland	7 November 2017		Executive Director of Resources Lead Officer: Lindsay Glasgow 0131 469 3312 <a href="mailto:lindsay.glasgow@edinburgh.gov.uk">lindsay.glasgow@edinburgh.gov.uk</a>	



Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
10.	Award of Contract for Consultant Design Services – George Street and First New Town Preliminary Design Project	7 November 2017		Executive Director of Place Lead Officer: Jamie Robertson 0131 469 3654 <a href="mailto:jamie.robertson@edinburgh.gov.uk">jamie.robertson@edinburgh.gov.uk</a>	
11.	Comiston Farm House	7 November 2017		Executive Director of Resources Lead Officer: Peter Watton 0131 529 5962 <a href="mailto:peter.watton@edinburgh.gov.uk">peter.watton@edinburgh.gov.uk</a>	
12.	Proposed savings from Integration of services	7 November 2017		Executive Director of Resources Lead Officer: Hugh Dunn 0131 469 3150 <a href="mailto:hugh.dunn@edinburgh.gov.uk">hugh.dunn@edinburgh.gov.uk</a>	
13.	Fountainbridge - Proposed Disposal of Land	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 <a href="mailto:graeme.mcgartland@edinburgh.gov.uk">graeme.mcgartland@edinburgh.gov.uk</a>	
14.	Bus Tracker – Future Provision - Real time traffic management system (ext INEO)	7 November 2017		Executive Director of Place Lead Officer: Andrew MacLeod	
15.	Scottish Energy Efficiency	7 November		Executive Director of Place	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
	Programme Update and Phase 2	2017		Lead Officer: Janice Pauwels 0131 469 3804 <a href="mailto:janice.pauwels@edinburgh.gov.uk">janice.pauwels@edinburgh.gov.uk</a>	
16.	Revenue Monitoring 2017/18 – month five position	7 November 2017		Executive Director of Resources Lead Officer: Fraser Rowson 0131 469 3166 <a href="mailto:fraser.rowson@edinburgh.gov.uk">fraser.rowson@edinburgh.gov.uk</a>	
17.	Capital Monitoring 2017/18 – month five position	7 November 2017		Executive Director of Resources Lead Officer: Denise Pryde 0131 469 3195 <a href="mailto:denise.pryde@edinburgh.gov.uk">denise.pryde@edinburgh.gov.uk</a>	
18.	Chief Executive Revenue monitoring 2017/18 - month five position	7 November 2017		Executive Director of Resources Lead Officer: Iain Shaw 0131 469 3117 <a href="mailto:iain.shaw@edinburgh.gov.uk">iain.shaw@edinburgh.gov.uk</a>	
19.	New lease to Edinburgh Headway Group at 27 Peffer Place.	7 November 2017		Executive Director of Resources Lead Officer: Andrew McCurrach 0131 529 4682 <a href="mailto:andrew.mccurrach@edinburgh.gov.uk">andrew.mccurrach@edinburgh.gov.uk</a>	
20.	Resources Revenue monitoring 2017/18 - month	7 November		Executive Director of Resources Lead Officer: Iain Shaw	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
	five position	2017		0131 469 3117 <a href="mailto:ian.shaw@edinburgh.gov.uk">ian.shaw@edinburgh.gov.uk</a>	
21.	Transfer Update	7 November 2017		Executive Director of Place Alistair McArthur 0131 529 5261 <a href="mailto:alistair.mcarthur@edinburgh.gov.uk">alistair.mcarthur@edinburgh.gov.uk</a>	
22.	Granton Waterfront: Proposed purchase of National Grid Site to Accelerated Housing Led Regeneration	7 November 2017		Executive Director of Place Michelle Fraser 0131 529 3150 <a href="mailto:michelle.fraser@edinburgh.gov.uk">michelle.fraser@edinburgh.gov.uk</a>	
23.	Land at Swanston Village – Proposed Disposal	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 <a href="mailto:graeme.mcgartland@edinburgh.gov.uk">graeme.mcgartland@edinburgh.gov.uk</a>	
24.	Proposed 5 year lease of Unit 1 The Clocktower, Flassches Yard, South Gyle Crescent, Edinburgh	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 <a href="mailto:graeme.mcgartland@edinburgh.gov.uk">graeme.mcgartland@edinburgh.gov.uk</a>	
25.	LDP Action Programme	23 January 2018		Executive Director of Place Lead Officer: David Leslie 0131 529 3948 <a href="mailto:david.leslie@edinburgh.gov.uk">david.leslie@edinburgh.gov.uk</a>	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
26.	Asset Management Strategy	23 January 2018		Executive Director of Resources Lead Officer: Peter Watton 0131 529 5962 <a href="mailto:peter.watton@edinburgh.gov.uk">peter.watton@edinburgh.gov.uk</a>	

## Finance and Resources Committee

28 September 2017

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	23/02/17	<a href="#">Strategic Direction for Tackling Homelessness</a>	To agree that the Head of Safer and Stronger Communities would report back to a future Committee on the impact the implementation of the new Homelessness Strategy would have on shortening the period of contract extensions.	Head of Safer and Stronger Communities	23 January 2018		Ongoing
2	23/03/17	<a href="#">Health and Safety Performance 2016</a>	To agree an update report would be provided to a future Committee.	Executive Director of Resources	March/April 2018		This is an annual report. Next report due March/April 2018.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
3	5/09/2017	<a href="#">Revenue Monitoring 2017/18 – Month Three Position</a>	To note that, in light of the above, a further update would be included in the mid-year review to be considered at the Committee's next meeting on 28 September 2017.	Executive Director of Resources	28 September 2017		Recommended for Closure (see agenda item 7.1)
4	5/09/2017	<a href="#">Revenue and Capital Budget Framework 2018/23 – Progress Update</a>	To note that a further update would be provided to the Committee as part of the mid-year review report to be considered on 28 September 2017.	Executive Director of Resources	28 September 2017		Recommended for Closure (see agenda item 7.1)
5	5/09/2017	<a href="#">Revenue and Capital Budget Framework 2018/23 – Progress Update</a>	To agree that a further report be submitted following the publication of the Scottish Government's response to the Barclay Review, and that this report would outline the implications for the council and service users.	Executive Director of Resources	TBC		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
7	5/09/2017	<a href="#">Settlement Agreement with Viridor Waste Management Ltd</a>	To continue the report until the next meeting of the Finance and Resources Committee.	Executive Director of Place	28 September 2017		



**Finance and Resources Committee**

**10.00am, Tuesday 28 September 2017**

Dean of Guild Court Room, City Chambers, High Street, Edinburgh



# Finance and Resources Committee

Convener:	Members:	Contact:
<p>Convener Cllr Alasdair Rankin</p>  <p>Vice – Convener Councillor Donaldson</p> 	<ul style="list-style-type: none"> <li>▪ Councillor Bridgman</li> <li>▪ Councillor Corbett</li> <li>▪ Councillor Howie</li> <li>▪ Councillor Hutchison</li> <li>▪ Councillor Johnston</li> <li>▪ Councillor Miller</li> <li>▪ Councillor Neil Ross</li> <li>▪ Councillor Watt</li> <li>▪ Councillor Whyte</li> </ul>	<p><a href="#">Stuart McLean</a> Governance Officer Tel: 0131 529 4106</p> <p><a href="#">Joanna Hamilton-Rigg</a> Departmental Adviser Tel: 0131 529 5219</p>

Recent news	Background
<p><b>Barclay Review on Non-Domestic Rates</b></p> <p>Following the earlier publication of the recommendations of the Barclay Review on Non-Domestic Rates, the Cabinet Secretary for Finance and the Constitution, Derek Mackay MSP, made a ministerial statement to Parliament on the Scottish Government’s response on 12 September 2017. <a href="#">This response</a> signalled an intention, subject to Parliamentary approval, to implement the majority of the Review’s recommendations, including granting a year’s relief for newly-constructed and expanded properties, introducing more frequent revaluations, full rates relief for childcare facilities and conducting a comprehensive review of the operation of the Small Business Bonus Scheme.</p> <p>The Scottish Government will engage further with key stakeholders concerning the Review’s recommendations on entitlement to charitable relief for local authority arm’s length leisure and cultural trusts and independent schools, before</p>	<p>Further information is available from:</p> <p><a href="#">Hugh Dunn</a>, Head of Finance 0131 469 3150</p>

publishing its response to these proposals by the end of the year. Following confirmation of the Scottish Government's response to all of these recommendations, in accordance with the motion agreed at the Finance and Resources Committee's meeting on 5 September, a report setting out the main direct and indirect financial and operational impacts upon the Council will be brought to the Committee's following meeting, expected to be on 23 January 2018.

### **Forthcoming activities**

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# Finance and Resources Committee

10.00am, Thursday, 28 September, 2017

## Revenue Budget Monitoring 2017/18 – Update

Item number	7.1
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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At its meeting on 5 September, the Finance and Resources Committee considered the first in-year Council-wide revenue monitoring report for 2017/18. Based on current projections of expenditure and income and taking account of mitigating actions identified to date, the report advised as to a potential full-year overspend of £5.0m. Given the seriousness of this position, members of the Committee approved a number of measures with the intention of bringing net expenditure back in line with approved levels over the remainder of the year and noted that a further update would be considered by the Committee on 28 September.

Work to identify and deliver appropriate mitigating actions is continuing apace and the report notes a slight improvement in the projected overall position, albeit highlighting further pressures within the Health and Social Care that will require concerted and sustained action to re-attain financial stability within the service.

## Revenue Budget Monitoring 2017/18 – Update

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to note that:
- 1.1.1 there is a slight improvement in the net overall projected position for the year, albeit this includes a further worsening of the outturn forecast within Health and Social Care;
  - 1.1.2 an intensive four-week period of review of current and planned employee cost expenditure has been initiated across all Directorates with a view to identifying further potential efficiencies;
  - 1.1.3 more detailed, service-specific monitoring updates will continue to be considered at relevant Executive Committees;
  - 1.1.4 the Interim Chief Officer of the Edinburgh Health and Social Care Partnership will provide a service-specific update to the Finance and Resources Committee on 7 November; and
  - 1.1.5 a further, Council-wide update will also be brought to the Committee's meeting on 7 November.

### 2. Background

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- 2.1 At its meeting on 5 September, the Finance and Resources Committee considered the first in-year Council-wide revenue monitoring report for 2017/18. Based on current projections of expenditure and income and taking account of mitigating actions identified to date, the report advised as to a potential full-year overspend of £5.0m. Given the seriousness of this position, members of the Committee approved a number of measures with the intention of bringing net expenditure back in line with approved levels over the remainder of the year and noted that a further update would be considered by the Committee on 28 September.

### 3. Main report

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- 3.1 Since the Finance and Resources Committee's last meeting on 5 September 2017, a range of urgent actions has been initiated across all service areas, focusing analysis on key elements of influenceable spend, with a view to identifying further potential efficiencies, additional income and opportunities to reduce, or delay, any

expenditure of a discretionary nature. While a full Period 5-based report will be considered by the Committee at its meeting on 7 November, this report sets out the main conclusions arising from preliminary analysis of Period 5 data, in line with the reporting timeline intimated at the Committee's meeting on 5 September. The following sections focus in particular upon changes from the position reported at Period 3, although sight should not be lost of the need for on-going and active management of the risks and pressures implicit in the forecasts as of that time.

### **Overall position**

- 3.2 The projected overall position, summarised in Appendix 1, indicates a slight improvement in the Council-wide outturn to an anticipated year-end overspend of £4m. This position reflects the net impact of:
- (i) £2m of additional savings, or reductions in expenditure, across the Communities and Families, Place and Resources Directorates;
  - (ii) the release, based on an assessment of actual and anticipated commitments, of £1m of the sums put aside as part of the 2016/17 accounts closure process to take forward any necessary works in buildings sharing similar design characteristics to the Council's PPP1 schools; and
  - (iii) further pressures of £2m within Health and Social Care, primarily attributable to additional care at home and Self-Directed Support (SDS) expenditure since Period 3.

### **Service-specific projections - Communities and Families**

- 3.3 The Executive Director of Communities and Families has identified net residual pressures of £1.1m at this time, primarily representing additional, demand-led expenditure for out-of-Council accommodation and transitional net costs arising from the transfer of non-core hour management of school sports facilities to Edinburgh Leisure.
- 3.4 Work is continuing to identify additional mitigating actions and the Director is committed to delivering a balanced position by the year-end. In view of the request for all Directorates to review opportunities for further reductions in expenditure to contribute to bringing the Council's overall position back in line with approved levels, however, the programme of one-off investment reported to the Committee on 23 March 2017 (totalling some £3.5m) will additionally be reviewed to identify £0.5m of expenditure that may be reduced, or not incurred, in the current year.

### **Place**

- 3.5 Total unbudgeted pressures of £4.430m have been identified within the Place service, towards which mitigating measures sufficient to allow a balanced position to be achieved are planned. A corresponding set of actions has now been developed and while a number of risks remain around their subsequent delivery, a break-even position is being forecast at this time. Progress will continue to be actively monitored and reported in respect of mitigation delivery.

## **Resources**

- 3.6 The Period 3-based forecast reported to the Committee's meeting on 5 September pointed to an in-year underspend of £0.5m, primarily representing acceleration of staffing-related savings associated with the Transformation Programme. Following the request for further savings opportunities to be considered, the Executive Director of Resources has now additionally indicated that the £0.5m contingency in respect of the Customer Transformation Plan will not be applied in 2017/18, allowing it to contribute towards wider savings requirements. Application of this funding at this time does, however, reduce the level of contingency available to support the programme in 2018/19.

## **Health and Social Care**

- 3.7 In contrast to the improved situation across other service areas, the initial Period 5-based position for Health and Social Care reflects an overall increase in projected overspend of £2m, primarily due to additional care at home and Self-Directed Support (SDS) expenditure apparent since Period 3. The forecast reflects service levels at Period 5 and does not include provision for any further uplift in activity.
- 3.8 In recognition of the severity of this situation, the Financial Update considered by the Integrated Joint Board on 22 September set out the main elements of a two-month fundamental re-assessment and re-focusing of the Edinburgh Integration Joint Board's plans, centred upon performance, quality and affordability as a route towards re-establishing financial stability. The Interim Chief Officer of the Edinburgh Health and Social Care Partnership will provide an update on this assessment to the Finance and Resources Committee at the meeting on 7 November. In the interim, a range of measures, including authorisation of recruitment to all Council vacancies by the Interim Chief Officer, additional workforce controls and refocusing of existing savings proposals and evaluation of additional savings proposals through a strengthened programme management approach, are being examined.

## **Further planned actions**

- 3.9 While the overall Council-wide projection reflects a modest level of improvement, it is clear that further actions are required both to return current-year expenditure to within budgeted levels and form sustainable foundations upon which to base the Council's medium-term budget framework.
- 3.10 As an initial step, however, an intensive four-week period of analysis and engagement between all Directors and HR Business Partners, looking in detail at current vacancies, use of agency staff and review of fixed-term contracts with a view to identifying potential efficiencies, has been initiated and the results of this analysis, along with a wider progress update, will be reported as part of the Committee's next update on 7 November.

#### **4. Measures of success**

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- 4.1 Achieving a balanced overall budget outturn position for 2017/18 and successful delivery of approved savings and key service performance indicators.

#### **5. Financial impact**

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- 5.1 The report's contents point to a potential in-year overspend, highlighting the importance of continuing action to bring expenditure back in line with approved levels.
- 5.2 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets.

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

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- 6.1 The delivery of a balanced budget outturn for the year is the key target. The risks associated with cost pressures, increased demand and savings delivery targets are regularly monitored and reviewed and management action is taken as appropriate.
- 6.2 Ongoing communications by the Council's section 95 Officer have reinforced the respective responsibilities of Executive Directors and Heads of Service to maintain expenditure within approved budgets in accordance with the Financial Regulations. Directors also have a requirement to ensure that savings identified are both achievable and delivered to maintain a sustainable budget across the Council. With this in mind, structured plans are in place for review and feedback on current and future years' savings proposals. This has contributed positively to a position where the majority of approved 2017/18 savings are assessed as being on track to be delivered.

#### **7. Equalities impact**

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- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

## 8. Sustainability impact

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- 8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas.

## 9. Consultation and engagement

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- 9.1 The Corporate Leadership Team (CLT) has formally reviewed and discussed the in-year monitoring position and year-end projection. As a consequence, the Chief Executive has tasked Executive Directors with identifying mitigating actions to address in-year pressures and to review opportunities for additional savings proposals.
- 9.2 There is no external consultation and engagement arising directly from this report, although the Council's budget continues to be subject to a process of regular consultation and engagement.

## 10. Background reading/external references

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Interim service monitoring statements for period five

[Revenue Monitoring 2017/18 – Month Three Position](#), Finance and Resources Committee, 5 September 2017

[Financial Update](#), Edinburgh Integration Joint Board, 22 September, 2017

### **Stephen S. Moir**

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

E-mail: [hugh.dunn@edinburgh.gov.uk](mailto:hugh.dunn@edinburgh.gov.uk) | Tel: 0131 469 3150

## 11. Appendices

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Appendix 1 – Interim service analysis, Period 5



**REVENUE MONITORING 2017-18**

**INTERIM PERIOD 5 REPORT**

**SERVICE ANALYSIS**

Account	Revised Budget £000	Projected Outturn £000	Projected Variance	
			£000	%
Communities and Families	341,812	341,312	(500)	-0.1%
Place	64,070	64,070	0	0.0%
Resources	165,450	164,450	(1,000)	-0.6%
Health and Social Care	184,201	193,301	9,100	4.9%
Chief Executive	11,437	11,437	0	0.0%
Safer and Stronger Communities	25,815	29,315	3,500	13.6%
Valuation Joint Board Requisition	3,741	3,741	0	0.0%
<b>General Fund Services Subtotal</b>	<b>796,526</b>	<b>807,626</b>	<b>11,100</b>	<b>1.4%</b>
<b>Other income and expenditure</b>				
Net Cost of Benefits	(62)	(62)	0	0.0%
Early Release Costs	1,010	1,010	0	0.0%
Other non-service specific costs	24,329	24,329	0	0.0%
Interest and investment income	(8,811)	(8,811)	0	0.0%
Loan Charges	114,442	113,442	(1,000)	-0.9%
Contributions to Earmarked Funds (net)	6,292	3,292	(3,000)	-47.7%
Income from Council Tax	(266,342)	(268,342)	(2,000)	-0.8%
- Council tax reduction scheme	23,277	23,277	0	0.0%
Revenue support grant	(335,598)	(335,598)	0	0.0%
Distribution from NDRI pool	(355,063)	(355,063)	0	0.0%
Return of 2016/17 surplus from Council Priorities Fund	0	(1,058)	(1,058)	n/a
<b>In-year Deficit / (Surplus)</b>	<b>0</b>	<b>4,042</b>	<b>4,042</b>	<b>n/a</b>

# 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

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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.

## City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit

### 1. Recommendations

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- 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

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- 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

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- 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**

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- 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**

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- 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

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- 6.1 The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.
- 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

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- 7.1 There is no direct relevance of equalities and rights issues to the report's contents.

## 8. Sustainability impact

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- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

## 9. Consultation and engagement

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- 9.1 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received 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

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[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

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**Stephen S. Moir**

Executive Director of Resources

## 11. Appendices

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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**

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# 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 2016-17 and 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](http://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](https://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

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## 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.

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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*

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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*

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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 Oxfangs 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<sup>1</sup> 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;

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<sup>1</sup> 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	-
<b>GF Services</b>	<b>798.9</b>	<b>799.4</b>	<b>0.5</b>

## 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.

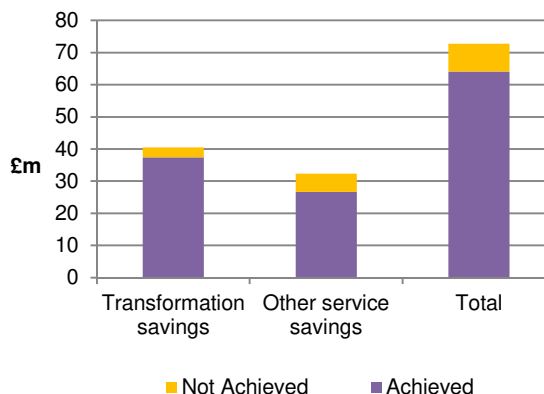
#### Audit Plan Point 3

### 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**

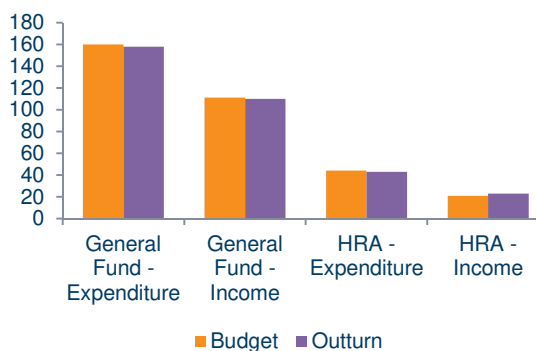


Source: 2016-17 Outturn Report

### 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**



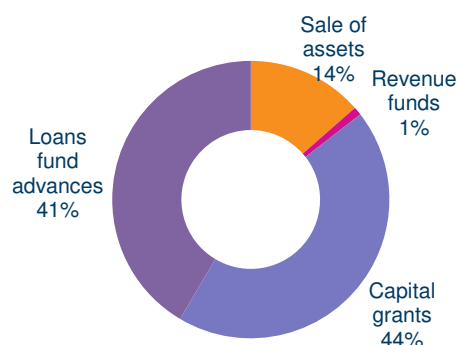
Source: Capital Outturn Report 2016/17

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.

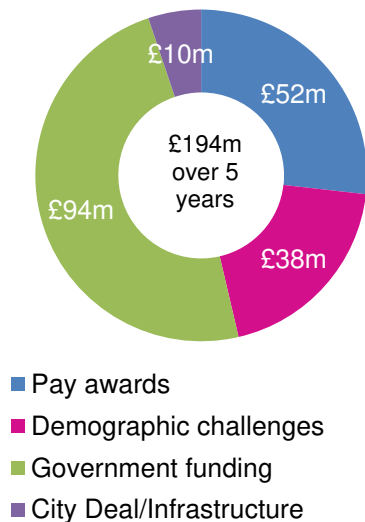
### Delivering a sustainable financial position

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**

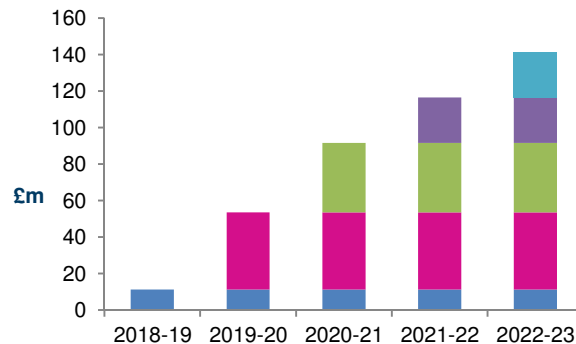


**Note:** The total financial gap has been offset by revised changes to assumptions relating to Council Tax income (£38million) and others (£14 million). The total gap by 2022-23 is estimated to be £141.60m.

Source: Revenue and capital budget framework 2018/23 – progress update, Sept 2017

**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.

**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

**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:

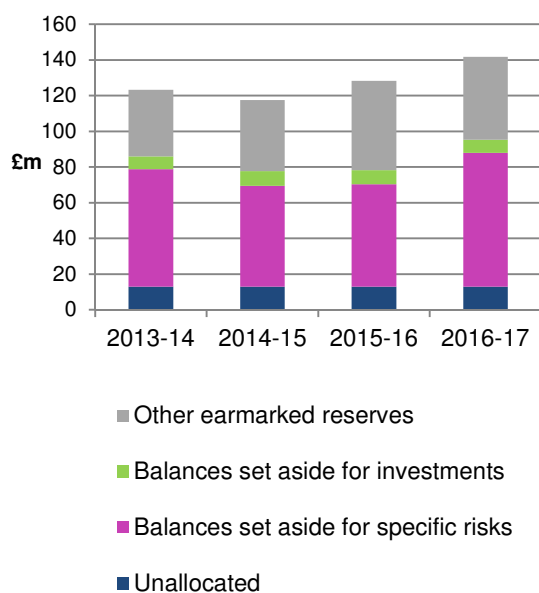
- The achievement of transformation and other savings
- Volatile demand and therefore funding to deliver the planned outcomes of the Edinburgh Integration Joint Board
- Demographic changes leading to rising service demands.

**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

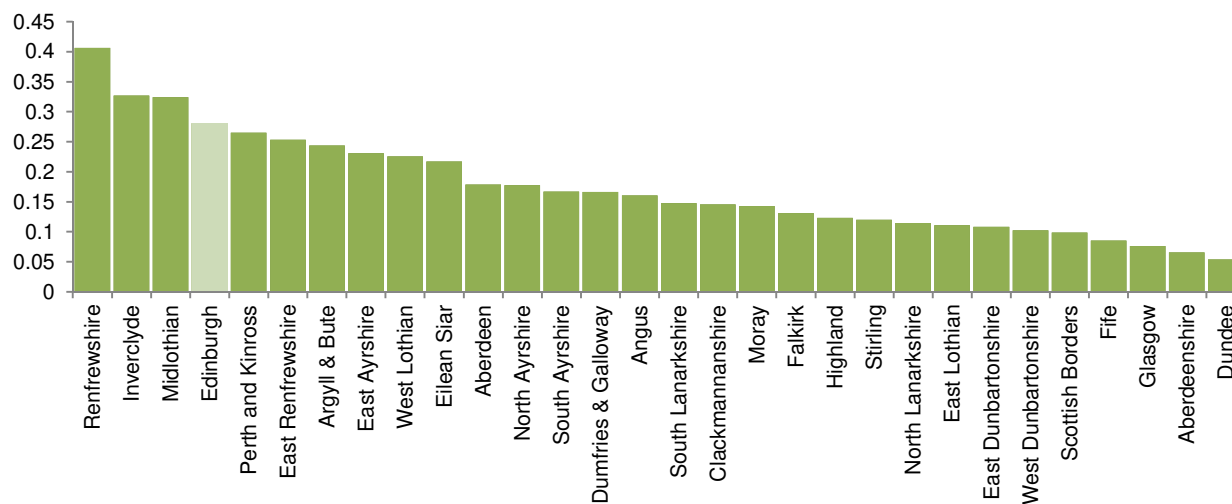
- 111.** Exhibit 11 summarises the movements on the council's usable reserves in 2016-17. We note that the City of Edinburgh council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements 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)
<b>Total usable reserves</b>	<b>189.4</b>	<b>238.0</b>	<b>253.9</b>	<b>£15.9m</b>

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 compiled 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.

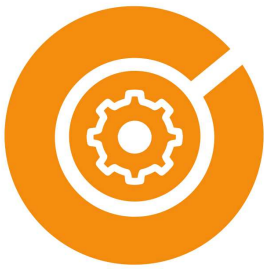


# 5

## 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 Oxbgangs 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.

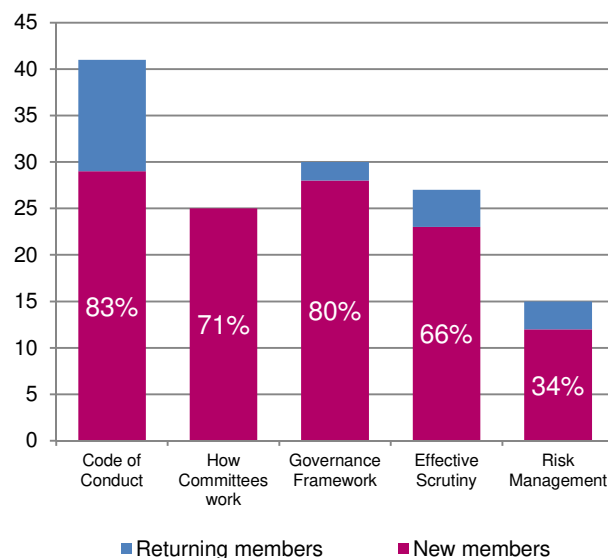
## Committee effectiveness

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 Oxfangs 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.

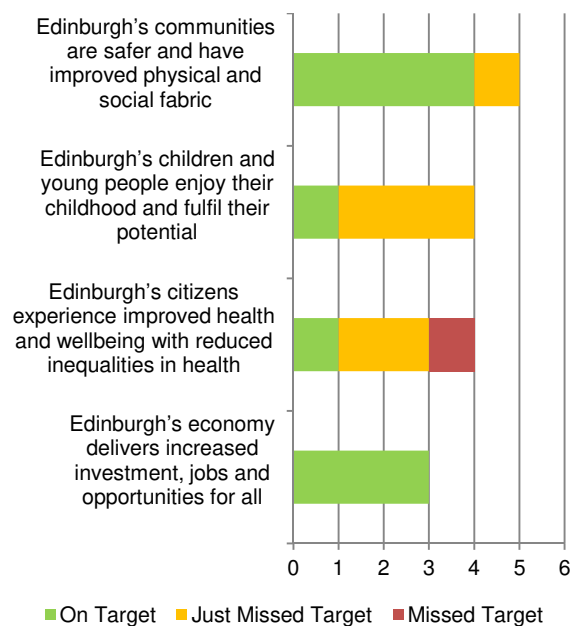
## Public Performance reporting

- 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)

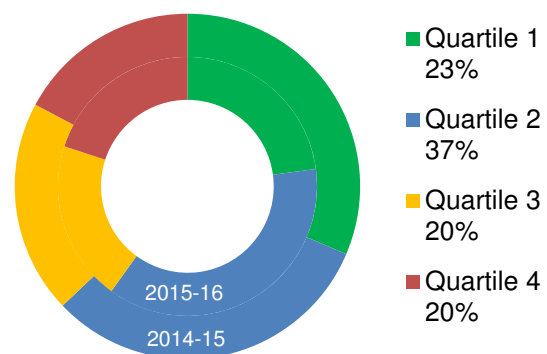
- The Percentage of adults satisfied with the refuse collection services (32nd)
- Cost of maintenance per kilometre of roads (27th)
- Accommodation that is suitable for current use (32nd).

**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

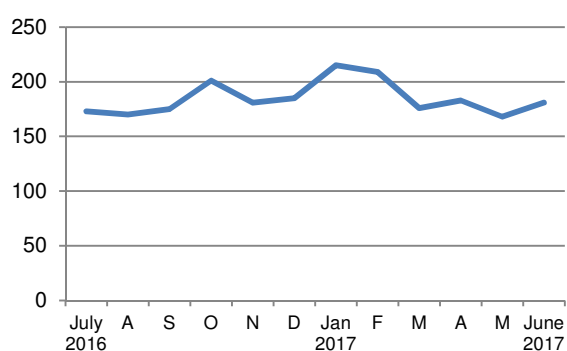


## Delayed discharges

- 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 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	<p><b>Excellent</b> – outstanding, sector leading</p> <p><b>Very good</b> – major strengths</p> <p><b>Good</b> – important strengths with some areas for improvement</p> <p><b>Adequate</b> – strengths just outweigh weaknesses</p> <p><b>Weak</b> – important weaknesses</p> <p><b>Unsatisfactory</b> – major weaknesses</p>
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
<b>Critical</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
<b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>

Action plan point	Issue & Recommendation	Management Comments
1	<p>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.</p>	<p>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.</p> <p><b>Responsible Officer:</b> Corporate Finance Senior Manager</p> <p><b>Completion Date:</b> March 2018</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
9		

Action plan point	Issue & Recommendation	Management Comments
2	<p>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.</p> <p>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.</p> <p>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</p>	<p>The Council has robust arrangements to remind councillors of their duties under the Act.</p> <ul style="list-style-type: none"> <li>• We regularly review Elected Member Register of Interests;</li> <li>• Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring;</li> <li>• Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates;</li> <li>• Regularly review our process;</li> <li>• Provide appropriate guidance and prompts to Elected Members to support compliance.</li> </ul> <p>For the new Council in May 2017:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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).</li> </ul>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
68		

Action plan point	Issue & Recommendation	Management Comments
		<ul style="list-style-type: none"> <li>• We reminded Elected Members ahead of the deadline (31 May 2017)</li> <li>• We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline;</li> <li>• 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;</li> <li>• We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017;</li> <li>• 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.</li> </ul> <p>We will continue to remind regularly councillors of their duties under the Act.</p> <p><b>Responsible Officers:</b> Governance and Democratic Services Manager Councillors</p> <p><b>Completion Date:</b> Ongoing</p>



Action plan point	Issue & Recommendation	Management Comments
3	<p>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.</p> <p>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.</p>	<p>Based on a best-practice review or reporting 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.</p> <p>Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined.</p> <p><b>Responsible Officers:</b> Head of Finance</p> <p><b>Completion Date:</b> February 2018</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
79		

Action plan point	Issue & Recommendation	Management Comments
4	<p>The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce.</p> <p>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.</p>	<p>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.</p> <p><b>Responsible Officer:</b> Head of Human Resources</p> <p><b>Completion Date:</b> September 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
120		

Action plan point	Issue & Recommendation	Management Comments
5	<p>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.</p> <p>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.</p>	<p>The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017.</p> <p><b>Responsible Officer:</b> Interim Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Completion Date:</b> October 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
147		

Action plan point	Issue & Recommendation	Management Comments
6	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible Officer:</b> Governance and Democratic Services Manager</p> <p><b>Completion Date:</b> November 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
149		

Action plan point	Issue & Recommendation	Management Comments
7	Each council will report a range of information setting out:	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.
<b>Rating</b>	<ul style="list-style-type: none"> <li>Its performance in improving local public services (including with partners)</li> <li>Its performance in improving local outcomes (including with partners)</li> <li>Its performance in engaging with communities and service users, and responding to their views and concerns</li> <li>Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.</li> </ul>	<p><b>Responsible Officers:</b> Interim Strategy and Insight Senior Manager</p> <p><b>Completion Date:</b> March 2018</p>
<b>Medium</b>		
<b>Paragraph ref</b>		
190	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.	

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:
<b>Rating</b>		<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>High</b>		<p><b>Responsible Officers:</b> Interim Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>NHS Director</p> <p><b>Completion Date:</b> December 2017</p>
<b>Paragraph ref</b>		
198		



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**2016/2017**

**AUDITED ANNUAL ACCOUNTS**

# The City of Edinburgh Council

## Annual Accounts

Year to 31 March 2017

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# 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

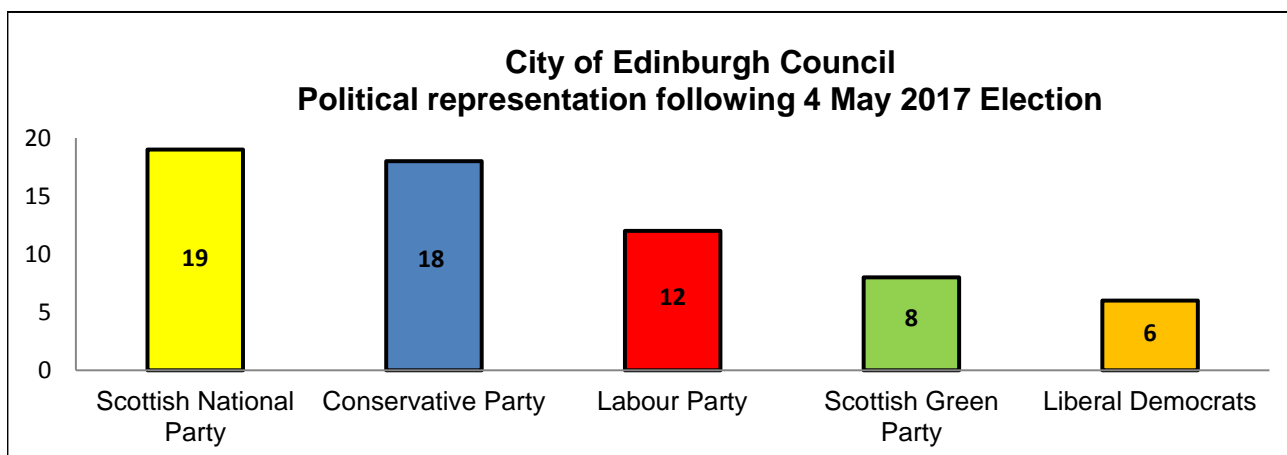
The City of Edinburgh Council was constituted under the Local Government, etc. (Scotland) Act 1994 and became the unitary local authority to Scotland's capital city in April 1996. The Council brought together most of the services delivered by the previous regional and district councils, with its primary 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.



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 further 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.

	<b>Budget</b>	<b>Actual</b>	<b>(Under)</b>
	<b>2016/17</b>	<b>2016/17</b>	<b>/ Over</b>
	<b>£000</b>	<b>£000</b>	<b>Spend</b>
			<b>£000</b>
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
<b>Total expenditure to be funded</b>	<b>937,343</b>	<b>939,901</b>	<b>2,558</b>
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
<b>Funding</b>	<b>(937,343)</b>	<b>(940,959)</b>	<b>(3,616)</b>
<b>Transfer to Council Priorities Fund</b>	<b>0</b>	<b>(1,058)</b>	<b>(1,058)</b>

Fees and charges levied by the Council have been offset against the cost of providing services and are included within the actual cost of General Fund Services shown above.

# 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.

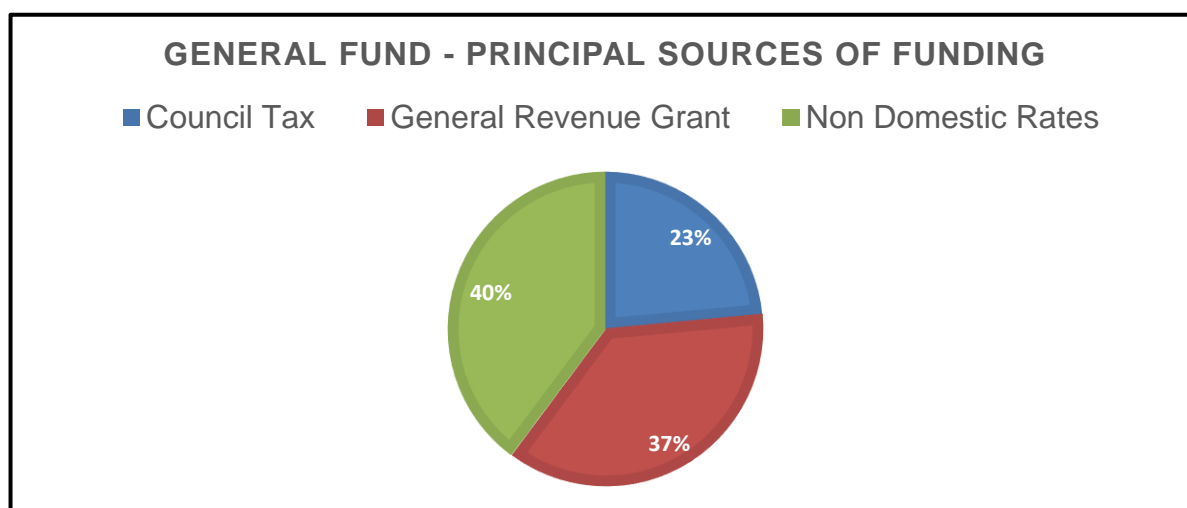
The main variances in the Council's outturn position arose in the following areas:

- 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:

	<b>£000</b>
Council Tax, net of Council Tax Reduction Scheme (CTRS)	221,390
General revenue funding	344,919
Distribution from non-domestic rates pool	<u>374,650</u>
Total	<u><u>940,959</u></u>



# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Reserves

#### General Fund

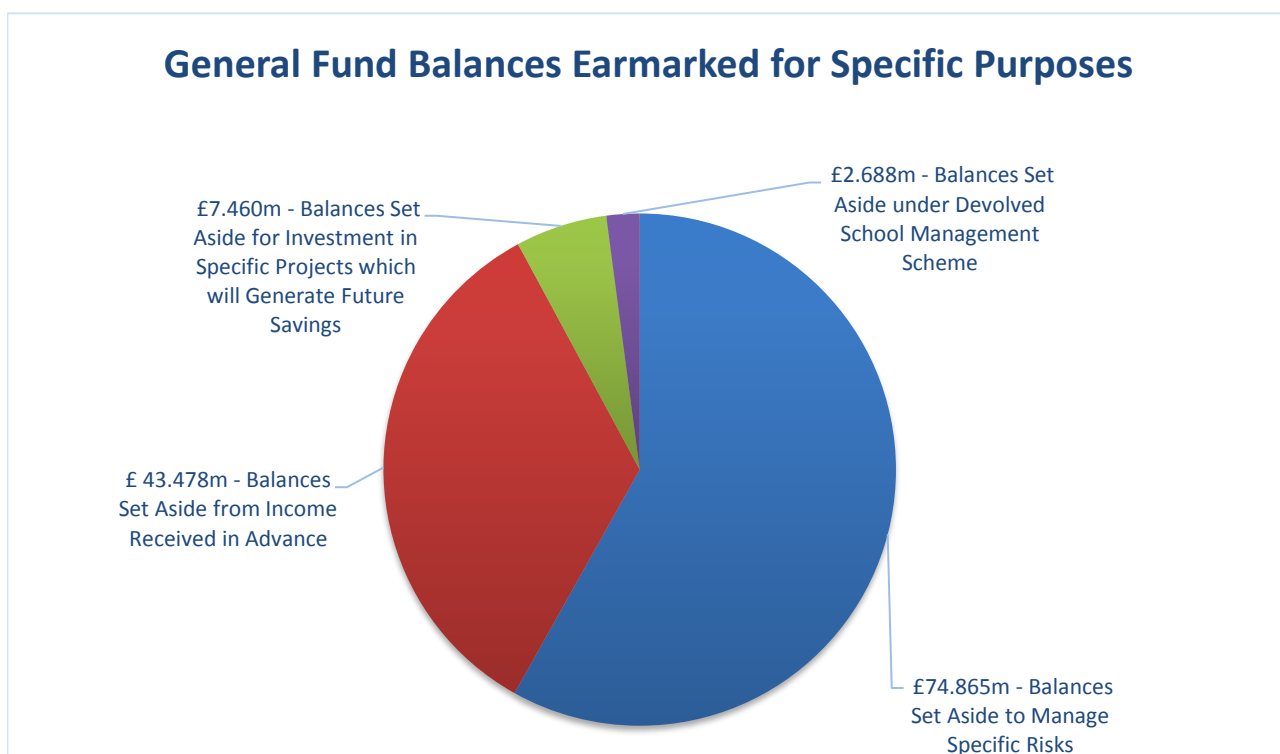
The Council's General Fund reserves comprise two elements:

- 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.

<b>Council Tax</b>	<b>2016/17</b>	<b>2015/16</b>	<b>Notes on Ratios</b>
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).
<b>Debt and Borrowing - Prudence</b>			<b>Notes on Ratios</b>
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.
<b>Debt and Borrowing - Affordability</b>			<b>Notes on Ratios</b>
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 (EESH) 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:

	<b>Revised Budget 2016/17 £000</b>	<b>Actual 2016/17 £000</b>	<b>(Slippage) / Acceleration £000</b>
Capital expenditure			
General Fund services	159,722	157,976	(1,746)
Housing Revenue Account	<u>44,304</u>	<u>43,627</u>	<u>(677)</u>
Total capital expenditure	<u>204,026</u>	<u>201,603</u>	<u>(2,423)</u>
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	<u>(5,274)</u>	<u>(2,015)</u>	<u>3,259</u>
Total capital income	<u>(132,205)</u>	<u>(132,916)</u>	<u>(711)</u>
Balance to be funded through borrowing			
- General Fund services	48,791	48,322	(469)
- Housing Revenue Account	<u>23,030</u>	<u>20,365</u>	<u>(2,665)</u>
Total advances from loans fund	<u>71,821</u>	<u>68,687</u>	<u>(3,134)</u>

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  
Chief Executive

28 September 2017

STEPHEN S. MOIR  
Executive Director of Resources

28 September 2017

ADAM MCVEY  
Council Leader

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.

	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	
<b>2016/17</b>				
Balance at 31 March 2016	128,396	0	38,194	
<b>Movement in reserves during 2016/17</b>				
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	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	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	
<b>Balance at 31 March 2017</b>	<b>141,826</b>	<b>0</b>	<b>50,141</b>	
	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Council's Total Usable Reserves £000</b>	<b>Group Usable Reserves £000</b>
<b>2016/17</b>				
Balance at 31 March 2016	2,657	68,793	238,040	40,418
<b>Movement in reserves during 2016/17</b>				
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
<b>Net (increase) / decrease before transfers to statutory reserves</b>	(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)
<b>Balance at 31 March 2017</b>	<b>766</b>	<b>61,178</b>	<b>253,911</b>	<b>28,516</b>
	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2016/17</b>				
Balance at 31 March 2016	278,458	1,731,418	108,366	2,118,242
<b>Movement in reserves during 2016/17</b>				
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
<b>Net (increase) / decrease before transfers to statutory reserves</b>	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)
<b>Balance at 31 March 2017</b>	<b>282,427</b>	<b>1,511,957</b>	<b>109,801</b>	<b>1,904,185</b>

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000	
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	117,524	0	35,833	
<b>Movement in reserves during 2015/16</b>				
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	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	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	
<b>Balance at 31 March 2016</b>	<b>128,396</b>	<b>0</b>	<b>38,194</b>	
	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Council's Total Usable Reserves £000</b>	<b>Group Usable Reserves £000</b>
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	4,349	31,721	189,427	9,876
<b>Movement in reserves during 2015/16</b>				
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	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	(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
<b>Balance at 31 March 2016</b>	<b>2,657</b>	<b>68,793</b>	<b>238,040</b>	<b>40,418</b>
	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	199,303	1,449,087	99,107	1,747,497
<b>Movement in reserves during 2015/16</b>				
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
<b>Net (increase) / decrease before transfers to statutory reserves</b>	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
<b>Balance at 31 March 2016</b>	<b>278,458</b>	<b>1,562,385</b>	<b>277,399</b>	<b>2,118,242</b>



## 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
	<b>SERVICES</b>				
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	<b>COST OF SERVICES</b>		<u>1,916,936</u>	<u>(1,024,037)</u>	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)	<b>SURPLUS ON PROVISION OF SERVICES</b>				(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)	<b>GROUP (SURPLUS)</b>				<u>(23,229)</u>
(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)	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>				<u>214,057</u>

## 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	£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
<u>958,661</u>	<b>COST OF SERVICES</b>	<u>1,758,252</u>	<u>(851,406)</u>	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)
<u>(1,277)</u>	<b>SURPLUS ON PROVISION OF SERVICES</b>			(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	
<u>(8,823)</u>	Other Unrealised (Gains) / Losses		<u>10,620</u>	
<u>(329,667)</u>	Other Comprehensive Income and Expend.			<u>214,358</u>
<u>(330,944)</u>	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>			<u>203,590</u>

### 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
<u>(4,200)</u>	Associates and Joint Ventures	<u>6,634</u>
<u>(370,745)</u>	Group total Comprehensive (Income) / Expenditure for the year	<u>214,057</u>

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.

<b>(re-stated)</b>			<b>31 March 2017</b>	
<b>31 March 2016</b>			<b>£000</b>	<b>£000</b>
	<b>£000</b>	<b>Notes</b>		
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	
<b>3,799,558</b>	<b>Property, Plant and Equipment</b>	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
<b>4,052,885</b>	<b>Long-Term Assets</b>			<b>4,036,570</b>
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	
<b>310,768</b>	<b>Current Assets</b>			<b>319,730</b>
(69,444)	Short-Term Borrowing		(70,334)	
(174,802)	Short-Term Creditors	25.	(169,542)	
(13,004)	Provisions	26.	(12,863)	
<b>(257,250)</b>	<b>Current Liabilities</b>			<b>(252,739)</b>

## GROUP BALANCE SHEET

(re-stated) 31 March 2016		31 March 2017		
£000		Notes	£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)	
<u>(439,950)</u>	Other Long-Term Liabilities (Pensions)		<u>(710,582)</u>	
<u>(1,988,161)</u>	<b>Long-Term Liabilities</b>			<u>(2,199,376)</u>
<u><b>2,118,242</b></u>	<b>Net Assets</b>			<u><b>1,904,185</b></u>
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)	
<u>108,366</u>	Group Unusable Reserves		<u>109,801</u>	
<u>1,839,784</u>	<b>Unusable Reserves</b>	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	
<u>40,418</u>	Group Usable Reserves		<u>28,516</u>	
<u>278,458</u>	<b>Usable Reserves</b>	12.		<u>282,427</u>
<u><b>2,118,242</b></u>	<b>Total Reserves</b>			<u><b>1,904,185</b></u>

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'.

<b>(re-stated)</b>			<b>31 March 2017</b>	
<b>31 March</b>				
<b>2016</b>				
<b>£000</b>		<b>Notes</b>	<b>£000</b>	<b>£000</b>
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	
<u>3,696,653</u>	<b>Property, Plant and Equipment</b>	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.		<u>111,684</u>
<u>3,915,178</u>	<b>Long-Term Assets</b>			<u>3,911,411</u>
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.	<u>133,142</u>	
<u>265,107</u>	<b>Current Assets</b>			266,613
(69,444)	Short-Term Borrowing		(70,334)	
(148,008)	Short-Term Creditors	25.	(142,671)	
<u>(11,532)</u>	Provisions	26.	<u>(10,551)</u>	
<u>(228,984)</u>	<b>Current Liabilities</b>			(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)	
<u>(438,940)</u>	Other Long-Term Liabilities (Pensions)	43.9	<u>(705,786)</u>	
<u>(1,981,843)</u>	<b>Long-Term Liabilities</b>			<u>(2,188,600)</u>
<u><b>1,969,458</b></u>	<b>Net Assets</b>			<u><b>1,765,868</b></u>
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)	
<u>(14,862)</u>	Employee Statutory Adjustment Account		<u>(14,121)</u>	
<u>1,731,418</u>	<b>Unusable Reserves</b>	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	
<u>128,396</u>	General Fund		<u>141,826</u>	
<u>238,040</u>	<b>Usable Reserves</b>	12.		253,911
<u><b>1,969,458</b></u>	<b>Total Reserves</b>			<u><b>1,765,868</b></u>

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.

<b>(re-stated)</b> <b>2015/16</b> <b>£000</b>		<b>Year ended 31 March 2017</b>	
		<b>Notes</b>	<b>£000</b>
	<b>Operating Activities</b>		<b>£000</b>
(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)
<u>(192,663)</u>	Net cash flows from operating activities		<u>(225,027)</u>
	<b>Investing Activities</b>		
131,664	Net cash flows from investing activities	31.	140,572
	<b>Financing Activities</b>		
<u>37,791</u>	Net cash flows from financing activities	32.	<u>43,336</u>
<u><u>(23,208)</u></u>	<b>Net increase in cash and cash equivalents</b>		<u><u>(41,119)</u></u>
<u>(95,504)</u>	Cash and cash equivalents at 1 April		<u>(118,712)</u>
<u>(118,712)</u>	Cash and cash equivalents at 31 March	23.	<u>(159,831)</u>
<u><u>(23,208)</u></u>	<b>Net increase in cash and cash equivalents</b>		<u><u>(41,119)</u></u>

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

<b>(re-stated)</b> <b>2015/16</b> <b>£000</b>		<b>Year ended 31 March 2017</b>	
		<b>Notes</b>	<b>£000</b> <b>£000</b>
	<b>Operating Activities</b>		
(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)
<u>(176,207)</u>	Net cash flows from operating activities	29.	<u>(198,915)</u>
	<b>Investing Activities</b>		
126,970	Net cash flows from investing activities	31.	120,978
	<b>Financing Activities</b>		
<u>33,194</u>	Net cash flows from financing activities	32.	<u>42,786</u>
<u>(16,043)</u>	<b>Net increase in cash and cash equivalents</b>		<u>(35,151)</u>
<u>(81,948)</u>	Cash and cash equivalents at 1 April		<u>(97,991)</u>
<u>(97,991)</u>	Cash and cash equivalents at 31 March	23.	<u>(133,142)</u>
<u>(16,043)</u>	<b>Net increase in cash and cash equivalents</b>		<u>(35,151)</u>



# 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 £000	Adjustments £000	Net Expenditure in the CIES £000
Communities and Families Place	341,807	9,844	351,651
Housing Revenue Account	68,388	71,892	140,280
Health and Social Care Resources	0	(27,759)	(27,759)
Chief Executive	187,838	1,121	188,959
Safer and Stronger Communities	130,860	22,360	153,220
Lothian Valuation Joint Board	41,302	618	41,920
	25,486	135	25,621
	3,744	0	3,744
<b>Net Cost of Services</b>	<b>799,425</b>	<b>78,211</b>	<b>877,636</b>
<b>Other income and expenditure</b>			
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 ( <i>loan charges in management reporting</i> )	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)
<b>Surplus on the provision of services</b>	<b>(1,058)</b>	<b>(9,710)</b>	<b>(10,768)</b>
Opening General Fund and HRA Balance	128,396		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	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		Net Expenditure in the CIES
	Balances £000	Adjustments £000	
Communities and Families Place	399,003	17,625	416,628
Housing Revenue Account	146,237	92,137	238,374
Health and Social Care Resources	0	(25,441)	(25,441)
Lothian Valuation Joint Board	207,482	9,153	216,635
	79,810	5,624	85,434
	3,744	0	3,744
<b>Net Cost of Services</b>	<b>836,276</b>	<b>99,098</b>	<b>935,374</b>
<b>Other income and expenditure</b>			
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 ( <i>loan charges in management reporting</i> )	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)
<b>Surplus on the provision of services</b>	<b>(785)</b>	<b>(492)</b>	<b>(1,277)</b>
Opening General Fund and HRA Balance	117,524		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	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 Place	4,478	1,363	2,135	7,976
Housing Revenue Account	71,318	1,052	(1,147)	71,223
Health and Social Care Resources	(15,350)	117	(640)	(15,873)
Chief Executive	157	1,064	(1,538)	(317)
Safer and Stronger Communities	40,895	976	(188)	41,683
	1,325	35	95	1,455
	0	264	(135)	129
<b>Net Cost of Services</b>	<b>102,823</b>	<b>4,871</b>	<b>(1,418)</b>	<b>106,276</b>
<b>Other income and expenditure</b>				
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)
<b>(Surplus) or deficit on the provision of services</b>	<b>(8,488)</b>	<b>22,635</b>	<b>(1,860)</b>	<b>12,287</b>

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 £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families Place	7,976	(108)	1,976	9,844
Housing Revenue Account	71,223	35	634	71,892
Health and Social Care Resources	(15,873)	0	(11,886)	(27,759)
Chief Executive	(317)	0	1,438	1,121
Safer and Stronger Communities	41,683	(16,468)	(2,855)	22,360
	1,455	0	(837)	618
	129	0	6	135
<b>Net Cost of Services</b>	<b>106,276</b>	<b>(16,541)</b>	<b>(11,524)</b>	<b>78,211</b>
<b>Other income and expenditure</b>				
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)
<b>(Surplus) or deficit on the provision of services</b>	<b>12,287</b>	<b>0</b>	<b>(21,997)</b>	<b>(9,710)</b>

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

<b>2015/16 Comparative Data</b>	<b>Adjusts. For Capital Purposes £000</b>	<b>Net Change for Pensions Adjusts. £000</b>	<b>Other Differences £000</b>	<b>Total Statutory Adjusts. £000</b>
Communities and Families Place	39,839	3,310	(3,920)	39,229
Housing Revenue Account	89,603	3,783	(948)	92,438
Health and Social Care Resources	(22,968)	348	(565)	(23,185)
	8,186	2,998	(583)	10,601
	1,693	1,233	(323)	2,603
<b>Net Cost of Services</b>	<b>116,353</b>	<b>11,672</b>	<b>(6,339)</b>	<b>121,686</b>
<b>Other income and expenditure</b>				
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)
<b>(Surplus) or deficit on the provision of services</b>	<b>(25,673)</b>	<b>35,109</b>	<b>(8,949)</b>	<b>487</b>

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

<b>2015/16 Comparative Data</b>	<b>Total Statutory Adjusts. £000</b>	<b>Presention Adjusts. £000</b>	<b>Use of Reserves £000</b>	<b>Total Adjusts. £000</b>
Communities and Families Place	39,229	(18,238)	(3,366)	17,625
Housing Revenue Account	92,438	1,144	(1,445)	92,137
Health and Social Care Resources	(23,185)	0	(2,256)	(25,441)
	10,601	0	(1,448)	9,153
	2,603	(5)	3,026	5,624
<b>Net Cost of Services</b>	<b>121,686</b>	<b>(17,099)</b>	<b>(5,489)</b>	<b>99,098</b>
<b>Other income and expenditure</b>				
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)
<b>(Surplus) or deficit on the provision of services</b>	<b>487</b>	<b>0</b>	<b>(979)</b>	<b>(492)</b>

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		Housing Revenue Account	Health and Social Care
	£000	Place £000	£000	£000
<b>Expenditure</b>				
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 ( <i>HRA only</i> )	0	0	16,585	0
<b>Total Expenditure</b>	<b>367,395</b>	<b>239,669</b>	<b>90,650</b>	<b>271,108</b>
<b>Income</b>				
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
<b>Total Income</b>	<b>(25,588)</b>	<b>(171,281)</b>	<b>(90,650)</b>	<b>(83,270)</b>
<b>Net Cost of Services</b>	<b>341,807</b>	<b>68,388</b>	<b>0</b>	<b>187,838</b>
			Safer and Stronger Communities	Lothian Valuation Joint Board
	Resources	Chief Executive	£000	£000
<b>Expenditure</b>	£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 ( <i>HRA only</i> )	0	0	0	0
<b>Total Expenditure</b>	<b>175,225</b>	<b>47,622</b>	<b>73,567</b>	<b>3,744</b>
<b>Income</b>				
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
<b>Total Income</b>	<b>(44,365)</b>	<b>(6,320)</b>	<b>(48,081)</b>	<b>0</b>
<b>Net Cost of Services</b>	<b>130,860</b>	<b>41,302</b>	<b>25,486</b>	<b>3,744</b>
			Associates and Joint Ventures	Group Total
	Council Total	Subsidiaries	£000	£000
<b>Expenditure</b>	£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 ( <i>HRA only</i> )	16,585	0	0	16,585
Net expend from Associates and Joint Ventures	0	0	2,222	2,222
<b>Total Expenditure</b>	<b>1,268,980</b>	<b>158,684</b>	<b>2,222</b>	<b>1,429,886</b>
<b>Income</b>				
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)
<b>Total Income</b>	<b>(469,555)</b>	<b>(172,631)</b>	<b>(1,949)</b>	<b>(644,135)</b>
<b>Net Cost of Services</b>	<b>799,425</b>	<b>(13,947)</b>	<b>273</b>	<b>785,751</b>

## 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		Housing Revenue Account	Health and Social Care
	£000	Place £000	£000	£000
<b>Expenditure</b>				
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 ( <i>HRA only</i> )	0	0	27,329	0
<b>Total Expenditure</b>	<b>421,700</b>	<b>394,249</b>	<b>108,165</b>	<b>285,016</b>
<b>Income</b>				
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
<b>Total Income</b>	<b>(22,697)</b>	<b>(248,012)</b>	<b>(108,165)</b>	<b>(77,534)</b>
<b>Net Cost of Services</b>	<b>399,003</b>	<b>146,237</b>	<b>0</b>	<b>207,482</b>

2015/16 Comparative Data	Lothian Valuation		
	Resources £000	Joint Board £000	Total £000
<b>Expenditure</b>			
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 ( <i>HRA only</i> )	0	0	27,329
<b>Total Expenditure</b>	<b>116,166</b>	<b>3,744</b>	<b>1,329,040</b>
<b>Income</b>			
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)
<b>Total Income</b>	<b>(36,356)</b>	<b>0</b>	<b>(492,764)</b>
<b>Net Cost of Services</b>	<b>79,810</b>	<b>3,744</b>	<b>836,276</b>

2015/16 Comparative Data	Associates and Joint Ventures		
	Subsidiaries £000	Ventures £000	Group Total £000
<b>Expenditure</b>			
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 ( <i>HRA only</i> )	0	0	27,329
Net expend from Associates and Joint Ventures	0	2,780	2,780
<b>Total Expenditure</b>	<b>149,116</b>	<b>2,780</b>	<b>1,480,936</b>
<b>Income</b>			
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)
<b>Total Income</b>	<b>(156,684)</b>	<b>(30)</b>	<b>(649,478)</b>
<b>Net Cost of Services</b>	<b>(7,568)</b>	<b>2,750</b>	<b>831,458</b>

## 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
	£000	£000
<b>Expenditure</b>		
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
<b>Total Expenditure</b>	<b><u>1,926,638</u></b>	<b><u>2,002,497</u></b>
<b>Income</b>		
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)
<b>Total Income</b>	<b><u>(1,949,867)</u></b>	<b><u>(2,007,534)</u></b>
<b>Surplus on the Provision of Services</b>	<b><u>(23,229)</u></b>	<b><u>(5,037)</u></b>

#### 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
	£000	£000
<b>Expenditure</b>		
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
<b>Total Expenditure</b>	<b><u>1,751,153</u></b>	<b><u>1,833,956</u></b>
<b>Income</b>		
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)
<b>Total Income</b>	<b><u>(1,761,921)</u></b>	<b><u>(1,835,233)</u></b>
<b>Surplus on the Provision of Services</b>	<b><u>(10,768)</u></b>	<b><u>(1,277)</u></b>

## 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:

<b>Subsidiaries:</b>	<b>Shareholding</b>	
• CEC Holdings Limited	100.00%	
• Transport for Edinburgh Limited	100.00%	
<b>Associates:</b>		
• Edinburgh Leisure	33.33%	Board representation
• Festival City Theatres Trust	33.33%	Board representation
• Lothian Valuation Joint Board	61.19%	Funding percentage
• Common Good	100.00%	
<b>Joint Venture</b>	<b>Interest</b>	
• Edinburgh Integration Joint Board	50.00%	Board representation
<b>Trusts:</b>		
• International Conference Centre Income Trust		
• International Conference Centre Expenditure Trust		

The following companies are not consolidated into the Group Accounts. An assessment has been carried out on these companies, their activities and the level of Council control. These companies are not considered to be a material part of the Group and have therefore been excluded from the Group Accounts:

	<b>Shareholding</b>
• Capital City Partnership Limited	100.00%
• CEC Recovery Limited (formerly tie Limited)	100.00%
• Marketing Edinburgh Limited	100.00%
• 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:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.12.16</b>	<b>(re-stated) 31.12.15</b>
	<b>£000</b>	<b>£000</b>
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:

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.03.17</b>	<b>14 months to 31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:

	<b>31.12.16</b>	<b>31.12.15</b>
	<b>£000</b>	<b>£000</b>
<b>Transport for Edinburgh Limited (Consolidated Group)</b>		
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:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
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:

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Total Comprehensive Expenditure	158	148
Net assets	1,087	1,245
Total usable reserves	1,087	1,245

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Deficit for the year	145	624
Net Liabilities	(10,940)	(5,008)
Usable reserves	1,011	749
Unusable reserves	<u>(11,951)</u>	<u>(5,757)</u>
Total reserves	<u>(10,940)</u>	<u>(5,008)</u>

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:

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Funding - requisitions	(3,744)	(3,746)
Other income	<u>(1,320)</u>	<u>(1,312)</u>
Total income	<u>(5,064)</u>	<u>(5,058)</u>
Deficit for the year	<u>89</u>	<u>382</u>
Net liabilities	<u>(6,694)</u>	<u>(3,066)</u>
Usable reserves	619	459
Unusable reserves	<u>(7,313)</u>	<u>(3,525)</u>
Total reserves	<u>(6,694)</u>	<u>(3,066)</u>

#### 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.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
The most recent audited results of the company are as follows:		10 months to
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 £000	31.03.16 £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

	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2016/17</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	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
<b>Insertion of items not debited or credited to the CIES</b>			
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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(11,306)	(754)	27,922
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(27,922)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,400)	(498)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(599)	(142)	0
<b>Total Adjustments</b>	<b>20,317</b>	<b>(5,708)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

2016/17	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(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)
<b>Insertion of items not debited or credited to the CIES</b>	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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,905)	0	1,905
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
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
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,898
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	741
<b>Total Adjustments</b>	<b>(1,891)</b>	<b>(7,615)</b>	<b>(5,103)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Adjustments Between Accounting Basis and Funding Basis Under Regulations - continued

	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2015/16 Comparative Data</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	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
<b>Insertion of items not debited or credited to the CIES</b>			
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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and 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)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,440)	(488)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(5,798)	(78)	0
<b>Total Adjustments</b>	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		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(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)
<b>Insertion of items not debited or credited to the CIES</b>			
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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(3,285)	0	3,285
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
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
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,928
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	5,876
<b>Total Adjustments</b>	<b>(1,692)</b>	<b>37,072</b>	<b>(47,336)</b>



## 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.

	(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
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
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
<b>Total Usable Reserves - Subsidiaries</b>	<b>29,617</b>	<b>(9,008)</b>	<b>(49)</b>	<b>20,560</b>
<b>Associates and Joint Ventures</b>				
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
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>10,801</b>	<b>(4,954)</b>	<b>2,109</b>	<b>7,956</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>40,418</b>	<b>(13,962)</b>	<b>2,060</b>	<b>28,516</b>

## 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
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
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
<b>Total Usable Reserves - Subsidiaries</b>	<b>(275)</b>	<b>(484)</b>	<b>30,376</b>	<b>29,617</b>
<b>Associates and Joint Ventures</b>				
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
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>10,151</b>	<b>(2,348)</b>	<b>2,998</b>	<b>10,801</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>9,876</b>	<b>(2,832)</b>	<b>33,374</b>	<b>40,418</b>

## 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
<b>Council's Usable Reserves</b>				
<b>General Fund</b>				
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
<b>Total General Fund</b>	<b>128,396</b>	<b>(32,695)</b>	<b>46,125</b>	<b>141,826</b>
<b>Housing Revenue Account Balance</b>	<b>0</b>	<b>(11,886)</b>	<b>11,886</b>	<b>0</b>
<b>Renewal and Repairs Fund</b>	<b>38,194</b>	<b>0</b>	<b>11,947</b>	<b>50,141</b>
<b>Capital Fund</b>	<b>68,793</b>	<b>(8,165)</b>	<b>550</b>	<b>61,178</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>(27,922)</b>	<b>27,922</b>	<b>0</b>
<b>Capital Grants Unapplied Account</b>	<b>2,657</b>	<b>(1,905)</b>	<b>14</b>	<b>766</b>
<b>Total Usable Reserves - Council</b>	<b>238,040</b>	<b>(82,573)</b>	<b>98,444</b>	<b>253,911</b>
<b>Total Usable Reserves - Group</b>	<b>278,458</b>	<b>(96,535)</b>	<b>100,504</b>	<b>282,427</b>

## 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
<b>General Fund</b>					
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
<b>Total General Fund</b>	<b>117,524</b>	<b>0</b>	<b>(18,675)</b>	<b>29,547</b>	<b>128,396</b>
<b>Housing Revenue Account Balance</b>	<b>0</b>	<b>0</b>	<b>(2,256)</b>	<b>2,256</b>	<b>0</b>
<b>Renewal and Repairs Fund</b>	<b>35,833</b>	<b>0</b>	<b>0</b>	<b>2,361</b>	<b>38,194</b>
<b>Capital Fund</b>	<b>31,721</b>	<b>0</b>	<b>(18,198)</b>	<b>55,270</b>	<b>68,793</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>0</b>	<b>(120,690)</b>	<b>120,690</b>	<b>0</b>
<b>Capital Grants Unapplied Account</b>	<b>4,349</b>	<b>0</b>	<b>(3,285)</b>	<b>1,593</b>	<b>2,657</b>
<b>Total Usable Reserves - Council</b>	<b>189,427</b>	<b>0</b>	<b>(163,104)</b>	<b>211,717</b>	<b>238,040</b>
<b>Total Usable Reserves - Group</b>	<b>199,303</b>	<b>0</b>	<b>(165,936)</b>	<b>245,091</b>	<b>278,458</b>

#### 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

<b>2016/17</b>	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(32,695)	(11,886)	0	(27,922)
Transfers in	46,125	11,886	11,947	27,922
Total movements in fund	<u>13,430</u>	<u>0</u>	<u>11,947</u>	<u>0</u>
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	<u>13,430</u>	<u>0</u>	<u>11,947</u>	<u>0</u>
	<b>Capital Grants Unapplied £000</b>	<b>Capital Fund £000</b>	<b>Group Usable Reserves £000</b>	<b>Total £000</b>
Transfers out	(1,905)	(8,165)	(13,962)	<b>(96,535)</b>
Transfers in	14	550	2,060	<b>100,504</b>
Total movements in fund	<u>(1,891)</u>	<u>(7,615)</u>	<u>(11,902)</u>	<u><b>3,969</b></u>
Recognised in Comprehensive Income and Expenditure Statement	(1,891)	(7,615)	12,522	<b>28,393</b>
Transfers to other earmarked reserves	0	0	(24,424)	<b>(24,424)</b>
Total movements in fund	<u>(1,891)</u>	<u>(7,615)</u>	<u>(11,902)</u>	<u><b>3,969</b></u>
	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(18,675)	(2,256)	0	(120,690)
Transfers in	29,547	2,256	2,361	120,690
Total movements in fund	<u>10,872</u>	<u>0</u>	<u>2,361</u>	<u>0</u>
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	<u>10,872</u>	<u>0</u>	<u>2,361</u>	<u>0</u>

#### 2015/16 Comparative Data

## 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 - 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)	<b>(165,936)</b>
Transfers in	1,593	55,270	33,374	<b>245,091</b>
Total movements in fund	<u>(1,692)</u>	<u>37,072</u>	<u>30,542</u>	<u><b>79,155</b></u>
Recognised in Comprehensive Income and Expenditure Statement	(1,692)	37,072	33,004	<b>81,617</b>
Transfers to other earmarked reserves	0	0	(2,462)	<b>(2,462)</b>
Total movements in fund	<u>(1,692)</u>	<u>37,072</u>	<u>30,542</u>	<u><b>79,155</b></u>

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)
	<u>(12,009)</u>	<u>(12,061)</u>	<u>(35,949)</u>	<u>(35,947)</u>

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
	<u>93,155</u>	<u>93,889</u>	<u>106,779</u>	<u>108,331</u>

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
	<u>(997,547)</u>	<u>(999,442)</u>	<u>(1,029,710)</u>	<u>(1,032,322)</u>

## 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	
	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
<b>Cost or Valuation</b>				
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	<u>1,091,376</u>	<u>1,852,238</u>	<u>327,615</u>	<u>1,403,042</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(53,385)</u>	<u>(136,631)</u>	<u>(152,553)</u>	<u>(567,358)</u>
<b>Net book value</b>				
At 31 March 2017	<u>1,037,991</u>	<u>1,715,607</u>	<u>175,062</u>	<u>835,684</u>
At 31 March 2016	<u>1,030,623</u>	<u>1,613,201</u>	<u>177,742</u>	<u>872,920</u>



## 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
<b>Cost or Valuation</b>				
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	<u>14,562</u>	<u>2,421</u>	<u>38,927</u>	<u>4,730,181</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>(909,927)</u>
<b>Net book value</b>				
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>38,927</u>	<u>3,820,254</u>
At 31 March 2016	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<u>3,799,558</u>

## 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
<b>Cost or Valuation</b>				
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	<u>1,066,016</u>	<u>1,724,709</u>	<u>312,416</u>	<u>1,376,084</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(35,393)</u>	<u>(111,508)</u>	<u>(134,674)</u>	<u>(503,164)</u>
<b>Net book value</b>				
At 31 March 2016	<u><u>1,030,623</u></u>	<u><u>1,613,201</u></u>	<u><u>177,742</u></u>	<u><u>872,920</u></u>
At 31 March 2015	<u><u>1,029,558</u></u>	<u><u>1,732,117</u></u>	<u><u>178,127</u></u>	<u><u>912,496</u></u>

## 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
<b>Cost or Valuation</b>				
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	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<u>4,584,297</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>(784,739)</u>
<b>Net book value</b>				
At 31 March 2016	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<u>3,799,558</u>
At 31 March 2015	<u>12,192</u>	<u>12,624</u>	<u>50,330</u>	<u>3,927,444</u>

## 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
<b>Cost or Valuation</b>				
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	<u>1,091,376</u>	<u>1,790,336</u>	<u>184,899</u>	<u>1,396,372</u>
<b>Accumulated Depreciation and Impairment</b>				
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	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	<u>(53,385)</u>	<u>(105,526)</u>	<u>(86,008)</u>	<u>(561,444)</u>
<b>Net book value</b>				
At 31 March 2017	<u>1,037,991</u>	<u>1,684,810</u>	<u>98,891</u>	<u>834,928</u>
At 31 March 2016	<u>1,030,623</u>	<u>1,583,123</u>	<u>105,961</u>	<u>871,874</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Property, Plant and Equipment - continued

#### 16.5 Movements on Balances - Council

##### Movements in 2016/17

<b>Cost or Valuation</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property Plant and Equipment £000</b>	<b>PPP Assets £000</b>
At 1 April 2016	12,964	2,420	89,688	<b>4,383,726</b>	583,781
Additions	1,842	1	33,004	<b>140,143</b>	34
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	<b>22,310</b>	6,951
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	<b>(14,623)</b>	0
Derecognition - disposals	0	0	0	<b>(15,728)</b>	0
Derecognition - other	0	0		<b>0</b>	0
Assets reclassified (to) / from held for sale	0	0	0	<b>3,065</b>	0
Other movements in cost or valuation	0	0	(83,765)	<b>0</b>	4,092
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>38,927</u>	<b><u>4,518,893</u></b>	<u>594,858</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2016	0	0	0	<b>(687,073)</b>	(22,252)
Depreciation charge	0		0	<b>(137,434)</b>	(13,155)
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>9,855</b>	2,720
Depreciation written out to the Surplus on the Provision of Services	0	0	0	<b>7,531</b>	0
Derecognition - disposals	0	0	0	<b>779</b>	0
Derecognition - other	0	0	0	<b>0</b>	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	<b>0</b>	0
Other movements in cost or valuation	0	0	0	<b>(21)</b>	0
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>	<b><u>(806,363)</u></b>	<u>(32,687)</u>
<b>Net book value</b>					
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>38,927</u>	<b><u>3,712,530</u></b>	<u>562,171</u>
At 31 March 2016	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<b><u>3,696,653</u></b>	<u>561,529</u>

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

<b>Cost or Valuation</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
At 1 April 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	<u>1,066,016</u>	<u>1,663,708</u>	<u>179,516</u>	<u>1,369,414</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(35,393)</u>	<u>(80,585)</u>	<u>(73,555)</u>	<u>(497,540)</u>
<b>Net book value</b>				
At 31 March 2016	<u>1,030,623</u>	<u>1,583,123</u>	<u>105,961</u>	<u>871,874</u>
At 31 March 2015	<u>1,029,558</u>	<u>1,704,462</u>	<u>104,027</u>	<u>911,161</u>

## 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
<b>Cost or Valuation</b>					
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
<b>Accumulated Depreciation and Impairment</b>					
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)
<b>Net book value</b>					
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'.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

<b>Council assets</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
Carried at historical cost	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
<b>Total cost or valuation</b>	<b>1,091,376</b>	<b>1,790,336</b>	<b>184,899</b>	<b>1,396,372</b>

<b>Council assets</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
Carried at historical cost	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
<b>Total cost or valuation</b>	<b>14,562</b>	<b>2,421</b>	<b>38,927</b>	<b>4,518,893</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 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
<b>Total cost or valuation</b>	<b>0</b>	<b>18,892</b>	<b>0</b>	<b>18,892</b>

- 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 £000	Council £000	Group £000	Council £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
	<u>(1,379)</u>	<u>(1,379)</u>	<u>(1,366)</u>	<u>(1,366)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 £000	Council £000	Group £000	Council £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	<u>16,821</u>	<u>16,471</u>	<u>17,450</u>	<u>17,250</u>

## 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.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Communities and Families	0	56
Health and Social Care	0	12
Chief Executive	1,221	1,221
Total amortisation	<u>1,221</u>	<u>1,289</u>

The movement on intangible asset balances during the year is as follows:

	<b>2016/17</b>		<b>2015/16</b>	
	<b>Group</b>	<b>Council</b>	<b>Group</b>	<b>Council</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April				
Gross carrying amount	8,557	8,557	8,557	8,557
Less: Accumulated amortisation	<u>(4,892)</u>	<u>(4,892)</u>	<u>(3,603)</u>	<u>(3,603)</u>
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	<u>(1,221)</u>	<u>(1,221)</u>	<u>(1,289)</u>	<u>(1,289)</u>
Net carrying amount at 31 March	<u>2,665</u>	<u>2,665</u>	<u>3,665</u>	<u>3,665</u>
Comprising:				
Gross carrying amounts	8,778	8,778	8,557	8,557
Accumulated amortisation	<u>(6,113)</u>	<u>(6,113)</u>	<u>(4,892)</u>	<u>(4,892)</u>
Net carrying amount at 31 March	<u>2,665</u>	<u>2,665</u>	<u>3,665</u>	<u>3,665</u>

The following items of capitalised software are individually material within intangible assets.

	<b>Carrying Amount</b>		<b>Remaining</b>
	<b>2016/17</b>	<b>2015/16</b>	<b>Amortisation</b>
	<b>£000</b>	<b>£000</b>	<b>Period</b>
			<b>31.03.17</b>
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

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 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	<u>665</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2017	<u>665</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2016	<u>654</u>	<u>2,047</u>	<u>6,797</u>

	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 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	<u>1,975</u>	<u>19,643</u>	<u>31,127</u>
<b>Accumulated Impairment</b>			
At 1 April 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2017	<u>1,975</u>	<u>19,643</u>	<u>31,127</u>
At 31 March 2016	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Heritage Assets - continued

#### 19.1 Reconciliation of the Carrying Value of Heritage Assets - continued 2015/16 Comparative Data

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 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	<u>654</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2015	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2016	<u>654</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2015	<u>613</u>	<u>2,047</u>	<u>6,797</u>
	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 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	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>
<b>Accumulated Impairment</b>			
At 1 April 2015	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2016	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>
At 31 March 2015	<u>1,975</u>	<u>19,643</u>	<u>31,075</u>

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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	
	£000	£000	£000	£000	
<b>Investments</b>					
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	
<b>Debtors</b>					
Loans and receivables	5,665	5,538	28,293	29,978	
Total debtors	5,665	5,538	28,293	29,978	
<b>Borrowings</b>					
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

	<b>Long-Term</b>	
	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
<b>Other Long-Term Liabilities</b>		
PPP and finance lease liabilities	(205,517)	(215,787)
Deferred liability	<u>(22,357)</u>	<u>(17,877)</u>
Total other long-term liabilities	<u><u>(227,874)</u></u>	<u><u>(233,664)</u></u>

Lothian Regional Council entered into an agreement for the disposal of Norton Park Annex to the Tudor Trust. The terms of the disposal included the creation of a Title Company with share capital of 100 ordinary shares, held by the Tudor Trust, and 350,000 £1 preference shares held by City of Edinburgh Council. The preference shares carry rights that, in the event of the company being wound up or the property sold, the Council will receive the first £0.35m of the sale proceeds. This is 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.

	<b>Current</b>	
	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
<b>Creditors</b>		
Financial liabilities at amortised cost	(23,548)	(15,277)
PPP and finance leases due within 1 year	<u>(10,370)</u>	<u>(10,813)</u>
Total creditors	<u><u>(33,918)</u></u>	<u><u>(26,090)</u></u>

#### 20.2 Income, Expenses, Gains and Losses

	<b>Financial Liabilities: Measured at Amortised Cost £000</b>	<b>Financial Assets: Loans and Receivables £000</b>	<b>Available for Sale £000</b>	<b>Unquoted Equity at Amortised Cost £000</b>	<b>Total £000</b>
Interest expense	70,231	0	0	0	70,231
Total expense in Surplus on the Provision of Services	<u>70,231</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>70,231</u>
Interest income	0	(374)	(750)	0	(1,124)
Dividend Income	0	0	0	(6,000)	(6,000)
Total Interest and investment income	<u>0</u>	<u>(374)</u>	<u>(750)</u>	<u>(6,000)</u>	<u>(7,124)</u>
Net (gain) / loss for the year	<u><u>70,231</u></u>	<u><u>(374)</u></u>	<u><u>(750)</u></u>	<u><u>(6,000)</u></u>	<u><u>63,107</u></u>

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		<u>(1,564,709)</u>	<u>(2,299,240)</u>	<u>(1,620,561)</u>	<u>(2,193,446)</u>

The fair value is higher than the carrying amount because the authority’s portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.



## NOTES TO THE FINANCIAL STATEMENTS

### 20. Financial Instruments - continued

#### 20.3 Fair Value of Assets and Liabilities - continued

	Fair Value Level	31.03.17		31.03.16	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value</b>					
Treasury Bills	1	0	0	38,455	38,455
Money Market Funds	1	967	967	25,856	25,856
		<u>967</u>	<u>967</u>	<u>64,311</u>	<u>64,311</u>
<b>Investment held at Amortised Cost</b>					
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
		<u>195,978</u>	<u>196,009</u>	<u>151,852</u>	<u>151,859</u>
<b>Debtors</b>					
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
		<u>33,958</u>	<u>33,958</u>	<u>35,516</u>	<u>35,516</u>
<b>Total Investments</b>		<u>230,903</u>	<u>230,934</u>	<u>251,679</u>	<u>251,686</u>

#### 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.

	Fair Value Level	31.03.17		31.03.16	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value</b>					
Treasury Bills	1	0	0	38,455	38,455
Money Market Funds	1	967	967	25,856	25,856
		<u>967</u>	<u>967</u>	<u>64,311</u>	<u>64,311</u>

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 £000	Council £000	Group £000	Council £000
<b>Fuel Stocks</b>				
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
<b>Gift Stock and Community Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Construction and Other Raw Materials</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Items held for sale</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Work in Progress</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Clothing and Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Catering Stocks</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Total				
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	<u>16,166</u>	<u>3,048</u>	<u>17,661</u>	<u>2,699</u>

## 22. Debtors

22.1 Long-term Debtors	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	26,115	26,115	25,016	25,016
Other entities and individuals	<u>186,556</u>	<u>191,270</u>	<u>182,042</u>	<u>186,668</u>
Total long-term debtors before provision for impairment	212,671	217,385	207,058	211,684
Less: Provision for impairment	<u>(105,701)</u>	<u>(105,701)</u>	<u>(112,410)</u>	<u>(112,410)</u>
Total net long-term debtors	<u>106,970</u>	<u>111,684</u>	<u>94,648</u>	<u>99,274</u>

## 22.2 Analysis of Long-term Debtors

Long-term debtors comprise the following elements:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	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	<u>48,274</u>	<u>48,274</u>	<u>42,807</u>	<u>42,807</u>
	<u>212,671</u>	<u>217,385</u>	<u>207,058</u>	<u>211,684</u>

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		Re-stated 2015/16	
	Group £000	Council £000	Group £000	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		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>Long-term provision for impairment</b>				
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)
<b>Current provision for impairment</b>				
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		2015/16	
	Group £000	Council £000	Group £000	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

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>24.1 Non-Current Assets</b>				
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	<u>(29,245)</u>	<u>(29,245)</u>	<u>(5,511)</u>	<u>(5,511)</u>
Balance at 31 March	<u>13,498</u>	<u>13,498</u>	<u>43,746</u>	<u>43,746</u>

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>24.2 Current Assets</b>				
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	<u>29,245</u>	<u>29,245</u>	<u>5,511</u>	<u>5,511</u>
Balance at 31 March	<u>29,359</u>	<u>29,359</u>	<u>683</u>	<u>683</u>

### 25. Creditors

	2016/17		2015/16	
	Group £000	Council £000	Group £000	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	<u>(146,311)</u>	<u>(124,709)</u>	<u>(128,406)</u>	<u>(106,910)</u>
	<u>(169,542)</u>	<u>(142,671)</u>	<u>(174,802)</u>	<u>(148,008)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>Trams £000</b>	<b>Equal Pay Claims £000</b>	<b>Council Tax Discounts £000</b>
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	<u>(3,118)</u>	<u>(462)</u>	<u>(1,888)</u>
	<b>Housing Benefit Subsidy £000</b>	<b>Insurance Claims £000</b>	<b>Other Provisions £000</b>
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	<u>(170)</u>	<u>(550)</u>	<u>(4,363)</u>
	<b>Total Council Provisions £000</b>	<b>Group Provisions £000</b>	<b>Total Provisions £000</b>
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	<u>(10,551)</u>	<u>(2,312)</u>	<u>(12,863)</u>

## 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	<u>1,621,758</u>	<u>1,839,784</u>

#### 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	<u>873,986</u>	<u>856,303</u>

## 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
<u>Reversal of items relating to capital expenditure debited or credited to the CIES</u>		
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)
	<u>(194,880)</u>	<u>(250,474)</u>
Adjusting amounts written out of the revaluation reserve	22,790	47,289
	<u>(172,090)</u>	<u>(203,185)</u>
Net written out amount of the costs of non-current assets consumed in the year		
<u>Capital financing applied in the year:</u>		
Use of the capital receipts reserve to finance new capital expenditure	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
	<u>214,975</u>	<u>333,035</u>
Movements in the market value of investment properties credited to the CIES	(779)	1,146
Other unrealised losses debited to the CIES	<u>(14,967)</u>	<u>(94,934)</u>
Balance at 31 March	<u><u>1,403,268</u></u>	<u><u>1,376,129</u></u>



## NOTES TO THE FINANCIAL STATEMENTS

### 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	<u>(45,390)</u>	<u>(47,214)</u>

The Council operates a loans pool on behalf of the General Fund and Housing Revenue Account. With the transfer of responsibility for Police and Fire services to the new national bodies, all movements are now reflected on the Council's Balance Sheet. An element of the cost, however, is recovered through the pooled interest rate and therefore there is no financial impact on the Council.

#### 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	<u>0</u>	<u>2</u>

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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	<u>(705,786)</u>	<u>(438,940)</u>

#### 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.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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	<u>(14,121)</u>	<u>(14,862)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	741	5,876
Balance at 31 March	<u>(14,121)</u>	<u>(14,862)</u>

## 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
<b>Subsidiaries</b>		
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)
<b>Total Unusable Reserves - Subsidiaries</b>	<b>95,143</b>	<b>89,919</b>
<b>Associates and Joint Ventures</b>		
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)
<b>Total Unusable Reserves - Associates and Joint Ventures</b>	<b>14,658</b>	<b>18,447</b>
<b>Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>109,801</b>	<b>108,366</b>

### 29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	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
<b>Net cash flows from operating activities</b>	<b>(225,027)</b>	<b>(198,915)</b>	<b>(192,663)</b>	<b>(176,207)</b>

## 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	<u>(11,496)</u>	<u>(11,577)</u>	<u>(11,130)</u>	<u>(11,130)</u>
<b>Net cash flows from investing activities</b>	<b><u>140,572</u></b>	<b><u>120,978</u></b>	<b><u>131,664</u></b>	<b><u>126,970</u></b>

### 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)
<b>Net cash flows from investing activities</b>	<b><u>43,336</u></b>	<b><u>42,786</u></b>	<b><u>37,791</u></b>	<b><u>33,194</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>	<b>Cumulative</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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	<b>2015/16</b>	<b>2014/15</b>	<b>Cumulative</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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).

	<b>2016/17 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2015/16 £000</b>
	Transport for Edinburgh Ltd.	Transport for Edinburgh Ltd.	Spartan Community Football Academy	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	<u>0</u>	<u>0</u>	<u>(3)</u>	<u>(3)</u>
Balance Carried Forward	<u>899</u>	<u>861</u>	<u>54</u>	<u>52</u>
Nominal Value Carried Forward	<u>1,000</u>	<u>1,000</u>	<u>102</u>	<u>105</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 original 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
			<b>542</b>	<b>13,093</b>	<b>47,163</b>	<b>60,256</b>

These sums are included within long-term debtors, as detailed in note 22.2.

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Comprehensive Income and Expenditure Statement. The main activities were:

<b>Expenditure</b>	<b>2016/17 £000</b>	<b>2015/16 £000</b>
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
<b>Total Expenditure</b>	<b><u>12,033</u></b>	<b><u>11,265</u></b>
<b>Income</b>		
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)
<b>Total Income</b>	<b><u>(15,233)</u></b>	<b><u>(14,344)</u></b>

### 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	
	£000	£000	£000	£000
<b>Revenue Funding</b>				
<b>Credited to taxation and non-specific grant income</b>				
General revenue funding	(344,919)		(354,576)	
Non-domestic rates	<u>(374,650)</u>		<u>(390,862)</u>	
		(719,569)		(745,438)
<b>Credited to services</b>				
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	<u>(889)</u>		<u>(881)</u>	
		<u>(288,619)</u>		<u>(276,065)</u>
<b>Total</b>		<u><u>(1,008,188)</u></u>		<u><u>(1,021,503)</u></u>
<b>Capital Funding</b>				
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		<u>(744)</u>		<u>0</u>
<b>Total</b>		<u><u>(58,483)</u></u>		<u><u>(70,533)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties

During the year, the Council entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, are shown below.

#### 38.1 Subsidiaries and Other Organisations - Revenue Income and Expenditure

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
• <b>Revenue Expenditure</b>		
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
<b>Total Revenue Expenditure</b>	<b>30,633</b>	<b>29,823</b>
• <b>Revenue Income</b>		
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)
<b>Total Revenue Income</b>	<b>(32,253)</b>	<b>(32,867)</b>

## 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
<ul style="list-style-type: none"> <li>● <b>Joint Board Requisitions</b></li> </ul>		
Lothian Valuation Joint Board	3,744	3,744
<b>Total Joint Board Requisitions</b>	<b>3,744</b>	<b>3,744</b>
<ul style="list-style-type: none"> <li>● <b>Central Support Income</b></li> </ul>		
Lothian Valuation Joint Board	(49)	(61)
Pension Funds	(264)	(279)
<b>Total Central Support Income</b>	<b>(313)</b>	<b>(340)</b>
<ul style="list-style-type: none"> <li>● <b>Interest on Revenue Balances</b></li> </ul>		
Lothian Valuation Joint Board	3	3
Pension Funds	5	33
SESTRAN	1	0
<b>Total Interest on Revenue Balances</b>	<b>9</b>	<b>36</b>
<ul style="list-style-type: none"> <li>● <b>Loans Charges Recovered</b></li> </ul>		
Lothian and Borders Fire and Rescue Board	(1,112)	(1,306)
Lothian and Borders Police Board	(2,771)	(3,060)
<b>Total Loans Charges</b>	<b>(3,883)</b>	<b>(4,366)</b>
<b>38.2 Subsidiaries and Other Organisations - Capital Expenditure</b>		
<ul style="list-style-type: none"> <li>● <b>Capital Expenditure</b></li> </ul>		
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
<b>Total Capital Expenditure</b>	<b>14,024</b>	<b>24,687</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

#### 38.3 Related Parties - Indebtedness

The following represent material amounts due to / (by) the Council, at 31 March 2017:

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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
	<b>14,465</b>	<b>14,357</b>
<b>• Other Indebtedness</b>		
HM Revenue and Customs - VAT	9,170	8,089
HM Revenue and Customs - PAYE and NI	(9,041)	(9,035)
	<b>129</b>	<b>(946)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 39. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred during the year is shown below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years through charges to revenue (loan charges), capital expenditure results in an increase in the capital financing requirement. This shows the amount of capital expenditure that has yet to be financed. The capital financing requirement is analysed below.

	2016/17		Re-stated 2015/16	
	£000	£000	£000	£000
Opening capital financing requirement		1,688,160		1,726,030
<b>Capital Investment</b>				
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
<b>Sources of Finance</b>				
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)
<b>Closing capital financing requirement</b>		<b>1,671,091</b>		<b>1,688,160</b>
<b>Explanation of movements in year</b>				
(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
<b>(Decrease) / Increase in capital financing requirement</b>		<b>(17,069)</b>		<b>(93,209)</b>

## 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	<u>(3,470)</u>	<u>(2,797)</u>	<u>(5,278)</u>	<u>(2,816)</u>
Value at 31 March	<u>3,910</u>	<u>3,910</u>	<u>7,380</u>	<u>6,707</u>
Other land and buildings	0	0	63	63
Vehicles, plant, equipment and furniture	<u>3,910</u>	<u>3,910</u>	<u>7,317</u>	<u>6,644</u>
Value at 31 March	<u><u>3,910</u></u>	<u><u>3,910</u></u>	<u><u>7,380</u></u>	<u><u>6,707</u></u>

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	<u>313</u>	<u>313</u>	<u>531</u>	<u>531</u>
Minimum lease payments	<u><u>4,223</u></u>	<u><u>4,223</u></u>	<u><u>7,911</u></u>	<u><u>7,238</u></u>

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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u><u>4,223</u></u>	<u><u>4,223</u></u>	<u><u>7,911</u></u>	<u><u>7,238</u></u>
<b>Finance Lease Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u><u>3,910</u></u>	<u><u>3,910</u></u>	<u><u>7,380</u></u>	<u><u>6,707</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 £000	Council £000	Group £000	Council £000
<b>Future Repayment Period</b>				
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
	<b>12,789</b>	<b>9,719</b>	<b>14,624</b>	<b>11,710</b>
<b>Value at 31 March</b>				
Other land and buildings	11,838	9,680	13,613	11,598
Vehicles, plant, equipment and furniture	951	39	1,011	112
	<b>12,789</b>	<b>9,719</b>	<b>14,624</b>	<b>11,710</b>
<b>Recognised as an expense during the year</b>	<b>2,573</b>	<b>2,027</b>	<b>2,565</b>	<b>2,094</b>

#### 40.3 Assets Leased Out by the Council - Operating Leases

The Council leases out property and equipment under operating leases for a number of purposes, including:

- for economic development purposes, including regeneration and to provide suitable affordable accommodation for local businesses.
- to arm's length companies for the provision of services such as sport and leisure and theatres.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2016/17 £000	2015/16 £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
	<b>201,320</b>	<b>208,487</b>

The Council has a number of leases that are agreed for a period of over 100 years, the majority of which relate to land.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. Public Private Partnerships and Similar Contracts

#### 41.1 PPP - Education Projects

In 2001, the Council entered into a Public Private Partnership (PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership. This agreement was supplemented by a further agreement in April 2004, which now requires Edinburgh Schools Partnership either to replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to a high standard. When the agreement ends in July 2033 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

In April 2007, the Council entered into a second Public Private Partnership (PPP2) for the provision of school buildings, maintenance and other facilities with Axiom Education Limited. This required Axiom Education Limited to replace six secondary schools and two primary schools and to maintain these schools to a high standard. When the agreement ends in July 2038 the schools will be handed to the Council with 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:

	<b>Payment for Services £000</b>	<b>Reimburse. of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
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
	<u>488,013</u>	<u>211,977</u>	<u>298,048</u>	<u>998,038</u>

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:

	<b>2016/17 £000</b>	<b>2015/16 £000</b>
Balance at 1 April	219,893	227,802
PPP unitary charge restatement adjustment	(8)	0
Repayments during the year	<u>(7,908)</u>	<u>(7,909)</u>
Balance at 31 March	<u>211,977</u>	<u>219,893</u>



## 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
		<u>150,038</u>

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
		<u>14,616</u>

#### 41.4 Waste Disposal

The Council entered into a twenty year contract with Viridor in 2000 to supply waste to their landfill site in Dunbar. The contract requires the Council to supply an agreed tonnage to the landfill site each calendar year. Fees are subject to review twice a year, based on civil engineering indices.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an increase of 2% per annum):

Future Repayment		
Period		£000
2017/18		3,515
2018/19 - 2021/22		8,864
		<u>12,379</u>

#### 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			Inflationary
Period		£000	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%
		<u>11,594</u>	

## 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%
	<u>187,199</u>	

#### 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 latest 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	
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	66,394		82,023	
Past service costs	7,029		2,087	
Effect of Settlements	<u>0</u>		<u>(159)</u>	
		73,423		83,951
<i>Financing and investment income:</i>				
Net interest expense		<u>15,476</u>		<u>23,445</u>
<b>Total post employee benefit charged to the surplus on the provision of services</b>		88,899		107,396
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(428,706)		(37,286)	
Actuarial (gains) and losses arising on changes in financial assumptions	669,702		(253,389)	
Other experience	<u>3,215</u>		<u>(32,463)</u>	
		<u>244,211</u>		<u>(323,138)</u>
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		<u>333,110</u>		<u>(215,742)</u>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(88,899)</u>		<u>(107,396)</u>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		60,457		66,297
Contributions in respect of unfunded benefits		<u>5,807</u>		<u>5,990</u>
		<u>66,264</u>		<u>72,287</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit plan is as follows:

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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	<u>(85,611)</u>	<u>(81,437)</u>
Net liability arising from defined benefit obligation	<u>(705,786)</u>	<u>(438,940)</u>

#### 43.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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	<u>(5,807)</u>	<u>(5,990)</u>
Closing fair value of scheme assets	<u>2,747,964</u>	<u>2,247,877</u>

#### Reconciliation of Present Value of the Scheme Liabilities

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Present value of funded liabilities	(2,605,380)	(2,782,482)
Present value of unfunded liabilities	<u>(81,437)</u>	<u>(89,384)</u>
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	<u>5,807</u>	<u>5,990</u>
Closing balance at 31 March	<u>(3,453,750)</u>	<u>(2,686,817)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	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 *	<u>189,359</u>	7	<u>128,664</u>	6
Sub-total Equity Securities	<u>1,711,355</u>		<u>1,389,174</u>	
Debt Securities:				
UK Government *	275,933	10	144,656	6
Other *	<u>5,710</u>	0	<u>56,864</u>	3
Sub-total Debt Securities	<u>281,643</u>		<u>201,520</u>	
Private Equity				
All *	31,954	1	25,228	1
All	<u>56,808</u>	2	<u>73,078</u>	3
Sub-total Private Equity	<u>88,762</u>		<u>98,306</u>	
Real Estate:				
UK Property	<u>185,409</u>	7	<u>192,281</u>	9
Sub-total Real Estate	<u>185,409</u>		<u>192,281</u>	
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	<u>58,621</u>	2	<u>53,855</u>	2
Sub-total Investment Funds and Unit Trusts	<u>353,336</u>		<u>227,809</u>	
Derivatives:				
Foreign Exchange *	<u>0</u>	0	<u>(130)</u>	0
Sub-total Derivatives	<u>0</u>		<u>(130)</u>	
Cash and Cash Equivalents				
All *	<u>127,459</u>	5	<u>138,917</u>	6
Sub-total Cash and Cash Equivalents	<u>127,459</u>		<u>138,917</u>	
Total Fair Value of Employer Assets	<u><u>2,747,964</u></u>	<u>100</u>	<u><u>2,247,877</u></u>	<u>100</u>

**Scheme assets marked with an asterisk (\*) have quoted prices in active markets.**

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 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		Weighted Average Duration
	£000	%	
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.

	2016/17 Pension Reserve £000	2015/16 Pension Reserve £000
<b>Unusable Reserves</b>		
Council	(705,786)	(438,940)
Lothian Valuation Joint Board	(7,585)	(3,820)
	<u>(713,371)</u>	<u>(442,760)</u>
<b>Usable Reserves</b>		
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
	<u>(8,707)</u>	<u>16,007</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.3 Credit Risk - continued

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 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:

<b>Summary</b>	<b>Standard and Poors Rating</b>	<b>Principal Outstanding 31.03.17 £000</b>	<b>Carry Value 31.03.17 £000</b>	<b>Fair Value 31.03.17 £000</b>	<b>Carry Value 31.03.16 £000</b>
<b>Money Market Funds</b>					
Deutsche Bank AG, London	AAAm	942	947	947	25,672
Goldman Sachs	AAAm	19	20	20	183
<b>Bank Call Accounts</b>					
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
<b>UK Pseudo-Sovereign Risk Instruments</b>					
Local Authorities (see below)	n/a	154,832	154,896	154,927	87,350
UK Government Treasury Bills	AA	0	0	0	38,455
		<u>173,427</u>	<u>173,503</u>	<u>173,534</u>	<u>192,688</u>

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	2015/16
	£000	£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	<u>28,293</u>	<u>29,978</u>

Collateral – During the reporting period the Council held no collateral as security.

#### 45.4 Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. It is anticipated that some short to medium term borrowing is likely to be required within the next financial year to meet cashflow and working capital requirements. This will be managed as part of the Council's short- and medium-term cashflow monitoring as required.

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 45.5 Re-financing and Maturity Risk - continued

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. However, with the increase in borrowing rates announced in the Government's Comprehensive Spending Review in October 2010, it is now unlikely that there will be much scope for any substantial debt rescheduling.

The maturity analysis of the principal outstanding on the Council's financial liabilities is as follows:

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
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	<u>(926,909)</u>	<u>(996,419)</u>
Financial Liabilities	<u>(1,515,788)</u>	<u>(1,578,483)</u>

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.

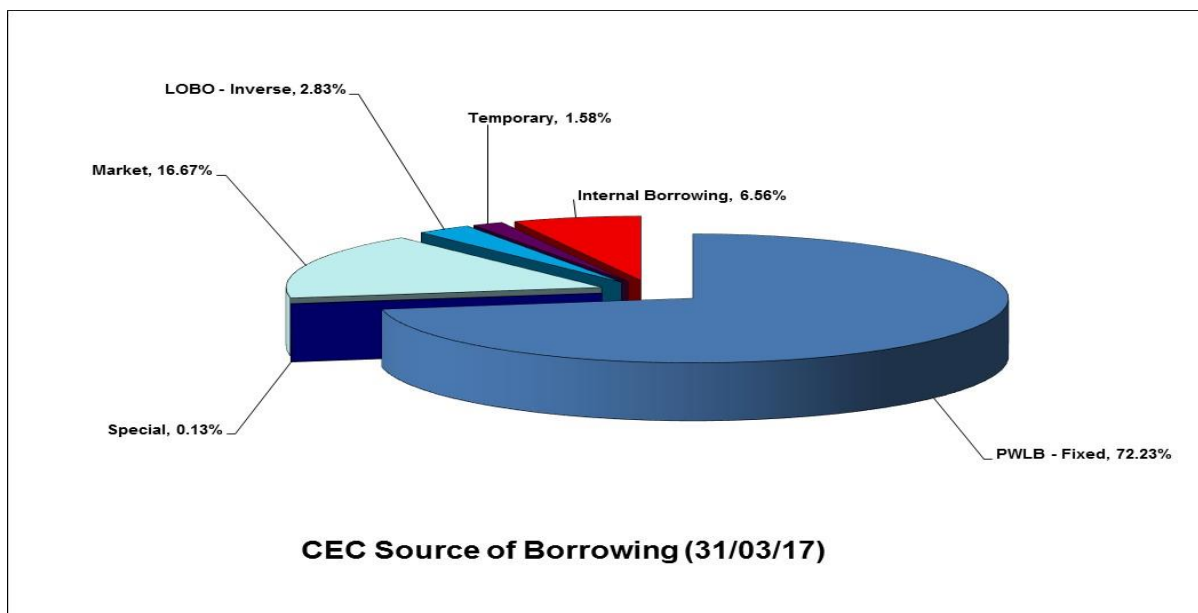
## NOTES TO THE FINANCIAL STATEMENTS

### 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.

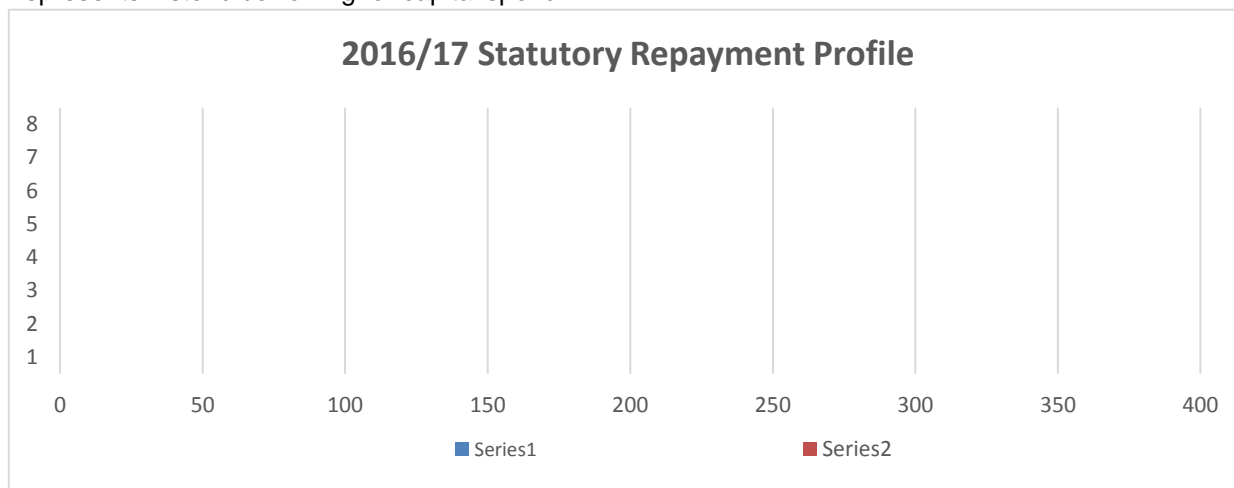
##### Foreign exchange risk

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.

	<b>2016/17</b>		<b>2015/16</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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)	
		<u>(978)</u>		<u>(900)</u>
Contribution to SCDI				
2014/15	0		(90)	
2015/16	0		(90)	
		<u>0</u>		<u>(180)</u>
Balance as at 31 March		<u><b>2,875</b></u>		<u><b>3,846</b></u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Monies to be recovered from ratepayers at 1 April	349	190
BID Levy Income	5,071	3,637
Less: Payments made / due to schemes	<u>(4,797)</u>	<u>(3,478)</u>
Monies still to be recovered from ratepayers at 31 March	<u>623</u>	<u>349</u>

The monies raised through the BIDs are used to fund activities around similar key themes, including:

- area promotion - advertising, marketing and events
- clean and attractive area - cleaning teams, floral displays, street décor, cleanliness surveys
- safe and secure area - CCTV, improved lighting, transport marshals
- accessibility - pedestrian friendly environment, parking promotions, signage; and
- business initiatives - grants, skills partnerships, start up advice

### 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:

	<b>Scottish Charity Registration Number</b>	<b>Market Value 31.03.17 £000</b>	<b>Market Value 31.03.16 £000</b>
<b>Scottish Registered Charities</b>			
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	<u>32</u>	<u>30</u>
Total market value		<u>14,671</u>	<u>14,498</u>

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	Income and Expenditure Account	2016/17
£000		£000
	<b>Income</b>	
(54)	Investment income	(73)
(2)	Other non-investment income	(14)
	<hr/>	<hr/>
(56)		(87)
	 <b>Expenditure</b>	
20	Prizes, awards and other expenses	22
13	Governance Costs	15
	<hr/>	<hr/>
33		37
	<hr/>	<hr/>
(23)	Surplus for the year	(50)
	<hr/> <hr/>	<hr/> <hr/>
 <b>2015/16</b>	 <b>Balance Sheet</b>	 <b>2016/17</b>
<b>£000</b>		<b>£000</b>
	<b>Long-Term Assets</b>	
1,843	Investments	2,066
5,236	Artworks - Jean Watson Trust	5,275
7,020	Heritable property	7,020
	<hr/>	<hr/>
14,099	<b>Total Long-Term Assets</b>	14,361
	 <b>Current Assets</b>	
420	Cash and bank	333
	<hr/>	<hr/>
420		333
	 <b>Current Liabilities</b>	
(21)	Creditors	(23)
	<hr/>	<hr/>
(21)		(23)
	<hr/>	<hr/>
14,498	<b>Total Assets less Liabilities</b>	14,671
	<hr/> <hr/>	<hr/> <hr/>
	 <b>Funds</b>	
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
	<hr/>	<hr/>
3,120		3,293
	<hr/>	<hr/>
11,378	Revaluation reserve	11,378
	<hr/>	<hr/>
14,498	<b>Funds at 31 March</b>	14,671
	<hr/> <hr/>	<hr/> <hr/>

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.

	<b>31.03.17</b>	<b>Re-stated 31.03.16</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
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.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
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.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(30)	(21)
Expenditure	13	17
Assets	921	857
Liabilities	(2)	(5)

#### 48.4 Financial Position of Other Funds

<b>2015/16</b>	<b>Income and Expenditure Account</b>	<b>2016/17</b>
<b>£000</b>	<b>Income</b>	<b>£000</b>
0	Investment income	0
0		0
	<b>Expenditure</b>	
1	Administrative expenses	1
1		1
1	(Surplus) / Deficit for the year	1

<b>2015/16</b>	<b>Balance Sheet</b>	<b>2016/17</b>
<b>£000</b>	<b>Current Assets</b>	<b>£000</b>
45	Cash and bank	44
45		44
	<b>Current Liabilities</b>	
(1)	Balance with City of Edinburgh Council	(1)
(1)		(1)
44	<b>Total Assets less Liabilities</b>	43
45	<b>Capital at 1 April</b>	44
(1)	Deficit for the year	(1)
0	Compensation fund paid	0
44	<b>Capital at 31 March</b>	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
<u>Balance at 31 March 2015</u>				
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
<u>Total Comprehensive Income and Expenditure</u>				
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
<u>Net decrease between before transfers to reserves</u>				
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
<u>Increase in year</u>				
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
<u>Balance at 31 March 2016</u>				
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

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments - continued

#### 49.2 Impact on Financial Statements - continued

<b>Group</b>				
<b>Comprehensive Income and Expenditure Statement</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>	<b>CEC Holdings £000</b>	<b>2015/16 Re-stated £000</b>
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)
<b>Council</b>				
<b>Comprehensive Income and Expenditure Statement</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>		<b>2015/16 Re-stated £000</b>
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)
<b>Group</b>				
<b>Balance Sheet</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>	<b>CEC Holdings £000</b>	<b>2015/16 Re-stated £000</b>
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
<b>Council</b>				
<b>Balance Sheet</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>		<b>2015/16 Re-stated £000</b>
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.

<b>2015/16</b>		<b>2016/17</b>	
<b>£000</b>	<b>EXPENDITURE</b>	<b>£000</b>	<b>£000</b>
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
	<b>INCOME</b>		
(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 ( <i>pension-related</i> )	2,410	
(98)	Interest and investment income	(52)	
(1,858)	Interest income on plan assets ( <i>pension-related</i> )	(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)
<u>2,256</u>	<b>Net increase before transfers to reserves</b>	<u>11,886</u>
<u>(2,256)</u>	Contribution to renewal and repairs fund, via the General Fund	<u>(11,886)</u>
<u><u>0</u></u>	<b>Balance on the HRA at the end of the current year</b>	<u><u>0</u></u>

## Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	<b>Adjustments primarily involving the Capital Adjustment Account</b>	
	<b>Reversal of items debited or credited to the Income and Expenditure Statement</b>	
23,285	Charges for depreciation and impairment of non-current assets	19,345
(7,439)	Capital grants and contributions applied	(7,587)
	<b>Insertion of items not debited or credited to the Income and Expenditure Statement</b>	
(27,328)	Statutory provision for the financing of capital investment	(16,585)
0	Capital funded from revenue	0
	<b>Adjustments primarily involving the Capital Receipts Reserve</b>	
(2,247)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(754)
	<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>	
(488)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(498)
	<b>Adjustments primarily involving the Pensions Reserve</b>	
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)
	<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>	
(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)
<u>(13,312)</u>		<u>(5,708)</u>

# HOUSING REVENUE ACCOUNT

## Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2017 are as follows:

Types of Houses	2017		2016	
	Number	Annual Average Rent (£)	Number	Annual Average Rent (£)
<b>Main provision Council dwellings</b>				
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
<b>Mid-market rent dwellings</b>				
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
	<u>19,603</u>		<u>19,980</u>	

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units.

- 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.
- Significant non-residential income includes ground rent at Broomhouse Drive of £0.160m per annum.
- 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	£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	
<u>84,760</u>			<u>84,459</u>
(216,067)			(219,822)
<u>(324)</u>	Previous years' adjustments		<u>(1,569)</u>
<u><b>(216,391)</b></u>	<b>Total transferred to General Fund</b>		<u><b>(221,391)</b></u>

### 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
								<u>(6,549)</u>
								<b>Council Tax Base</b>
								<u><b>208,170</b></u>

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		2016/17	
£000		£000	£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	
<u>90,028</u>			<u>87,410</u>
(354,232)			(370,702)
13,161	Previous years' adjustments		2,501
<b><u>(341,071)</u></b>	<b>Net Non-Domestic Rates Income</b>		<b><u>(368,201)</u></b>
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
<b><u>(341,071)</u></b>			<b><u>(368,201)</u></b>

### 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
	<u>20,239</u>	<u>908,644</u>

### 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

	Common Good Fund £000	Property Maintenance Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2016/17 Movements</b>					
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
<b>Total Comprehensive Income and Expenditure</b>	104	0	0	0	104
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	104	0	0	0	104
Transfer (to) / from reserves	110	(110)	0	0	0
Increase / (decrease) in year	214	(110)	0	0	104
<b>Balance at 31 March 2017</b>	512	1,890	(22)	21,994	24,374

## COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

	Common Good Fund £000	Property Maintenance Fund £000	FFF Earmarked Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2015/16 Comparative Data</b>						
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
<b>Total Comprehensive Income and Expenditure</b>	(538)	0	0	0	134	(404)
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	(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)
<b>Balance at 31 March 2016</b>	298	2,000	0	(22)	21,994	24,270

## COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16 £000		2016/17 £000	£000
	<b>EXPENDITURE</b>		
38	Common Good Fund	130	
38	<b>TOTAL EXPENDITURE</b>		130
	<b>INCOME</b>		
0	<b>TOTAL INCOME</b>	0	
38	<b>COST OF SERVICES</b>		130
511	(Gain) / Loss on disposal of Fixed Assets	(225)	
(11)	Interest and investment income	(9)	
500	<b>Other Comprehensive Income and Expenditure</b>		(234)
538	<b>(Surplus) / Deficit on Provision of Services</b>		(104)
(134)	(Surplus) / Deficit on revaluation of non-current assets		0
404	<b>TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE</b>		(104)

## COMMON GOOD FUND - BALANCE SHEET

31 March 2016 £000		31 March 2017 £000      £000	
<u>21,892</u>	Community Assets	<u>21,892</u>	
<u>21,892</u>	<b>Property, Plant and Equipment</b>		21,892
<u>103</u>	Heritage Assets	<u>103</u>	
<u>103</u>	<b>Long-term Assets</b>		103
322	Short-Term Investments	589	
<u>1,953</u>	Cash and Cash Equivalents	<u>1,790</u>	
<u>2,275</u>	<b>Current Assets</b>		<u>2,379</u>
<u><b>24,270</b></u>	<b>Net Assets</b>		<u><b>24,374</b></u>
21,994	Revaluation Reserve	21,994	
<u>(22)</u>	Capital Adjustment Account	<u>(22)</u>	
<u>21,972</u>	<b>Unusable Reserves</b>		21,972
298	Common Good Fund	512	
<u>2,000</u>	Earmarked Reserve	<u>1,890</u>	
<u>2,298</u>	<b>Usable Reserves</b>		<u>2,402</u>
<u><b>24,270</b></u>	<b>Total Reserves</b>		<u><b>24,374</b></u>

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
<b>Cost or Valuation</b>			
At 1 April 2016	21,892	21,892	103
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0
At 31 March 2017	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Accumulated Depreciation</b>			
At 1 April 2016	0	0	0
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Book Value</b>			
At 31 March 2017	<u>21,892</u>	<u>21,892</u>	<u>103</u>
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Cost or Valuation</b>			
At 1 April 2015	21,757	21,757	104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	135	135	(1)
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Accumulated Depreciation</b>			
At 1 April 2015	0	0	0
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
At 31 March 2015	<u>21,757</u>	<u>21,757</u>	<u>104</u>

### 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		<u>21,994</u>		<u>21,994</u>

#### 3.2 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis).

The account also holds revaluation gains accumulated on property, plant and equipment prior to 1 April 2007, the date the revaluation reserve was created to hold such gains.

	2016/17	2015/16
	£000	£000
Balance at 1 April	<u>(22)</u>	<u>(22)</u>
Balance at 31 March	<u><u>(22)</u></u>	<u><u>(22)</u></u>

# ANNUAL GOVERNANCE STATEMENT

## Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these responsibilities, Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement 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.

# ANNUAL GOVERNANCE STATEMENT

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.

# ANNUAL GOVERNANCE STATEMENT

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  
Chief Executive

ADAM MCVEY  
Council Leader

STEPHEN S. MOIR  
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.

<b>Council's Leader, Civic Head and Senior Councillors</b>	<b>Salary, Fees and Allowances</b>	<b>Taxable Expenses</b>	<b>Non-Cash Expenses / Benefits-in-kind</b>	<b>Total Remun. 2016/17</b>	<b>Total Remun. 2015/16</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
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, <i>Depute Convener (from 28.05.15)</i>	25,341	0	117	25,458	24,247
S. Howat, Depute Leader of the Council <i>(from 12.03.15 until 09.03.16)</i>	n/a	n/a	n/a	n/a	37,130
F. Ross, Convener of Economy <i>(until 09.03.16)</i> Depute Leader of the Council <i>(from 10.03.16)</i>	38,011	0	812	38,823	33,540
D. Brock, Depute Convener <i>(until 18.05.15)</i>	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 <i>(until 27.10.16)</i> Convener Education, Children and Families <i>(from 27.10.16)</i>	27,167	0	79	27,246	22,628
P. Godzik, Convener Education, Children and Families <i>(until 27.10.16)</i> <i>(full year equivalent)</i>	26,040	591	0	26,631	33,255
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

	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2016/17 £	Total Remun. 2015/16 £
<b>Council's Leader, Civic Head and Senior Councillors</b>					
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) (full year equivalent)	6,335 25,341	0	485	6,820	25,441
J. Mowat, Convener Governance, Risk and Best Value (from 02.06.16) (full year equivalent)	23,910 25,341	0	97	24,007	n/a
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) (full year equivalent)	19,437 22,807	0	117	19,554	n/a
<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
<b>Councillors</b>					
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	<u>25,467</u>	<u>27,072</u>
Total	<u><u>1,307,528</u></u>	<u><u>1,300,499</u></u>

Remuneration paid to Senior Officers	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2016/17 £	(re-stated)
				Total Remun. 2015/16 £
<b>Council's Senior Officers</b>				
A. Kerr, Chief Executive ( <i>from 27.07.15</i> ) ( <i>full year equivalent</i> )	165,810	0	165,810	111,652
				164,168
S. Bruce, Chief Executive ( <i>until 31.08.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	67,392
			n/a	161,741
A. Maclean, Deputy Chief Executive ( <i>until 05.01.16</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	110,881
			n/a	147,427
A. Gaw, Executive Director of Communities and Families ( <i>Acting Director from 05.01.16 until 15.03.17</i> ) ( <i>full year equivalent</i> )	148,901	0	148,901	35,272
				147,427
G. Tee, Director Children and Families ( <i>until 31.12.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	145,816
			n/a	147,427
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>from 26.10.15</i> ) ( <i>full year equivalent</i> )	74,451	0	74,451	31,903
				74,451
P. Gabbittas, Director Health and Social Care ( <i>until 31.07.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	24,587
			n/a	82,928
P. Lawrence, Executive Director of Place ( <i>from 30.11.15</i> ) ( <i>full year equivalent</i> )	148,901	0	148,901	49,552
				147,427
J. Bury, Acting Director Services for Communities ( <i>from 08.05.14 until 18.10.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	67,380
			n/a	134,760
G. Ward, Director of Economic Development ( <i>until 30.11.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	79,390
			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

	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2016/17 £	Total Remun. 2015/16 £
<b>Council's Senior Officers</b>				
H. Dunn, Head of Finance ( <i>until 05.01.16</i> ) and Acting Executive Director of Resources ( <i>from 06.01.16</i> ) ( <i>full year equivalent</i> )	148,901	0	148,901	116,241
M. Boyle, Head of Older People and Disability Service ( <i>until 31.01.16</i> )	n/a	n/a	n/a	212,512
G. Crosby, Senior Manager Disabilities ( <i>until 31.01.16</i> )	n/a	n/a	n/a	166,163
P. Campbell, Senior Manager Older People ( <i>until 31.01.16</i> )	n/a	n/a	n/a	164,570
Total	<u>789,220</u>	<u>0</u>	<u>789,220</u>	<u>1,631,981</u>

#### 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. Gabbittas relate to the responsibilities as shown.
7. P. Gabbittas 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.

	Salary, Fees and Allowances	Bonus	Other Benefits	Compensation for Loss of Office	Total Remun. 2016/17	Total Remun. 2015/16
	£	£	£	£	£	£
<b>Council's Subsidiary Companies</b>						
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) (full year equivalent)	n/a	n/a	n/a	n/a	n/a	51,665 170,191
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) (full year equivalent)	49,016 73,524	0	0	70,908	119,924	72,795
R. Hunter, Chief Executive, Capital City Partnership (from 21 November 2016) (full year equivalent)	20,204	0	0	0	20,204 48,490	n/a
<u>LPFE Limited</u>						
C. Scott, Chief Executive Officer (from 01.05.16) (full year equivalent)	92,000	0	0	0	92,000	78,384 85,236
<u>Transport for Edinburgh</u>						
G. Lowder, Chief Executive (from 07.01.16) (full year equivalent)	138,983	14,180	684	0	153,847 156,664	n/a
<u>Lothian Buses Ltd.</u>						
I. Craig, Managing Director (until 31.01.16) (full year equivalent)	16,546	0	14,579	88,998	120,123 212,786	211,206
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) (full year equivalent)	110,188	33,000	0	0	143,188 214,500	n/a
<u>Edinburgh Trams Ltd.</u>						
T. Norris, Director and General Manager (until 26.06.15) (full year equivalent)	n/a	n/a	n/a	n/a	n/a n/a	43,474 80,705
L. Harrison, General Manager (from 01.02.16) (full year equivalent)	82,254	13,500	5,918	0	101,672	n/a
	<u>1,181,755</u>	<u>180,878</u>	<u>28,660</u>	<u>459,906</u>	<u>1,851,199</u>	<u>1,359,847</u>

### Notes:

- 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.
- 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			
			<b>Total No. of Employees</b>	<b>472</b>	<b>548</b>

#### Exit Packages

The number of exit packages provided for by the Council and the Group during the year, together with the total cost of those packages is shown in the table below. The total cost shown includes pension strain costs and the capitalised value of compensatory added years payments.

Exit package cost band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	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
	<b>0</b>	<b>0</b>	<b>471</b>	<b>580</b>	<b>471</b>	<b>580</b>	<b>19,355</b>	<b>21,719</b>



# REMUNERATION REPORT

## Pension Rights

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

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

For local government employees 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:

<b>Whole Time Pay</b>	<b>Contribution rate</b>
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.

# REMUNERATION REPORT

## Pension Benefits - continued

## Pension Rights - continued

## Council's Leader, Civic Head and Senior Councillors

The pension entitlements of senior councillors for the year to 31 March 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
<b>Council's Leader and Civic Head</b>					
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
<b>Senior Councillors</b>					
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 ( <i>including role as Convener of Lothian Valuation Joint Board</i> )	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 ( <i>from 27.07.15</i> ) ( <i>including returning officer role</i> )	35,318	23,981	Pension	n/a	n/a
			Lump Sum	n/a	n/a
S. Bruce, Chief Executive ( <i>until 31.08.15</i> ) ( <i>including returning officer role</i> )	n/a	14,422	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Maclean, Depute Chief Executive ( <i>until 05.01.16</i> )	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 ( <i>until 31.12.15</i> )	n/a	83,567	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>from 26.10.15</i> )	15,858	6,827	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Gabbitas, Director Health and Social Care ( <i>Council proportion</i> ) ( <i>until 31.07.15</i> )	n/a	3,664	Pension	n/a	n/a
			Lump Sum	n/a	n/a

# REMUNERATION REPORT

## 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 Lump Sum	n/a n/a	n/a n/a
J. Bury, Acting Director Services for Communities (from 08.05.14 until 18.10.15)	n/a	14,419	Pension Lump Sum	n/a n/a	n/a n/a
G. Ward, Director Economic Development (until 30.11.15)	n/a	16,979	Pension Lump Sum	n/a n/a	n/a n/a
M. Miller, Head of Safer and Stronger Communities and Chief Social Work	21,781	21,666	Pension Lump Sum	42 82	3 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 Lump Sum	68 143	21 42
M. Boyle, Head of Older People and Disability Service (until 31.01.16)	n/a	55,481	Pension Lump Sum	n/a n/a	n/a n/a
G. Crosby, Senior Manager Disabilities (until 31.01.16)	n/a	13,960	Pension Lump Sum	n/a n/a	n/a n/a
P. Campbell, Senior Manager Older People (until 31.01.16)	n/a	45,989	Pension Lump Sum	n/a n/a	n/a n/a
<b>Total</b>	<b>168,105</b>	<b>383,983</b>			

### 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 Lump Sum	27 41	2 0
H. Rissmann, Chief Executive, EICC (until 31.03.15)	n/a	5,203	Pension Lump Sum	n/a n/a	n/a n/a

# REMUNERATION REPORT

## 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 Lump Sum	n/a n/a	n/a n/a
<u>Lothian Buses Ltd.</u>					
I. Craig, Managing Director	3,789	40,075	Pension Lump Sum	n/a n/a	n/a n/a
W. Campbell, Operations Director	n/a	33,128	Pension Lump Sum	n/a n/a	n/a n/a
W. Devlin, Engineering Director	75,587	33,128	Pension Lump Sum	49 83	3 0
N. Strachan, Finance Director	210,249	33,128	Pension Lump Sum	44 70	3 0
R. Hall, Managing Director	6,875	n/a	Pension Lump Sum	n/a n/a	n/a n/a
<u>Edinburgh Trams Ltd.</u>					
T. Norris, Director and General Manager ( <i>until 26.06.15</i> )	n/a	3,614	Pension Lump Sum	n/a n/a	n/a n/a
L. Harrison, General Manager ( <i>from 01.02.16</i> )	8,225	n/a	Pension Lump Sum	n/a n/a	n/a n/a
<u>Capital City Partnership</u>					
J. Rafferty, Chief Executive ( <i>until 01.12.16</i> )	9,558	14,073	Pension Lump Sum	32 67	2 1
<u>LPFE Limited</u>					
C. Scott, Chief Executive Officer	19,596	16,069	Pension Lump Sum	17 12	3 1
Total	<u>372,235</u>	<u>215,491</u>			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 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

ADAM MCVEY  
Council Leader

28 September 2017

28 September 2017

# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2016/17 Audit

Item number	7.3
Report number	
Executive/routine	
Wards	

### Executive Summary

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The report updates the Committee with the External Auditor's view on matters arising from the Charitable Trusts audit in compliance with International Standard on Auditing 260.

An unqualified audit opinion has been issued on the Trustee's Annual Report and Accounts for 2016/17.

## The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2016/17 Audit

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
- 1.1.1 Approve the Audited Trustee's Annual Report and Accounts for 2016/17 and note that these will be submitted to the External Auditor by 29 September 2017 and to OSCR by 31 December 2017;
  - 1.1.2 Note the commentary on the management of the Charitable Trusts included in the Audit Management Report in Appendix 1; and
  - 1.1.3 Note that the Usher Hall Conservation Trust will now be formally wound up, as approved by the Finance and Resources Committee on 23 February 2017.

### 2. Background

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- 2.1 The purpose of this report is to update the Committee with the External Auditor's view on matters arising from the annual audit in compliance with International Standard on Auditing 260 (ISA 260).
- 2.2 The Committee's remit includes the review of all matters relating to external audit of the Charitable Trusts.
- 2.3 The External Auditor is required to comply with International Standard on Auditing 260. As part of the standard, the Auditor is required to highlight relationships that bear on independence, unadjusted misstatements and material weaknesses in internal control.
- 2.4 The Finance and Resources Committee, as the trustee, has overall responsibility for ensuring that:
- i. there are appropriate systems of control;
  - ii. proper accounting records are maintained which disclose the financial position of the charities;
  - iii. suitable accounting policies are selected and applied consistently;
  - iv. judgements and estimates are reasonable and prudent;
  - v. assets of the charities are safeguarded against unauthorised use or disposition;

- vi. reasonable steps for the prevention and detection of fraud are taken; and
- vii. reasonable assurances are provided that the charities are operating efficiently and effectively.

### 3. Main report

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#### **Key Points from the Audit Management Report for 2016/17**

- 3.1 The independent auditor's report to the trustee of The City of Edinburgh Council Charitable Trust Funds, included as Appendix 1, is unqualified.
- 3.2 The Audited Trustee's Annual Report and Accounts for 2016/17 are included in Appendix 2 of this report. The key points the External Auditor has drawn to members' attention are:
  - i. The Lauriston Castle Trust external revaluation has not been included in the Audited Accounts as the supporting documentation for the final valuation was not available in time for the signing of the accounts. This means that the value in the financial statements reflects the valuation as at the previous reporting date, 31 March 2016.

This revaluation has been outstanding for a considerable length of time but it is understood that the final documentation is nearing completion. Once the valuation is received, it will be reflected in the Trustee's Annual Report and Accounts for 2017/18.

- ii. A lack of segregation of duties over the posting of journals. Journals could potentially be used to override controls and create fraudulent errors, therefore it is essential that appropriate controls are in operation.

While 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.

- iii. During audit testing the External Auditor noted that dividend income had been accounted for on a cash basis rather than an accruals basis. Whilst on its own this is an acceptable accounting treatment, as the Trusts have accounted for expenditure on an accruals basis, income should be treated in the same manner for consistency.

During preparation of the 2017/18 Accounts, dividend income will be accounted for on an accruals basis rather than a cash basis and contact will be made with the Trusts' investment managers early in 2018 to ensure this information is available in a timely manner for the accounts closure.



## **Plans for the Future Period**

- 3.3 The Usher Hall will now be formally wound up as approved by the Finance and Resources Committee on 23 February 2017. The disbursement of the funds of the Boyd Anderson Trust as approved by Finance and Resources Committee on 14 January 2016 will be progressed.

## **4. Measures of success**

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- 4.1 The Charitable Trusts receive an unqualified audit certificate from the External Auditor by 30 September 2017.

## **5. Financial impact**

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- 5.1 There is no direct financial impact arising from the report's contents.

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

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- 6.1 The Committee's remit includes the review of all matters relating to external audit of the Charitable Trusts.

## **7. Equalities impact**

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- 7.1 There is no direct equality- or rights-related impact arising from the report's contents.

## **8. Sustainability impact**

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- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

## **9. Consultation and engagement**

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- 9.1 The Annual Report and Accounts were made available for public inspection from 3 July 2017 for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received no requests for further information under these Regulations.

## **10. Background reading/external references**

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- 10.1 ['Boyd Anderson Trust'](#), Finance and Resources Committee, 14 January 2016
- 10.2 ['Charitable Trusts Reserves Policy'](#), Finance and Resources Committee, 17 March 2016
- 10.3 ['The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2015/16 Audit'](#), Finance and Resources Committee, 29 September 2016

- 10.4 ['Winding Up of Usher Hall Charitable Trust'](#), Finance and Resources Committee, 23 February 2017
- 10.5 ['Guidance and good practice for Charity Trustees'](#), OSCR Website

**Stephen S. Moir**

Executive Director of Resources

Contact: Liam MacDonald, Accountant

E-mail: [Liam.MacDonald@edinburgh.gov.uk](mailto:Liam.MacDonald@edinburgh.gov.uk) | Tel: 0131 469 3174

## **11. Appendices**

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Appendix 1 – The City of Edinburgh Council Charitable Trusts Audit Management Report for year ended 31 March 2017

Appendix 2 – Audited Trustee's Annual Report and Accounts 2016/17



**Scott-Moncrieff**  
business advisers and accountants

# **The City of Edinburgh Council Charitable Trusts**

Audit management report for the year ended  
31 March 2017

**September 2017**

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# Introduction

# Introduction

1. International Standards on Auditing (UK & Ireland) 260, “Communication with those charged with governance” and 265 “Communicating deficiencies in internal control to those charged with governance” require Scott-Moncrieff to report to those charged with governance the significant findings from our audit.
2. This report aims to provide the trustees with constructive observations arising from the audit process. We set out in this report details of:
  - any expected modifications to our audit reports;
  - any unadjusted items in the financial statements (except any unadjusted items which are clearly trivial) including the effect of unadjusted items related to prior periods on the current period;
  - any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures; and
  - any other relevant matters.
3. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which 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 take this opportunity to remind you that:
  - This report has been prepared for the sole use of the trustees of The City of Edinburgh Council Charitable Trusts;
  - A copy of this report will be submitted to Audit Scotland; and
  - No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.
5. The report has been discussed and agreed with City of Edinburgh Council management.
6. We would like to thank council management and staff for their kind co-operation and assistance during our audit.

2

# Financial statements

# Financial statements

## Audit conclusion

7. In our opinion the financial statements of those charities listed below (collectively referred to as 'The City of Edinburgh Council Charitable Trust Funds') give a true and fair view and comply with the Charities Accounts (Scotland) Regulations 2006 (as amended), the Charities and Trustee Investment (Scotland) Act 2005, and all relevant accounting standards.

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### The City of Edinburgh Council Charitable Trust Funds

- Jean F. Watson (SC018971)
- Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)
- Usher Hall Conservation Trust (SC030180)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

- 
8. We are pleased to report that our independent auditor's report to the trustees of The City of Edinburgh Council Charitable Trust Funds is unqualified. In our opinion, from information provided to us during the audit, no events or conditions appear to exist which cast doubt on the charitable trust funds' ability to continue as a going concern.
  9. Our audit opinion is based on approval of the financial statements and signing of the letter of

representation, a draft of which has been included as an appendix to this report. Within the letter of representation, the trustees have confirmed that there are no subsequent events that require amendment to the financial statements.

## Basis of preparation

10. The financial statements have been prepared using the connected charities provisions under The Charities Accounts (Scotland) Regulations 2006. Regulation 7 (as amended in 2010) permits a single set of accounts for charities if they have common or related purposes, or shared management (i.e. connected charities). This would be the case where charities have common trustees. The City of Edinburgh Council acts as sole Trustee for these charitable trust funds.

## Our assessment of risks of material misstatement

11. 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. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on each set of financial statements is not modified with respect to any of the risks described in Exhibit 1 below.



# Exhibit 1: 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 charitable trusts could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.

*Noted in 2016/17 External Audit Plan*



- 12. 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 each charitable trust fund's revenue recognition policy is appropriate and has been applied reasonably. We have gained satisfactory assurance in respect of the completeness and occurrence of revenue transactions in the year.

## 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.

*Noted in 2016/17 External Audit Plan*



- 13. We have not identified any indications of management override in the year. We have reviewed the charitable trust funds' 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.
- 14. 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. While our audit work did not identify any indications of management override, we recommend that a review process is put in place over the preparation and posting of journals to the ledger.

*Action plan point 1*

# Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

## 3. Lauriston Castle Trust external valuation

In 2014/15 Audit Scotland noted that the Lauriston collection had not been revalued since 1997. The Trust planned an external revaluation of the Trust assets in 2015/16 the results of which would be incorporated into the 2015/16 accounts.

An external revaluation of the collection commenced in January 2016 but the final results of that revaluation were not finalised until after the certification of the accounts on 29 September 2016.

There is a risk that the result of this valuation are incorrectly accounted for in the 2016/17 financial statements.

*Noted in 2016/17 External Audit Plan*



- 15. An external revaluation of the collection commenced in 2016 but has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date (31 March 2016). The unaudited accounts presented for audit included a provisional figure for the revaluation of the Lauriston collection (gain of £1.012million). As the final figures for the revaluation of the collection are unavailable this has been reversed out of the audited financial statements.

## Our application of materiality

- 16. 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 financial statements.
- 17. Our initial assessment of materiality for each Trust is set out in the following table. We revised our initial assessment, following receipt of the unaudited financial statements and they remained at these levels throughout our audit.
- 18. Our assessment of materiality is set with reference to a range of benchmarks (including incoming resources and any surplus/deficit on provision of services). We consider these to be the principal considerations for the users of the accounts when assessing the financial performance of the charitable trust funds.

	Initial materiality	Final materiality
Jean F. Watson	£108,670	£110,619
Edinburgh Education Trust	£15,140	£16,440
Nelson Halls Trust	£3,805	£3,988
Boyd Anderson	£2,125	£1,548
Usher Hall Conservation Trust	£1,255	£889
Lauriston Castle Trust	£123,210	£140,939
The Royal Scots Memorial Trust	£555	£564

19. 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	Weighting
High	50%
Medium	60%
Low	75%

20. We noted within our External Audit Plan that we would report to trustees all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

### Audit differences

21. We identified one audit adjustment; the details of which are disclosed in appendix 2 and referred to in paragraph 15 (Lauriston Castle Trust external valuation).
22. We identified some presentational adjustments during our audit which are reflected in the final sets of financial statements.
23. Appendix 2 also details one audit difference we identified during the audit process which has not been adjusted for. We have agreed with council management that this amount is not material and therefore has not been incorporated into the financial statements.

### An overview of the scope of our audit

24. The scope of our audit was detailed in our City of Edinburgh Council External Audit Plan, which was presented to the council's 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 charitable trust funds. 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.

25. 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.
26. Our standard audit approach is based on performing 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 management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

### Accounting systems and internal controls

27. During the course of our audit of the financial statements, we examined the principal internal controls which the trustees have established to enable them to ensure, as far as possible, the accuracy and reliability of each of the charitable trust fund's accounting records and to safeguard the charitable trust fund's assets.
28. It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.
29. Our work identified two areas for improvement during our final audit (one of which is referred to at paragraph 14). We outline the issues identified and our recommendations at Appendix 4.

*Action plan point 1 and 2*

### Fraud and irregularity

30. Responsibility for preventing and detecting fraud and other irregularities lies with the trustees of the charitable trust funds. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material

misstatements in the financial statements resulting from improprieties or breach of regulations.

31. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

## Legality

32. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.
33. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## Going concern and subsequent events

34. We are required under International Standard on Auditing (UK & Ireland) 570, "Going Concern" to consider the appropriateness of the trustees' use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about each charitable trust fund's ability to continue as a going concern which need to be disclosed in the financial statements.
35. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. International Standard on Auditing (UK & Ireland) 560, "Subsequent events" requires us to assess all such matters before signing our audit report.
36. In order to gain assurance on these matters our work has included (where applicable):
- reviewing bank facilities;
  - enquiring of senior management and the charitable trust fund's solicitors concerning litigation, claims and assessments; and
  - performing sample testing of post balance sheet transactions.
37. We confirm that there are no issues affecting each charitable trust fund's ability to continue as a going concern.
38. No subsequent events were identified requiring amendment to or disclosure in the financial statements.

39. In February 2017, the Finance and Resources Committee agreed that Usher Halls Trust would be wound-up after all of its funds are transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This is expected to happen in 2017/18 and OSCR will be notified.
40. In January 2016, the Finance and Resources Committee agreed that £64,000 of the Boyd Anderson Funds would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed and the monies have not been transferred. A proposal for the remaining funds will be presented to committee in 2017/18. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
41. These two matters have been disclosed in the Trustee's annual report.

## Other matters identified during our audit

### The Local Authority Accounts (Scotland) Regulations 2014

42. As part of our audit, we reviewed the charitable trust fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulation 9<sup>1</sup> as it relates to the financial statements. Overall, we concluded that appropriate arrangements were in place to comply with these Regulations (as they apply to charities).

### Allianz Investment Funds

43. On 1 April 2016, the council was notified that two funds managed by Allianz Investment Managers, accounting for £1.432million of investments, were to be wound up. These funds were liquidated on 30 June 2016 and paid out on 6 July 2016, at which point the monies received from Allianz were deposited in a trusts bank account (a total value of £1.487million including an in-year realised investment gain of £54,702). The Acting Executive Director of Resources recommended that the funds, along with an additional £100,000 from the Edinburgh Education Trust,

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<sup>1</sup> Regulation 9 relates to the notice of public right to inspect and object to the accounts.

were invested in the COIF Charities Investment Fund managed by CCLA.

## **Qualitative aspects of accounting practices and financial reporting**

44. 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 financial statements. 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 financial statements, and consider these to be appropriate to the charitable trust funds.
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.	The Trustees do not consider there to be any accounting judgements required in preparing the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	We did not identify any uncertainties, including any significant risk or required disclosures that 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 in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the trustees' report or material inconsistencies with the financial statements.	There are no misstatement or material inconsistencies between the trustees' report and the financial statements.
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.
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

## Appendices

# Appendix 1: Respective responsibilities of the trustees and the Auditor

## Responsibility of the trustees

Under legislation relating to charities in Scotland, the trustees are required to prepare financial statements for each financial year which give a true and fair view of the state of the charity's affairs and of its incoming resources and application of resources, including its surplus or deficit for that year, and which have been properly prepared from and are in agreement with the accounting records of the Trust and comply with relevant disclosure requirements.

In preparing those financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue its activities.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the Trust's financial position and enable them to ensure that the financial statements comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). The trustees also have general responsibility for taking such steps as are reasonably open to them to safeguard the Trust's assets and to prevent and detect fraud and other irregularities.

## Responsibilities of the auditor

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 charitable trust funds covered by this report fall within the scope of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

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 Financial Reporting Council's Ethical Standards for Auditors.

The audit includes the consideration of internal controls relevant to the preparation of the financial statements but we do not express an opinion on the effectiveness of internal control. We are also required to communicate any significant matters arising from the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.

The matters being reported are limited to those deficiencies in control that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

International Standards on Auditing (UK and Ireland) do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

## Independence

International Standard on Auditing (UK & Ireland) 260, "Communication with those charged with governance" requires us 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 Standards for Auditors. In our professional judgement the audit process has been independent and our objectivity has not been compromised.



# Appendix 2: Audit differences

## Adjusted audit differences

We identified the following adjustment during the audit. We have discussed this adjustment with council management and agreed that it should be incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA	
	Dr	Cr	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000	£'000	£'000
1 Gains on revaluation of fixed assets					1,012	
Heritable property		1,012				
<i>Being reversal of the revaluation of Lauriston Castle.</i>						
<i>Net impact on income/(expenditure) in year</i>						-
<i>Net impact on movement in funds in year</i>				(1,012)		
<i>Charity Funds per unaudited accounts</i>				15,683		
<i>Revised Charity Funds</i>				14,671		

## Unadjusted audit difference

We identified the following unadjusted audit difference during the audit. We agreed with council management that this amount is not material and therefore has not been incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA	
	Dr	Cr	Dr	Cr	Dr	Cr
	£	£	£	£	£	£
1 Investment income						
• J F Watson				5,215		
• Nelson Halls Trust				1,170		
• Edinburgh Education Trust				4,400		
• Lauriston Castle Trust				233		
• The Royal Scots Memorial Trust				177		
Investments		11,195				

*Being overstatement of investment income (as accounted for a cash basis) in 2016/17. For noting amounts related to dividend income for 2015/16. The amounts to be accrued for 2016/17 have not been identified.*

## Appendix 3: List of entities key financials

The list of entities on which we have reported, and which are covered by this report are included in the table below. All financial statements were prepared on an accruals basis.

	2016/17 £'000	2015/16 £'000	Commentary
<b>Jean F. Watson (SC018971)</b>			
Income	47	27	To assist in the purchase of 'Moon', £9,500 was received from the National Fund for Acquisitions administered by the National Museums of Scotland and £5,000 was received from Friends of City Art Centre.
Expenditure	(6)	(3)	The prior year figure has been restated to reflect the purchase of 'Craggs at Dawn'. As a result, assets increased by £4,000 and expenditure decreased by the same amount.
Net gains/(losses) on investments	56	(45)	
<b>Net income/(expenditure)</b>	<b>97</b>	<b>(21)</b>	
Unrestricted funds	983	942	
Endowment funds	914	858	
Revaluation reserve	4,377	4,377	
<b>Total funds</b>	<b>6,274</b>	<b>6,177</b>	
<b>Edinburgh Education Trust (SC042754)</b>			
Income	30	21	Increase in dividend income received in comparison with the prior year.
Expenditure	(13)	(17)	The Trust funded £7,569 of activities for looked after children and £1,316 of school prizes. In comparison, in 2015/16 the Trust funded £11,021 of activities for looked after children and £1,688 of school prizes.
Net gains/(losses) on investments	50	(38)	
<b>Net income/(expenditure)</b>	<b>67</b>	<b>(34)</b>	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	43	126	During the year, £100,000 from the Edinburgh Education Trust, was invested in the COIF Charities Investment Fund managed by CCLA. £100,000 was transferred from unrestricted funds into the endowment funds.
Endowment funds	876	726	
<b>Total funds</b>	<b>919</b>	<b>852</b>	
<b>Nelson Halls Trust (SC018946)</b>			
Income	7	6	
Expenditure	(7)	(6)	
Net gains/(losses) on investments	13	(10)	
<b>Net income/(expenditure)</b>	<b>13</b>	<b>(10)</b>	
Unrestricted funds	3	2	
Endowment funds	224	212	
<b>Total funds</b>	<b>227</b>	<b>214</b>	
<b>City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)</b>			
Income	1	-	
Expenditure	(6)	(2)	
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	<b>(5)</b>	<b>(2)</b>	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	113	118	In January 2016, the Finance and Resources Committee agreed that £64,000 would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed and the monies have not been transferred. A proposal for the remaining funds will be presented to Committee in 2017/28. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
<b>Total funds</b>	<b>113</b>	<b>118</b>	
<b>Usher Hall Conservation Trust (SC030180)</b>			
Income	-	-	
Expenditure	(3)	(2)	
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	<b>(3)</b>	<b>(2)</b>	
Unrestricted funds	65	68	In February 2017, the Finance and Resources Committee agreed that the Trust would be wound-up after all of its funds are transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This is expected to happen in 2017/18 and OSCR will be notified.
<b>Total funds</b>	<b>65</b>	<b>68</b>	
<b>Lauriston Castle Trust (SC020737)</b>			
Income	1	1	
Expenditure	(1)	(1)	
Net gains/(losses) on investments	2	(2)	
<b>Net income/(expenditure)</b>	<b>2</b>	<b>(2)</b>	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	-	-	
Endowment funds	40	38	
Revaluation reserve	7,001	7,001	
<b>Total funds</b>	<b>7,041</b>	<b>7,039</b>	
<b>The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)</b>			
Income	1	1	
Expenditure	(1)	(2)	
Net gains/(losses) on investments	2	(2)	
<b>Net income/(expenditure)</b>	<b>2</b>	<b>(3)</b>	
Unrestricted funds	1	2	
Endowment funds	31	28	
<b>Total funds</b>	<b>32</b>	<b>30</b>	

# Appendix 4: Accounting systems and internal control

During the course of our audit of the financial statements, we examined the principal internal controls which the council has established to enable them to ensure, as far as possible, the accuracy and reliability of the charitable trust fund's accounting records and to safeguard its assets.

It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

## Action plan – audit recommendations

The weaknesses noted from our work are detailed in the action plan below.

		Number of audit observations
Grade	Definition	
5	Very high risk exposure – Major concerns requiring immediate attention	-
4	High risk exposure – Absence/failure of significant key controls	-
3	Moderate risk exposure – Not all key control procedures are working effectively	2
2	Limited risk exposure – Minor control procedures are not in place/not working effectively	-
1	Efficiency/housekeeping point	-

## Recommendations from 2016/17

Action plan point	Issue & Recommendation	Management Comments
<b>1. Authorisation of journals</b>	Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation.	<p>While 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</p> <p><b>Action owner:</b> Charitable Trust Accountant, Finance</p> <p><b>Due Date:</b> March 2018</p>
<b>Rating</b>	Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place	
<b>Grade 3</b>	While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.	
<b>Paragraph ref</b>		
<b>14</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>2. Accounting for dividend income</b>	During our audit testing we noted that dividend income has been accounted for on a cash basis instead of an accruals basis.	<p>The Council will ensure that during preparation of the 2017/18 accounts, dividend income is accounted for on an accruals basis and will contact the Trusts' investment managers early in 2018 to ensure this information is available in a timely manner.</p> <p><b>Action owner:</b> Charitable Trusts Accountant, Finance</p> <p><b>Due Date:</b> March 2018</p>
<b>Rating</b>	Dividend income should be accounted for on an accruals basis.	
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>29</b>		

# Appendix 5: Management representation letter

## LETTER OF REPRESENTATION: THE CITY OF EDINBURGH COUNCIL CHARITABLE TRUSTS

Dear Sirs

### The City of Edinburgh Council Charitable Trusts

This representation letter is provided in connection with your audit of the financial statements of The City of Edinburgh Council Charitable Trusts for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

On behalf of the trustee of the charities, I am directed to confirm to you, in respect of the financial statements of the charitable trust funds for the year ended 31 March 2017, the following:-

### Financial statements and accounting records

1. We have fulfilled our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 for preparing financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" 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. 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 charitable trust funds;
  - circumstances of an exceptional or non-recurrent nature; or
  - charges or credits relating to prior periods.
5. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
6. All income has been recorded, all restricted endowment funds have been properly applied and all constructive obligations have been recognised.
7. 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 are to be approved.



8. We have also considered the adequacy of the disclosures in the financial statements relating to going concern and are satisfied that sufficient disclosure has been made in the financial statements in order to give a true and fair view.
9. We confirm the financial statements are free of material misstatements, including omissions. We believe that the uncorrected audit difference identified during the audit is immaterial to the financial statements. This item is attached to this letter of representation, together with our reasons for not correcting for it.

#### **Fraud**

10. 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.
11. In our opinion, the risks that the financial statements may be materially misstated as a result of fraud are low for the following reason:
  - The Trust Accountant runs a general ledger transactions query report on an at-least monthly basis, promptly reviewing any unexpected items and instigating corrective action as appropriate. Given the relatively low level of transactions, these can be investigated on an individual basis.
12. We have disclosed to you all information in relation to fraud or suspected fraud of which we are aware 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.
13. 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.

#### **Compliance with laws and regulation, and contractual agreements**

14. 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.
15. The charitable trust 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.

#### **Accounting estimates**

16. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

#### **Related parties**

17. We have disclosed to you the identity of the charity's related parties and all related party relationships and transactions of which we are aware.
18. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
19. 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 Trust at any time during the year.

#### **Assets and liabilities**

20. 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.

21. We have disclosed to you all known actual or possible litigation or claims whose effects should be considered when preparing the financial statements and that they have been accounted for and disclosed in accordance with UK Generally Accepted Accounting Practice.
22. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
23. The Trust has satisfactory title to all assets and there are no liens or encumbrances on the charity's assets, other than as disclosed in the financial statements.
24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

**Subsequent events**

25. All events subsequent to the date of the financial statements and for which UK Generally Accepted Accounting Practice 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.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

.....

Signed on behalf of the trustee of the charities

On..... (date)

The above individual is signing this letter on behalf of the trustee of the charities confirming that:

- a) so far as each member of the Finance and Resources Committee is aware, there is no relevant audit information of which the charitable trust funds is unaware; and
- b) each member of the Finance and Resources Committee has taken all the steps that ought to have been taken, including making appropriate enquiries of fellow members and of the charitable trust funds for that purpose, in order to be aware of any information needed by the charitable trust funds' auditor in connection with preparing their report and to establish that the charitable trust funds' auditor is aware of that information.



**Scott-Moncrieff**  
business advisers and accountants

**The City of Edinburgh Council Charitable Trusts  
Audited Trustee's Annual Report and Accounts  
for the year ended 31 March 2017**

## **Legal and Administrative Information**

### **Trustee**

The City of Edinburgh Council acts as sole trustee for the charities in this report. The delegated responsibility for charitable trusts was transferred from the Pensions and Trusts Committee to the Finance and Budget Committee as part of the review of governance arrangements under the Committee Terms of Reference and Delegated Functions approved by Council on 20 September 2012 (Section 6.6). The Finance and Budget Committee has since been renamed the Finance and Resources Committee and now has delegated responsibility from Council to act in the role of trustee of its charities. The individual members of the Committee are listed on page 6 of the Trustee Report.

In addition to the above a separate Committee exists to manage the Jean F. Watson Bequest Art Collection. The Committee on the Jean F. Watson Bequest has the following delegated authority: "With monies from the Jean F. Watson Bequest, to purchase and commission for the City's collection, works of artists and craftspeople born, practising in, or otherwise associated with Scotland, and in particular Edinburgh; all decisions to be guided by the Collection and Disposal Policy for the City Museums and Galleries."

### **Registered Office**

The City of Edinburgh Council  
City Chambers  
High Street  
Edinburgh  
EH1 1YJ

### **Auditor**

Scott-Moncrieff  
Exchange Place 3  
Sempie Street  
Edinburgh  
EH3 8BL

### **Bankers**

Royal Bank of Scotland  
36 St Andrew Square  
Edinburgh  
EH2 2AD

### **Investment Managers**

CCLA Investment Management Ltd  
Senator House  
85 Queen Victoria Street  
London  
EC4V 4ET

M&G Charities  
PO Box 9038  
Chelmsford  
CM99 2XF

## **Trustee's Audited Annual Report 2016/17**

The trustee presents the Audited Annual Report and Accounts of the City of Edinburgh Council Charitable Trusts for the year ending 31 March 2017. The Annual Accounts have been prepared in accordance with the accounting policies set out in note 1 to the accounts and comply with the Charities Accounts (Scotland) Regulations 2006 and the principles of Accounting and Reporting by Charities: Statement of Recommended Practice effective 01/01/2015 (FRS 102), commonly referred to as the SORP.

### **Structure, Governance and Management**

The charities that the Council administers are constituted in a variety of different ways. Details of how each charity was originally established are available from the Council.

The Trustee section on the previous page describes the Committees of the Council which are involved with administration. All committee members are elected Councillors. Members of the Finance and Resources Committee have been provided with copies of the OSCR guidance which explains the role and responsibilities of charity trustees. Risk management is covered as part of the Council's general risk management procedures.

All major decisions relating to the strategic operation of the Trusts are undertaken by the Finance and Resources Committee. There is also a dedicated Jean F. Watson Committee which meets to discuss the finances and make decisions on art acquisitions. The Children's Panel meets to approve funding for the Edinburgh Education Trust.

### **Reference and Administrative Details**

At the year end the Council acted as sole trustee for a total of seven trusts which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR). A list of all the charities can be found on page 3 of this report and in the accounts.

The Council administers these charities but their assets are not available to the Council and have not been included in the Council's balance sheet, or its wider Group balance sheet.

### **Responsibilities of the Trustee**

Charity law requires charity trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the surplus or deficit of the charity for that period.

The Council, as the trustee, has overall responsibility for the following:

1. Ensuring that there are appropriate systems of controls, financial and otherwise.
2. Keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charities and enable them to ensure that the financial statements comply with the Charities Accounts (Scotland) Regulations 2006 and the SORP.
3. Selecting suitable accounting policies and applying them consistently.
4. Making judgements and estimates that are reasonable and prudent.
5. Safeguarding the assets of the charities.
6. Taking reasonable steps for the prevention and detection of fraud and other irregularities.
7. Providing reasonable assurance that:
  - the charities are operating efficiently and effectively;
  - the charitable assets are safeguarded against unauthorised use or disposition;
  - proper records are maintained and financial information used by the charities is reliable;
  - the charities comply with relevant laws and regulations.

The systems of internal control are designed to provide reasonable, but not absolute assurance against material misstatement or loss. They include:

1. A strategic plan approved by the charity trustee;
2. Regular consideration by the charity trustee of financial results and non-financial performance indicators;
3. Delegation of authority and segregation of duties;
4. Identification and management of risks.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included in the council's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### **Exemptions From Disclosure**

None.

### **Funds held as Custodian Trustee on Behalf of Others**

None.

**Trustee's Audited Annual Report 2016/17**  
**Objectives and Activities**

Details of the charitable purposes of the charities as at 31 March 2017 are as follows:

<b>Official Name (Name Used in Accounts)</b>	<b>Scottish Charity Registration Number</b>	<b>Purpose</b>	<b>Market Value at 31/3/17 £'000</b>
<b>Jean Fletcher Watson (Jean F. Watson)</b>	<b>SC018971</b>	The purchase of works of art by artists who have connections with the city	<b>6,274</b>
<b>Edinburgh Education Trust (Edinburgh Education Trust)</b>	<b>SC042754</b>	To fund activities to support Looked after Children and school prizes	<b>919</b>
<b>Nelson Halls Trust (Nelson Halls)</b>	<b>SC018946</b>	Maintenance of the four "Nelson Halls" in Edinburgh to provide reading rooms for the poor	<b>227</b>
<b>City of Edinburgh Council Charitable Funds (Boyd Anderson)</b>	<b>SC025067</b>	Provision of outdoor education and skiing opportunities	<b>113</b>
<b>Usher Hall Conservation Trust (Usher Hall)</b>	<b>SC030180</b>	Raise funds for the renovation of the Usher Hall	<b>65</b>
<b>Lauriston Castle Trust (Lauriston Castle)</b>	<b>SC020737</b>	To make the artefacts and buildings available to be viewed by the public	<b>7,041</b>
<b>The Royal Scots (The Royal Regiment) Monument Trust Fund (The Royal Scots Trust)</b>	<b>SC018945</b>	Maintenance of the Royal Scots Monument	<b>32</b>
<b>Total</b>			<b>14,671</b>

The Catherine Cowper Trust is not included in the accounts as it is not a registered charity.

The main activities undertaken in relation to the Trusts' purposes are outlined below;

Jean F. Watson purchased 'Moon' by Alison Watt during the financial year. An additional planned purchase will be progressed and finalised throughout the next financial year.

The Edinburgh Education Trust funded £7,569 of activities for looked after children (£11,021 2015/16) and £1,316 of school prizes (£1,668 2015/16). An improved process has been introduced to ensure that this funding is allocated to the recipients in a more timely and direct manner than had been the case previously.

The Nelson Halls are open to the public as part of the libraries and community centres they are attached to.

At the January 2016 Finance and Resources Committee, it was agreed that £64,000 of the Boyd Anderson funds would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed at Lagganlia, therefore these monies have not yet been transferred. A proposal for the remaining £49,434 will be made to Committee in 2017/18. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.

At the February 2017 Finance and Resources Committee, it was agreed that the Usher Hall Conservation Trust would be wound-up after all of its funds were transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This will happen in early 2017/18 and OSCR will be notified.

The Lauriston Castle is open to the public with the interest received in 2016/17 used to cover some of the running costs.

For The Royal Scots Trust, the interest received in 2016/17 was used to cover some of the running costs.

**Achievements and Performance**

To assist Jean F. Watson in the purchase of 'Moon', £9,500 was received from the National Fund for Acquisitions administered by the National Museums of Scotland and £5,000 was received from Friends of City Art Centre.

There was £4,185 of expenditure incurred across five of the Trusts in 2016/17 for investment advice with the intention of improving investment returns in future periods. (£nil 2015/16)

## Trustee's Audited Annual Report 2016/17 Achievements and Performance - continued

### Financial Investments Performance

Performance information for 12 months to 1 November 2016 by Charibond Charities Fixed Interest Common Investment Fund was a total return (capital performance with gross income reinvested) of 9.3% compared to the FTSE British Government All Stocks Index - a broad index of UK government bonds which does not include corporate bonds - which returned 9.1% over the same period. Charibond's gross redemption yield after expenses on 1 November 2016 was 1.8% compared with the gross redemption yield of 1.3% on 10-year UK government bonds (gilts). However, if recent low interest rates were to be sustained, the distribution will be cut again in 2017.

The Allianz Global Investors managed Chariguard UK Equity Fund and the Chariguard Overseas Equity Fund were wound up with the funds liquidated as at 30 June 2016 and these paid out on 4 July 2016, with a total value of £1,487,394 and an in-year realised investment gain of £54,702.

Arlingclose were requested to undertake an investment options report. This report considered factors such as; past capital and income return, size of fund, investment approach and objectives, ethical considerations and annual charges.

It was recommended to, and approved by, the Acting Executive Director of Resources that the £1,487,394 paid out by Allianz, as well as an additional £100,000 from the Edinburgh Education Trust, were invested in the COIF Charities Investment Fund managed by CCLA.

The longer term total return performance (gross) for the 12 months to end March is outlined in the table below;

	2017	2016	2015	2014	2013
<b>Fund</b>	+20%	+0.4%	+14.7%	+7.2%	+18.5%
<b>Comparator</b>	+20.4%	-1.5%	+11.1%	+8.1%	+13.7%

The COIF Charities Investment Fund is split 50.4% in overseas equities, 26.2% in UK equities, 20.2% in Property/Other Assets, 0.3% in Fixed Interest and 2.9% in Cash as at 31 March 2017. The overseas equities split are split as follows: - North America 29.3%, Europe 12.8%, Japan 4.3%, Pacific Ex. Japan 3.3%, Other Americas 0.7%.

Asset allocation was helpful to performance, in particular the exposure to international equities. The contribution from stock selection, however, was mixed, boosted by a low weighting to energy but held back by low returns from the health sector.

### Financial Review

The financial statements present the financial position of the trusts for the year ended 31 March 2017. This section describes briefly the key points of each statement. Financial statements and notes have been rounded to the nearest thousand. All of the unrestricted funds of the charities are general and not designated.

The Statement of Financial Activities shows the total income to be £87,000 in 2016/17. (2015/16 £56,000). This increase in income compared to the previous year is due to the well timed investment in the COIF Charities Investment Fund, which saw additional dividend income received in the year and a further £100,000 being invested by Edinburgh Education Trust. The £14,500 of grant income received for purchasing art, resulted in a significant boost in income.

The expenditure in the year is higher than last year at £37,000 compared to £33,000. This movement is primarily a result of governance costs being £2,000 higher in 2016/17 as a result of the net impact of investment advice of £4,185 being charged directly to the Trusts and the central support costs being slightly lower than in the previous year. An analysis of expenditure is detailed in Notes 3, 4 and 5 with the values against Nelson Halls, Lauriston Castle and The Royal Scots Trusts being allocated to the maintenance of the assets.

The Balance Sheet Statement shows the fixed asset investments have increased from £1.843m to £2.066m. Movements on the valuation of the investments are further analysed in note 8, 16 and 17.



## **Trustee's Audited Annual Report 2016/17**

### **Financial Review - continued**

Fixed asset properties and collections have been included in the accounts at their most recent valuations. The £87,000 decrease in cash is further analysed in the Cash Flow Statement (£7,000 increase in 2015/16). The detail of the breakdown of the £23,000 owed by each Trust as at 31 March 2017 is included within Note 17 of the Accounts with the year on year comparative included in Note 10 and additional detail on who is owed monies provided in Note 12.

### **Reserves Policy**

The Charitable Trusts should follow the prevailing general principle that the "Capital" of the funds is held effectively as a permanent endowment, with only the annual income available for disbursement in the year. If the Trustee requires to use "Capital" balances, Finance and Resources Committee approval would be required on a case by case basis. This policy was approved at the 17 March 2016 Finance and Resources Committee.

The annual income for Jean F. Watson averages around £25,000. This income can be used to purchase additional artwork, preserve existing artwork or to pay for any expenses of administering the Trust. Any unused income in the year remains within the Trusts bank account. The Trust has total funds of £6,274,000, consisting of £914,000 in Investments, £5,275,000 in Fixed Assets, £89,000 in Cash less Creditors of £4,000.

The annual income for the Edinburgh Education Trust averages around £20,000. This income is used for the advancement of education, academic and physical, formal and informal, to include the giving of bursaries and prizes as well as assistance for residents who find themselves in a state of financial hardship within the City of Edinburgh District or to pay for any expenses of administering the Trust. Any unused income in the year remains within the Trusts bank account. The Trust has total funds of £919,000, consisting of £876,000 in Investments, £45,000 in Cash less Creditors of £2,000.

The annual income for Nelson Halls averages around £5,000. This income should be used in full towards costs incurred by the City of Edinburgh Council for the maintenance of the Halls. The Trust has total funds of £227,000, consisting of £205,000 in Investments, £19,000 in Heritable Assets, £10,000 in Cash less Creditors of £7,000.

No reserves policy has been created for Boyd Anderson as the existing funds have been agreed to be disbursed as per the report to Finance and Resources Committee on 14 January 2016.

The annual income for Usher Hall averages around £250. This income is used towards costs incurred by the City of Edinburgh Council for the maintenance of the Usher Hall. On 23 February 2017, the Finance and Resources Committee agreed to transfer £68,000 less the annual governance costs (including Audit fee) to assist in covering the cost of the new grand piano. The Trust has total funds of £65,000, consisting of £68,000 in Cash less Creditors of £3,000.

The annual income for the Lauriston Castle averages around £1,000. This income is used in full to cover costs incurred by the City of Edinburgh Council for the maintenance of the Castle. The Trust has total funds of £7,041,000, consisting of £7,001,000 in Heritable Assets, £40,000 in Investments, £1,000 in Cash less Creditors of £1,000.

The annual income for The Royal Scots Trust averages around £800. This income is used in full to cover costs incurred by the City of Edinburgh Council for the maintenance of the Monument. The Trust has total funds of £32,000, consisting of £31,000 in Investments and £2,000 In Cash less Creditors of £1,000.

The Heritable Assets and the Investments stated above are endowment funds and are therefore not available for general purposes. An analysis of Heritable Assets is included within Note 7 to the Accounts.

## **Trustee's Audited Annual Report 2016/17**

### **Financial Review - continued**

#### **Plans for Future Period**

The strategy to radically restructure the trusts by a combination of: transfers to suitable external charities; consolidation; and expenditure of capital is almost complete. Future plans include the full disbursement of the remaining funds of the Boyd Anderson Trust and the official winding up of Usher Hall Conservation Trust in the 2017/18 financial year, which will leave five Trusts remaining.

Since the end of the 2015/16 financial year the Trusts have improved processes regarding the transfer of funds and this should be continued in 2017/18 to ensure individuals are aware of the money available to them and that this is transferred promptly. Forecasting will be carried out by finance staff in 2017/18 to ensure that they are also aware of the likely money available in 2018/19 to enable longer-term planning.

#### **Signed on behalf of the trustee of the charities:**

**Councillor Alasdair Rankin**

**Convener of the Finance and Resources Committee**

**Date:**

#### **The other members of the Finance and Resources Committee as at 31 March 2017 are outlined below;**

Councillor Bill Cook (*Vice Convener*)  
Councillor Gavin Corbett  
Councillor Denis Dixon  
Councillor Paul Edie  
Councillor Paul Godzik  
Councillor Joan Griffiths  
Councillor Bill Henderson  
Councillor Ricky Henderson  
Councillor Allan Jackson  
Councillor Adam McVey  
Councillor David Walker  
Councillor Iain Whyte

#### **Members of the Jean F. Watson Committee as at 31 March 2017 are outlined below;**

Councillor Lewis (Convener)  
Councillor Fullerton  
Councillor Aitken  
Councillor Keil  
Councillor Paterson  
Councillor Redpath

#### **The other members of the Finance and Resources Committee as at 28 September 2017 are outlined below;**

Councillor Marion Donaldson (*Vice Convener*)  
Councillor Claire Bridgman  
Councillor Gavin Corbett  
Councillor Derek Howie  
Councillor Graham Hutchison  
Councillor Andrew Johnston  
Councillor Claire Miller  
Councillor Neil Ross  
Councillor Mandy Watt  
Councillor Iain Whyte

#### **Members of the Jean F. Watson Committee as at 28 September 2017 are outlined below;**

Councillor Fullerton (Convener)  
Councillor Aldridge  
Councillor Donaldson  
Councillor Doran  
Councillor McNeese-Mechan  
Councillor Mitchell  
Councillor Mowat  
Councillor Rae

The City of Edinburgh Council Charitable Trusts  
Statement of Financial Activities  
For the year ended 31 March 2017

	Note	2016/17			Re-stated 2015/16		
		Unrestricted funds	Endowment funds	Total funds	Unrestricted funds	Endowment funds	Total funds
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Income and Endowments from:</b>							
<i>Charitable activities</i>	2	14	-	14	2	-	2
<i>Investments</i>	2	73	-	73	54	-	54
<b>Total</b>		<u>87</u>	<u>-</u>	<u>87</u>	<u>56</u>	<u>-</u>	<u>56</u>
<b>Expenditure on:</b>							
<i>Raising Funds</i>	3	(4)	-	(4)	-	-	-
<i>Charitable activities</i>	4, 5	(33)	-	(33)	(33)	-	(33)
<b>Total</b>		<u>(37)</u>	<u>-</u>	<u>(37)</u>	<u>(33)</u>	<u>-</u>	<u>(33)</u>
<i>Net gains / (losses) on investments</i>	16	-	123	123	-	(97)	(97)
<b>Total</b>		<u>-</u>	<u>123</u>	<u>123</u>	<u>-</u>	<u>(97)</u>	<u>(97)</u>
<b>Net income / (expenditure)</b>		<u>50</u>	<u>123</u>	<u>173</u>	<u>23</u>	<u>(97)</u>	<u>(74)</u>
<b>Transfers between funds</b>		<u>(100)</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net movement in funds</b>		<u>(50)</u>	<u>223</u>	<u>173</u>	<u>23</u>	<u>(97)</u>	<u>(74)</u>
<b>Reconciliation of funds</b>							
<i>Capital as 1 April</i>		1,250	1,637	2,887	1,227	1,734	2,961
<i>Revaluation Reserve</i>		4,377	7,001	11,378	4,377	7,001	11,378
<i>Market Value Adjustment</i>		8	225	233	8	225	233
<i>Total funds brought forward</i>		<u>5,635</u>	<u>8,863</u>	<u>14,498</u>	<u>5,612</u>	<u>8,960</u>	<u>14,572</u>
<b>Total funds carried forward</b>	17	<u>5,585</u>	<u>9,086</u>	<u>14,671</u>	<u>5,635</u>	<u>8,863</u>	<u>14,498</u>

**The City of Edinburgh Council Charitable Trusts**  
**Balance Sheet**  
**As at 31 March 2017**

	Note	2016/17			Re-stated 2015/16		
		Unrestricted funds	Endowment funds	Total funds	Unrestricted funds	Endowment funds	Total funds
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Fixed Assets:</b>							
<i>Jean F. Watson Collection</i>	6	5,275	-	5,275	5,236	-	5,236
<i>Heritable Property</i>	7	-	7,020	7,020	-	7,020	7,020
<i>Investments</i>	8	-	2,066	2,066	-	1,843	1,843
<b>Total fixed assets</b>		<b>5,275</b>	<b>9,086</b>	<b>14,361</b>	<b>5,236</b>	<b>8,863</b>	<b>14,099</b>
<b>Current Assets:</b>							
<i>Cash at Bank</i>	9	333	-	333	420	-	420
<b>Total current assets</b>		<b>333</b>	<b>-</b>	<b>333</b>	<b>420</b>	<b>-</b>	<b>420</b>
<b>Liabilities:</b>							
<i>Creditors due within one year</i>	10, 12	(23)	-	(23)	(21)	-	(21)
<b>Total Liabilities</b>		<b>(23)</b>	<b>-</b>	<b>(23)</b>	<b>(21)</b>	<b>-</b>	<b>(21)</b>
<b>Net Current Assets</b>		<b>310</b>	<b>-</b>	<b>310</b>	<b>399</b>	<b>-</b>	<b>399</b>
<b>Total Net Assets</b>		<b>5,585</b>	<b>9,086</b>	<b>14,671</b>	<b>5,635</b>	<b>8,863</b>	<b>14,498</b>
<b>The funds of the charity:</b>							
<i>Unrestricted Funds</i>	17	1,208	-	1,208	1,258	-	1,258
<i>Endowment Funds</i>	17	-	2,085	2,085	-	1,862	1,862
<i>Revaluation Reserve</i>	17	4,377	7,001	11,378	4,377	7,001	11,378
<b>Total Charity Funds</b>		<b>5,585</b>	<b>9,086</b>	<b>14,671</b>	<b>5,635</b>	<b>8,863</b>	<b>14,498</b>

The unaudited accounts were issued on 22 June 2017. The audited accounts were authorised for issue on 28 September 2017. I can confirm that these Annual Report and Accounts were approved for signature by the Finance and Resources Committee at its meeting on 28 September 2017.

**Signed on behalf of the charity trustee:**

**Councillor Alasdair Rankin**  
**Convener of the Finance and Resources Committee**

**Date:**

**The City of Edinburgh Council Charitable Trusts**  
**Cash Flow Statement**  
**As at 31 March 2017**

	31 March 2017	31 March 2016
	£'000	£'000
<b>Operating Activities</b>		
<i>Dividend Income and Interest received (Note 2)</i>	(72)	(54)
<i>Grant Income for Purchase of Art</i>	(14)	-
<b>Cash inflows generated from operating activities</b>	<u>(86)</u>	<u>(54)</u>
<i>Cash paid for Investment Advice (Note 3)</i>	4	-
<i>Cash paid to Schools and Pupils (Note 4)</i>	9	13
<i>Cash paid for Purchase of Art (Note 6)</i>	39	4
<i>Cash paid to the Council</i>	21	30
<b>Cash outflows generated from operating activities</b>	<u>73</u>	<u>47</u>
<b>Net cash flows from operating activities</b>	<u>(13)</u>	<u>(7)</u>
<b>Investing Activities</b>		
<i>Additional Investment into COIF Charities Investment Fund</i>	100	-
<b>Net cash flows from investing activities</b>	<u>100</u>	<u>-</u>
<b>Net cash flows from financing activities</b>	<u>-</u>	<u>-</u>
<b>Net (increase) / decrease in cash and cash equivalents</b>	<u>87</u>	<u>(7)</u>
	<b>April 2016</b>	<b>April 2015</b>
<i>Cash and cash equivalents (Note 9)</i>	420	413
	<b>March 2017</b>	<b>March 2016</b>
<i>Cash and cash equivalents (Note 9)</i>	<u>333</u>	<u>420</u>
<b>Net (increase) / decrease in cash and cash equivalents</b>	<u>87</u>	<u>(7)</u>

**The City of Edinburgh Council Charitable Trusts**  
**Notes to the accounts**  
**For the year ended 31 March 2017**

**1 Accounting policies**

**a) Basis of preparation**

The 2016/17 financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102) and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

These financial statements have been prepared on the basis that the Trusts for which the City of Edinburgh Council acts as sole Trustee are connected charities. As such, the accounts for the individual charities have been prepared on a collective basis. These financial statements contain all the relevant information that the individual charity accounts would have contained if they had been prepared on an individual basis. These Trusts meet the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note(s).

These financial statements are presented in pounds sterling (GBP) as that is the currency in which the charitable trust funds' transactions are denominated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires trustees to exercise their judgement in the process of applying the accounting policies. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

**b) Fund accounting**

Unrestricted funds are general funds that are available for use at the trustee's discretion in the furtherance of any of the objectives of the charities.

Almost all of the charities have an endowment fund consisting of invested capital and any heritable property. Endowment funds are held on trust to be retained for the benefit of the charity as a capital fund. The income arising from the investments is available for the purposes of each charity and is added to the relevant unrestricted fund. In most cases the trustee has discretion to expend endowment funds should the need arise.

**c) Investment income**

Investment income is accounted for in the period in which the charity is entitled to receive it and the amount can be measured with reasonable certainty.

**d) Grant income**

Revenue grants, including those from government, are recognised in the Statement of Financial Activities (SoFA) in the period in which the charitable trust is entitled to receipt and the amount can be measured with reasonable certainty. Such income is deferred when the charitable trust has to fulfil conditions before becoming entitled to it.

**e) Expenditure**

Expenditure is included in the financial statements on an accruals basis.

**f) Heritable property and depreciation**

Heritable properties are stated in the accounts at a revalued amount where this is available. Where this is not available historic cost has been used, this is the case for the Nelson Halls. Depreciation is not currently provided for heritable property.

**The City of Edinburgh Council Charitable Trusts**  
**Notes to the accounts**  
**For the year ended 31 March 2017**

**1 Accounting policies - continued**

**g) Heritable assets and depreciation**

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation. The type of assets includes collections of: paintings, ceramics, textiles, silverware, clocks and books. The valuations used for these assets are based on values for insurance purposes.

**h) Investments**

Investments are included at market value at the balance sheet date in accordance with the principles of the SORP. Any gain or loss on revaluation is shown on the Statement of Financial Activities.

**i) Reserves policy**

The endowment fund is maintained for the charity as a capital fund. The amount of income generated by investments is available for expenditure on charitable purposes. The Finance and Resources Committee agreed the current Reserves Policy on 17 March 2016.

**j) Creditors**

Creditors are obligations to pay for goods or services that have been acquired. They are recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

**k) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks and are measured at fair value.

**l) Financial assets and financial liabilities**

Financial instruments are recognised in the statements of financial activities when the charitable trust becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are accounted for as set out below. A financing transaction is measured at the present value of the future payments discounted at the market rate of interest for similar debt instrument.

Financial instruments are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS102. At the end of each reporting period, basic financial instruments are measured at amortised cost using the effective rate method. All financial instruments not classified as basic are measured at fair value at the end of the reporting period with the resulting changes recognised in income or expenditure. Where the fair value cannot be reliably measured, they are recognised at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from asset to expire, or when the charitable company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

**m) Critical judgements and estimates**

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the charitable trust funds' accounting policies.

The trustees do not consider there to be any accounting judgements required in preparing these accounts. The trustees are satisfied that accounting policies are appropriate and applied consistently.

**The City of Edinburgh Council Charitable Trusts**  
**Notes to the accounts**  
**For the year ended 31 March 2017**

<b>2 Analysis of Income</b>	<b>2016/17</b>	<b>2015/16</b>	
	<b>£'000</b>	<b>£'000</b>	
<i>Dividend income</i>	72	53	
<i>Bank interest received</i>	1	1	
<i>Jean F. Watson grant received for purchase of art</i>	14	2	
<b>Total Income</b>	<u>87</u>	<u>56</u>	
<b>3 Analysis of Expenditure on Raising Funds</b>	<b>2016/17</b>	<b>2015/16</b>	
	<b>£'000</b>	<b>£'000</b>	
<i>Jean F. Watson - Investment Management Costs</i>	(2)	-	
<i>Edinburgh Education Trust - Investment Management Costs</i>	(2)	-	
<b>Total Expenditure on Raising Funds</b>	<u>(4)</u>	<u>-</u>	
<b>4 Analysis of Expenditure on Charitable Activities</b>	<b>2016/17</b>	<b>Re-stated 2015/16</b>	
	<b>£'000</b>	<b>£'000</b>	
<i>Edinburgh Education Trust - Grants to Individuals</i>	(8)	(11)	
<i>Edinburgh Education Trust - Grants to Schools</i>	(1)	(2)	
<i>Lauriston Castle - Maintenance of Assets</i>	(1)	(1)	
<i>Nelson Halls - Maintenance of Assets</i>	(7)	(5)	
<i>The Royal Scots Trusts - Maintenance of Assets</i>	(1)	(1)	
	<u>(18)</u>	<u>(20)</u>	
<i>Allocation of support costs</i>	(15)	(13)	
<b>Total Expenditure on Charitable Activities</b>	<u>(33)</u>	<u>(33)</u>	
<b>5 Analysis of Support Costs</b>	<b>Governance</b>	<b>Finance</b>	<b>Total</b>
<i>Edinburgh Education Trust</i>	(1)	(1)	(2)
<i>Boyd Anderson</i>	(3)	(3)	(6)
<i>Jean F. Watson</i>	(2)	(2)	(4)
<i>Usher Hall</i>	(2)	(1)	(3)
<b>Total Support Costs</b>	<u>(8)</u>	<u>(7)</u>	<u>(15)</u>

The basis of allocation for the governance and the finance support costs was the cash held at bank at the time of allocation.

No trustee received any remuneration or expenses during year ending 31 March 2017. There are no employees of the City of Edinburgh Council Charitable Trusts.



**The City of Edinburgh Council Charitable Trusts**  
**Notes to the accounts**  
**For the year ended 31 March 2017**

	<b>2016/17</b>	<b>Re-stated 2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<b>6 Jean F. Watson Collection</b>		
<i>Balance brought forward at 1 April</i>	5,236	5,232
<i>Purchases during the year</i>	39	4
<b>Balance carried forward at 31 March</b>	<u>5,275</u>	<u>5,236</u>

In 1961 an agreement was signed by Miss Jean F. Watson and the Corporation of the City of Edinburgh which set up a fund to purchase works of art in memory of Miss Watson's parents. The Trust acquires works of art for public viewing in Edinburgh by artists who have connections with the city. The agreement allows for existing items in the collection to be sold and the proceeds used to purchase other works of art. The two purchases in the table above are the only purchases in the last five financial years and there have been no disposals. These are classified as heritage assets.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<b>7 Analysis of Heritable Property</b>		
<i>Nelson Halls</i>	19	19
<i>Lauriston Castle</i>	7,001	7,001
<b>Total Heritable Property</b>	<u>7,020</u>	<u>7,020</u>

The Lauriston Castle valuation includes £5m based on full inventory evaluation of the collection. An external revaluation of the collection commenced in 2015/16 but the final figures were still unavailable for inclusion in the 2016/17 Trustee's Annual Report and Accounts. The previous valuation of the Lauriston Castle was carried out in 1997 by Sotheby's, with the last full inventory evaluation of contents dating back to 1978.

The Nelson Halls properties have not been valued for the purposes of these accounts and are stated at cost. These buildings are now often incorporated into the fabric of existing buildings and are therefore difficult to revalue.

Additional information on heritable property can be found in the Trustee's Annual Report but there have been no acquisitions or disposals in the past five financial years, except for those mentioned for Jean F. Watson in Note 6 above.

<b>8 Analysis of Investments</b>	<b>At 31/3/16</b>	<b>Realised Investments</b>	<b>Purchases at cost</b>	<b>Net Gain on revaluation</b>	<b>At 31/3/17</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Edinburgh Education Trust</i>	725	(29)	(100)	(22)	876
<i>Jean F. Watson</i>	858	(30)	-	(26)	914
<i>Lauriston Castle</i>	38	(1)	-	(1)	40
<i>Nelson Halls</i>	193	(7)	-	(5)	205
<i>The Royal Scots Trust</i>	29	(1)	-	(1)	31
					-
<b>Total Investments</b>	<u>1,843</u>	<u>(68)</u>	<u>(100)</u>	<u>(55)</u>	<u>2,066</u>

**The City of Edinburgh Council Charitable Trusts**  
**Notes to the accounts**  
**For the year ended 31 March 2017**

<b>9 Analysis of Cash and Cash Equivalents</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<i>Edinburgh Education Trust</i>	45	131
<i>Boyd Anderson</i>	118	120
<i>Jean F. Watson</i>	89	84
<i>Lauriston Castle</i>	1	4
<i>Nelson Halls</i>	10	8
<i>The Royal Scots Trust</i>	2	2
<i>Usher Hall</i>	68	71
<b>Total Cash at Bank</b>	<u>333</u>	<u>420</u>

<b>10 Analysis of Creditors Due Within One Year</b>	<b>Unrestricted funds</b>	<b>Endowment funds</b>	<b>2016/17 Total</b>	<b>2015/16 Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Amounts due to the Council</i>	(23)	-	(23)	(21)
<b>Total Liabilities</b>	<u>(23)</u>	<u>-</u>	<u>(23)</u>	<u>(21)</u>

Detail of the amounts due per Trust is available in Note 17.

<b>11 Analysis of Financial Assets and Liabilities</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<i>Financial assets measured at amortised cost</i>	333	420
<i>Financial liabilities measured at amortised cost</i>	(23)	(21)
<i>Financial assets measured at market value</i>	2,066	1,843
<b>Total Financial Assets and Liabilities</b>	<u>2,376</u>	<u>2,242</u>

**12 Related Party Transactions**

During the year the City of Edinburgh Council made payments on behalf of the Charitable Trusts. At the end of the year £15,996 was owed to the Council by the Trusts (2015-16 £21,422) and £7,500 owed to Scott Moncrieff for the 2016/17 Audit. Detail of the amounts due per Trust is available in Note 17.

**13 Prior Year Adjustment**

The purchase of 'Craggs at Dawn' by Jean F. Watson has been reflected as an increase in fixed assets, which has increased assets by £4,000 and decreased expenditure by £4,000 in 2015/16.

**14 Post Balance Sheet Event**

**Events after the balance sheet 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.

**15 Audit Fee**

The fee payable to Scott-Moncrieff in respect of the audit services for the Council's Charitable Trusts is £7,500 for 2016/17. (2015/16 £4,250 to Audit Scotland) This fee was included in the overall governance costs and allocated proportionately to each individual Trust.

The City of Edinburgh Council Charitable Trusts

Notes to the accounts

For the year ended 31 March 2017

16 Trusts at Market Value - Year Ended 31 March 2017

Charity Name	SC Number	Re-stated	Income in year	Expenditure in year	Gains on investments	Funds carried forward	Re-stated
		Funds brought forward					2015/16 Market Value
		£'000	£'000	£'000	£'000	£'000	£'000
Edinburgh Education Trust	SC042754	852	30	(13)	50	919	852
Boyd Anderson	SC025067	118	1	(6)	-	113	118
Jean F. Watson	SC018971	6,177	47	(6)	56	6,274	6,177
Lauriston Castle	SC020737	7,039	1	(1)	2	7,041	7,039
Nelson Halls	SC018946	214	7	(7)	13	227	214
The Royal Scots Trust	SC018945	30	1	(1)	2	32	30
Usher Hall	SC030180	68	-	(3)	-	65	68
<b>Total Funds</b>		<b>14,498</b>	<b>87</b>	<b>(37)</b>	<b>123</b>	<b>14,671</b>	<b>14,498</b>

The City of Edinburgh Council Charitable Trusts  
Notes to the accounts  
For the year ended 31 March 2017

17 Trusts at Market Value - Year Ended 31 March 2017

Charity Name	SC Number	Revaluation Reserve								2016/17 Market Value	Re-stated 2015/16 Market Value
		Unrestricted Funds				Endowment Funds					
		Cash at Bank	Amounts owed	Jean F. Watson Collection	Jean F. Watson Collection	Heritable Property	Heritable Property incl. Lauriston Castle	Investments	Investments Market Value Adjustment		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Edinburgh Education Trust	SC042754	45	(2)	-	-	-	-	844	32	919	852
Boyd Anderson	SC025067	118	(5)	-	-	-	-	-	-	113	118
Jean F. Watson	SC018971	89	(4)	898	4,377	-	-	881	33	6,274	6,177
Lauriston Castle	SC020737	1	(1)	-	-	7,001	-	39	1	7,041	7,039
Nelson Halls	SC018946	10	(7)	-	-	-	19	198	7	227	214
The Royal Scots Trust	SC018945	2	(1)	-	-	-	-	30	1	32	30
Usher Hall	SC030180	68	(3)	-	-	-	-	-	-	65	68
<b>Total Funds</b>		333	(23)	898	4,377	7,001	19	1,992	74	14,671	14,498

# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Adoption of the Scotland Excel Framework Agreement for Supply and Delivery of Education and Office Furniture

Item number	7.4
Report number	
Executive/routine	
Wards	All

### Executive Summary

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This report seeks Committee approval to adopt and implement the Scotland Excel Framework Agreement for the Supply and Delivery of Education and Office Furniture.

This Framework has been developed to provide the Council with a mechanism to procure a wide range of furniture suitable for classrooms, pre-5 environments, dining rooms and flexible learning spaces. Furniture for use in a variety of office environments is also available along with furniture suitable for meeting rooms, reception areas and flexible work spaces.

The Framework is active from 1 May 2017 to 29 February 2020, with the option to extend for up to a further period of 12 months until 28 February 2021. The value of Council contract(s) has been estimated £2.98m.

## Adoption of the Scotland Excel Framework Agreement for Supply and Delivery of Education and Office Furniture

### 1. Recommendations

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#### 1.1 That Committee:

- 1.1.1 Approves the adoption and implementation of the Scotland Excel Framework for the Supply and Delivery of Education and Office Furniture, which is active from 1 May 2017 to 29 February 2020 with the option to extend for a further 12 months with an estimated value of £2.98m.

### 2. Background

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- 2.1 The current Scotland Excel Framework for Education and Office Furniture expired on 29 February 2017. The proposed replacement Framework is a second-generation version of the previous Framework with combined provision of Education and Office Furniture including the introduction of a new Lot for Pre-5 Furniture (Lot 6) to support the Scottish Government's continued investment in early year education.
- 2.2 There is an on-going requirement to procure furniture for asset management upgrades and new capital build projects. Projects vary in size and requirements from small single classroom refurbishments to full new build primary schools, nurseries and offices. Small furniture orders are raised by Schools directly in certain instances however the majority of procurement is through the Interior Design Section of the Capital Programme Team.
- 2.3 Procurement of Furniture Fitting and Equipment through the Framework will ensure that purchased items will be fit for purpose and present best value for money.

### 3. Main report

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- 3.1 This Framework provides the Council with a compliant mechanism to procure a wide range of furniture suitable for classrooms, pre-5 environments, dining rooms and flexible learning spaces. Furniture for use in a variety of office environments is also available along with furniture suitable for meeting rooms, reception areas and flexible work spaces.

- 3.2 Following publication of a Prior Information Notice (PIN), supplier meetings were held to share information on market trends and recent developments. This resulted in the latest British Standards for furniture being incorporated into product specifications, and a requirement to promote Supported Businesses (where greater than 30% of workforce is disabled or disadvantaged) through framework suppliers. It was agreed that the optimal approach to the market, to meet the requirements of end user organisations, would be to conduct a process resulting in a multi-supplier award across 11 lots.
- 3.3 Bidders were invited to offer on a lot by lot basis and provide contract prices against a defined basket of furniture product types commonly purchased by Councils, and these prices were used in the commercial evaluation of offers.
- 3.4 Bidders were requested to provide set percentage discount structures against Recommended Retail Prices (RRP) and/or product catalogue prices for specific products or product ranges relating to each lot, as well as confirming which councils they were prepared to service.

3.5 Lot Structure:

Lot No.	Description
1	Educational Seating
2	Educational Desks and Tables
3	Educational Storage Furniture
4	Educational Dining Furniture
5	Education Furniture Full Kit-Out Facility
6	Pre-5 Furniture
7	Office Seating
8	Office Desks and Tables
9	Office Meeting Room and Reception Furniture
10	Office Storage Furniture
11	Office Furniture Full Kit-Out Facility

- 3.6 Scotland Excel published the Framework procurement opportunity through the Public Contract Scotland -Tender portal under Open Procedure with a deadline of 28 November 2016.

- 3.7 A total of 65 expressions of interest were received and 26 vendors submitted bids, of which 24 were compliant offers. 20 of the compliant offers resulted in 20 recommended suppliers based on the evaluation by Scotland Excel with the support of the technical panel.
- 3.8 The offers were evaluated on a basket of commonly purchased products per lot using a technical weighting of 15% and commercial weighting of 85% for the lots, except for lot 5 and lot 11.
- 3.9 The majority of Kit-Outs (Lots 5 and 11) are likely to be determined by mini-competition and can vary significantly in scope and product volume. Scotland Excel did not request commercial submissions for these two lots. Instead, bidders were requested to confirm their ability and willingness to provide a Kit-Out service and only successful suppliers for Education Lots 1-4 and Office Lots 7-10 who met this criterion were put forward for inclusion in the relevant lot.
- 3.10 Lot 6 (Pre-5 Furniture) has not been included within full Kit-Out of Education Furniture to generate maximum interest in the market for this new provision and to encourage maximum Council spend through the Framework.

#### **4. Measures of success**

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- 4.1 It is a measure of the success of this procurement exercise that savings of 4.4% could be achieved assuming similar volumes and types of furniture are required throughout the contract period, with additional savings being secured via the utilisation of mini-competitions for individual projects.

#### **5. Financial impact**

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- 5.1 The potential value of this contract, including extensions is £2.98m, averaging £745k per annum based on reported spend with the contracted suppliers on the Education and Office Furniture Framework. The Capital Programme Team indicate that Single Value contracts will not exceed £1m, and assuming purchased volumes continue at £745k per annum, this will reduce to £712,220 per annum, a reduction of £32,780 per annum based on a saving of 4.4%.
- 5.2 Given that much of the furniture purchased will be for larger scale new build or refurbishment projects or rolling programmes, it is anticipated that the Council will derive additional savings utilising mini-competitions to produce best value.
- 5.3 Suppliers who derive annual spend in excess of £500k will be required to return a rebate of 1% to Councils who have provided business through the Framework.
- 5.4 The Framework suppliers are committed to keeping their prices fixed until at least 28 February 2018. Thereafter, agreed Framework prices for services listed in each lot will remain fixed for 12 monthly periods. All catalogue discount structures will remain fixed for the duration of the Framework.



- 5.5 Price increase variations may have to be considered after 28 February 2018. Any application for a price increase can only be submitted at least 60 days before the anniversary of the Framework commencement date along with independent supporting documentary evidence which will be assessed against the appropriate market indices for furniture.
- 5.6 The costs associated with procuring this framework are estimated at up to £10,000.

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

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- 6.1 The Capital Programme Team, Property and Facilities Management, Resources, will be responsible for the management of the contract.

## **7. Equalities impact**

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- 7.1 The inclusion of the requirement for Supported Businesses to be promoted through framework suppliers meets the Council's specific duties under the Equalities Act 2010.
- 7.2 The statements contained within paragraph 8.5 demonstrate clear and positive impacts for a range of groups under the general duties of the Equalities Act 2010.

## **8. Sustainability impact**

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- 8.1 The Framework provides opportunities relating to Supported Businesses, the Circular economy, the inclusion of training and development of skills and the further expansion of the supply base through inclusion of several new Small Medium Businesses (SMEs).
- 8.2 Technical product specifications also feature the output of advice from the Furniture Industry Research Association (FIRA), Government Buying Standards and EU-Green Public Procurement.
- 8.3 All furniture ranges offered under this Framework must be certified by recognised furniture testing institutes such as FIRA or SATRA Laboratories in relation to safety and product integrity etc. and that any wood based products must evidence that the Forest Stewardship Council (FSC)/Programme for the Endorsement of Forest Certification (PEFC) is in place. All timber used in manufacturing must come from a sustainable source with Chain of Custody tracking documents meeting UK and EU timber regulations.
- 8.4 Six recommended suppliers are members of the Furniture Industry Sustainability Programme (FISP), which demonstrates Corporate Social Responsibility credentials. Several more manufacturers involved in the supply chain of recommended resellers are also members of FISP.

- 8.5 The framework brings a wide range of benefits which support Scotland's National Outcomes and delivers long term benefits to the local community. Notably suppliers have made commitments to establish a learning zone, apprenticeships, several placements for University Students in CAD and Design, summer work placements for senior pupils, school visits to manufacturers, donations of furniture to community groups and charitable donations are some examples.
- 8.6 On workforce matters, of the 21 recommended suppliers 19 pay the Scottish Living Wage and the remaining two will work with Scotland Excel throughout the lifetime of the Framework to attain this threshold.

## 9. Consultation and engagement

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- 9.1 A User Intelligence Group (U.I.G) consisting of procurement and technical representatives from the participating Councils was established to support the development of the procurement strategy and specification.
- 9.2 During the development of the procurement strategy, Scotland Excel consulted a wide range of stakeholders to inform the strategy including all Scottish Local Authorities, other Public Sector organisations and FIRA.

## 10. Background reading/external references

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- 10.1 [National Improvement Framework for Scottish Education.](#)

### **Stephen S. Moir**

Executive Director of Resources

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## 11. Appendices

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Appendix A - Summary of Tendering and Tender Evaluation Process

Appendix B - Scores per Lot

## Appendix A - Summary of Tendering and Tender Evaluation Processes

Contract	CT2268 Supply, Delivery and Installation of Education and Office Furniture Scotland Excel Framework 02-16
Contract period (including any extensions)	Four years
Estimated contract value	£2.98m (Total)
Standing Orders observed	2.4, 3.2, 4.1, 4.2, 5.1, 5.3, 6.1, 8.1
Portal used to advertise	Public Contracts Scotland-Tender
EU Procedure chosen	Open
Notes of interest received	65
Tenders returned	26
Compliant tenders	24
Primary criterion	Most Economically Advantageous Offer

## Appendix B – Scoring and Recommendations

<b>Lot 1 - Educational Seating</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Sharp Business Systems UK plc	11.75	85.00	96.75
Langstane Press Limited	12.25	83.96	96.21
Claremont Office Furniture Ltd	12.25	80.35	92.60
Godfrey Syrett Limited	10.25	80.61	90.86
Furniture @Work Ltd	8.25	80.41	88.66
City Building (Contracts) LLP	10.00	70.04	80.04

<b>Lot 2- Education Desks and Tables</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Sharp Business Systems UK plc	11.75	85.00	96.75
British Thornton ESF Limited	11.25	81.37	92.62
Claremont Office Furniture Ltd	12.25	78.99	91.24
Godfrey Syrett Limited	10.25	77.36	87.61
Langstane Press Limited	12.25	65.39	78.14
YPO Procurement Holdings Limited	12.00	60.77	72.77

<b>Lot 3- Educational Storage Furniture</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Sharp Business Systems UK plc	11.75	85.00	96.75
Langstane Press Limited	12.25	83.72	95.97
British Thornton ESF Limited	11.25	78.79	90.04

City Building (Contracts) LLP	10.00	77.41	87.41
Godfrey Syrett Limited	10.25	69.19	79.44
Furniture @Work Ltd	8.25	68.41	76.66
YPO Procurement Holdings Limited	12.00	63.81	75.81

<b>Lot 4- Educational Dining Furniture</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Spaceright Europe Limited	8.50	85.00	93.50
YPO Procurement Holdings Limited	12.00	80.94	92.94
Furniture @Work Ltd	8.25	84.35	92.60
Langstane Press Limited	12.25	77.37	89.62
Sico Europe Limited	10.25	79.33	89.58
Claremont Office Furniture Ltd	12.25	76.07	88.32
EQUIP4WORK Ltd t/a Office Furniture Online	11.00	76.78	87.78
Sharp Business Systems UK plc	11.75	75.92	87.67
The Consortium Limited	7.25	77.91	85.16
British Thornton ESF Limited	11.25	68.58	79.83
Godfrey Syrett Limited	10.25	67.77	78.02
Findel Education Supplies Limited	8.25	65.42	73.67
GTS Trade Ltd	4.50	65.14	69.64
Wagstaff School Furniture Limited	6.50	62.79	69.29
Gopak Ltd	4.75	64.22	68.97

<b>Lot 5 – Education Furniture Full Kit-Out Facility</b>
<b>Tenderer</b>
Sharp Business Systems UK plc
Langstane Press Limited
Godfrey Syrett Limited

<b>Lot 6- Pre-5 Furniture</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Sharp Business Systems UK plc	11.75	85.00	96.75
Claremont Office Furniture Ltd	12.25	74.31	86.56
Godfrey Syrett Limited	10.25	73.94	84.19
British Thornton ESF Limited	11.25	72.43	83.68
Langstane Press Limited	12.25	66.07	78.32
Spaceright Europe Limited	8.50	61.71	70.21
YPO Procurement Holdings Limited	12.00	55.55	67.55

<b>Lot 7- Office Seating</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Langstane Press Limited	12.25	85.00	97.25
Sharp Business Systems UK plc	11.75	76.46	88.21
Bilfinger Europa Facility Management Limited	8.25	78.38	86.63
Azzurro Ltd	12.25	73.97	86.22
Claremont Office Furniture Ltd	12.25	71.74	83.99

<b>Lot 8- Office Desks and Tables</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Godfrey Syrett Limited	10.25	85.00	95.25
Sharp Business Systems UK plc	11.75	82.30	94.05
Langstane Press Limited	12.25	78.07	90.32
Azzurro Ltd	12.25	71.76	84.01
Claremont Office Furniture Ltd	12.25	69.28	81.53
Wagstaff Bros., Limited	9.75	70.57	80.32
Atlas Business Interiors Ltd	7.50	72.77	80.27
Bilfinger Europa Facility Management Limited	8.25	68.56	76.81
City Building (Contracts) LLP	10.0	65.69	75.69

<b>Lot 9- Office Meeting Room and Reception Furniture</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Langstane Press Limited	12.25	85.00	97.25
Sharp Business Systems UK plc	11.75	78.37	90.12
Claremont Office Furniture Ltd	12.25	64.62	76.87
Azzurro Ltd	12.25	64.31	76.56
Bilfinger Europa Facility Management Limited	8.25	61.07	69.32
Atlas Business Interiors Ltd	7.50	60.84	68.34

<b>Lot 10- Office Storage Furniture</b>			
<b>Tenderer</b>	<b>Technical Score</b>	<b>Commercial Score</b>	<b>Total Score</b>
Claremont Office Furniture Ltd	12.25	85.00	97.25
Langstane Press Limited	12.25	82.73	94.98
Sharp Business Systems UK plc	11.75	80.28	92.03
Godfrey Syrett Limited	10.25	73.46	83.71
Azzurro Ltd	12.25	69.59	81.84
Wagstaff Bros., Limited	9.75	71.24	80.99
Atlas Business Interiors Ltd	7.50	73.06	80.56
Bilfinger Europa Facility Management Limited	8.25	64.81	73.06
EQUIP4WORK Ltd t/a Office Furniture Online	11.00	61.35	72.35
City Building (Contracts) LLP	10.00	60.78	70.78
YPO Procurement Holdings Limited	12.00	57.22	69.22

<b>Lot 11- Office Furniture Full Kit-Out Facility</b>
<b>Tenderer</b>
Sharp Business Systems UK plc
Langstane Press Limited
Claremont Office Furniture Ltd
Azzurro Ltd
Bilfinger Europa Facility Management Limited



# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Adoption of the Scotland Excel Framework Agreement for the Supply and Distribution of Frozen Foods

Item number	7.5
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

---

This report seeks approval of the Finance and Resources Committee to adopt and implement the Scotland Excel Framework Agreement for the Supply and Distribution of Frozen Foods. The framework consists of three lots, of which the City of Edinburgh Council will adopt two.

The value of Council usage between the two lots is estimated to be up to £4m over the term of the framework from September 2017 to 30 June 2019, with the option to extend for up to 24 months, at 12 month intervals, until 30 June 2021.

## Adoption of the Scotland Excel Framework Agreement for the Supply and Distribution of Frozen Foods

### 1. Recommendations

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#### 1.1 That Committee

- 1.1.1 Approves the adoption and implementation of Lot 2 (distribution) and Lot 3 (supply and distribution) of the Scotland Excel Framework for Supply and Distribution of Frozen Foods, from 28 September 2017 to 30 June 2019, with the option to extend until 30 June 2021.

### 2. Background

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- 2.1 The Council has utilised the previous Scotland Excel Framework for Frozen Food from 1 June 2013 to 30 June 2017, and subsequently extended by Scotland Excel to October 2017. The extension was to allow a period of implementation of the new Framework to be operational from September 2017.
- 2.2 The framework has been utilised widely by the Council for the Supply and Distribution of Frozen Foods and delivered by Brakes Bros Ltd.

### 3. Main report

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- 3.1 The Council is seeking to appoint a suitable supplier to provide Frozen Food required for a range of meals across Council facilities.
- 3.2 The tender and evaluation process was conducted in accordance with Council Contract Standing Orders, Public Contracts (Scotland) Regulations 2015.
- 3.3 A Prior Information Notice (PIN) was published for this tender on 22 September 2016. Scotland Excel undertook a full tender exercise by placing a contract notice on the Public Contracts Scotland and Official Journal of the European Union on 1 March 2017.
- 3.4 The lots advertised were;
  - Lot 1 – Supply Only;
  - Lot 2 – Distribution; and
  - Lot 3 – Supply and Distribution.

- 3.5 The procurement process followed a two-stage tendering procedure. Stage one (qualification) was conducted using the European Single Procurement Document (ESPD). Stage two tender submissions were evaluated by a technical evaluation panel against the following criteria and weightings. A technical ratio of 14% and a commercial ratio of 86% was applied to Lot one. A technical ratio of 19% and a commercial ratio of 81% was applied to Lots two, and a technical ratio of 19% and commercial 80% for price with 1% for price stability on Lot three. The Price: Quality ratios were recommended due to frozen food being deemed to be low cost and low supply risk. Consequently, Scotland Excel sought to drive the best commercial value from contract.
- 3.6 Suppliers were offered the opportunity to bid for geographical areas of Scotland. Brakes were the only supplier able to provide for the Edinburgh area and as such were awarded the contract. Despite being the only supplier substantial savings are still expected to be made.

Council	Supplier	Lot 2 (Distribution)		Lot 3 (Supply and Distribution)	
		Technical (Out of 19)	Commercial (Out of 81)	Technical (Out of 19)	Commercial (Out of 81)
City of Edinburgh Council					
	Brake Bros Ltd	17.75	81	17.75	80

- 3.7 The following Lots will be called off from Brake Bros Ltd based on the results noted in the table listed above. Product lists will be subject to further review to provide comprehensive cover;
- Lot 2 – Distribution; and
  - Lot 3 – Supply and Distribution.

## 4. Measures of success

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- 4.1 The success of the framework will be measured by Key Performance Indicators (KPIs) which will be monitored and tracked by Scotland Excel and framework users.
- 4.2 KPIs within the framework will ensure that strict contract management and performance are continually monitored for all maintenance and improvement works carried out on behalf of the Council. KPIs will measure:
- On-time deliveries
  - Unfulfilled deliveries
  - Substitution deliveries
  - Complaints resolution

- Supplier engagement; and
  - General enquiries
- 4.3 There will be ongoing monitoring of the framework throughout its lifetime through a User Intelligence Group (UIG). The UIG will be convened on a regular basis and will be attended and contributed to by the City of Edinburgh Council's Catering Manager and Catering Team Leaders.

## **5. Financial impact**

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- 5.1 The estimated contract value of £4m is reflective of historical supplies under lots two and three. Contract spend across the two lots will be monitored throughout the year.
- 5.2 The costs associated with procuring this contract are estimated to be up to £10,000.
- 5.3 Pricing is fixed on all lots for the first six months of the contract. All price increases require a 60-day notice period as per terms and conditions.
- 5.4 Based on Scotland Excel figures it is anticipated that the Council will secure a saving of 3.3% on total spend on this contract equating to £132,000 over the full term based on previous spend on the preceding framework.

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

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- 6.1 The Scotland Excel procurement strategy includes a robust and comprehensive assessment of all associated risk factors with mitigating actions.
- 6.2 Awarding this framework will ensure compliance with the Councils Contract Standing Orders, European procurement rules, coalition pledges, our statutory duties and continued delivery of the service.
- 6.3 The Edible Edinburgh Food Policies have been considered as part of the Council's procurement strategy. Careful product selection by Council staff will help to promote health and well-being through:
- Provision of locally sourced food where possible;
  - Compliance with Food for Life Scotland
  - Compliance with Scottish Government nutritional standards; and
  - Production of healthy and nutritionally balanced school meals
- 6.4 The contract will be managed by the City of Edinburgh Council's Catering Manager who will regularly review the impact of the framework. Quarterly supplier meetings will be held to ensure conformance.

## 7. Equalities impact

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- 7.1 The procurement process excludes any bidders where a complaint had been upheld after investigation by the Equality and Human Rights commission or its predecessors and a failure to take remedial action.
- 7.2 The statements contained within paragraph 8.3 demonstrate an enhancement of rights for a range of groups under the Equalities Act 2010.

## 8. Sustainability impact

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- 8.1 Scotland Excel incorporated a number of sustainability aspects, including supply chain sustainability.
- 8.2 With regards to their environmental impact, bidders detailed food waste initiatives, how they intend to reduce and recycle packaging and any sustainable food sources to be used.
- 8.3 Bidders were asked to detail any community benefit initiatives (in line with the Scottish Government's National Outcomes) that they would commit to deliver during the lifetime of the framework. Suppliers have offered to deliver a number of community benefits throughout Scotland including; Work experience and traineeships, Interview assistance and feedback, Donations to local foodbanks, Sponsorship for local sports and activities, School visits to discuss health and wellbeing and food and handling hygiene.
- 8.4 The supplier confirmed living wage is paid to employees.

## 9. Consultation and engagement

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- 9.1 In developing the new framework Scotland Excel held a number of User Intelligence Groups (UIG) which comprised members from participating Councils, the City of Edinburgh Council was represented by two officers from Commercial and Procurement Services.

## 10. Background reading/external references

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- 10.1 N/A

### **Stephen S. Moir**

Executive Director of Resources

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E-mail: [christopher.ross2@edinburgh.gov.uk](mailto:christopher.ross2@edinburgh.gov.uk) | Tel: 07540 157 245

## 11. Appendices

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Appendix 1 – Summary of Tendering and Tender Evaluation Process

## Appendix 1 - Summary of Tendering and Tender Evaluation Processes

Contract	Framework Contract for Supply & Distribution of Frozen Foods – let by Scotland Excel
SXL Framework period	1 July 2017 until 30 June 2021
Estimated contract value	£4,000,000
Governing UK Regulation	Public Contracts (Scotland) Regulations 2015
EC Procedure chosen	Open
Standing Orders observed	2.4 EU Principles been applied 2.7 Commercial and Procurement Manager provided resource to undertake tendering 3.2 Director has responsibility for all Contracts tendered and let by their Directorate 5.1 (b) Tenders evaluated on basis of most economically advantageous criteria 8.1 Procurement process conducted electronically via Public Contracts Scotland Tender (PCST)
Secondary criteria (Set by Scotland Excel)	Lot 1: Technical: 14% Commercial: 86%
	Lot 2 and Lot 3: Technical: 19% Commercial: 81%
Tenders returned	12
Tenders fully compliant	11 (Total for Scotland; 1 Tender for City of Edinburgh Council)
No. of recommended suppliers	1
Primary criterion	Most Economically Advantageous Tender (MEAT)
Evaluation Team	Scotland Excel & Procurement and/or Technical Representatives from participating Councils
Procurement Costs	<£10,000

# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Contract for Telecom Services (Mobile and Fixed Lines)

Item number 7.6

Report number

Executive/routine

Wards

Council Commitments

### Executive Summary

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This report seeks the approval of the Finance and Resources Committee to adopt the Crown Commercial Services (CCS) Framework Agreement, RM1045, for Network Services and to delegate authority to the Executive Director of Resources to finalise and award a contract to Telefonica UK Ltd for Telecom Services (Mobile and Fixed Line) for a period of three years commencing 1 October 2017.

The total estimated value of the contract would be £1,557,000.



## Contract for Telecom Services (Mobile and Fixed Line)

### 1. Recommendations

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- 1.1 That the Finance and Resources Committee approves the adoption of the Crown Commercial Services (CCS) Framework Agreement, RM1045, for Network Services and to delegate authority to the Executive Director of Resources to finalise and award a contract to Telefonica UK Ltd for Telecom Services (Mobile and Fixed Line) for a period of three years commencing 1 October 2017.

### 2. Background

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- 2.1 In 2012 Telefonica UK Ltd were awarded a contract to deliver mobile phone services through a call off from the previous Crown Commercial Services (CCS) Framework Agreement.
- 2.2 CCS, on behalf of the Public Sector, have established a new framework agreement for Network Services (RM1045). This framework provides the Council with a compliant mechanism with which to procure a broad scope of network and telecommunication services.
- 2.3 This new framework uses the CCS eMarketplace website for public bodies to award contracts which best meet their needs.
- 2.4 The number of mobile phone SIM cards that are in use is circa 7,600. This figure has reduced from 8,500 in January 2017.
- 2.5 Many SIM cards have zero or negligible usage and an exercise is underway to identify which of these can be cancelled. Many are used in alarms, traffic signals and in handsets that will be utilised as part of Council disaster recovery and for business continuity purposes, as such, zero usage does not necessarily indicate that it is not required.
- 2.6 Fixed lines are transitioning to CGI Ltd as part of the ICT contract (LAN and Voice Provision), however a residual quantity have yet to move. There may be some instances that fixed lines will not change due to network location.
- 2.7 A proposal was originally sought via the ICT contract however the proposal did not represent as good value for money as hoped. Commercial and Procurement Services and ICT Services identified a more commercially advantageous route utilising an established framework agreement.

### 3. Main report

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- 3.1 The CCS framework agreement for Network Services (RM1045) provides compliant mechanism to access a wide range of network and telecommunication services. The framework is divided over ten Lots.
- Lot 1 Data Access Services
  - Lot 2 Local Connectivity Services
  - Lot 3 Traditional Telephony Services
  - Lot 4 Inbound Telephony Services
  - Lot 5 IP-Telephony Solutions
  - Lot 6 Mobile Voice & Data Services
  - Lot 7 Paging Services
  - Lot 8 Video Conferencing
  - Lot 9 Audio Conferencing
  - Lot 10 Integrated Communications (This lot incorporates components from lots 5, 6, 8 and 9).
- 3.2 The key deliverables required from the contract are:-
- 3.2.1 Flexible volumes and minimum commitment
  - 3.2.2 Transition Fund;
  - 3.2.3 Low transition costs;
  - 3.2.4 Council savings
- 3.3 Framework providers were required to demonstrate compliance with standards for reliability and technical ability.
- 3.4 Award criteria to be accepted onto the framework agreement was 75% Cost, 25% Quality.
- 3.5 58 suppliers were awarded onto the framework with 24 being successful in Lot 10 (Integrated Communications).
- 3.6 Where requirements are non-complex in nature it is possible to call off from supplier catalogues or conduct further competition for more technologically complex solutions.
- 3.7 Benchmarking with other suppliers has been carried whilst compiling the Council's requirements.
- 3.8 The forecast value of the contract would be a maximum of £1,557,000. This assumes no reduction in SIM cards or Fixed Lines.
- 3.9 A summary of the tendering process used for the framework agreement is contained in Appendix One.

## **4. Measures of success**

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- 4.1 Savings based upon 2012 contracted rates.
- 4.2 Volume rebates which can be flexible to provide either additional services to support the Council's digital transformation programme or cashable savings. This rebate will be in the form of a transformation fund valued at £660,000 and is based upon minimum committed volumes
- 4.3 Enhanced technology solutions to deliver improved Council services.

## **5. Financial impact**

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- 5.1 Based on current volume the maximum total value of the contract would be £1,557,000.
- 5.2 Further work to reduce future demand is currently being undertaken.
- 5.3 The costs associated with procuring this contract is estimated at between £10,000 and £20,000.

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

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- 6.1 This framework agreement provides a compliant route to procuring Telecom Services.
- 6.2 There is a risk to the overall affordability and ability to deliver savings should the Council not adopt the CCS framework agreement.
- 6.3 Savings arising from an award of contract will not be realised if controls are not in place to manage demand.

## **7. Equalities impact**

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- 7.1 There are no equalities impacts from this award.

## **8. Sustainability impact**

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- 8.1 The use of the integrated communications lot on the framework agreement will enable the Council to support the delivery of technology solutions which will reduce the Council's carbon footprint and deliver sustainable outcomes.

## **9. Consultation and engagement**

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- 9.1 Engagement with stakeholders was carried out when reviewing ICT solutions.

## 10. Background reading/external references

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10.1 None.

### **Stephen Moir**

Executive Director of Resources

Bruce Strang, Chief Information Officer

E-mail: [bruce.strang@edinburgh.gov.uk](mailto:bruce.strang@edinburgh.gov.uk) | Tel: 0755 7800440

## 11. Appendices

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Appendix 1 - Summary of Tendering and Tender Evaluation Processes

## Appendix 1 - Summary of Tendering and Tender Evaluation Processes

Contract	Telecom Services (Mobile and Fixed Line)
Contract period (including any extensions)	October 2017 – September 2020
Estimated contract value	£519,000 (Annual) £1,557,000 (Total)
Standing Orders observed	2.1.1 Use of Framework Agreements, 5.1 Evaluation Criteria 6.1 Acceptance and Award of Contract.
Portal used to advertise	Tenders Electronic Daily
EU Procedure chosen	Open
Tenders fully compliant	58 (24 for Lot 10)
Recommended supplier/s	Telefonica Uk Ltd.
Primary criterion	The framework was awarded under Most Economically Advantageous Tender criteria.
Evaluation criteria and weightings and reasons for this approach	Direct Award Call Off from Catalogue due to the non-complex requirement.
Evaluation Team	Officers from ICT Services.



# Finance and Resources Committee

10.00am, Tuesday, 28 September 2017

## Community Empowerment (Scotland) Act 2015: Proposed Consultation Response on Common Good Matters

<b>Item number</b>	7.7
<b>Report number</b>	
<b>Executive/routine</b>	Routine
<b>Wards</b>	City-wide
<b>Council Commitments</b>	11 and 47

### Executive Summary

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The Community Empowerment (Scotland) Act 2015 places new duties on local authorities in relation to Common Good property.

The Scottish Government is consulting on the guidance for local authorities on how to fulfil the requirements of the Act. The guidance asks for views on issues such as timescales, information about assets, local consultation, publicising proposals, and the disposal and use of common good property.

This report seeks approval of the Council's response.

## Summary Report on Community Empowerment (Scotland) Act 2015: Proposed Consultation Response on Common Good Matters

### 1. Recommendations

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- 1.1 It is recommended that Committee;
  - 1.1.1 approves the Council's response to the Scottish Government consultation in relation to Common Good property; and
  - 1.1.2 Refers this report to Corporate Policy and Strategy Committee for noting.

### 2. Background

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- 2.1 Part 8 of the Community Empowerment (Scotland) Act 2015 places new duties on local authorities in relation to Common Good property. The Scottish Government consultation concerns the statutory guidance related to these processes and asks for views on issues such as timescales, information about assets, local consultation, publicising proposals and the disposal and use of Common Good property.
- 2.2 Responses to the consultation are to be provided by 29 September 2017, and will be made public on the Scottish Government website.
- 2.3 This report seeks approve of the Council's response.

### 3. Main report

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- 3.1 Common Good property is owned by local authorities and has been passed down, through local government reorganisation, from former burghs. Those burghs would have received it as a gift or purchased it. It includes land and buildings, moveable items such as furniture and art, and cash funds. There may be restrictions on how certain items of Common Good property are allowed to be used, and whether the local authority can dispose of them. In some cases, this has to be decided by the courts. It is also worth noting that, due to the time which has passed, it is sometimes difficult and complex to establish whether property forms part of the Common Good.
- 3.2 Section 102 places a duty on local authorities to "establish and maintain a register of property which is held by the authority as part of the Common Good."



- 3.3 Section 104 places a duty on local authorities “before taking a decision to dispose of, or change the use of, such (Common Good) property the local authority must publish details about the proposed disposal or, as the case may be, the use to which the authority proposes to put the property.”
- 3.4 Section 103 and 105 require local authorities “to have regard to any guidance issued by the Scottish Ministers” in relation to these duties.
- 3.5 Part 8 does not define or redefine Common Good or remove or alter any restrictions on the use or disposal of Common Good property.
- 3.6 A copy of the full consultation document is attached at Appendix 1. The Council’s draft response to the consultation is attached at Appendix 2.

#### **4. Measures of success**

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- 4.1 Local authorities and communities will have a clear understanding of their rights and responsibilities under Part 8 of the Community Empowerment (Scotland) Act 2015 in relation to Common Good property.

#### **5. Financial impact**

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- 5.1 There is no direct financial impact arising from the content of this report. The Capital Coalition Council budget motion, approved by the Council at the meeting of 21 January 2016 included, inter alia, an instruction to allocate monies to develop and maintain a Common Good Asset Register. It is anticipated that the work associated with Part 8 of the Act will be contained within the budget.

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

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- 6.1 The risk that Common Good property could be unlawfully disposed of or appropriated is managed within the review processes currently in place. Once final guidance is issued in relation to the duties under Part 8 of the Act, the Council will develop processes designed to meet the requirements.

#### **7. Equalities impact**

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- 7.1 There is no direct relevance of the report’s contents to equalities related issues. However, the statutory obligation placed on the Council for administering property held as part of the Common Good, is to have regard to the interests of all the inhabitants of the city.

## 8. Sustainability impact

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- 8.1 There are no adverse impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

## 9. Consultation and engagement

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- 9.1 Council Officers in Resources and Strategy and Insight have been consulted in the preparation of this draft response.

## 10. Background reading/external references

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- 10.1 N/A.

### **Stephen S. Moir**

Executive Director of Resources

Contact: Susan Craig, Operational Estate Manager

E-mail: [susan.craig@edinburgh.gov.uk](mailto:susan.craig@edinburgh.gov.uk) | Tel: 0131 529 5934

## 11. Appendices

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Appendix 1: Scottish Government Consultation on Draft Guidance

Appendix 2: Council Response to Consultation

# **Community Empowerment and Common Good Property**

**Consultation on Draft Guidance**

**June 2017**



**Scottish Government**  
Riaghaltas na h-Alba  
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# Community Empowerment and Common Good Property: Consultation on Draft Guidance

## Overview

1. This is a consultation on guidance for local authorities on how to fulfil the requirements of Part 8 of the Community Empowerment (Scotland) Act 2015 in relation to Common Good property.
2. Common Good property is owned by local authorities and has been passed down, through local government reorganisation, from former burghs. Those burghs would have received it as a gift or purchased it. It includes land and buildings, moveable items such as furniture and art, and cash funds. There may be restrictions on how certain items of Common Good property are allowed to be used, and whether the local authority can dispose of them. In some cases this has to be decided by the courts. It is also worth noting that, due to the time which has passed, it is sometimes difficult to know whether property forms part of the Common Good.

## Why we are consulting

3. Part 8 of the Community Empowerment (Scotland) Act 2015 places new duties on local authorities in relation to Common Good property. This consultation concerns the statutory guidance related to these processes and asks for views on issues such as timescales, information about assets, local consultation and publicising proposals.
  - Section 102 places a duty on local authorities to “establish and maintain a register of property which is held by the authority as part of the common good.”
  - Section 104 places a duty on local authorities “Before taking any decision to dispose of, or change the use of, such [common good] property the local authority must publish details about the proposed disposal or, as the case may be, the use to which the authority proposes to put the property.”
  - Sections 103 and 105 require local authorities “to have regard to any guidance issued by the Scottish Ministers” in relation to these duties.
4. Part 8 does not define or redefine Common Good or remove or alter any restrictions on the use or disposal of Common Good property.

## Responding to this Consultation

We are inviting responses to this consultation by **29 September 2017**.

Please respond to this consultation using the Scottish Government’s consultation platform, Citizen Space. You can view and respond to this consultation online at:

<https://consult.scotland.gov.uk/local-government-policy/community-empowerment-and-common-good-property>

You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of **29 September 2017**.

If you are unable to respond online, please complete the Respondent Information Form (see "Handling your Response" below) and send to:

Karen Fraser  
Local Government and Analytical Services Division  
Area 3G North  
Victoria Quay  
Edinburgh  
EH6 6QQ

### **Handling your response**

If you respond using Citizen Space (<http://consult.scotland.gov.uk/>), you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to be published.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form attached to this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

### **Next steps in the process**

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <http://consult.scotland.gov.uk>. If you use Citizen Space to respond, you will receive a copy of your response by email.

Following the closing date, all responses will be analysed and considered along with any other available evidence to help us. Responses will be published where we have been given permission to do so.

### **Comments and complaints**

If you have any comments about how this consultation exercise has been conducted, please e-mail them to: [CGConsultation@gov.scot](mailto:CGConsultation@gov.scot)

Or you can contact us by post:

Karen Fraser  
Local Government and Analytical Services Division

Area 3G North  
Victoria Quay  
Edinburgh  
EH6 6QQ

### **Scottish Government consultation process**

Consultation is an essential part of the policy-making process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work.

You can find all our consultations online: <http://consult.scotland.gov.uk>. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

Consultations may involve seeking views in a number of different ways, such as public meetings, focus groups, or other online methods such as Dialogue (<https://www.ideas.gov.scot>)

Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

## Chapter 1 - Common Good registers

1. Section 102 of the Community Empowerment (Scotland) Act 2015 requires local authorities to develop and publish Common Good registers. Before publishing the final version of the register, each local authority must publish a list of property which it proposes to include on its Common Good register and consult on this list.

### Publication

2. Local authorities should aim to be consistent in how and where they publish both the initial list of common good property and the final Common Good register. So, in common with the requirements for publishing the final register (Chapter 4), the public should be able to inspect the list of Common Good property free of charge and access it electronically, ideally on the local authority's own website.
3. Local authorities must be ready to make the list of property available in alternative languages and formats, if requested, to meet equality requirements. They may also wish to produce paper copies of the list if they think this will be more accessible to the groups they are looking to reach. Other alternatives could be, for example, to enable people to view the list on a computer at a public enquiry office, or send out printed extracts in response to telephone enquiries.

**QUESTION 1:** If applicable, where or how else should this information be published as a minimum requirement? Why is this needed in addition?

### Length of consultation

4. The list of Common Good property should be made publicly available for comment for at least eight weeks.

**QUESTION 2:** What are your views on the timescale of eight weeks for people to comment on the list of common good property?

### Information about property

5. The list of Common Good property should include enough detail about each item to enable members of the public to identify and locate individual assets. As a minimum this should be: the name of the asset, a brief description of what the asset is, the location of the asset, the name of the burgh to which the asset formerly belonged and any additional information about the asset which may be of use to a reader (see Annex A for more information).
6. There is no requirement on local authorities to make checks or confirm title before including property and assets on the list. This is because it is recognised that the ownership and boundaries of land and property are sometimes unclear, especially where records are old and land has changed hands by statutory powers or reorganisation of public bodies.

**QUESTION 3:** What, if any, further information about common good property should be provided?

## Chapter 2 – Identifying and contacting Community Bodies

1. When the list of property is published, local authorities must invite community councils and other community bodies to consider the list and provide their views.

### How to contact Community Bodies

2. The definition of “community bodies” given in section 106 of the Act is quite broad. We recognise that it may be difficult for local authorities to identify every individual group with a potential interest in a piece of common good property. Therefore we recommend that local authorities work with community planning partners and organisations such as Voluntary Action Scotland to help identify relevant groups in the local area. Local authorities should also note that the Local Government etc. (Scotland) Act 1994 defines specific geographical areas where communities will have an interest in common good property.
3. We expect local authorities to use a variety of methods to reach community bodies and they may find the revised [National Standards for Community Engagement](#) helpful when trying to connect with diverse groups of people from across the community. Community councils are already statutory consultees in the planning process and we would recommend that local authorities take advantage of these existing links when notifying community councils about proposals relating to common good property.

**QUESTION 4:** What, if any, further ways should local authorities use to identify and contact relevant community bodies?



## **Chapter 3 – Dealing with representations**

1. The ability to provide views and comments (make representations) before the common good register is formally published, ensures that individuals, community councils and other community bodies have an opportunity to make a case for property to be included in or excluded from the register.

### **How to make representations**

2. When publishing the list of common good property, local authorities should clearly set out the process and timescale for making any representations. All representations should be made in writing, either by e-mail or by letter. It should also be made clear that all representations will be published (although personal details must be handled in accordance with the local authority's data protection policy).

### **How to access representations**

3. We expect local authorities to publish all the representations they receive. All of these documents, whether paper copy or electronic, should be accessible from the same place as the list of property and, eventually, the Common Good register.

### **Responding to representations**

4. Local authorities should aim to investigate and respond to representations within eight weeks. The final response should be published alongside the original representation. Once a local authority has fully considered a representation, this decision will be final - unless significant new information comes to light or a court decides otherwise. Local authorities are not required to consider repeated representations in relation to the same asset when no new information is provided.

**QUESTION 5:** What are your views on the timescale of eight weeks to investigate representations in respect of the register?

## Chapter 4 - Publishing the Common Good register

1. Local authorities should aim to publish the first version of their Common Good register as soon as practicable after the initial eight week consultation period has closed, and in any case within six months of the end of the consultation.
2. In cases where there have been numerous or particularly complex representations and a local authority is still carrying out investigations, a note should be added to the register to that effect. A covering note to the Register should make clear that some representations are still being followed up and there should be an indication of when these investigations are likely to be completed and a new version of the register made available. This should maintain transparency while still allowing local authorities to properly investigate complex cases.

**QUESTION 6:** What are your views on the timescale for publishing the Common Good register?

**QUESTION 7:** Do you agree or disagree with the proposals to publish the register even when some items on it are not yet confirmed?

### Access to the register

3. The public must be able to inspect the Common Good register free of charge, and the document must be available electronically, ideally on the local authority website.
4. Local authorities should ensure that their Common Good register is easy to find and has clear instructions for use. They must also be ready to provide information from the register in alternative languages and formats if requested, to meet equality requirements. It is not necessary to produce a full paper version of the register, although this may be the preferred option for some local authorities. Alternatives could be, for example, to enable people to use the register on a computer at a public enquiry office, or to send out printed extracts in response to telephone enquiries.

### Review

5. Common Good registers should be considered to be “living documents” and local authorities should revise their register if new Common Good assets are identified or if existing assets are disposed of or re-classified. It is also good practice to review the register at regular intervals, such as at the same time as the register of common good assets for accounting purposes (which is usually carried out annually). The process and timescale for review of the Common Good register should be made clear, along with the date of the last update.

**QUESTION 8:** What are your views on reviewing the common good register annually?

## **Chapter 5 - Consultation when planning to dispose or change the use of Common Good property**

1. Section 104 requires local authorities to consult with the local community when they are planning to dispose of common good property, or change its use. Each local authority must publish details of the proposed disposal or change of use of common good property.

### **What information should be included about the property**

2. The proposal should clearly state which property is being considered and what the plans are. The proposal should include enough detail to enable members of the public to identify and locate the property. To identify the property, the local authority should use the same information about the property that is included in the Common Good Register (Chapter 1). In relation to cash funds, “change of use” would not cover every payment to different people, or moving investments about, but would include, for example, changing the rules about what type of things could be funded.

### **Where and how should details be published**

3. As a minimum, local authorities should publish the details of the proposal on their own website and should ensure that this is publicised widely. If the request relates to a building or area of land, a public notice should be placed on the building or land, or on an object close to it. If it is a building open to the public, you may also want to put a copy somewhere prominent inside. However, it is more important that the notice is put up where interested people will see it than that it is on or adjacent to the land in question. It could be displayed in a village shop, on a community noticeboard or an information point in a car park - wherever local events and notices are normally advertised.

**QUESTION 9:** If applicable, where or how else, should details of a proposed disposal or change of use be published as a minimum requirement? Why is this (are these) needed in addition?

## Chapter 6 – Consulting the Community

1. Local authorities must notify community councils and community bodies when the proposal is published.

### Representations

2. Local authorities must invite community councils and other community bodies to consider and give their views on the proposal making it clear that all representations will be published. This ensures a transparent process and that individuals, community councils and other community bodies have an opportunity to consider the proposal and how it might affect them. It should be made clear that people will have at least 20 working days from date of publication to make representations.

**QUESTION 10:** What are your views on the timescale of 20 days to make a representation on a proposed change or disposal of a common good asset?

### Final response

3. Local authorities should aim to consider and respond to any representations within 20 working days. The final response(s) should then be published online alongside the original representation(s). Local authorities should also ensure that they publish the final decision about the proposal (i.e. whether the proposal will be taken forward and any changes which will be made) and notify community bodies and anyone who made a representation.

**QUESTION 11:** What are your views on the timescale of 20 days to respond to representations?

**QUESTION 12:** If the proposals are amended, should the guidance recommend consulting again on the revised proposal?

## Annex A – Information to be included in Common Good Register

Information fields	Detail
Name of asset	The name by which the asset is generally known by
Description of asset	A brief description of what the asset is e.g. land, building, fund
Location	The most detailed information that the local authority has about the location of the asset e.g. grid reference, map or description. A member of the public should be able to use the description to accurately identify where the asset is
Former Burgh	The former Burgh to which the asset originally belonged
Additional Information	Any extra information which might be of use to a reader e.g. if the asset is managed by a third party or, if the asset is not land or property, a description of what the asset is

### Example of what entries in a Common Good Register might look like

Name of asset	Type of asset	Location	Former Burgh linked to asset	Additional Information
Scotlandtown Recreation Park	land	An acre of land in Scotlandtown, which is bordered to the north by the river Alba and on the east by Scotland Street. It is adjacent to Scotlandtown town hall.	The Royal Burgh of Scotlandtown	Exact date of acquisition is unclear but was before 1900.
*Chandlers Row	land	A lane in Scotlandtown, running from the Harbour to the Marketgate.	The Royal Burgh of Scotlandtown	<b>*Unconfirmed as common good property – still under investigation.</b>
Dunalba Common Good Fund	fund	N/A	The Burgh of Dunalba	Fund set up for the benefit of the inhabitants of Dunalba. Detailed information about what can be funded is available direct from the local authority
Painting of Provost Ross (1893)	painting	Dunalba Town House, Mercat Square, Dunalba	The Burgh of Dunalba	Painting gifted to the Burgh of Dunalba by the family of Provost Ross in 1893



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W W W . G O V . S C O T

## **APPENDIX TWO: PROPOSED COUNCIL RESPONSE TO CONSULTATION**

### **Chapter 1 – Common Good Registers**

1. If applicable, where or how else should this information be published as a minimum requirement? Why is this needed in addition?

*Response: Agree that the local authority's website is the best place for the register to be made available.*

2. What are your views on the timescale of eight weeks for people to comment on the list of common good property?

*Response: 8 weeks may be too short a period for people to become aware of and comment on the list of common good property. 12 weeks is suggested as an alternative.*

3. What, if any, further information about common good property should be provided?

*Response: It is recommended that information about how an asset is defined should be provided, for example, for a park, what level of detail is required where there are monuments contained within that park?*

### **Chapter 2 – Identifying and contacting Community Bodies**

4. What, if any, further ways should local authorities use to identify and contact relevant community bodies?

*Response: There is a distinction between identifying and contacting, notifying and connecting. It is not clear what the expectation is in terms of what the local authority should do. Scottish Government could consider if links could/need to be made with the "Guidance on Engaging Communities in Decisions Relating to Land" under Part 4 of the Land Reform (Scotland) Act 2016 in terms of community consultation and engagement.*

### **Chapter 3 – Dealing with representations**

5. What are your views on the timescale of eight weeks to investigate representations in respect of the register?

*Response: Some cases will be complex and will require historic records to be retrieved and examined to permit a local authority to fully consider representations; 8 weeks could be too short a period. It will also depend on the number of representations received and the resource available to the local authority to process the representations. It is recommended that the period should be extended to 12 weeks.*

### **Chapter 4 - Publishing the Common Good register**

6. What are your views on the timescale for publishing the Common Good register?

*Response: It would be more appropriate for the long stop date of 6 months to start from the date that representations are received, rather than the date the consultation has closed.*

7. Do you agree or disagree with the proposals to publish the register even when some items on it are not yet confirmed?

*Response: It is recommended that the register is published with confirmed assets only, to avoid ambiguity. The register can be added to when the status of additional assets is confirmed.*

8. What are your views on reviewing the common good register annually?

*Response: As with the accounting treatment of common good assets, an annual review of the register is appropriate and the register should be treated as a “living document.” Some leeway could be given for local authorities to determine the review date to tie in with their own reporting timescales.*

## **Chapter 5 – Consultation when planning to dispose or change the use of Common Good property**

9. If applicable, where or how else, should details of a proposed disposal or change of use be published as a minimum requirement? Why is this (are these) needed in addition?

*Response: It is not considered that any further publication is required – other than the consultation referred to in Chapter 6. Further guidance on what stage the proposal should be advertised would be useful.*

## **Chapter 6 – Consulting the Community when planning to dispose or change use**

10. What are your views on the timescale of 20 days to make a representation on a proposed change or disposal of a common good asset?

*Response: The timescale of at least 20 working days from date of publication to make representations is considered sufficient.*

11. What are your views on the timescale of 20 days to respond to representations?

*Response: If the issue is particularly complex, it may require additional time. It is recommended that the timescale is increased to 28 days.*

12. If the proposals are amended, should the guidance recommend consulting again on the revised proposal?

*Response: No, as this could lead to a protracted period of representations and amendments. The revised proposals, having been examined, should be able to proceed.*



# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Framework Agreement – Reception, Handling and Transfer of Waste

Item number	7.8
Report number	
Executive/routine	
Wards	All wards

### Executive Summary

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This report seeks the approval of the Committee to appoint four Suppliers to a Framework Agreement for the Reception, Handling and Transfer of Waste for a period of 13 months with the option to extend for a further 12 months subject to when the Council's new waste facility becomes operational. The estimated value is £2,982,714.

## Framework Agreement – Reception, Handling and Transfer of Waste

### 1. Recommendations

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- 1.1 It is recommended that the Committee approves the appointment of the following Suppliers to a Framework Agreement (Framework) for the Reception, Handling and Transfer of Waste for a period of 13 months from November 2017 with the option to extend up to a further 12-month period to:
- Viridor Waste Management Ltd;
  - Biffa Waste Management Ltd;
  - NWH Group; and
  - William Tracey Group.

### 2. Background

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- 2.1 The Council has a statutory obligation under Section 45 of the Environmental Protection Act 1990 to provide a collection and disposal service for domestic waste generated by residents. In addition, the Council has three Community Recycling Centres where residents can deposit recyclable and residual domestic waste.
- 2.2 Following the unforeseen closure of the Powderhall Waste Transfer Station in November 2016, the Council's Waste and Cleansing Services put in place temporary arrangements to ensure continuity of service and allow an appraisal of Powderhall to be carried out.
- 2.3 These temporary arrangements were approved by the Finance and Resources Committee on 23 February 2017 pending this formal procurement process.
- 2.4 It is currently anticipated that the Millerhill Zero Waste Project Energy from Waste facility (Millerhill EfW) will begin to accept the Council's waste in October 2018 and be fully operational in December 2018, at which time the requirements of this Framework will cease. Should the opening of the Millerhill EfW be delayed, a period of extension will be considered.
- 2.5 Prior to Millerhill EfW becoming operational, the Council intends to develop waste transfer stations at Seafield in the East of the city and at Bankhead in the West. It is anticipated that the Seafield site will be operational in May 2018 and Bankhead in September 2018; the combined capacity of these two sites is expected to be sufficient to accommodate the handling and transfer of all the City's landfill waste.

However, so long as waste continues to be transported to Dunbar landfill, there may be a requirement for Framework Supplier's haulage of waste from Seafield/Bankhead to Dunbar up to December 2018 (though the requirement for transfer and handling facilities will have ceased). The specification includes a caveat to that effect.

- 2.6 The Framework will last for a period of 13 months (from November 2017 to December 2018) with the option to extend for up to a further 12 months (to December 2019) and will provide reception, bulking and transportation of an estimated 115,000 tonnes of municipal solid waste annually to landfill at Dunbar or any such other site as the Council nominates during the contract period.
- 2.7 The Framework was advertised with an estimated total value of £2m (for the full contract period and optional extension) considering historic pricing and tonnages. To maximise capacity needed the Framework was set to accept up to five Contractors.
- 2.8 The outcome of the appraisal of Powderhall is the subject of a separate report.

### **3. Main report**

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- 3.1 On 17 June 2017, Commercial and Procurement Service published a contract notice on the Public Contracts Scotland portal and the Official Journal of the European Union inviting interested parties to bid for inclusion on a Framework for the Reception, Handling and Transfer of Waste.
- 3.2 A total of four tenders were submitted through the portal by the closing date on 21 July 2017. A summary of the procurement process is detailed at Appendix 1 - Summary of Tendering and Tender Evaluation Processes.
- 3.3 All tenderers met the contract specific mandatory criteria, including level of insurance, licences and permits related to waste and pollution controls, planning permissions and other key contractual requirements.
- 3.4 Following completion of the quality analysis, Tenders were subject to a cost analysis designed to establish the estimated full price of Tenders (by applying tendered prices to a published scenario). Further due diligence was undertaken on low scoring Tenders to ensure specification requirements were met.
- 3.5 A cost/quality ratio of 70/30 was then applied with a 30% quality ratio applied to the weighted quality scores. The lowest priced bid was then allocated the 70% cost ratio with all other bids scored on a prorated basis against the lowest bid. Scores from the quality analysis were then combined with the scores for the cost analysis to establish a combined score for each Tender submission as follows:

<b>Company</b>	<b>Price Score (Weighting 70%)</b>	<b>Quality Score (Weighting 30%)</b>	<b>Total Score (Weighting 100%)</b>
<b>Viridor Waste Management Ltd</b>	70	25.88	95.88
<b>Biffa Waste Services Ltd</b>	63.37	24.38	87.75
<b>NWH Group</b>	57.82	14.63	72.45
<b>William Tracey Group</b>	52	13.13	65.13

3.6 The contracts awarded will have fixed tonnage rates for the duration of the requirement. Cost, location, capacity and operating hours will be considerations when allocating business through the Framework.

#### **4. Measures of success**

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- 4.1 Formally awarding these contracts will enable the Council to:
- comply with its obligations under the Public Contracts (Scotland) Regulations 2015 and the Procurement (Scotland) Regulations 2016;
  - successfully maintain uninterrupted services to residents and Council buildings; and
  - meet its statutory obligation under the Environmental Protection Act 1990 “to provide a collection and disposal service for domestic waste generated by residents”.

#### **5. Financial impact**

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- 5.1 By applying tendered prices to historical data ( tonnages and proportion of waste currently handled by each Supplier) it is estimated that the total estimated Framework value for the full contract period including optional extension is £2,982,714.
- 5.2 It should be noted that there will be some variation in the outcome costs dependent on operational patterns, tonnages and the proportion of waste handled by each Supplier during the Framework period.
- 5.3 The contract costs will be met from the Service Area’s waste disposal budget.
- 5.4 The tendered prices offered for waste handling ranged from £6.50 to £11 per tonne and for haulage from £9 to £13 per tonne, which is consistent with market rates.

5.5 The costs associated with procuring this contract are estimated at between £10,000 and £20,000.

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

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6.1 Were the services to be disrupted the Council would risk:

- failure to meet its statutory obligation under the Environmental Protection Act 1990;
- Significant additional cost in transporting waste directly to the Council's contracted landfill site; and
- reputational damage.

6.2 The risks of disruption to the services will be mitigated through the appointment of the recommended suppliers to deliver the services concerned.

## **7. Equalities impact**

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7.1 No equalities or rights impacts have been identified in relation to this report.

## **8. Sustainability impact**

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8.1 Were the services to be disrupted the sustainability impact would be:

- waste collection vehicles would be required to deliver waste directly to the contracted landfill site in Dunbar which would result in significant additional road mileage and vehicle emissions; and
- an increased number of vehicles would be required to continue to provide the same level of service to residents.

8.2 Community Benefits to be delivered include the employment of modern apprentices in the Edinburgh area and the delivery of an educational programme in local schools with a view to influencing children's attitude towards waste and recycling.

## **9. Consultation and engagement**

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9.1 Waste and Cleansing Services are the Lead Authority on the Edinburgh and Midlothian Councils Zero Waste Project and will continue to engage to inform Council contract needs.

## 10. Background reading/external references

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- 10.1 Report to the Finance and Resources on 23 February 2017 entitled Waiver – Transfer of Waste. (B agenda)

### **Paul Lawrence**

Executive Director of Place

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## 11. Appendices

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## Appendix 1 - Summary of Tendering and Tender Evaluation Process

<b>Contract</b>	Framework Agreement for the Reception, Handling and Transfer of Waste - CT2186
<b>Contract Period (including extensions)</b>	13 months + 12-month optional extension
<b>Estimated Value</b>	The Framework has a total estimated value of £2,982,714 (for the total contract period including possible extensions).
<b>Contract Standing Orders Observed</b>	<p>3.1 - Director retains responsibility for selecting and appointing suppliers for their directorate, but shall seek guidance as appropriate from the Chief Procurement Officer.</p> <p>5.1 - Tenders evaluated on the basis of most economically advantageous and best price-quality ratio.</p> <p>5.3 - Tenders evaluated by a tender evaluation panel comprising officers with sufficient knowledge and technical ability to enable them to evaluate detailed tenders appropriately.</p>
<b>Advertising Portal</b>	Public Contracts Scotland
<b>EU Procedure Applied</b>	Open
<b>Notes of Interest</b>	13
<b>Tenders Returned</b>	Four
<b>Recommended Suppliers</b>	<ul style="list-style-type: none"> <li>• Viridor Waste Management Ltd</li> <li>• Biffa Waste Management Ltd</li> <li>• NWH Group</li> <li>• William Tracey Group</li> </ul>
<b>Primary criterion</b>	Most economically advantageous tender
<b>Evaluation criteria and weightings and reasons for this approach</b>	<p>The Service Area determined that a 70/30 cost/quality ratio should be applied considering the importance of delivering value for money and that Suppliers of these services are required to meet mandatory licensing criteria and to this extent are already quality controlled by the licensing body SEPA.</p> <p>The quality element of the scoring was broken down as follows:</p> <ul style="list-style-type: none"> <li>• Delivery of the Contract - 25% weighting</li> </ul>

	<ul style="list-style-type: none"> <li>• Availability of Resources - 25% weighting</li> <li>• Reporting, Monitoring and Collaboration - 15% weighting</li> <li>• Staff, Training and Supervision - 10% weighting</li> <li>• Quality Assurance - 10% weighting</li> <li>• The Environment - 5% weighting</li> <li>• Fair Work Practices - 5% weighting</li> <li>• Community Benefits - 5% weighting</li> </ul>
<b>Evaluation Panel</b>	Officers from Waste and Cleansing Services



# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Systems Integration Feasibility for the Edinburgh Tram Extension – Award under Urgency Provisions

Item number 7.9

Report number

Executive/routine

Wards

Council Commitments

### Executive Summary

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In consultation with the Convenor and Vice Convenor of the Finance and Resources Committee and in line with the Council's Contract Standing Orders and the Scheme of Delegation, the Council has awarded a Contract to Siemens Ltd for the maximum value of £150,000 to provide professional services to support the Council in formalising the approach to the procurement of the Systems Installation and Integration as part of the Edinburgh Tram Extension Project.

## Systems Integration Feasibility for the Edinburgh Tram Extension – Award under Urgency Provisions

### 1. Recommendations

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It is recommended that the Finance and Resources Committee notes the following:

- 1.1 The Convenor and Vice Convenor of the Finance and Resources Committee provided Delegated Authority to the Executive Director of Place to award a contract to Siemens for a maximum value of £150,000 under the Urgency Provisions as detailed in the Contract Standing Orders.
- 1.2 In the event that Stage 2 of project development is not approved by Council on 21 September 2017 all work will cease with Siemens and the Council would only be liable for expenditure incurred up to that date.

### 2. Background

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- 2.1 On [4 September 2017](#), Transport and Environment Committee approved in principle the progression of the Edinburgh Tram Extension Contract activities into Phase 2 of the procurement and design process. Further approval to continue will also be sought from full Council on 21 September 2017.
- 2.2 One of the key progression activities is for the Council to formalise the approach to the procurement of the Systems Installation and Integration works.
- 2.3 To meet the programme commitment, the Council is required to progress several activities with the incumbent supplier Siemens Ltd to ensure adequate analysis is undertaken before finalising its contracting strategy.
- 2.4 On 12 September 2017, the Convenor and Vice Convenor approved the award of a Contract to Siemens Ltd under a Professional Services Contract for the progression of activities to formalise their approach to the procurement of the Systems Installation and Integration in relation to the Edinburgh Tram Extension Contract.
- 2.5 Siemens Ltd was the Systems Contractor for the construction of the Edinburgh Tram system between the Airport and York Place Edinburgh Tram Phase 1 and is responsible for the maintenance of the existing systems in place along the current route. There is currently no performance related issues or disputes with Siemens Ltd.

### 3. Main report

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- 3.1 Tram system owners face a common problem when extending their tram networks: how to procure the tram control and communication systems for the new route. The problem arises from the fact that many of these systems are of a proprietary nature, and thus can only be extended by the original equipment manufacturer. Due to these potential issues, the project team carried out an options appraisal to identify the most appropriate route to market for the Systems Contract.
- 3.2 It has been established that the preferred route to market is for the systems elements of the scope to be procured under a separate contract with the existing systems supplier (Siemens). This approach is assessed as providing the Council better value for money than to remove and replace the existing system and contract with a new provider.
- 3.3 To allow the Main Contractor to contract directly with Siemens, the Council must agree with Siemens a competitive market price. The activities required to facilitate this are set out below. The output of this exercise will be an interim Target Price based on a detailed risk, programme and constraints review which will be included in the Main Works Contract to allow the bidders to appoint Siemens as their sub-contractor.
- 3.4 The scope of services which Siemens will carry out under this commission is detailed below:
- Scope review and definition agreement including review of technical specifications and interface schedules
  - Programme review and agreement of key dates, durations etc. for each element of the systems work and how this will interface with the main civils Design and Build works including considering key dates for the main contract
  - Risk apportionment and management of risk transfer to develop contract conditions in relation to System Installation and Integration
  - Identify how the Main Contractor and Siemens will operate contractually under the Main Contract including Siemens Target Cost
  - Assessment of prelim requirements and constraints including programme, meeting attendance, reporting requirements, design requirements, assurance requirements, testing and commissioning
- 3.5 These services were awarded under the Council's Urgency Provisions to ensure that the Council can meet its commitment to completing the Stage 2 Procurement process by Autumn 2018 as these activities are considered critical to the programme.
- 3.6 If the Council decision on 21 September 2017 is for the Outline Business Case for the Edinburgh Tram Extension to not be progressed, the Council will cease contractual arrangements with Siemens immediately under this commission and will therefore have expended only the proportionate costs for services delivered until that date.

#### **4. Measures of success**

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- 4.1 The output of this commission will be an in depth review and analysis to support the Council in finalising the Contracting Strategy for the Edinburgh Tram Extension.

#### **5. Financial impact**

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- 5.1 The costs in relation to this commission have been identified as a maximum cost of £150,000. A fixed cost cannot be obtained as the services are largely based on a notional expectation of resources Siemens Ltd will be required to provide to fulfil the scope.
- 5.2 These costs will be contained within the Edinburgh Tram Extension and Leith Programme Stage 1 activities approved by Council in December 2015.

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

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- 6.1 The Recommendations in this report comply with the Council's Contract Standing Orders, Appointment of Consultants Guidance and the Scheme of Delegation.

#### **7. Equalities impact**

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- 7.1 The proposals and recommendations described in this report could contribute to the public sector general equality duty to: (i) advance equality of opportunity. There is no distinct relevance in respect of the general duties to; (ii) eliminate unlawful discrimination, harassment and victimisation, or; (iii) foster good relations.
- 7.2 An Equalities and Rights Impact Assessment has been prepared as part of the wider Edinburgh Tram Extension and Leith Programme and is available as background reference. There are no direct negative equalities or human rights impacts anticipated

#### **8. Sustainability impact**

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- 8.1 The recommendations in this report are directly related to the Edinburgh Tram Extension Project which is identified as having the following sustainability impact:
- The project will be undertaken in consideration of the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties. This aligns with the requirements of the Local Transport Strategy. The potential to expand the tram network aligns with and is cognisant of the requirement to reduce carbon emissions and the need to travel. In doing so, this will promote a shift to more sustainable modes of transport that will bring reduced carbon dioxide and nitrogen oxide emissions.

- The promotion of a high capacity, high quality public transport system aligns with the LTS and draft Local Development Plan and will help achieve a sustainable Edinburgh, as both documents' actions include improving the extent of the public transport offered in Edinburgh, thus enhancing social inclusion and equality of opportunity.
- The proposals to integrate with the St James Quarter redevelopment and Leith Programme initiatives aim to improve facilities for cyclists and pedestrians, thus promoting personal wellbeing.

## **9. Consultation and engagement**

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- 9.1 The Edinburgh Tram Extension, which this Contract forms part of, has been subject to full engagement and consultation with Capital Coalition, Opposition Groups, Transport for Edinburgh, Edinburgh Trams, Lothian Buses as well as between relevant services within the Council.

## **10. Background reading/external references**

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Not applicable

**Paul Lawrence**

Executive Director of Place

# Finance and Resources Committee

10am, Thursday, 28 September 2017

## Award of Contracts for the Delivery of Mental Health Wellbeing Services

Item number 7.10  
Report number  
Executive/routine  
Wards

### Executive Summary

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This report seeks approval to award 27 contracts for the delivery of Mental Health Wellbeing Services for the period 1 November 2017 to 31 October 2019.

The recommended contracts have been the subject of direction by the Edinburgh Integration Joint Board (EIJB) following its approval of proposals made to it by the Edinburgh Mental Health Wellbeing Public Social Partnership. Report recommendations will facilitate a test of concept and change in service delivery arrangements in collaboration with 18 Third Sector providers.

The total value of the contracts is £4,230,000 over two years and will be fully funded from budgets which are currently in balance.

## Award of Contracts for the Delivery of Mental Health and Wellbeing Services

### 1. Recommendations

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Committee is asked to:

- 1.1 approve the award of the 27 contracts to the 18 providers listed in Appendix 1 for the period 1 November 2017 to 31 October 2019; and
- 1.2 agree that as these contracts will facilitate a test of concept and change that the Chief Officer of the Edinburgh Integration Joint Board (EIJB) be given discretion, after consulting providers, to make reasonable variations to contract service specifications where interim evaluation of the test indicates these would be beneficial.

### 2. Background

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- 2.1 Public Social Partnerships (PSPs) are strategic partnering arrangements, based on a co-production approach, through which the public sector can connect with Third Sector (voluntary, charitable and social enterprise) organisations and work with people who use services to share responsibility with them for designing and delivering services in ways which meet identified service user needs.
- 2.2 The Edinburgh Mental Health Wellbeing PSP was initiated by the EIJB in August 2016. The report recommendations will facilitate delivery of the new approach agreed by the EIJB on 14 July 2017 to the delivery of mental health wellbeing services and utilisation of the combined Council and delegated NHS Lothian budgets. As reported to Committee on 1 December 2016 the current extended contracts for predecessor mental health services will end on 31 October 2017.
- 2.3 It is estimated that 120,000 (25%) citizens of Edinburgh will experience mental health issues at some point in their lives. Recommended contract awards are designed to enable people to access local services where they can feel safe, be helped to recover and live as well as they can.
- 2.4 Use of the PSP process has been successful in bringing together people with lived experience of poor mental health, carers and staff from a wide range of third sector and statutory bodies. It has promoted a spirit of collaboration and co-operation and a sharp focus on how best to maximise the benefit of scarce resources, integrate services, make access local and improve outcomes for people.

2.5 The PSP has developed and agreed a set of core values. These are:

- equality of partners
- mutual respect and trust
- open and transparent communications
- co-operation and consultation
- a commitment to being positive and constructive
- a willingness to work with and learn from others; and
- a shared commitment to providing excellent community services

### 3. Main report

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- 3.1 In August 2016, the EIJB took the opportunity to adopt a different approach to the planning and commissioning of mental health wellbeing services by taking advantage of the Scottish Government's support for the PSP approach.
- 3.2 Commercial and Procurement Services advised the PSP planned approach was an option consistent with the 'light touch' social care service procurement regime and the Best Practice Guidance issued in 2016 respect of the Procurement of Care and Support Services.
- 3.3 A notice was published via Public Contracts Scotland on 11 November 2016 to determine interest in contributing to the PSP process. Potential partners were asked to submit applications demonstrating why their experience made them suitable 'interested partners' and confirming their commitment to the PSP core values set out at 2.5. 43 organisations submitted applications. All of them were accepted as partners by the PSP Implementation, Monitoring and Evaluation Group, made up of key service user, carer, advocacy, voluntary and statutory sector stakeholders.
- 3.4 Between January and March 2017, a series of ten co-production 'Talk, Share, Plan, Repeat' events, facilitated by Animate Consultancy, took place. The Edinburgh Strategic Joint Needs Assessment was used to establish baseline needs in each locality. Initial sessions enabled interested partners to explore, discover and design services and supports required in each locality to meet the mental health wellbeing needs and aspirations of Edinburgh's citizens.
- 3.5 Subsequently, iterations of service delivery and financial support models were discussed with all 'interested partners.' Each iteration was the subject of a draft Memoranda of Understanding (MOU), which set out written details of proposed service delivery responsibilities and financial allocations to individual partner organisations. There were a number of discussions to agree the final version of MOUs and the final version was agreed in July 2017. The proposed financial allocations would support current providers and at the same time require an increased level of: innovation, local access, efficient use of resources, effective



integration and place an emphasis on evidenced based practice and positive outcomes.

3.6 Resulting recommendations were approved by the EIJB in July 2017 and will result in:

- the establishment of four Locality Mental Health and Wellbeing PSPs, which will provide a range of social prescribing, meaningful activities and psychosocial and psychological supports to people experiencing poor mental health as shown in the table below:

Social Prescribing	Meaningful Activities	Support
<p>Improving access and supporting people to get help and support as early as possible</p> <ul style="list-style-type: none"> <li>• Information and Advice</li> <li>• Peer Workers</li> <li>• Link Workers</li> <li>• Community Facilitators</li> </ul>	<p>Supporting people to access activities, interests, education, which are meaningful to them</p> <ul style="list-style-type: none"> <li>• Volunteering</li> <li>• Employment</li> <li>• Arts</li> <li>• Ecotherapy</li> </ul>	<p>Specific supports and treatment for people experiencing mental ill health</p> <ul style="list-style-type: none"> <li>• Psychological support including counselling</li> <li>• Support in Crisis</li> <li>• Supporting early discharge from hospital and providing an alternative to admission</li> </ul>
<p><b>Delivered in places where people feel safe and secure</b></p>		

- the establishment of four complementary city-wide ‘pivot’ PSPs, which will:
  - deliver support for people in crisis on a 24 hour, seven day a week basis, 365 days of the year;
  - develop a ‘Peer Collaborative’, which will deliver peer support to service users by paid peer workers and volunteers across the four localities and provide opportunities for reflective practice, peer supervision, training, maintenance of good practice standards and career progression
  - grow an ‘Active and Green’ Partnership, which will use the physical assets in each locality (including leisure centres, schools, colleges, universities, public sector buildings, gardens, wooded areas, parks and back greens) to provide a range of meaningful activities designed to promote improved physical and mental health. These will include exercise, gardening and food related activity; and

- deliver a 'Mind Space' Partnership, which will provide psychological and psychosocial support for people experiencing distress. This will include psychological therapies, such as Cognitive Behavioural and Interpersonal therapy, delivered in different formats, including online, individually and in group sessions.

#### **4. Measures of success**

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- 4.1 Evaluation of the outcome of the test of concept and change in delivery arrangements will provide the necessary evidence base needed to support the development of a commissioning and procurement plan for mental health wellbeing services for the period November 2019-October 2024.

#### **5. Financial impact**

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- 5.1 The value of the recommended contracts for the period 1 November 2017 to 31 October 2019 is £4,230,000. The recommended contracts have been the subject of direction by the EIJB to the Council. On this basis, Committee has the necessary authority to approve the report recommendations.
- 5.2 The cost of advising the PSP and awarding the recommended contracts are estimated to be between £20,001 and £35,000
- 5.3 Committee is asked to note that a number of the recommended providers either own or lease property assets from which they will deliver services and this has added value to the PSP approach. Providers have additional income streams which they use to enhance the quality and choice of services on offer to service users.

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

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- 6.1 Providers will be required to demonstrable acceptable arrangements in respect of business continuity risks.
- 6.2 Adoption of the PSP approach has posed policy, compliance and governance challenges to the extent that the PSP approach does not neatly fit with usual Commercial and Procurement Service practice. As noted at 3.2, the approach is, however, deemed to be consistent with the spirit of best practice guidance issued by Scottish Government in 2016. Subject to approval of the report recommendations an ongoing lessons learned audit will continue.
- 6.3 To ensure proportionate ongoing oversight, the progress of the PSP arrangements set out in this report will be the subject of bi annual report to the Health and Social Care Procurement Board, made up of EIJB, Procurement, Finance, Contracts and Strategic Commissioning Officers, and of annual report to the EIJB.

#### **7. Equalities impact**

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- 7.1 An Integrated Equality Impact Assessment was completed in April 2017. While recognising the potential benefits to service users, given the PSP approach is a new one, this identified the need to closely monitor the extent to which service user needs are being met in a timely way by the recommended partnerships of interested providers. Work to agree how this will be done is scheduled for completion in advance of the start date of the recommended contracts.

## 8. Sustainability impact

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- 8.1 No significant environmental impacts are expected to arise from report recommendations.

## 9. Consultation and engagement

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- 9.1 One of the overall aims of the PSP approach is to ensure meaningful consultation and engagement with all stakeholders throughout the commissioning process to ensure the best services are procured for service users. This will continue through the recommended test of concept stage for the next two years.
- 9.2 It may be that 'lessons learned' from the Mental Health and Wellbeing PSP will result in change in the way any similar exercise is carried out in future particularly in terms of the level of resource required. Given the commitment of all concerned in the production of report recommendations to the core values set out at 2.5, this has however been an innovative approach to meeting some of the opportunities and challenges associated with co-production.

## 10. Background reading/external references

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- 10.1 Waiver, Mental Health Wellbeing Services, Finance and Resources Committee, 1 December 2016
- 10.2 Edinburgh Wellbeing Public Social Partnership, Edinburgh Integration Joint Board, 14 July 2017

### **Michelle Miller**

Interim Chief Officer, Edinburgh Health and Social Care Partnership

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## 11. Appendices

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Appendix 1 Recommended contract awards

## Appendix 1

### Recommended Contract Awards

<b>Locality PSP</b>	<b>Annual Value</b>
<b>North East</b>	
Support in Mind	£ 164,000
NEECS	£ 81,000
Link Up	£ 60,000
Seasons	£ 36,000
<b>Sub Total</b>	<b>£ 341,000</b>
<b>North West</b>	
Living Well	£ 121,000
Pilton Community Centre	£ 53,000
Health in Mind	£ 145,000
<b>Sub Total</b>	<b>£ 319,000</b>
<b>South East</b>	
Contact Point	£ 151,000
Health in Mind	£ 145,000
Alma	£ 5,000
<b>Sub Total</b>	<b>£ 301,000</b>
<b>South West</b>	
SAMH	£174,000
Health in Mind	£105,000
Cyrenians	£ 25,000
Broomhouse	£ 5,000
<b>Sub Total</b>	<b>£309,000</b>
<b>TOTAL</b>	<b>£1,270,000</b>

### Pivot Partnership PSP

#### Crisis Support

Penumbra	£ 400,000
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<b>Sub Total</b>	<b>£ 400,000</b>
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### **Active and Green Spaces**

Cyrenians	£ 10,000
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ELGS	£ 10,000
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Edinburgh Leisure	£ 80,000
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<b>Sub Total</b>	<b>£ 100,000</b>
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### **Mind Space**

Penumbra Self Harm	£ 90,000
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Health in Mind	£ 60,000
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<b>Sub Total</b>	<b>£ 150,000</b>
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### **Peer Support Collaborative**

Penumbra – Plan 2 Change	£ 145,000
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Health in Mind	£ 25,000
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Cyrenians	£ 5,000
-----------	---------

Carr Gomm	£ 5,000
-----------	---------

SAMH	£ 5,000
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Thistle Foundation	£ 5,000
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Places for People	£ 5,000
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<b>Sub Total</b>	<b>£ 195,000</b>
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<b>TOTAL</b>	<b>£ 845,000</b>
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<b>COMBINED ANNUAL TOTALS</b>	<b>£2,115,000</b>
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# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## City Chambers – New Lease to Electoral Commission

<b>Item number</b>	8.1
<b>Report number</b>	
<b>Executive/routine</b>	Routine
<b>Wards</b>	11- City Centre
<b>Council Commitments</b>	

### Executive Summary

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To facilitate the transaction with the French Consulate at Lothian Chambers, the Council has agreed to relocate the Electoral Commission to space within the City Chambers.

This report seeks approval to the grant of a new 10 year lease to the Electoral Commission on the terms and conditions outlined in the report.

## City Chambers – New Lease to Electoral Commission

### 1. Recommendations

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#### 1.1 That Committee:

- 1.1.1 Approves a new 10 year lease to the Electoral Commission of rooms 3.7, 3.8 and 3.9 at City Chambers on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Resources.

### 2. Background

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- 2.1 The Electoral Commission currently occupy office space on the second floor of Lothian Chambers. The space extends to 69.95 sq m (753 sq ft) and is held on a 10 year lease from 13 June 2011 to 12 June 2022. The passing rent is £15,070 per annum.
- 2.2 To conclude the transaction with the French Consulate at Lothian Chambers, the Council is obliged to provide vacant possession. This requires the lease between the Council and the Electoral Commission to be mutually renounced.
- 2.3 The Council has agreed to provide alternative accommodation to the Electoral Commission which has been identified as rooms 3.6, 3.7 and 3.8 at the City Chambers, as shown outlined in red on the attached plan.

### 3. Main report

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#### 3.1 Following negotiations between the Council and the Electoral Commission, the following terms have been provisionally agreed:

- Subjects: Rooms 3.7, 3.8 and 3.9 within the City Chambers;
- Lease term: 10 years from date of entry;
- Rent: £15,070 per annum (passing rent at Lothian Chambers);
- Incentives: Council carrying out various improvement works to City Chambers space;
- Rent Reviews: Reviewed on each fifth anniversary to open market rent;
- Use: Office;

- Costs: Council are meeting all reasonably incurred costs; and
  - Other terms: As contained in a standard commercial lease
- 3.2 The works the Council will undertake are improvements to the lighting, sound proofing and ICT infrastructure.

#### **4. Measures of success**

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- 4.1 Granting a new 10 year lease of the City Chambers space to the Electoral Commission will allow their existing Lothian Chambers lease to be renounced. This will subsequently permit the Council to provide vacant possession of Lothian Chambers under the terms of the agreement to lease to the French Consulate.

#### **5. Financial impact**

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- 5.1 There will be no impact on the rent being received by the Council as the £15,070 per annum is being transferred from Lothian Chambers to City Chambers.
- 5.2 The Council will incur costs of up to £25,000 on the improvement works to the rooms within City Chambers, and these can be contained within the approved capital budget for the City Chambers and 249 High Street ongoing refurbishment works.

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

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- 6.1 Failure to secure suitable alternative accommodation would result in the Electoral Commission remaining within Lothian Chambers. This would place the Council in breach of the terms of the agreement with the French Consulate for the long lease of Lothian Chambers.

#### **7. Equalities impact**

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- 7.1 An Equalities and Rights Impact Assessment has been carried out.
- 7.2 Securing a 10 year lease within City Chambers will provide increased security of tenure to the Electoral Commission. This will ensure that the tenant can continue to plan ahead financially and allow them to continue to provide a high level of service to their employees and customers. This directly links to an enhancement of the following rights namely (i) Legal Security, (ii) Education and Learning and (iii) Productive and Valued Activities.

#### **8. Sustainability impact**

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- 8.1 There are no sustainability issues arising from this report.



## 9. Consultation and engagement

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9.1 Not applicable.

## 10. Background reading/external references

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10.1 None.

### **Stephen S. Moir**

Executive Director of Resources

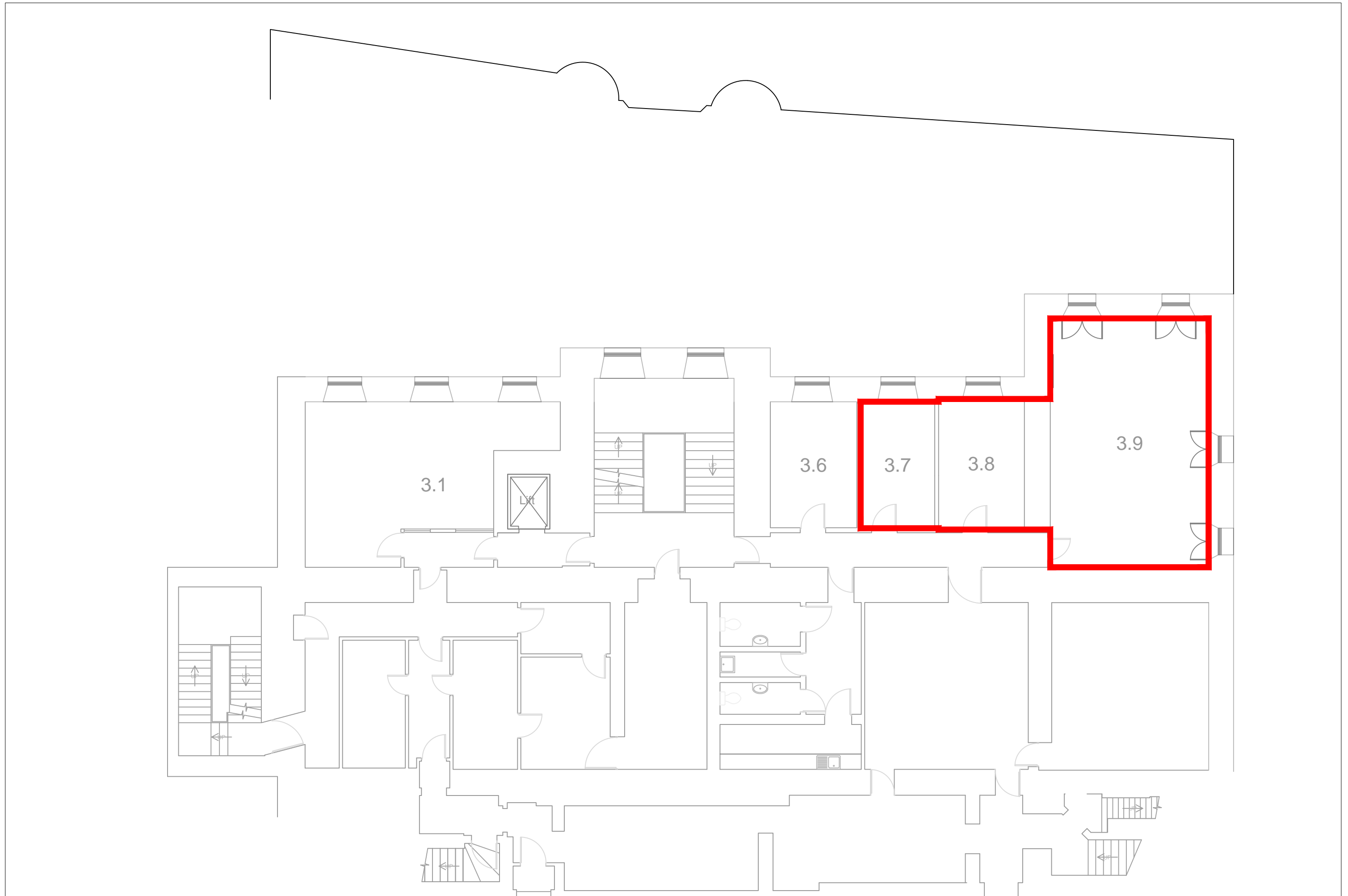
Contact: Mark Bulloch, Portfolio Manager - Investments

E-mail: [mark.bulloch@edinburgh.gov.uk](mailto:mark.bulloch@edinburgh.gov.uk) | Tel: 0131 539 5991

## 11. Appendices

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Appendix 1 - Location Plan.



# Finance and Resources Committee

10.00am, Tuesday, 28 September 2017

## Proposed New Lease, Nelson Hall, 5 Spitalfield Crescent, Edinburgh

<b>Item number</b>	8.2
<b>Report number</b>	
<b>Executive/routine</b>	Routine
<b>Wards</b>	Southside/Newington
<b>Council Commitments</b>	

### Executive Summary

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Southside Community Association (SSCA) recently notified the Council of its intention to terminate its lease of Nelson Hall. This prompted the Council to consider a practicable solution to ensure the building continues to operate as normal whilst protecting current users of the building.

This report seeks approval for a new lease in favour of SCOOSH, a not for profit organisation, currently providing affordable child care services within the Hall via a sublease from SSCA. The new lease arrangement would supersede the existing agreement held with SSCA, and would be effective from 1 October 2017, for a period of 5 years.

## Proposed New Lease, Nelson Hall, 5 Spitalfield Crescent, Edinburgh

### 1. Recommendations

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- 1.1 It is recommended that Committee approves the lease of Nelson Hall to SCOOSH on the terms outlined in this report and other terms and conditions to be agreed by the Executive Director of Resources.

### 2. Background

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- 2.1 Nelson Hall is a community centre originally built with a donation from Thomas Nelson Junior in 1913 and bestowed to the Council, by the Trustees of Thomas Nelson, in 1935. A location plan for the property is enclosed at Appendix 1. The most recent condition survey, completed in December 2016, classified the building as being Condition Rating A – performing well and operating efficiently with no major expenditure for the next 1-5 years.
- 2.2 The purpose of the hall was to benefit the “working–class community”. In addition, the Council entered a Minute of Agreement (MOA) with the Trustees, dated 1935, which sets out several legally binding provisions in relation to any transfer of ownership. The specific provisions in relation to leasing the building include:
- The requirement to utilise income for the maintenance of the hall; and
  - The hall to be used for the benefit of the working classes and for the common good.
- 2.3 Since 1 June 2007, Southside Community Association (SSCA) has leased the building from the Council and managed daily user activity with support from Council staff. The accommodation includes; main hall, meeting room on the ground floor, and the Gray Room on the first floor which also houses the Southside of Edinburgh Museum.
- 2.4 On average, around 12 community groups pay to use the accommodation on a weekly basis and these bookings are all managed by SSCA. Groups range from adult education classes to recreation. Most user groups pay a room hire or hall charge which is retained by SSCA for future development or hall upgrades. The current lease agreement does not allow the Council to use these funds to offset annual running costs.

- 2.5 In addition, SSCA have a more formalised arrangement with SCOOSH who operate a child care service within the main hall between 10am-6pm Monday to Friday. SCOOSH are also a registered 'not for profit' organisation and have established themselves as one of the main child care providers in the area with around 100 children attending on a weekly basis. The organisation's main objective is to provide an affordable child care service which benefits the local community.
- 2.6 The sub-lease arrangement between SSCA and SCOOSH is on a concessionary basis. The Council retains responsibility for building compliance, repairs and maintenance, cleaning, utilities and provides daily janitorial support. The annual cost of operating the building is approximately £50k met from Council budgets.
- 2.7 The restrictive nature of the MOA impacts on the Council's ability to secure commercial terms with current or future users. The MOA also restricts what the Council can do with any rental income it generates. Therefore, it is likely the Council will have continued financial responsibility for the building, at least in the medium term. However, by implementing a more efficient model of managing the building and by implementing cost saving initiatives, Council expenditure will reduce significantly.
- 2.8 This report seeks approval to enter into a new operating model that meets the aspirations of building users and reduces the Council's financial liability in the longer term.

### 3. Main report

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#### **Current Position**

- 3.1 SSCA also lease Southside Community Centre at 117 Nicholson Street from the Council, and is responsible for its management. Consequently, the Association has found it increasingly difficult to manage both buildings which led to its decision to terminate its lease at Nelson Hall with effect from 30 September 2017. The sub-lease held by SCOOSH will therefore also cease on this date.
- 3.2 Continuity of service and function is in everyone's interest and the wide range of community benefit provided by various user groups operating from the building is acknowledged. Closing the building is an option but is not recommended as the impact would be significant, particularly for the local community which is the main beneficiary of the services provided.
- 3.3 Offering the building for lease on the open market is also an option. However, this is discounted for the following reasons:
- The restrictions as defined in the Minute of Agreement means that the Council cannot benefit from a commercial rent for the property;
  - The risk of losing a vital affordable child care service;

- Safeguarding other educational services already established within the building with whom the Council have an established relationship; and
- The current circumstances leave little time to negotiate with unconnected parties.

### **Proposal**

- 3.4 The current situation has given the Council the opportunity to review its level of staff and resource support, which involves a direct lease to SCOOSH as the main building user. In considering lease terms with SCOOSH, the main objectives were ensuring protection of the legal provisions set out in the 1935 MOA; reducing the council's financial contribution (over time); ensuring the quality and level of usage; and safeguarding the building for the common good.
- 3.5 Taking the above into account, the following main terms have been agreed with SCOOSH:
- The new lease will commence on 1 October 2017 for a period of five years at a concessionary rent of £1pa;
  - The building will remain open Monday – Friday between 10am-9pm but remain closed during weekends except for occasional hires;
  - SCOOSH will chair a core user group committee; positively promote the increase in the number of room hire bookings; undertake responsibility for the management of the room hire booking system; operate building opening and closure; and maintain building health and safety records;
  - The Council will continue to bear the costs associated with repairs and maintenance, building compliance, cleaning, and utilities; There will be a review of the room hire charging policy (subject to user group committee agreement) with the Council gaining control of the income generation to offset running costs.
  - Southside Museum will continue to occupy the Gray Room; and
  - The Council will withdraw janitorial and service support staff, except for statutory compliance requirements.
- 3.6 The proposal seeks to strike a balance between ensuring continued provision of the building for use by the local community; ensuring income generated is reinvested in the property and reducing the Council financial and resource contribution to the running costs and promoting community empowerment. It is expected that this proposal is the first step to the Council completely divesting from the building if the building operators can successfully achieve a fully sustainable business model over the five-year lease.
- 3.7 The Council will continue to review its on-going liabilities over the period of the lease. For example, a review of energy consumption/performance is underway with

proposals to upgrade heating controls; install energy efficient lighting and lighting absence detectors in common areas.

#### **4. Measures of success**

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- 4.1 Granting a new five-year lease in favour of SCOOSH will safeguard a vital community facility. Council expenditure will reduce significantly as a direct result of renegotiated lease term.

#### **5. Financial impact**

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- 5.1 The Council's annual expenditure is currently £50k, this includes all costs associated with cleaning, janitorial staff, repairs and maintenance and utilities.

The proposal will reduce Council expenditure as follows:

- Reallocation of janitorial staff – representing £15k per annum;
- Reduction in building running costs offset by income generated from room hires – representing £6k - £10k per annum.

- 5.2 The total saving in year one will be in the region of £21k - £25k.

- 5.3 Given the restrictions placed on the property through the MOA, it is considered that the asset has limited alternative commercial value either for sale or lease.

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

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- 6.1 It is considered there is little or no impact on Risk, Policy, Compliance or Governance issues.

#### **7. Equalities impact**

---

- 7.1 An Equality and Rights Impact Assessment has been carried out. An enhancement of right has been identified as the new lease will ensure that the facility continues to provide vital community services. This directly links to an enhancement of the following rights namely (i) Life (ii) Health (iv) Productive and valued activities (v) Individual, family, and social Life.

#### **8. Sustainability impact**

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- 8.1 Implementation of the energy savings measures detailed above have the potential to reduce building running costs. Implementation of these measures will depend on investment payback and available budget. The Council's Energy Policy (2013) for Council buildings states that effective energy management is a priority. One of the policy's main objectives is to reduce energy consumption and ensure high standards across non-domestic Council properties. Nelson Hall is a building that is

likely to remain in Council ownership, therefore even medium and long term energy saving measures should be considered.

## 9. Consultation and engagement

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- 9.1 The Council's Communities and Families service area has been consulted on the proposed changes.
- 9.2 Transformation and Business Change has been consulted in relation to the proposed changes to janitorial support.
- 9.3 External stakeholders including Local Councillors have been informed of the proposed changes to the management of Nelson Hall.

## 10. Background reading/external references

---

- 10.1 N/A.

### **Stephen S. Moir**

Executive Director of Resources

Contact: Markus Kroner, Estate Surveyor

E-mail: [markus.kroner@edinburgh.gov.uk](mailto:markus.kroner@edinburgh.gov.uk) | Tel: 0131 529 4134

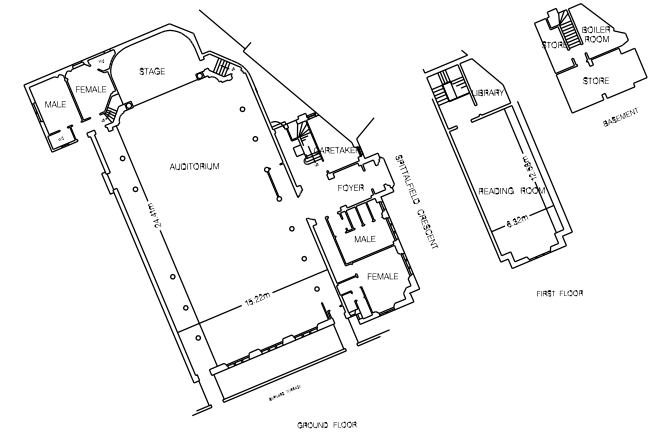
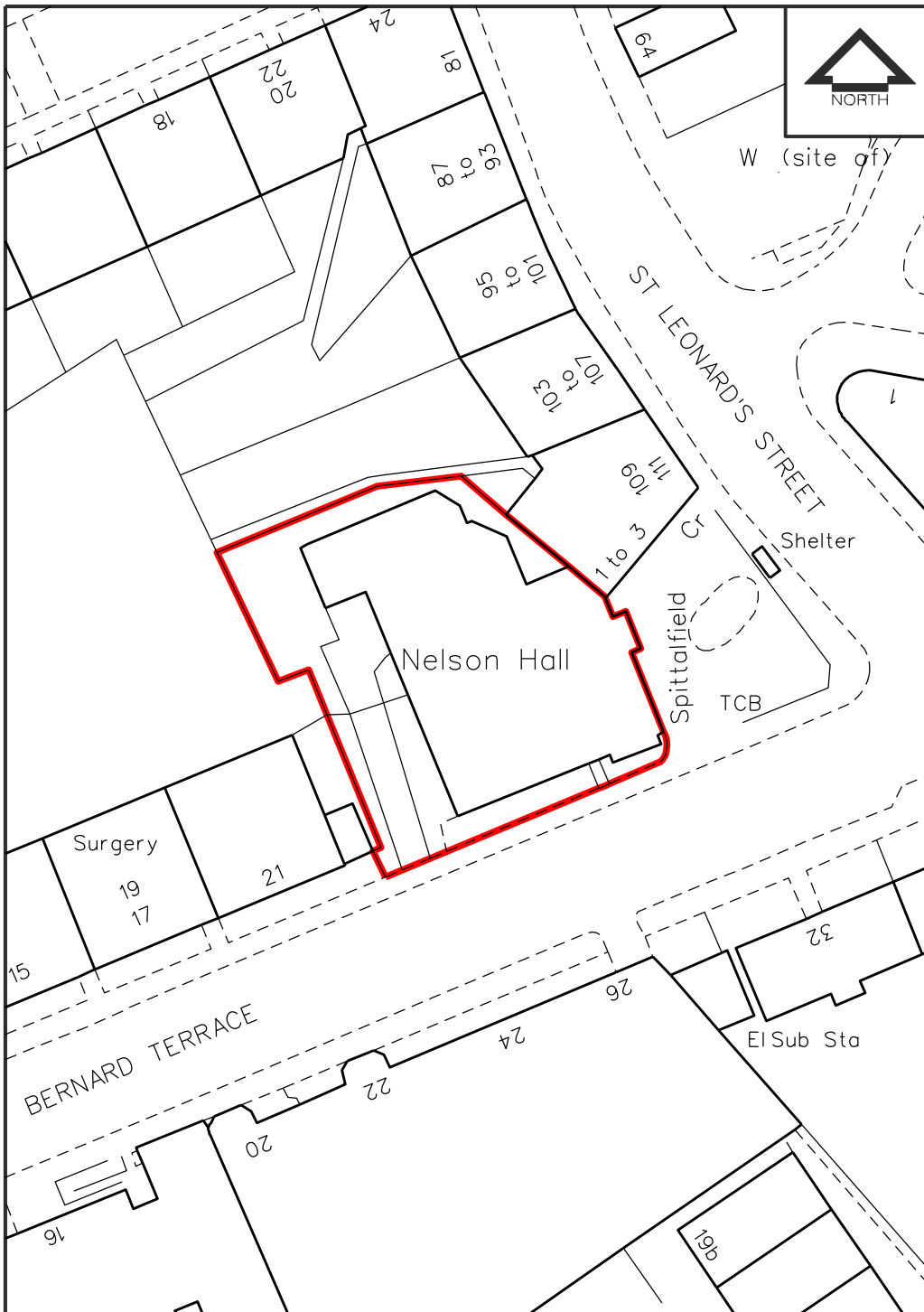
## 11. Appendices

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Appendix 1 - Location Plan and Layout of Nelson Hall



"APPENDIX 1"  
 NELSON HALL  
 5 SPITTALFIELD CRESCENT  
 EDINBURGH



LOCATION PLAN

PHOTOGRAPHICALLY REDUCED NOT TO SCALE

FLOOR PLAN

**EDINBURGH**  
 THE CITY OF EDINBURGH COUNCIL

PROPERTY AND FACILITIES MANAGEMENT  
 RESOURCES

NELSON HALL  
 5 SPITTALFIELD CRESCENT  
 EDINBURGH

DATE	21/8/17
SURVEYED BY	Third Party
DRAWN BY	Mark Ballantyne
SCALE	1:500 @ A3 SIZE
NEG. NO.	A3/647a

# Finance and Resources Committee

10.00am, Thursday, 28 September 2017

## Restructure of Various Leases at Leith Links, Edinburgh

<b>Item number</b>	8.3
<b>Report number</b>	
<b>Executive/routine</b>	Routine
<b>Wards</b>	13 - Leith
<b>Council Commitments</b>	

### Executive Summary

---

Leith Community Crops in Pots and Leith Athletic Football Club occupy land and pavilions at Leith Links under various agreements.

In order to standardise and simplify these arrangements, terms have been agreed on new leases to both parties.

This report seeks approval to the grant of new leases to Leith Community Crops in Pots and Leith Athletic Football Club on the terms and conditions outlined in the report.

## Restructure of Various Leases at Leith Links, Edinburgh

### 1. Recommendations

---

#### 1.1 That Committee:

- 1.1.1 Approves the new leases to Leith Community Crops in Pots and Leith Athletic Football Club on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Resources.

### 2. Background

---

- 2.1 Leith Community Crops in Pots (LCCiP) occupy an area of ground at John's Place used as a community croft under a rolling monthly lease from 1 December 2014 at a peppercorn rent (£1 per annum if asked). Referred to as site 1 on the attached plan.
- 2.2 Leith Athletic Football Club has a lease of a pavilion at John's Place from 14 May 1998 to 13 May 2023 at a passing rent of £500 per annum. Leith Athletic sub-lease this pavilion to LCCiP. Referred to as site 2 on the attached plan.
- 2.3 Leith Athletic also lease a separate pavilion adjacent to Links Gardens. This lease was originally for 12 months from 1 August 1998 to 31 July 1999 and is currently holding over on an annual basis under tacit relocation at a passing rent of £100 per annum. Referred to as site 3 on the attached plan.
- 2.4 All the buildings are in poor condition and therefore have limited commercial value. Leith Links forms part of the Council's Common Good Estate.
- 2.5 The existing arrangements are no longer suitable as the security of tenure impacts on the occupiers ability to raise capital for investment in the assets. Terms have now been reached for longer term leases on each of the assets.

### 3. Main report

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- 3.1 Following discussions between the Council, LCCiP and Leith Athletic, the following terms have been provisionally agreed

#### Community Croft

- Subjects: Leith Links Community Croft

- Tenant: LCCiP
- Lease term: 25 years from date of entry
- Rent reviews: On each fifth anniversary to open market value
- Break option: Mutual break on each fifth anniversary of date of entry
- Rent: £1 per annum (if asked)
- Use: Community croft
- Other terms: Restrictions on depth of excavations due to archaeological issues

#### John's Place Pavilion

- Subjects: John's Place pavilion
- Tenant: LCCiP
- Lease term: 25 years from date of entry
- Rent reviews: On each fifth anniversary to open market value
- Rent: £500 per annum
- Use: Community facility to support the croft
- Other terms: As contained in a standard commercial lease

#### Links Gardens Pavilion

- Subjects: Links Gardens pavilion
- Tenant: Leith Athletic Football Club
- Lease term: 10 years from date of entry
- Rent reviews: On each fifth anniversary to open market value
- Rent: £100 per annum
- Use: Changing facilities and clubroom for the club
- Other terms: As contained in a standard commercial lease

## **4. Measures of success**

---

- 4.1 Granting the new leases will provide increased security of tenure to the tenants. This will allow the parties to source funding to improve the facilities which will protect the Council's assets.

## **5. Financial impact**

---

- 5.1 The new leases produce the same rent as the existing arrangements, however, the income is secured for a longer period. Two of the leases provide potential uplifts through rent reviews.
- 5.2 Given the condition of the assets, they would have limited alternative commercial value

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

---

- 6.1 It is considered that this report has little or no impact on Risk, Policy, Compliance or Governance issues.

## **7. Equalities impact**

---

- 7.1 An Equality and Rights Impact Assessment has been carried out.
- 7.2 The leases provisionally agreed secure a longer term future for both of these community groups in the Leith area allowing them to continue and enhance the rights of health, legal security, education and learning, productive and valued activities.
- 7.3 When agreeing new leases when a property has not been marketed an infringement of rights can often be claims by individuals or groups who were not given the opportunity to lease or make an offer for the property. Given the established nature of both community groups in this location and the nature of the services they provide it is considered that no real infringement has occurred.

## **8. Sustainability impact**

---

- 8.1 There are no sustainability issues arising from this report.

## **9. Consultation and engagement**

---

- 9.1 The Leith Ward Councillors are aware of and have been involved in various discussion between the Council, LCCiP and Leith Athletic.

## 10. Background reading/external references

---

10.1 Not applicable.

### **Stephen S. Moir**

Executive Director of Resources

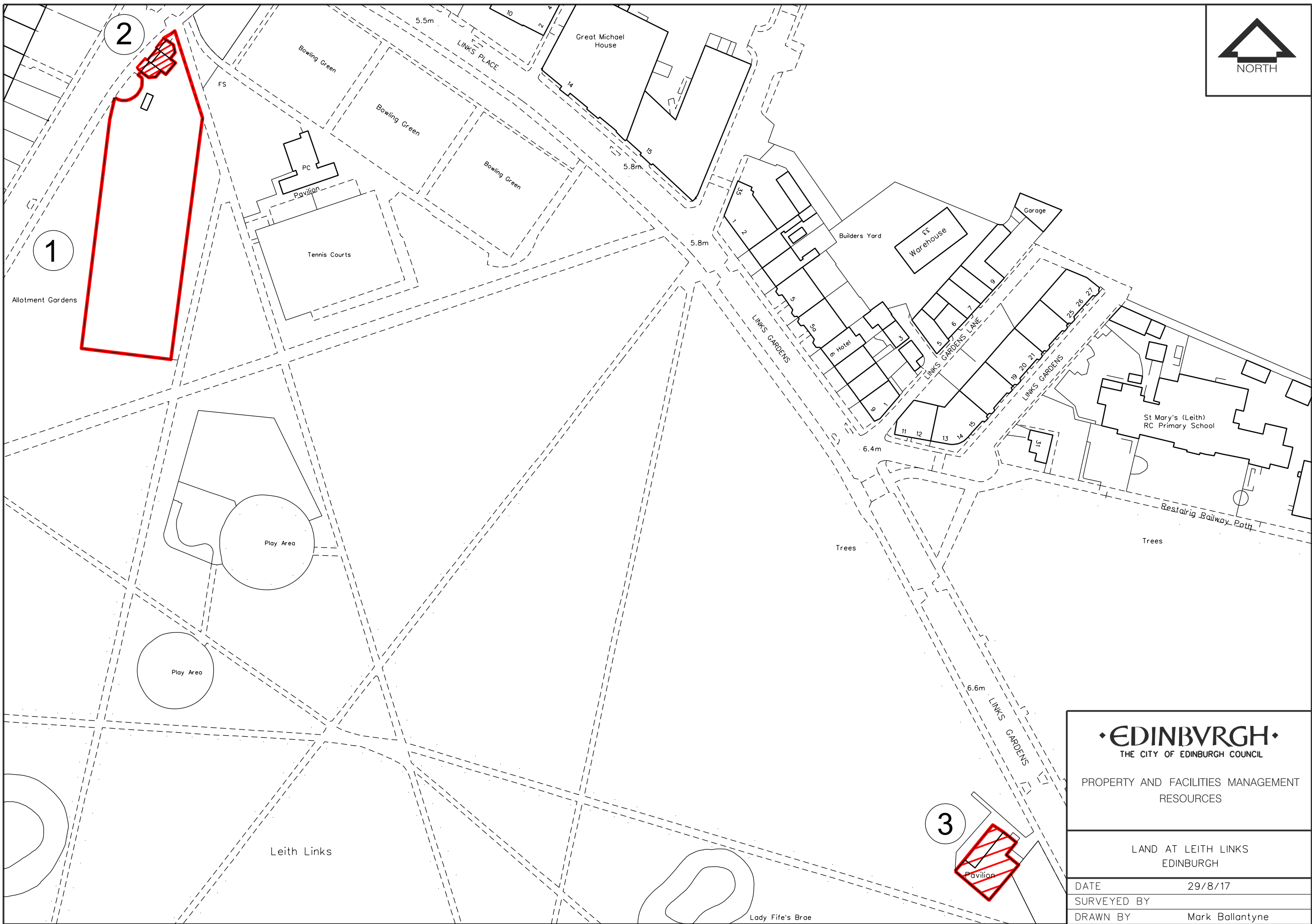
Contact: Mark Bulloch, Portfolio Manager - Investments

E-mail: [mark.bulloch@edinburgh.gov.uk](mailto:mark.bulloch@edinburgh.gov.uk) | Tel: 0131 529 5991

## 11. Appendices

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Appendix 1 - Location Plan



1

2

3

Allotment Gardens

Tennis Courts

Play Area

Play Area

Leith Links

Lady Fife's Brae

Great Michael House

PC

Pavilion

Bowling Green

Bowling Green

Bowling Green

Builders Yard

Warehouse

Garage

Hotel

St Mary's (Leith) RC Primary School

Restalrig Railway Path

Trees

Trees

• EDINBURGH •  
THE CITY OF EDINBURGH COUNCIL

PROPERTY AND FACILITIES MANAGEMENT  
RESOURCES

LAND AT LEITH LINKS  
EDINBURGH

DATE 29/8/17

SURVEYED BY

DRAWN BY Mark Ballantyne

SCALE N.T.S.

NEG. NO. A3/1827

SITE PLAN

PHOTOGRAPHICALLY REDUCED NOT TO SCALE

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