Notice of meeting and agenda

Finance and Resources Committee

10.00am, Thursday 27 September 2018

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

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

2. Declaration of interests

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

3. Deputations

3.1 If any

4. Minutes

4.1 Minute of the Finance and Resources Committee of 16 August 2018 – submitted for approval as a correct record (circulated)

5. Forward planning

5.1 Finance and Resources Committee Work Programme (circulated)

5.2 Finance and Resources Committee Rolling Actions Log (circulated)

6 Business Bulletin

6.1 Business Bulletin (circulated)

7. Executive decisions

7.1 City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee (circulated)

7.2 The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2017/18 Audit – report by the Executive Director of Resources (circulated)

7.3 2017-18 Common Good Annual Performance Report – report by the Executive Director of Resources (circulated)

7.4 Carbon Reduction Commitment (CRC) Annual Report – report by the Executive Director of Resources (circulated)

7.5 Council Change Strategy: Planning for Change and Delivering Services 2019-2023 – report by Chief Executive and the Executive Director of Resources (circulated)

7.6 Asset Management Strategy Transformation Programme - Update – report by the Executive Director of Resources (circulated)

8. Routine decisions

8.1 None

9. Motions

9.1 If any

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillors Rankin (Convener), Donaldson (Vice-Convener), Kate Campbell, Corbett, Gordon, Hutchison, Johnston, Miller, Neil Ross, Watt and Whyte.

Information about the Finance and Resources Committee

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

If you have any questions about the agenda or meeting arrangements, please contact Stuart Johnston, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG, Tel 0131 529 7035 or email stuart.johnston@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 .

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Item 4.1 - Minutes

Finance and Resources Committee

10.00am, Thursday, 16 August 2018

Present

Councillors Rankin (Convener), Donaldson (Vice-Convener), Kate Campbell, Corbett, Hutchison, Miller, Rose (substituting for Councillor Johnston), Frank Ross (substituting for Councillor Bridgman), Neil Ross, Watt and Whyte.

1. Minutes

Decision

To approve the minutes of the Finance and Resources Committee of 12 June 2018 as a correct record.

2. Finance and Resources Committee Key Decisions Forward Plan

The Finance and Resources Committee Key Decisions Forward Plan for August 2018 was submitted.

Decision

To note the Key Decisions Forward Plan for August 2018.

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

3. Rolling Actions Log

The Finance and Resources Committee Rolling Actions Log was submitted.

Decision

1) To agree to close actions 3, 4, 5, 7, 8, 9, 10, 11, 12, 14 and 15.

2) To agree that Committee Services would ask for an update on item 13 and would update the Rolling Actions Log.

3) To otherwise note the Rolling Actions Log.

(Reference – Rolling Actions Log, submitted.)

4. Business Bulletin

Finance and Resources Committee Business Bulletin was submitted.

Decision

To note the Business Bulletin.

(Reference – Business Bulletin, submitted.)

5. Revenue Monitoring 2017/18 – Outturn Report

The Committee considered a report which set out the provisional 2017/18 revenue outturn position for the Council based on the unaudited financial statements. The position showed an overall underspend of £2.416m, representing the eleventh successive year in which net expenditure had been maintained within approved levels.

Decision

1) To note the contents of the report and the provisional revenue underspend of £2.416m for the year ended 31 March 2018.
2) To note that, after taking account of Council's previous approval to earmark £0.480m for additional roads investment and £0.100m for the City Vision, the remaining £1.836m had been set aside within the Council Priorities Fund.
3) To note the contributions in 2017/18 to and from the General Fund as detailed in the report.
4) To note that the Housing Revenue Account was balanced after making planned contributions of £10m towards in-year capital investment and £0.438m to the Renewal and Repairs Fund;
5) To note that the Common Good Annual Performance Report would be considered at the Committee's meeting on 27 September 2018.
6) To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

(References – Act of Council (No. 17), 28 June 2018; Finance and Resources Committee, 23 January 2018 (item 7); report by the Executive Director of Resources, submitted.)

6. Revenue Monitoring 2018/19 – Month Three Position

The Committee considered a report which set out the projected revenue budget position for the year based on analysis of period two data. Service areas had identified a number of significant pressures, particularly in demand-led areas, together totalling £15.2m and prompt and effective implementation of planned and additional mitigating actions would therefore be required to maintain expenditure within approved levels.

Decision

1) To note that a number of significant pressures had been highlighted by Executive Directors, such that an overall year-end overspend of £7.720m, after taking account

of current mitigating actions and assuming no further mitigating actions were taken, was forecast as of month three.

2) To note that in light of this projected position, all Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership had been required to identify, as a matter of urgency, further proposed actions to bring their respective budgets into balance by the year-end.

3) To note the balanced projected position on the Housing Revenue Account (HRA) after making a £9.25m planned contribution towards housing investment.

4) To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

5) To agree that the Convener would make representations to the Integration Joint Board (IJB) to review how to address the challenges associated with increasing existing packages of care and/or taking on new packages and to seek assurance that the Council was not failing in terms of its statutory requirements to clients.

6) To agree that the Chief Officer of the Edinburgh Health and Social Care Partnership and the IJB's Chief Financial Officer would be invited to answer questions related to Health and Social Care Budgets in the Revenue Monitoring report being brought to the October 2018 Committee.

(References – Act of Council (No. 3), 22 February 2018; report by Executive Director of Resources, submitted.)

7. Capital Monitoring 2017/18 – Outturn and Receipts

Details were provided of the final outturn on the Council's Capital Programme for 2017/18, including details of capital receipts and slippage / acceleration on projects within the Capital Investment Programme.

Decision

1) To note the 2017/18 final unaudited capital positions on the General Fund and Housing Revenue Account (HRA).

2) To note that budgets for lending to Edinburgh Living from 2019-20 onwards were based on the pipeline of development and would be subject to annual approval from Finance and Resources Committee and Council.

3) To approve the revised Capital Investment Programme for 2018-2023.

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

(References – Act of Council (No. 3), 22 February 2018; report by the Executive Director of Resources, submitted.)

8. Capital Monitoring 2018/19 – Month Three Position

Details were provided of the overall position of the Council's capital budget at the three-month position (based on month two data) and the projected outturn for the year.

Decision

1) To note the projected capital outturn position on the General Fund and Housing Revenue Account (HRA) at month three.

2) To note the prudential indicators at month three.

3) To note that the Head of Finance was closely monitoring the capital receipts position.

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

5) To agree that clarification would be sought on how the early years programme would be managed and reported back to Committee.

(References – Act of Council (No. 3), 22 February 2018; report by Executive Director of Resources, submitted)

9. Chief Executive – Revenue Budget Monitoring 2018/19 – Month Three position

The Committee considered a report which set out the projected three-month revenue budget monitoring position for services reporting directly to the Chief Executive, based on actual expenditure and income to the end of May 2018 and expenditure and income projections for the remainder of the financial year.

Decision

1) To note services reporting directly to the Chief Executive were currently projecting expenditure and income to be in line with the approved revenue budget for 2018/19.

2) To note the risks to the achievement of a balanced revenue budget projection.

(References – Act of Council (No. 2), 22 February 2018; report by Executive Director of Resources, submitted.)

10. Resources Directorate – Revenue Budget Monitoring 208/19 – Month Three Position

Details were provided of the projected three-month revenue monitoring position for the Resources Directorate, based on actual expenditure and income to the end of May 2018 and expenditure and income projections for the remainder of the financial year.

Decision

1) To note the Resources Directorate was currently projecting a budget pressure of £1.075m for 2018/19.

2) To note the Resources Management Team were progressing the identification of alternative savings measures to achieve outturn expenditure in line with the approved revenue budget for 2018/19. A progress update would be reported to Finance and Resources Committee in October 2018.

3) To note the ongoing risks to the achievement of a balanced revenue budget projection for the Directorate.

(References – Act of Council (No. 3), 22 February 2018; report by Executive Director of Resources, submitted.)

11. Revenue Budget Framework 2018/23 – Locality Expenditure

At the meeting of Council on 3 May 2018, members approved a motion from Cllr Graczyk which sought further detail on current relative expenditure across the cities four localities and potential opportunities to devolve further sums for decision-making at a local level.

A report was considered which provided a contextual, but heavily caveated, analysis of current spend across the city's localities to serve as a starting point for further discussion in considering how the Council's expenditure was best aligned to its priorities and relative levels of need across the city.

Decision

To note the contents of the report and that a further, complementary report outlining potential changes to existing arrangements would be brought to the Committee's meeting on 11 October 2018.

(References – Act of Council (No. 33), 3 May 2018; report by Executive Director of Resources, submitted.)

12. Spend to Save Funding Application – Lagganlia Outdoor Centre

Approval was sought for £40,000 of Spend to Save funding to facilitate the construction of a purpose-built outdoor learning resource at the Lagganlia Outdoor Centre and to refer the decision to Council for ratification.

Decision

To approve the Spend to Save application and to refer the decision to Council for ratification of use of the Spend to Save Fund.

(References – Finance and Resources Committee, 23 January 2018 (Item 14); report by Executive Director of Resources, submitted.)

13. Treasury Management: Annual Report 2017/18

An update was provided on Treasury Management activity in 2017/18.

Decision

1) To note the Annual Report on Treasury Management for 2017/18.
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 Executive Director of Resources, submitted.)

14. Finance Policies – Assurance Statement

An update was provided on the main results of the most recent year's review for policies falling within the remit of the Finance Division of the Resources Directorate.

Decision

To note and be assured that the Finance policies detailed in the report had been reviewed and were considered to remain current, relevant and fit-for purpose.

(References – Act of Council (No. 10), 28 June 2018; report by Executive Director of Resources, submitted.)

15. Internal Audit Update Report – 1 January to 31 July 2018

The Governance, Risk and Best Value Committee on 31 July 2018 considered a report which detailed the Internal Audit progress for the period 1 January to 31 July 2018.

The report had been referred to the Finance and Resources Committee on the recommendation that high and medium risk findings from audit reports be submitted to their parent Committee for information.

Decision

To note the audit reports with high and medium risk findings concerning Phishing Resilience, CGI Contract Management and Health and Social Care Purchasing Budget Management.

(References – Governance, Risk and Best Value Committee, 26 September 2017 (Item 4); report by Executive Director of Resources, submitted.)

16. Proposed 2018/19 Citizen Engagement

Details were provided of the Council's approach to engaging with citizens and stakeholder groups in 2018/19 on the Council's proposed budget for the following year.

Decision

1) To approve the approach for engagement with citizens and stakeholder organisations with a launch date of Monday 1 October 2018 and a close date of Friday 7 December 2018 – with the launch to be delayed if budget proposals were not approved at the Finance and Resources Committee Meeting on Thursday 27 September 2018;

2) To note the plan to provide a further detailed report on future engagement for approval, alongside the results of the 2018/19 budget engagement, to the 24 January 2019 special Finances and Resources Committee;

3) To approve the procurement of Budget Simulator (£4,995) to deliver the online engagement element. This resource came from the overall allocation for budget engagement.

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

17. Workforce Dashboard

Committee considered a report which provided a summary of workforce metrics for FTE, basic salary, new starts and leavers, monthly costs (overtime, agency, casual/supply, working time payments), absence, transformation/redeployment, risk, and performance, as detailed on the Finance and Resources Committee Workforce Dashboard, for the period of May 2018.

Decision

To note the workforce information contained in the dashboard.

(References – Finance and Resources Committee, 12 June 2018 (Item 12); report by Executive Director of Resources, submitted.)

18. Commercial and Procurement Annual Report 2018

Following approval of the Commercial and Procurement Strategy 2016-2020 by the Committee on 1 December 2016, an update on what had been delivered through the strategy from December 2016 to 31 March 2018 was outlined.

Motion

To note the contents of the report and approve the Commercial and Procurement Annual Report 2018 for publication.

- Moved by Councillor Rankin, seconded by Councillor Donaldson

Amendment

1) To note the contents of the report and approve the Commercial and Procurement Annual Report 2018 for publication.
2) To note specifically
    a) Ongoing work to ensure that gains secured through procurement were fully realised through effective contract management.
    b) Continued development of means by which community benefit could be captured and reported.
    c) Opportunities to work collaboratively with other major public organisations on procurement.

- Moved by Councillor Corbett, seconded by Councillor Miller

In terms of Standing Order 21(11), the amendment was accepted as an addendum to the motion.

Decision

1) To note the contents of the report and approve the Commercial and Procurement Annual Report 2018 for publication.
2) To note specifically
    a) Ongoing work to ensure that gains secured through procurement were fully realised through effective contract management.
    b) Continued development of means by which community benefit could be captured and reported.
    c) Opportunities to work collaboratively with other major public organisations on procurement.

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

19. Construction Charter

Details were provided on the benefits and issues arising from a proposed Construction Charter and approval was sought on the Construction Charter Commitments.

Motion

To adopt the Construction Charter Commitments.

- Moved by Councillor Rankin, seconded by Councillor Donaldson

Amendment

1) To adopt the Construction Charter Commitments.
2) To recognise that the Charter was a living document and agree that work with the Trade Unions and contractors would continue during the implementation phase, with a report reviewing the Charter to be brought back to Committee in 12 months.

- Moved by Councillor Rankin, seconded by Councillor Donaldson

In terms of Standing Order 21(11), the amendment was accepted as an addendum to the motion.

Decision

1) To adopt the Construction Charter Commitments.
2) To recognise that the Charter was a living document and agree that work with the Trade Unions and contractors would continue during the implementation phase, with a report reviewing the Charter to be brought back to Committee in 12 months.

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

20. Extension to the existing Property Repair and Maintenance Contracts

Approval was sought to extend the existing Property Repair and Maintenance Contracts for a period of one year with the option to extend for a further period of six months.

Decision

1) To approve the extension of the following Contracts for a period of 12 months with the option to extend for a further 6 months:

   1.1.1 Statutory Compliance and Inspection Testing of Mechanical and Electrical (planned and reactive services) and Fabric (planned services) to FES FM Ltd, Servest Ltd and Skanska Rashleigh Weatherfoil Limited with an estimated contract value of £8m per annum;

   1.1.2 General building repairs and maintenance Framework to James Breck Ltd, Response Building and Maintenance Ltd and Saltire Roofing and Building Ltd, with an estimated contract value of £0.9m per annum;

   1.1.3 Minor works and decoration repairs and maintenance Framework to Bell

Group UK Ltd, H&J Martin Ltd and Response Building and Maintenance Ltd, with an estimated contract value of £0.5m per annum;

1.1.4 Plumbing, jetting and drainage repairs and maintenance Framework to J B Bell and Co and Response Building and Maintenance Ltd, with an estimated contract value of £0.85m per annum;

1.1.5 Blacksmith repairs and maintenance contract to Orbis Ltd, with an estimated contract value of £0.65m per annum;

1.1.6 Joinery repairs and maintenance contract to Response Building and Maintenance Ltd, with an estimated contract value of £0.4m per annum; and

1.1.7 Lift and Escalator repair and maintenance contract to Kone Plc, Orona Limited and Consult Lift Services Ltd, with an estimated contract value of £0.4m per annum.

2) To note that the Contracts listed above all expired in the Autumn/Winter of 2018 and these extensions were therefore sought as a Waiver to the Council's Contract Standing Orders.

(References – Finance and Resources Committee, 23 January 2018 (Item 5); report by Executive Director of Resources, submitted.)

21. Extension of Health and Social Care Contracts

Approval was sought to extend a range of contracts to support the delivery of Health and Social Care services whilst strategic reviews and service re-design took place.

Decision

1) To extend contracts for the servicing, repair and maintenance of aids for daily living equipment to 31 May 2019.
2) To extend the block contracts for 16 registered day services for older people to 31 March 2020.

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

22. Appointments to Working Groups 2018/19

The Committee was invited to appoint the membership of the Joint Consultative Group, Elected Member ICT and Digital Sounding Board, and the Council Health and Safety Consultation Forum.

Decision

1) To appoint the membership of the Joint Consultative Group as set out in Appendix 1 of the report, subject to Councillor McVey replacing Councillor Bridgman.

2) To appoint the membership of the Elected Member ICT and Digital Sounding Board in Appendix 2 of the report, subject to Councillor Booth being included.

3) To appoint the membership of the Council Health and Safety Consultation Forum in Appendix 3 of the report.

4) To agree to disband the Property Sub-Committee.
5) To approve the remits of the Joint Consultative Group, Elected Member ICT and Digital Sounding Board, and the Council Health and Safety Consultation Forum 2018/2019 as set out in Appendices 1 to 3 of the report.

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

23. Proposed New Lease at 323 High Street, Edinburgh

Approval was sought to grant a lease to the Continuum Group Limited on the terms and conditions outlined in the report.

Decision

To approve a new lease to the Continuum Group Limited of first floor (level 6) in 323 High Street, Edinburgh on the terms outlined in the report and other terms and conditions to be agreed by the Executive Director of Resources.

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

24. Proposed New Lease of part of 249 High Street, Edinburgh (Advice Shop)

Approval was sought to grant a 10-year lease to VisitScotland. The refurbishment of the customer hub at 249 High Street had released space that was occupied by the Advice Shop. Negotiations had taken place with VisitScotland for a commercial lease of the premises.

Decision

To approve a new 10 year lease to VisitScotland of part of 249 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 Executive Director of Resources, submitted.)

25. City Fibre Expansion Project – Proposed Ground Lease at New Mart Road, Edinburgh

Approval was sought to grant a 20 year ground lease at New Mart Road to City Fibre Ltd on the terms and conditions outlined in the report.

Decision

To approve a 20 year ground lease to City Fibre Limited at New Mart Road 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 Executive Director of Resources, submitted.)

26. Port Edgar Marina, South Queensferry – Proposed Lease to South Queensferry Sea Cadets

Approval was sought to grant a new lease to South Queensferry Sea Cadets for a period of 66 years.

Decision

To approve the lease of land and buildings extending to approximately 0.0875 hectares (0.216 acres) 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 Executive Director of Resources, submitted.)

27. Proposed Sale of Former Public Convenience at 1 Gorgie Road

Approval was sought to dispose of the former Public Convenience and Police Box site to AMA Homes on the terms and conditions outlined in the report.

Decision

To approve the sale of the former Public Convenience to AMA Homes under the terms and conditions outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

Declaration of Interests

Councillor Whyte declared a financial interest in the above item as a member of the Scottish Police Authority.

28. Award of Workplace Travel Planning Contract 2018-19

Approval was sought to award a contract for the delivery of the fourth year of the workplace-based travel behaviour change project to Sweco UK Ltd. The contract would be for nine months, commencing on 1 September 2018 and running to 31 May 2019.

Motion

To approve the award of a contract to Sweco UK Ltd for £117,923.75 to deliver the workplace-based travel behaviour change project during 2018-19.

- Moved by Councillor Rankin, seconded by Councillor Donaldson

Amendment

1) To approve the award of a contract to Sweco UK Ltd for £117,923.75 to deliver the workplace-based travel behaviour change project during 2018-19.
2) To report to Transport and Environment Committee within 6 months on the barriers identified in translating awareness-raising activity into significant levels of modal shift and recommendations as to how those barriers could be overcome.

- Moved by Councillor Corbett, seconded by Councillor Miller.

In terms of Standing Order 21(11), the amendment was accepted as an addendum to the motion.

Decision

1) To approve the award of a contract to Sweco UK Ltd for £117,923.75 to deliver the workplace-based travel behaviour change project during 2018-19.

2) To report to Transport and Environment Committee within 6 months on the barriers identified in translating awareness-raising activity into significant levels of modal shift and recommendations as to how those barriers could be overcome.

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

29. Contract for Care and Support Complex Needs - St Stephen's Court (CT2215)

Committee considered a report which advised that in consultation with the Convener and Vice Convener of the Finance and Resources Committee, in line with the Council's Contract Standing Orders and the Scheme of Delegation, the Council had awarded a contract under urgency procedures to Carr Gomm for care and support for people with complex needs who would reside at St Stephen's Court.

Decision

To note the award of a contract to Carr Gomm for provision of care and support at St Stephen's Court under urgency procedures.

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

Work Programme

Item No 5.1

Finance and Resources Committee

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
1.	Revenue Budget Monitoring Update	11 October 2018		Executive Director of Resources Lead Officer: Hugh Dunn 0131 469 3150 hugh.dunn@edinburgh.gov.uk		
2.	Consultants Costs 2017/18	11 October 2018		Executive Director of Resources Lead Officer: Hugh Dunn 0131 469 3150 hugh.dunn@edinburgh.gov.uk		
3.	New Meadowbank Sports Centre Construction Contract	11 October 2018		Executive Director of Communities and Families Lead Officer: Crawford McGhie 0131 469 3469 crawford.mcghie@edinburgh.gov.uk		
4.	Wave 4 Infrastructure Investment Programme	11 October 2018		Executive Director of Communities and Families Lead Officer: Crawford McGhie 0131 469 3469		

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
				crawford.mcghie@edinburgh.gov.uk		
5.	Gender Pay Gap	11 October 2018		Executive Director of Resources Lead Officer: Katy Miller 0131 469 5522 katy.miller@edinburgh.gov.uk		
6.	Workforce Dashboard	11 October 2018		Executive Director of Resources Lead Officer: Katy Miller 0131 469 5522 katy.miller@edinburgh.gov.uk		
7.	Fraud Prevention and Detection – Annual Report	11 October 2018		Executive Director of Resources Lead Officer: Nicola Harvey 0131 469 5016 nicola.harvey2@edinburgh.gov.uk		
8.	Office of Lord Provost – Cost of Royal Events	11 October 2018		Chief Executive Lead Officer: Norma Cuthbertson 0131 553 3816 norma.cuthbertson@edinburgh.gov.uk		
9.	Internal Audit Update Report	11 October 2018		Executive Director of Resources Lead Officer: Stephen Moir 0131 529 4822 stephen.moir@edinburgh.gov.uk		
10.	Leith Meanwhile Uses	11 October 2018		Executive Director of Resources Lead Officer: Susan Tannock		

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
				0131 469 3879 susan.tannock@edinburgh.gov.uk		
11.	Engineering Inspection Renewal	11 October 2018		Executive Director of Resources Lead Officer: Robert Boyd 0131 469 5284 Robert.boyd@edinburgh.gov.uk		
12.	Edinburgh Living: Management, Maintenance and Letting Services – Award of Contract Under Delegated Authority	11 October 2018		Executive Director of Place Lead Officer: Elaine Scott 0131 529 7968 elaine.scott@edinburgh.gov.uk		
13.	Removal of Local Authority Fees for Burial and Cremation for Children Under 18	11 October 2018		Executive Director of Place Lead Officer: Robbie Beattie 0131 555 7980 Robbie.beattie@edinburgh.gov.uk		
14.	Waiver for Extension to Statutory Inspection & Maintenance of Lifts Contract (for	11 October 2018		Executive Director of Place Lead Officer: Paul Lawrence 0131 529 7325 Paul.Lawrence@edinburgh.gov.uk		

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
	Domestic Lifts)					
15.	Waiver report for Edinburgh and Midlothian Offender Recovery Service	11 October 2018		Executive Director of Communities and Families Lead Officer: Rona Fraser 0131 529 3517 rona.fraser@edinburgh.gov.uk		
16.	Continuation of Community Transport Public Social Partnership	11 October 2018		Executive Director of Place Lead Officer: Paul Lawrence 0131 529 7325 Paul.Lawrence@edinburgh.gov.uk		
17.	Disposal of former Close Support Unit, 83 Pentland View, Edinburgh	11 October 2018		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk		
18.	Award of One to Many Core Workshop Framework	11 October 2018		Executive Director of Place Lead Officer: Susan Harkins 0131 529 6646 susan.harkins@edinburgh.gov.uk		
19.	Contract Awards and Procurement Programme (period 1 January – 30 June 2018)	11 October 2018		Executive Director of Resources Lead Officer: Lynette Robertson 0131 469 3810 lynette.robertson@edinburgh.gov.uk		

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
20.	Summary of Property Transactions Concluded Under Delegated Authority – Quarterly Report	11 October 2018		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk		
21.	Purchase of developer share in National Housing Trust Limited Liability Partnership	11 October 2018		Executive Director of Place Lead Officer: Elaine Scott 0131 529 7968 elaine.scott@edinburgh.gov.uk		
22.	Framework Agreement for Unescorted Passenger Journeys	11 October 2018		Executive Director of Place Lead Officer: Frank Henderson 0131 469 6248 frank.henderson@edinburgh.gov.uk		
23.	Finance Policies Assurance Statement	August 2019			Annual	
24.	Treasury Management Annual report	August 2019			Annual	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
25.	Commercial and Procurement Annual report	August 2019			Annual	
26.	Annual Workforce Controls	June 2019			Annual	
27.	Annual report – Debt Write off	January 2019			Annual	
28.	Carbon Reduction Commitment (CRC annual report	September 2019			Annual	
29.	Common Good Annual Performance	September 2019			Annual	
30.	Consultants Costs	September 2019			Annual	
31.	Revenue Monitoring Outturn report	August 2019			Annual	
32.	Capital Monitoring Outturn Report	August 2019			Annual	
33.	Health & Safety Performance	March 2019			Annual	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Progress updates	Council Commitments
	Report 2018					
34.	Fraud Prevention and Detection - Annual Report	October 2019			Annual	
35.	Asset Management strategy – Transformation programme Update	January 2019			Quarterly	
36.	Summary Report on Property Transactions concluded under Delegated Authority	March 2019 - tbc			Quarterly	
37.	Workforce Dashboard	December 2018			All F&R Committee's	
38.	Contract Awards and Procurement Programme (6 monthly reports)	May 2019 - tbc			Every 6 months	

Rolling Actions Log

Item No 5.2

Finance and Resources Committee

27 September 2018

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1.	23 February 2017	Strategic Direction for Tackling Homelessness	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	December 2018		The Homelessness Task Force is due to report back with its final recommendations around future service delivery in December 2018. The most appropriate way to report back to F&R would be a referral of that report when it becomes available.

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
2.	7 November 2017	Revenue Budget Framework 2018/23 – Mid-Year Review -	To ask the Executive Director of Resources to prepare a four year plan to address the forecast savings gap, based on the wider themes set out in the report and taking into account the Council's priority outcomes.	Executive Director of Resources	30 September 2018		This will be included in the report to the Committee on 27 September 2018.
3.	27 March 2018	Sickness Absence Policy	To note that, in addition to the standard review process, a report would be brought to committee 12 months after implementation of this policy to review its impact and make any further recommendations for potential improvement.	Executive Director of Resources	November 2019		This policy will be implemented in October 2018 and reviewed 12 months thereafter.
4.	12 June 2018	Provisions of Registrar Services	To agree a report would be brought back to Committee reporting on registrar provision across the city.	Executive Director of Place			This activity will be picked up as part of the Council's wider Asset Management review and will be

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							reported in due course. At the Committee meeting on 16 August, the Committee requested that an update report be provided on this issue before it is recommended for closure.
5.	12 June 2018	Expansion of Early Learning and Childcare from 600-1400 hours by 2020 – Current Progress and Next Steps	To agree to provide a briefing to Councillor Johnston on the model for delivery of 1140 hours of childcare.	Executive Director for Communities and Families	As soon as possible		Arrangements are currently being made for officers to meet with Councillor Johnston.
6.	12 June 2018	Award of Festival Attraction Contract for the Summer Period in Princes Street Gardens	1) To agree to circulate a briefing note to members on the length of time that the grass in Princes Street Gardens would be out of use as a	Executive Director of Place	As soon as possible		This action is currently being progressed.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			result of the Festival Contract. 2) The Head of Place Management to investigate the policy on the use of greenspace for events and report back to Councillor Miller.				
7.	16 August 2018	[Revenue Monitoring 2017/18 – Outturn Report]()	To agree that a briefing note would be circulated to Committee members detailing how the Council's Pupil Equity Fund (PEF) had been spent, on the reasons for the landfill tax spend being higher than anticipated and details of the spend to save projects.	Executive Director of Resources			Briefing note would be circulated next week.
8.	16 August 2018	[Revenue Monitoring 2018/19 – Month Three Position]()	1) To agree that the Convener would make representations to the Integration Joint Board (IJB) to review how to address the challenges	Councillor Alasdair Rankin / Members Services			

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			associated with increasing existing packages of care and/or taking on new packages and to seek assurance that the Council was not failing in terms of its statutory requirements to clients. 2) To agree that the Chief Officer, Edinburgh Health and Social Care Partnership and the IJB's Chief Financial Officer would be invited to answer questions related to Health and Social Care Budgets in the Revenue Monitoring report being brought to the October 2018 Committee.		11 October 2018		Both officers have been invited to attend and are expected to be present at the meeting on 11 October 2018.
9.	16 August 2018	Capital Monitoring 2017/18 – Outturn and Receipts	To agree that a briefing note that provided details on the city wide LED	Executive Director of Resources			Briefing noet to be circulated next week.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			replacement of street lighting would be circulated to Committee.				
10.	16 August 2018	Capital Monitoring 2018/19 – Month Three Position	To agree that clarification would be sought on how the early years programme would be managed and to report back to Committee.	Executive Director of Resources			Discussions ongoing.
11.	16 August 2018	Treasury Management Annual Report 2017-2018	1) To agree that the Head of Finance would approach the Scottish Investment Bank with a view to reducing the Council's borrowing costs. 2) To agree that the Head of Finance would provide clarification to Committee that the HRA budget accounted for the discrepancy in the costs of loan charges.	Executive Director of Resources			Discussions ongoing.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
12.	16 August 2018	Internal Audit Update Report – 1 January to 31 July 2018	To agree that a report would be brought to Committee in October 2018 with further details of the Internal Audit findings.	Executive Director of Resources	11 October 2018		Report would be considered by F+R Committee on 11 October 2018.
13.	16 August 2018	Proposed 2018-19 Citizen Engagement	To agree to identify a date for Members to participate in budget 'game'.	Chief Executive		13 September 2018	A session was held on 13 September 2018 which Members had the opportunity to attend – closed.
14.	16 August 2018	Workforce Dashboard	To agree that the Workforce Dashboard report that would be considered by Committee in October 2018 would provide further details of the reasons for absence by service area and, a breakdown and analysis of overtime and use of agency staff by service area.	Executive Director of Resources	11 October 2018		Report would be considered by F+R Committee on 11 October 2018.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
15.	16 August 2018	Construction Charter	To recognise that the Charter was a living document and agree that work with the Trade Unions and contractors would continue during the implementation phase, with a report reviewing the Charter to be brought back to Committee in 12 months.	Executive Director of Resources	15 August 2019		Ongoing.

Item 6.1 – Business Bulletin

Finance and Resources Committee

10.00am, Thursday 27 September 2018

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

Finance and Resources Committee

<table>
<tr><th>Convener:</th><th>Members:</th><th>Contact:</th></tr>
<tr><td>Convener
Cllr Alasdair Rankin


Vice – Convener
Councillor Donaldson
</td><td>▪ Councillor Campbell
▪ Councillor Corbett
▪ Councillor Gordon
▪ Councillor Hutchison
▪ Councillor Johnston
▪ Councillor Miller
▪ Councillor Neil Ross
▪ Councillor Watt
▪ Councillor Whyte</td><td>Veronica MacMillan
Tel: 0131 529 4283

Joanna Hamilton-Rigg
Service Policy Adviser
Tel: 0131 529 5219</td></tr>
</table>

<table>
<tr><th>Recent news</th><th>Background</th></tr>
<tr><td>Annual Efficiency Statement, 2017/18

Scottish Ministers expect all public bodies to deliver efficiency savings equal to at least 3% of net expenditure on an annual basis. Efficiencies are defined as savings where the output, or outcome, has been maintained with a lower cash-terms level of input (cashable) or where a greater output, or outcome, is achieved without a corresponding increase in inputs (non-cashable). COSLA collates the statements on behalf of all of its member authorities and reports these to the Cabinet Secretary for Finance, Economy and Fair Work.

The Council’s Efficiency Statement for 2017/18 was submitted to COSLA in August and set out total efficiencies to a value of £29.6m, including further significant savings across procurement as well as additional income through increasing the five-year Council Tax collection rate and a range of other process efficiencies. The total savings identified met the 3% target and</td><td>Hugh Dunn, Head of Finance

Tel: 469 3150

Email:
hugh.dunn@edinburgh.gov.uk</td></tr>
</table>

now mean that almost £350m of efficiencies have been reported since 2006/07.	

Forthcoming activities

CONFIRMATION OF EFFICIENCIES DELIVERED IN 2017-18

1	**Local Authority Name**	The City of Edinburgh Council
2	**Total cash efficiency achieved for 2017-18**	£29.569m
3	**Summary of efficiency activity** e.g. The main initiatives the local authority has taken over the year to ensure a strategic approach to increased efficiency and productivity and the improvements achieved in these areas. The main information that the local authority uses to assess productivity, service quality and performance and how the scope, usefulness or reliability has been improved during the year. Specific steps the local authority has taken during the year to improve collaboration and joint working to deliver efficient and user-focussed services and the improvements achieved.	During 2017/18, the Council consolidated the benefits realised through its Transformation Programme. Against a continuing backdrop of increases in service demand and reducing resources, however, it has been widely acknowledged that a "salami-slicing" approach to budgeting, doing things in the way that they have always been done, is not sustainable. There is a need to place much greater focus on service transformation and prioritisation, designed using insight from active engagement from citizens, communities and elected members. The Council's Change Strategy has therefore identified three key themes of (i) providing high-quality services at the right level, (ii) moving Edinburgh to a radical preventative agenda and (iii) achieving sustainable inclusive growth, to improve services whilst securing longer-term financial sustainability. During the year, analysis of Council service delivery performance was appraised through monitoring progress against the outcomes set out in the Council's Business Plan and Edinburgh Partnership Community Plan. This involved monthly review of performance at both Senior Management Teams and the Council Leadership Team, six-monthly reporting to elected members through the Council and corresponding progress reports to the Edinburgh Partnership Board. An annual summary performance report in respect of the 2017/18 financial year was also considered by the Corporate Policy and Strategy Committee in August 2018. Additional measures during the year included development and implementation of service improvement initiatives such as the Corporate Complaints Improvement Plan and taking forward the Council Performance Framework to support implementation of the Council's business plan. Through the Edinburgh Health and Social Care Partnership (EHSCP) and Edinburgh Integration Joint Board (EIJB), the Council continued to work with NHS colleagues to develop key health and social care services to achieve better user outcomes and provide community-based care.
4	**Breakdown of efficiency saving by Procurement, Shared Services or Asset Management** (only where relevant – not all efficiencies will fall into these categories, so the figures here do not have to match the overall total.	Procurement = £8.125m
		Shared Services = £7.167m
		Asset Management = £1.294m
		The balance of £12.983m primarily comprises an element of the staffing savings through service redesign together with process improvements including higher Council Tax collection rates.
5	**Evidence**: What performance measures and/or quality indicators are used to ensure that	Relevant evidence includes: • **External assessments/inspections and the resulting improvement plans**, including Council's Best Value Audit report

	efficiencies were achieved without any detriment to services?	2016, Annual Audit Report, Assurance and Improvement Plan, and the work of Education Scotland; • **Accreditation visits and resulting improvement plans**, including CSE, RoSPA Gold Award and maintaining ISO accreditations; • **Regular (and year-end) thematic monitoring of key performance indicators** including Local Government Benchmarking Framework, the Council Performance report, intelligence gathered through membership of networks such as APSE, Quality Scotland and wider Council outcomes/commitments considered by services and CLT and scrutinised by Executive Committees; and • **Internal and external surveys**, including The Edinburgh People Survey.

Signed …………………………………………………………………................. (Chief Executive or equivalent)

Signed (if applicable)…………………………………………………………………......... (Council Leader or equivalent)

Date ……………………………………

Finance and Resources Committee

10.00am, Thursday, 27 September 2018

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee

Item number	7.1
Report number	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 25 September 2018 considered a report on the principal findings arising from the City of Edinburgh Council's 2017/18 external audit.

The report has been referred to the Finance and Resources Committee for approval.

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Terms of Referral

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee

Terms of referral

1.1 The Governance, Risk and Best Value Committee on 25 September 2018 considered a report on the principal findings arising from the City of Edinburgh Council's 2017/18 external audit.

1.2 The Governance, Risk and Best Value Committee agreed:

1.2.1 To note that, following the audit process, it was anticipated that an unqualified audit opinion would be issued on the Council's Annual Accounts for 2017/18.

1.2.2 To refer the audited Annual Accounts for 2017/18 to the Finance and Resources Committee for approval and thereafter to Council for noting.

1.2.3 To note that, following approval by the Finance and Resources Committee, the audited Annual Accounts would be signed and submitted to the external auditor.

1.2.4 To note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 4 of the auditor's report would be reported to the Committee during the year.

1.2.5 To agree that Place Directorate would provide a briefing note to members on the housing issues in the report.

1.2.6 To agree that a report be brought back to committee to provide a progress update on the Roads Improvement Programme.

1.2.7 To agree that the Governance, Risk and Best Value Committee Work Programme would be updated to include an overview report on Housing and Health and Social Care, covering outstanding audit issues, governance structures and direction of travel.

For Decision/Action

2.1 The Finance and Resources Committee is asked to approve the audited Annual Accounts for 2017/18 and refer the report to Council for noting.

Background reading / external references

Webcast of Governance, Risk and Best Value Committee – 25 October 2018

Laurence Rockey
Head of Strategy and Insight

Contact: Jamie Macrae, Committee Officer
Email: jamie.macrae@edinburgh.gov.uk | Tel: 0131 553 8242

Links

Appendices	Appendix 1 – City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit – report by the Executive Director of Resources

Governance, Risk and Best Value Committee

10am, Tuesday, 25 September 2018

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit

Item number	
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The report summarises the principal findings arising from the Council's 2017/18 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 sustainability, 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 the Council's remaining Significant Trading Operation (STO) to break even over a rolling three-year period.

The report concludes that the Council has a well-developed and responsive medium-term revenue funding framework and appropriate arrangements in place for managing its financial position. In common with other councils, the projected savings requirement over the next four years nonetheless remains challenging and will require development of robust savings proposals and a focus on strategic priorities.

The report further concludes that appropriate governance arrangements are in place, with effective scrutiny by elected members. There is a continuing need, however, to ensure co-ordinated partnership working and monitoring of outcomes to deliver the Council's vision. In addition, in some areas, particularly health and social care, performance remains poor and a step change is required to deliver necessary improvements.

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Report

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit

1. Recommendations

1.1 Members are asked to:

1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2017/18;

1.1.2 refer the audited Annual Accounts for 2017/18 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 4 of the auditor's report will be reported to the Committee during the year.

2. Background

2.1 The Council submitted its unaudited Annual Accounts to the external auditor by the required date of 30 June.

2.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The external auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 27 September. The external auditor will also attend the Finance and Resources Committee meeting.

2.3 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:

- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
- The overall scope and approach to the audit, including any expected limitations, or additional requirements;
- Expected modifications to the audit report;
- Management representations requested by him/her;
- Unadjusted misstatements other than those that are clearly trivial;
- Material weaknesses in internal control identified during the audit;
- Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
- Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3. Main report

3.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's remaining significant trading organisation (STO). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2017/18, to meet the statutory requirement to break even, although in-year financial performance in 2017/18 showed an improvement on the preceding years.

3.2 As part of the audit work, two material adjustments were incorporated within the unaudited accounts in respect of (i) property, plant and equipment valuation and (ii) movements between the respective net pension liabilities in January and March 2018. Neither adjustment, however, has an impact on the Council's reported outturn for the year which remains an overall underspend of £2.416m. While no further amendments are anticipated, as of the time of writing, the accounts remain to be finalised and members will therefore be advised of any further material changes at the Committee's meeting.

3.3 As with the equivalent report for 2016/17, the audit reflects the 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.

3.4 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 management responses provided by the Council (including assigned responsibility and associated timescale for implementation), are shown on pages 54 to 61. The report also summarises on pages 62 to 69 the good progress made in implementing the recommendations contained in last year’s report.

Annual accounts (pages 6 to 19)

3.5 An unqualified opinion has been given on the financial statements and other prescribed matters, albeit the report notes that the Edinburgh Catering Services – Other Catering STO failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2017/18 was £42,000, forming part of a cumulative three-year deficit of £465,000. The external auditor’s report notes the in-year reporting to the Governance, Risk and Best Value Committee on measures being taken to return the service to overall profitability, alongside consideration of alternative delivery models.

3.6 The report notes that working papers received to accompany the financial statements were of a good standard, with the results of the Council’s group bodies also appropriately reflected within the financial statements and no instances of concern with regard to the legality of transactions or events identified.

3.7 Progress in reviewing the contents of the Council’s Common Good register is set out, along with recommendations on updating, where appropriate, subsequent years’ valuation of the assets held by the fund in accordance with the outcome of this review. Additional detail on in-year income and expenditure pertaining to these assets is also recommended for inclusion in the annual accounts.

3.8 The report also apprises members, in paragraph 86, of the outcome of three objections received in respect of the annual accounts. One of these objections was received outside the statutory period, with the others not upheld following the respective scheduled hearings. The external audit also confirmed that the Council’s accounting treatment of Lender Option, Borrower Option (LOBO) loans was appropriate.

Financial management (pages 20 to 27)

3.9 The report notes that the Council has appropriate arrangements in place for managing its financial position, with the 2017/18 outturn being the eleventh successive year in which expenditure has been maintained within approved levels. In addition, overall reserve levels, taking into account sums earmarked for specific purposes, are assessed to be adequate based upon the risks the Council faces.

3.10 Paragraphs 124 to 138 set out the findings of an initial review of the options appraisal process and financial model used to inform consideration of the extension of the existing tram system from York Place to Newhaven. The report recommends that a high-level assessment be undertaken to validate the earlier Line One options appraisal prior to the taking of any decision on the proposed extension.

3.11 The external auditor's report also concludes that the Council's system of internal financial control is well-designed and that the arrangements with regard to the detection of fraud and irregularity are sufficient and appropriate, with active participation in the most recent National Fraud Initiative.

Financial sustainability (pages 28 to 31)

3.12 The report assesses that the Council has a well-developed and responsive medium-term revenue funding framework and appropriate arrangements in place to manage its financial position. In common with other councils, however, the projected savings requirement over the next four years nonetheless remains challenging and will require development of robust savings proposals and a focus on strategic priorities.

Governance and transparency (pages 32 to 40)

3.13 The report further concludes that appropriate governance arrangements are in place, with effective scrutiny by elected members. Members may be particularly interested in the assessment of the effectiveness of the Governance, Risk and Best Value Committee on pages 34 and 35. While this assessment is largely favourable, it is recommended that future years' annual assurance statements be scrutinised by the Committee prior to inclusion in the Annual Accounts and this, alongside streamlining of the existing Corporate Governance Framework, will be undertaken for the 2018/19 reporting cycle.

3.14 The Council is assessed to be open and transparent in affording physical and on-line access to Committee and Council meetings. Some room for improvement is highlighted, however, with regard to maintaining up-to-date registers of interest by some elected members. There is also a continuing need to ensure co-ordinated partnership working and public monitoring and reporting of jointly-agreed outcomes is in place to deliver the Council's vision.

3.15 Paragraphs 189 to 194 remind members of progress in addressing the main recommendations contained within the CGI information security audit. A further follow-up on these outstanding actions will be reported to the Committee in the coming year.

Value for money (pages 41 to 46)

3.16 The report notes the development of a robust performance framework to measure progress against the aims and outcomes set out within the Council's 2017-22 Business Plan, allowing members to provide appropriate scrutiny in delivery of these aims and outcomes.

3.17 While necessarily based on 2016/17 Scotland-wide data, paragraphs 219 and 220 highlight a continuing decline in comparative performance against Scotland's other local authorities as captured by the Local Government Benchmarking Framework. Of particular concern is performance across a number of Health and Social Care indicators, with persistent high levels of delayed discharge and numbers of those awaiting assessment, and an acknowledged step change in performance required. Regular updates in respect of necessary transformation of services will continue to be reported to the Edinburgh Integration Joint Board, Finance and Resources and Governance, Risk and Best Value Committees.

3.18 The report notes, however, that the Council demonstrates good self-awareness of areas where action is required, with recent improvement apparent within the waste service and a refreshed plan now in place for building standards.

4. Measures of success

4.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2018.

4.2 Agreed measures are implemented to address any actions identified within the Annual Audit Report in accordance with the timescales indicated.

5. Financial impact

5.1 There is no direct additional impact arising from the report's contents, although the on-going effectiveness of the Council's current financial management and planning arrangements has been noted.

6. Risk, policy, compliance and governance impact

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

6.2 The Council's arrangements for risk management, fraud prevention and internal control, as well as its wider governance framework, have been assessed to operate effectively.

7. Equalities impact

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

8. Sustainability impact

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

9. Consultation and engagement

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

9.2 In addition, three objections were received in respect of the annual accounts. One of these was received outside the statutory period, with the others not upheld following the respective scheduled hearings.

10. Background reading/external references

Unaudited Annual Accounts 2017/18, City of Edinburgh Council, 28 June 2018

City of Edinburgh Council External Audit Plan 2017/18, Governance, Risk and Best Value Committee, 20 March 2018

Andrew Kerr

Chief Executive

Stephen S. Moir

Executive Director of Resources

Contact: Laurence Rockey, Head of Strategy and Insight

E-mail: laurence.rockey@edinburgh.gov.uk | Tel: 0131 469 3493

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

11. Appendices

Appendix 1 – 2017/18 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2017/18 Audited Annual Accounts

Appendix 1

City of Edinburgh Council

2017/18 Annual Audit Report to the Council and the Controller of Audit

September 2018

Contents

Key messages

Annual accounts	The annual accounts for the year ended 31 March 2018 are due to be approved by the Finance and Resources Committee on 27 September 2018. We intend 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 2017/18. 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. Two material audit adjustments were made to the unaudited annual accounts in respect of property, plant and equipment and the net pension liability. 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.
Financial Sustainability	The council has a well-developed and responsive Medium-Term Revenue Funding Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year. The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities.
Financial Management	The council has appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings. Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18. Our initial findings in relation to the proposed tram extension project are included in this report.
Governance & Transparency	The council has appropriate governance arrangements in place and scrutiny arrangements appear to be effective. Partnership working is key to the council's delivery of its vision and arrangements for locality planning continue to develop. The council must ensure that it continues to monitor progress against outcomes. Our work to follow up the progress that has been made in relation to CGI's ICT arrangements highlights that some areas have been addressed but, at the time of our audit in April 2018, five high risk rated actions remained to be completed.
Value for Money	The council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide robust scrutiny and challenge to reported performance outcomes. The council demonstrates good self-awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards. Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2018

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 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. 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. This report summarises the findings from our 2017/18 audit of the City of Edinburgh Council ("the council").

2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Governance, Risk and Best Value Committee at the outset of our audit. The core elements of our work include:

   - an audit of the 2017/18 annual accounts, for both the council and its group and the charitable trusts, and related matters;
   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
   - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
   - provision of opinions on a number of grant claims and returns;
   - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a local scrutiny plan for the council;
   - audit and report on Best Value and the Strategic Audit Priorities (refer to Appendices 2 and 3) and;
   - Monitoring the council's participation in the National Fraud Initiative (NFI); and
   - any other work requested by Audit Scotland.

Exhibit 1: Audit Dimensions within the Code of Audit Practice

Source: Audit Scotland Code of Audit Practice, May 2016

3. The council is responsible for preparing an annual report and 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 report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with council management. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:

    - Provision of non-audit services to the council's group components; and
    - Relationships between Scott-Moncrieff and the council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

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. As part of our 2017/18 audit we added value to the council and Audit Scotland in a range of ways:

Regular contact with the council

11. We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:

    - Our Engagement Partner and Director hold quarterly meetings with the Chief Executive and the Executive Director of Resources;
    - We hold regular catch ups with the Head of Finance (Section 95 Officer);
    - We hold regular catch ups with the council's Strategy and Insight Team; and
    - We meet with the Chief Internal Auditor on a regular basis.
    - We hold discussions with the council's finance team, in advance of the preparation of the annual accounts, to consider the applicable accounting treatment of balances and transactions. In 2017/18 this included group accounting, treatment of inverse Lender Option Borrower Option Loans (LOBOs) and PPP.
    - We held a debrief session with the council's finance team following the completion of the 2016/17 audit to capture areas for improvement to the audit process. We intend to continue with these meetings at the conclusion of each annual audit cycle.

Training and development

- We supported the council Finance Team to deliver training on understanding the financial statements by providing training materials and examples of scrutiny questions for elected members.

Providing assurance to the council and Audit Scotland

- We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.
- The council has experienced a number of difficulties in the delivery of ICT services by its partner CGI. During our 2016/17 audit we used specialist ICT auditors to conduct reviews of security management. Our findings have provided the council with leverage to hold senior partners from CGI to account for the service provision.
- In 2017/18, we received three letters citing objections to the annual accounts. One

objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised.

Feedback

12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: *www.surveymonkey.co.uk/r/S2SPZBX*

13. While this report is addressed to the council, it will be published on Audit Scotland's website www.audit-scotland.gov.uk

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 2017/18 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2018 are due to be approved for signature by the Finance and Resources Committee on 27 September 2018. 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 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 2017/18. 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.

Overall conclusion

An unqualified audit opinion on the annual accounts

14. The annual accounts for the year ended 31 March 2018 are due to be considered by the Governance, Risk and Best Value Committee on 25 September 2018 and approved by the Finance and Resources Committee on 27 September 2018. We intend to report within our independent auditor's report:

- An unqualified opinion on the annual accounts; and
- An unqualified opinion on other prescribed matters.

15. We have 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 29). 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

16. 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 the council for their assistance with our work.

Our assessment of risks of material misstatement

17. 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. Management override

In any organisation, there exists a risk that management has 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 (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2017/18 External Audit Plan

18. We have not identified any indication of management override in the year. We have reviewed the council's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

19. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While we acknowledged that compensating controls were in place, including, for example, control account reconciliations and the preparation and presentation of financial monitoring reports to the council we recommended that arrangements were put in place to review and authorise year-end journals. We noted during our 2017/18 audit that processes are in place to review and authorise year-end journals.

20. The council provides financial ledger services to a number of organisations. We noted during our audit that any member of the council finance team with ledger access could post entries to those organisations' financial ledgers even though they have no interaction with those organisations. While we understand that those organisations will have their own controls in place to monitor for any unusual transactions, we would encourage the council to review the user access controls.

Action plan point 1

2. Revenue recognition

Under ISA (UK) 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.

Excerpt from the 2017/18 External Audit Plan

21. 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.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2017/18 External Audit Plan

22. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the council's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Property, plant and equipment

The council's approved general fund capital budget for 2017/18 is £172million. As at period 9, the council was reporting a projected outturn of £140million. The housing revenue account capital budget for 2017/18 is £78million. As at period 9, the council was reporting a projected outturn of £69million.

The council carries out a rolling programme of revaluations that ensures all property, plant and equipment required to be measured at fair value is revalued at least every five years.

In January 2018, a paper was presented to the council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on a snapshot of the condition of the operational estate (September 2017), there is a requirement to spend £153million over the next five years to address the backlog maintenance. The results of this survey could be used as part of management's assessment of impairment of the operational estate.

Excerpt from the 2017/18 External Audit Plan

Additions

23. During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. We carried out testing on material additions and concluded that those additions had been accounted for in the annual accounts in accordance with the council's accounting policy and the applicable accounting standards.

Valuations

24. We reviewed the council's valuation process and noted the following:

- Valuations are generally carried out by internal valuers. For the valuation process in 2017/18 however, the council's internal valuers commissioned Rydens to carry out some of the valuations. We considered the instructions and information provided to the valuer, along with the instructions provided to the external valuer, and performed procedures to confirm the accuracy and completeness of the information. From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.
- We did however note that while the council's operational estates manager (the

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

appointed internal valuer responsible for the overall direction of the valuation process), receives instructions from the council, these are not disseminated to individual valuers who carry out the valuations.

- All property, plant and equipment required to be carried at fair value were included in the five year rolling programme and had been revalued within this time period.
- Valuations are usually carried out as at 31 March. There is however no requirement for valuations to be carried out at this date and authorities may use 1 April subject to the standard condition that the carrying amount at the end of the year does not differ materially from the current value at that date. For 2017/18, the council valuations were prepared as at 1 April 2017. The valuer has provided us with assurance that the carrying amount of these assets as at 31 March 2018 does not materially differ from the date of valuation.
- We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We reviewed valuation movements against indices of price movements for similar classes of assets and investigated any valuation movements that appeared unusual against this. Overall the valuation movements were in line with our expectation.
- We reviewed the reasonableness of the valuation assumptions applied, as they relate to land and buildings, council dwellings and investment properties. Based on the audit work performed we concluded that the valuations are reasonable.
- A £27million adjustment has however been made to the valuation of property, plant and equipment in the audited annual accounts. From our audit testing we identified differences between the valuations provided by the valuer and as recorded on the estates register and those which were recorded in the council's asset register (used in the preparation of the annual accounts). We recommend that reconciliations are performed between the estates register and the council's asset register.
- The results of the valuation exercise are not formally communicated to the council. The valuer should provide two documents; a valuation report for each asset valued and an overarching valuation report. The scope and contents of the report should be agreed between the valuer and the council, but the form is governed by the RICS (Royal Institute of Chartered Surveyors) Red Book. The valuation report gives the valuer's opinion of value of the specific properties, stating what has been done and what has not been done, the basis of valuation, any assumptions which have been made, including those as to accuracy of data, and other matters referred to in the instructions.

Action plan point 2

Impairment

25. As noted above and in our external audit plan, in January 2018, a paper was presented to the council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on detailed condition surveys of the council's operational estate(September 2017), there is a requirement to spend £153million over the next five years both to address the backlog maintenance and move the council onto a planned preventative regime for the estate in the future.

26. As part of our audit we considered whether the council had considered these findings in the context of a potential impairment to the value of those assets as reported in the annual accounts.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

27. We noted that no assessment of impairment has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme. The Code of Practice on Local Authority Accounting (the Code) requires local authorities to assess at the end of each reporting period whether there is an indication that any asset may be impaired. The condition survey of the council's operational estate is one source of evidence to indicate whether an impairment may have occurred. While no indication of material impairment was identified, we would encourage the council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.

Action plan point 2

Other risk factors

28. 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:

Significant trading operations

29. 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 2018 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor's report.

30. Despite improvements in recent years' financial performance, the council's Edinburgh Catering Services – Other Catering trading operation reported a deficit of £42,000 in 2017/18 and a cumulative three year deficit of £0.465million.

31. During 2017/18 two reports were presented to the Governance Risk and Best Value committee outlining the reasons for the underlying deficit position and actions being taken to address the profitability of the service from 2018/19 onwards. The actions focus on four key areas; financial control, workforce/HR, supplier contracts and branding/customer engagement.

32. The most recent report, presented in March 2018, also noted that in tandem with the actions being progressed, there are also opportunities to consider alternative delivery models or service re-provision in the future, including a partnering model or franchise approach.

Group audit

33. The council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. The group structure is detailed within the council's annual accounts.

34. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed entries back to the financial statements of the group bodies. Overall we concluded that the results of the group bodies had been appropriately consolidated into the council's group accounts.

35. As part of our audit planning process we assessed the group, for the purposes of approach to the audit of the group, and deemed the following subsidiaries to be significant in the context of the group audit:

- CEC Holdings; and
- Transport for Edinburgh

36. We revisited our assessment, following receipt of the unaudited accounts. Our assessment remained unchanged. We did not identify any further significant components in the context of our group audit.

37. Scott-Moncrieff is the appointed auditor to CEC Holdings and Transport for Edinburgh. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.

38. We have nothing to report in respect of the following matters:

- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
- There were no limitations on the group audit.

39. As reported within our external audit plan we identified a risk factor in respect of the EDI Group which falls within CEC Holdings:

40. **Winding up of the EDI Group** - In early 2017, the council confirmed that operational activities undertaken by EDI Group would in the future be delivered through an in-house council model. The council has instructed directors of the EDI Group to begin a process of closure, with the majority of land transferring to the council and most of the staff leaving the company in June 2018. The company will continue to trade into 2019 and beyond until such time as all projects currently being undertaken by the EDI Group have either concluded or have been transferred to the council.

41. As such, the financial statements for the EDI Group were not prepared on a going concern basis. An emphasis of matter disclosure was included within the independent auditor's report. The impact within CEC Holdings was an impairment charge recognised on the investment in the EDI Group of £3.1million. There were, however, no material uncertainties regarding the going concern status of CEC Holdings, and therefore the independent auditor's report was unqualified.

42. We have confirmed that the impairment charge on the investment has also been appropriately reflected in the council's single entity annual accounts.

Registers of interests

43. 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.

44. The councillors' register of interests is one way that the council can identify some of its related parties. In the prior year we recommended that councillors were reminded of the importance of ensuring the register of interests is updated on a regular basis. We have reviewed the actions taken by the council in reminding councillors of their responsibilities in respect of maintaining register of interests. Our findings are included within the governance and transparency section of this report (paragraph 172).

45. With regard to the audit of the annual accounts and the disclosure of related party transactions we identified two undisclosed related parties. These have been reflected in the audited annual accounts.

Common good

46. 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.

Common good asset registers

47. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals and consult community bodies before disposing of or changing the use of common good assets.

48. In July 2018, the Scottish Government, following consultation in 2017, issued statutory guidance for local authorities on how they should carry out these new legal duties.

49. The guidance identifies that local authorities should '*aim to publish the first version of its common good register as soon as practicable after the initial twelve week consultation period has closed, and in any case, within six months of the end of the consultation.*'

50. The council has established a team, with staff from estates, finance and legal. The team is responsible for developing a common good asset register which will be presented for public consultation.

51. This team has prepared the first version of the common good register which is due to be

considered by the Finance and Resources Committee on 27 September 2018. The register will be presented for public consultation thereafter.

Common good fund annual accounts

52. The Common Good Fund stands separate from the council's annual accounts and has been described as "the ancient patrimony of the community".

53. During 2017/18, a deficit of £15,000 was reported on the common good fund. Overall useable common good funds stood at £2.387million as at 31 March 2018.

54. 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. Since this earmarked fund was created in 2016, £110,000 has been used on the Scott Monument and £3,000 on surveys at the City Observatory. As at 31 March 2018; £1.887million remained in this fund.

55. During our 2017/18 audit of the common good fund annual accounts we noted the following:

Common good fund income and expenditure

56. The unaudited common good fund comprehensive income and expenditure statement reported £24,000 in expenditure and nil income. On review of the council's working papers to support the annual accounts we noted that the council had included within its records £5.8million spend on common good (covering both revenue and capital), £2.8million in income with the difference being met by a recharge to the council in respect of use of these assets to achieve a breakeven position.

57. To ensure transparency in the operation of the common good funds, the annual accounts have been updated to reflect the transactions which had previously been included in the council's accounting records. We would encourage the council to review its relationship and use of the common good funds and put in place documented arrangements for the use and maintenance of those assets.

Action plan point 3

58. An objection was received in 2017/18 in respect of the common good annual accounts. This objection however was outwith the prescribed period. The objection was in relation to the recognition of income from table and chairs licences. The amounts were deemed to be below materiality and no further work has been performed in respect of the 2017/18 common good fund annual accounts.

Property, plant and equipment

59. Property, plant and equipment and heritage assets, as reported in the common good fund annual accounts, are recorded on an asset register ("the accounting asset register"). The accounting asset register is separate to the register being prepared to comply with the requirements of the Community Empowerment Act (Scotland) 2015 but has been used to inform the compilation of that register.

60. As part of our audit we compared the two registers and noted that there are approximately 55 assets which are not currently included in the accounting asset register and therefore the annual accounts of the common good fund. There is a further six which are potentially no longer considered to be common good assets.

61. The value of those assets thought to be common good and not included in the accounting asset register total £1.68million and represents 42 of the 55 assets identified. The value of remaining 13 assets has yet to be determined. The value of assets deemed no longer to be common good is £4,000.

62. No adjustment has been made to the 2017/18 common good fund annual accounts for these assets and the estimated value is not considered to be material. It is however anticipated that there will be an increase in the value of common good assets in 2018/19. We would recommend that the council in preparing the 2018/19 common good fund accounts reviews the accounting policies for property, plant and equipment and heritage assets to ensure that:

- The assets are classified correctly;
- The appropriate valuation basis has been applied; and

- Depreciation is applied dependent on the accounting policy and classification of the asset.

Action plan point 4

Update to our initial risk assessment

63. Following receipt of the unaudited annual accounts we revisit our assessed initial risk assessment. We identified one further risk which is detailed below. Our opinion on the annual accounts was not modified with respect to this risk.

Pension liability assumptions
An actuarial estimate of the pension fund liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

64. We obtained the information provided to the actuary and agreed it to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.

65. We reviewed the validity of the information provided to the actuary and compared this with the actual information reported by City of Edinburgh Council and the Lothian Pension Fund. We considered the results of the actuary alongside our work across the sector and concluded there was a risk of material misstatement arising from difference between the figures relating to asset values. We therefore requested that management instruct the actuary to update its calculations based on year end results. The annual accounts have been updated to reflect these figures. As a result, the pension liability changed from a deficit of £528.359million to a deficit of £482.493million, with the movement recognised as an actuarial gain.

66. As at 31 March 2018, the pension liability showed a deficit of £482.493million, compared to a deficit of £705.786million as at 31 March 2017.

67. Lothian Pension Fund's triennial valuation was conducted as at 31 March 2017. The triennial valuation also informs the annual actuarial valuation as at 31 March 2018. This can result in larger movements caused by other experience which is driven by the use of updated membership data.

68. The discount rate applied increased to 2.7% from 2.6% in the previous year. This has a positive effect on the scheme liabilities – resulting in a decrease in the liabilities.

Our application of materiality

69. 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.

70. Our initial assessment of materiality for the group annual accounts was £19.2million and for the council single entity annual accounts £17.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £20.4million for the group[1] and £18.7million for the council and it remained at these levels throughout our audit.

71. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the council and its group.

Performance materiality

72. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

73. We set a performance (testing) materiality for each area of work which was based on a risk

[1] For the significant components, within the council group, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this was reassessed to £726,000 and for Transport for Edinburgh it remained at £3.5million.

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	Performance materiality £million	
	Group	Council
High	9.180	8.415
Medium	11.220	10.285
Low	14.280	13.090

74. 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

75. Two material adjustments were made to the unaudited annual accounts in respect of property, plant and equipment (paragraph 24) and the net pension liability (paragraph 65).

76. We did identify further adjustments to the unaudited annual accounts which have been reflected in the final set of annual accounts. While these are reflected in the audited annual accounts they were not considered material.

77. We also identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

78. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in aggregate. Both the actual adjustments and potential adjustments 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

79. 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 2018. 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.

80. 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.

81. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. 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

82. 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.

83. 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

84. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

85. As part of our audit we reviewed the council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[2] as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

86. In 2017/18, three letters were received citing objections to the annual accounts. For one the objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised. At this time of the audit, neither objection has been upheld although certain matters will be considered in future years

Management commentary

87. 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.

88. 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.

Annual governance statement

89. 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.

90. Following minor amendments processed during the audit, the governance statement discloses the rationale for internal audit's opinion and other areas of weakness during the year, such as the significant challenges the Health and Social Care Partnership faces from the level of delayed discharges. Subject to the concerns disclosed, the council considered that reasonable assurance could be placed on the effectiveness and adequacy of the systems of governance.

91. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the *Delivering Good Governance in Local Government: Framework 2016*.

Remuneration report

92. 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.

Charitable trust funds

93. The council administers six charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to six, with the Usher Hall Conservation Trust wound up in 2017/18 and further plans in place to wind up the Boyd Anderson Trust in 2018/19.

94. The total charitable trust fund balance as at 31 March 2018 amounts to £14.669million, a reduction of £2,000 in comparison with the prior year.

95. 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

[2] 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.

requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

96. We have audited the council's 2017/18 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. We have however identified some areas with scope for improvement which have been included in a separate management report to the Trustees of the charitable trust funds.

Lender Option Borrower Option (LOBO) loan debts

97. A number of objections have been received nationally regarding Inverse LOBOs[3]. The specific objections raised in regard to the accounting treatment of these loans were;

- Many were on balance sheet at their nominal value (rather than amortised cost); and
- The embedded derivative had not been separated out.

98. The council has a total of four inverse LOBO contracts totalling £40million taken out between February 2010 and February 2011.

99. In order to confirm that these objections were not also applicable to the council we consulted the Code of Practice on Local Authority Accounting (the Code), relevant accounting standards, re-examined the inverse LOBO contracts and made relevant enquires of management.

100. Following appropriate audit work and consideration of all relevant sources of guidance referenced within this paper, we reached the following conclusions:

- There are no embedded derivatives within the loan contracts which require separation;
- An EIR calculation should be performed to enable accurate disclosure at amortised cost. We confirmed during our audit that this has been reflected in the 2017/18 annual accounts.

Looking forward – IFRS 16 Leases

101. The Local Authority Accounting Code Board (CIPFA/LASAAC) has issued a consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 in respect of IFRS 16 Leases.

102. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.

103. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised in-substance fixed lease payments.

104. Council finance staff have attended a number of recent events at which the anticipated changes impacts resulting from adoption of the standard have been discussed. Consideration of the readiness assessment questionnaire accompanying the CIPFA/LASAAC consultation has also highlighted a number of areas where further action is required. With this in mind, upon conclusion of the audit, a working group comprising staff from Finance, Procurement,

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[3] Lender option borrower option (LOBO) is a long-term borrowing instrument. They involve periodic interest re-fixings, which incorporate two linked options lender's option:

- option for the lender to set revised interest rates at predetermined interest reset dates such as annually.
- borrower's option: linked option for the borrower (exercisable only if the lender's option is exercised) to pay the revised interest rate or to redeem the bond although that may involve exit fees.

Estates, Fleet Management and representatives from other relevant areas will be established with a view to capturing all in-scope lease arrangements and the associated detail required to reflect the requirements of IFRS16 implementation.

Qualitative aspects of accounting practices and financial reporting

105. 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.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	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 and pension liabilities. Subject to commentary above, we consider the estimates made, and the related disclosures, to be appropriate to the council. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the council will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
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.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.

Qualitative aspect considered	Audit conclusion
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during 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 appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings.

Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18.

Financial performance

106. The 2017/18 Comprehensive Income and Expenditure Statement shows that the council spent a total of £1.861billion on the provision of public services resulting in an accounting deficit of £60.589million. The accounting deficit, however, includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory council reserves.

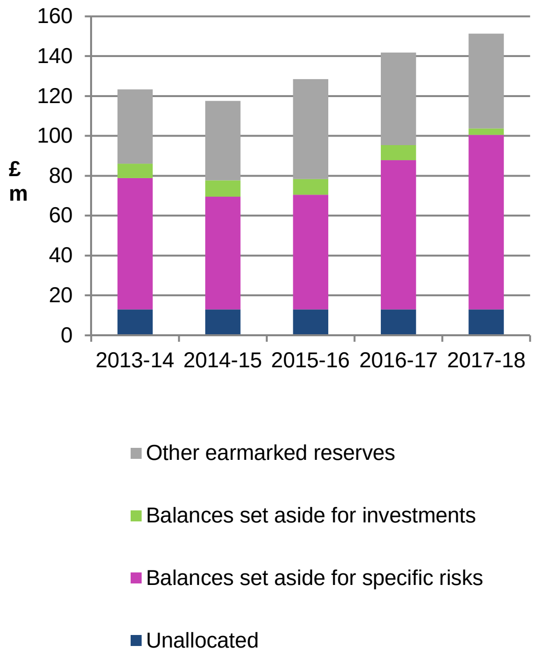
107. The key measure of performance in the year is the movement in the council's general fund balance. Following the required adjustments the net impact on the general fund is an increase of £8.674million to £151.285million. In total the cash backed (useable) reserves held by the council increased by £9.058million in the year to £277.762million.

Exhibit 3: Movement in the council's useable reserves per the Annual Accounts 2017/18

	2017/18 £million	2016/17 £million	Movement £million
General Fund	151.285	142.611	8.674
Housing Revenue Account (paragraph 113)	0	0	0
Renewal and Repairs Fund	58.123	64.149	(6.026)
Capital Fund	63.558	61.178	2.380
Capital Grants Unapplied Account	4.796	0.766	4.030
Total useable reserves	**277.762**	**268.704**	**9.058**

108. In 2017/18 £138.260million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.025million (Exhibit 4). This balance is in line with the medium-term strategy of the council. The unallocated general fund equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated general fund for 2017/18. 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.

Exhibit 4: The council's General Fund balance increased in 2017/18



Source: Annual Accounts 2014/15 to 2017/18

109. Amounts are earmarked for a number of reasons:

- Balances set aside for specific financial risks (£87.435million) – includes, for example, staff release costs, dilapidations and the insurance fund.
- Balances set aside from income received in advance (£41.718million) – includes grant income where there are timing differences between the receipt of grant income and associated planned expenditure.
- Balances set aside for investment in specific projects (£3.349million) – these will deliver savings in future years, such as Spend to Save.
- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF) (£5.758million).

Usable reserves

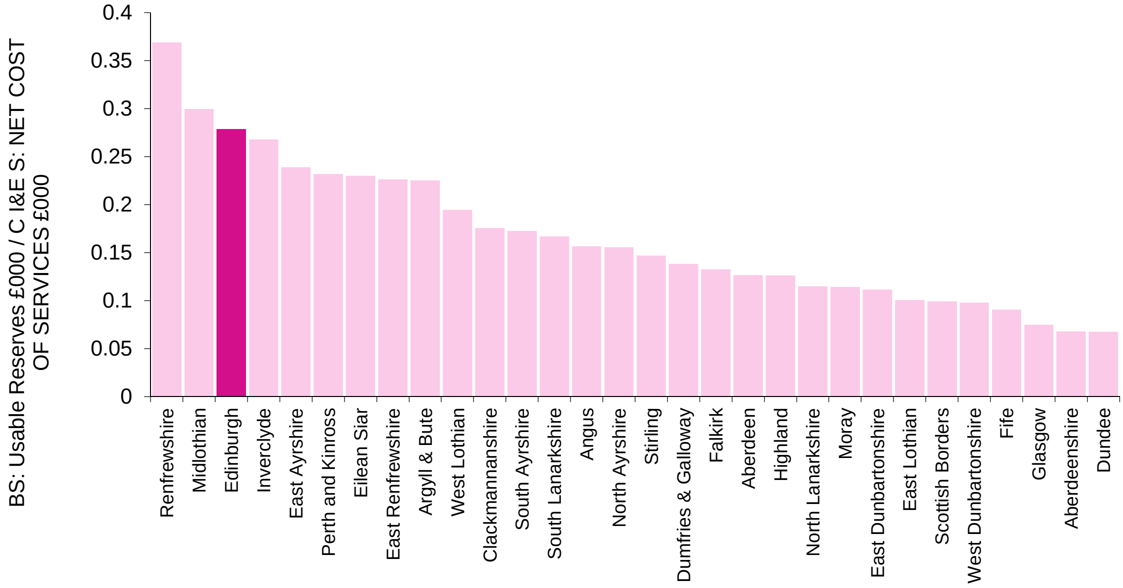
110. The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make provisions for future spending.

111. We note that the 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. This is, however, offset by the relatively low level of uncommitted reserves which creates a higher risk that the council may not be able to respond effectively if faced with a significant adverse event.(Exhibit 5).

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 balance on the HRA is nil. In 2017/18 a net contribution of £9.042million was made from the Renewal and Repairs Fund to the HRA to support the investment in new affordable homes through the 21st Century Homes programme.

Exhibit 5: Councils' useable reserves as a proportion of the net cost of services



Source: Audit Scotland database compiled from draft Annual Accounts 2017/18. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

Revenue performance against budget

114. On 9 February 2017, the council set a 2017/18 balanced revenue budget of £957.910million. A revised Local Government Finance Settlement was issued on 2 February 2017. This announcement reflected the provision of £130million of one-off revenue, and £30million of capital resources across Scotland, with the City of Edinburgh Council's allocations being £9.998million and £2.278million respectively. Given the timing on the revised settlement announcement, these sums were allocated to broad themes within the budget motion.

115. Throughout the year updates are made to the revenue budget to reflect, for example, additional funding received, increases in council tax income, one-off contributions from earmarked funds and savings in loan charges. As at 31 March 2018; the revised, balanced budget, was £973.876million.

116. The council reported a net underspend against it revised balanced revenue budget of £2.416million, equating to 0.24% of the council's net expenditure. The council has been able to deliver services within budget for the eleventh successive year. There was a net overspend reported within general fund services of £26,000 (Exhibit 6).

117. As reported to the Finance and Resources Committee on 7 November 2017, in view of significant demand-led pressures apparent within both Health and Social Care and Safer and Stronger Communities during the year, £10.6million of additional funding was made available to these areas. In order to maintain overall expenditure within approved levels, however, offsetting savings, comprising a combination of assumed underspends in other service areas (£2.828million), reductions in loans charge expenditure (£1million), additional Council Tax income (£2.714million) and a number of one-off contributions from reserves (£4.058million) were identified.

118. As highlighted in Exhibit 6, two general fund services exceeded budgets during the year:

119. **Communities and Families:** during the year, those services projecting a balanced or underspend position were requested to identify additional savings opportunities to offset pressures in Health and Social Care and Safer and Stronger Communities, with Communities and Families' share of these additional savings being £1m. Increasing underlying pressures across a number of areas of activity during the remainder of the financial year meant that a small underspend was achieved against the core service budget but with the additional savings requirement not met. As such, the overall year-end position showed a £0.987million overspend against the revised budget.

120. **Health and Social Care** - in light of significant demand-led pressures and non-delivery of £6.03million of planned transformational-related purchased savings, £7.1million of additional funding was made available to support the service during the year.

Savings Programme

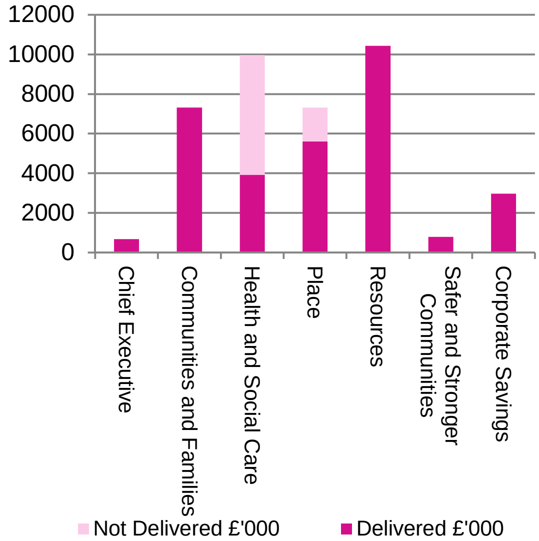
121. The balanced budget was predicated on the delivery of £39.5million of service specific and corporate savings.

122. The final outturn position for 2017/18 indicates that 80% of approved savings by value were delivered, with those not achieved primarily attributable to slippage in transformation- and demand management-linked savings within Health and Social Care. A number of savings within the Place Management Division of the Place Directorate were, as anticipated, not delivered during the year pending implementation of medium-terms plans geared towards securing financial sustainability in these areas.

Exhibit 6: Extract from the 2017/18 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Services reporting to the Chief Executive	11.020	11.019	(0.001)
Communities and Families	341.953	342.940	0.987
Health and Social Care	192.910	193.273	0.363
Place	70.449	70.447	(0.002)
Resources	171.202	170.304	(0.898)
Safer and Stronger Communities	31.306	30.470	(0.836)
Lothian Valuation JB	3.741	3.629	(0.112)
GF Services	**822.581**	**822.082**	**(0.499)**
Other non-service specific costs	18.516	19.604	1.088
Net cost of benefits	(0.062)	(0.625)	(0.563)
Total	**841.035**	**841.061**	**0.026**

Exhibit 7: The council achieved 80% of its approved savings in 2017/18

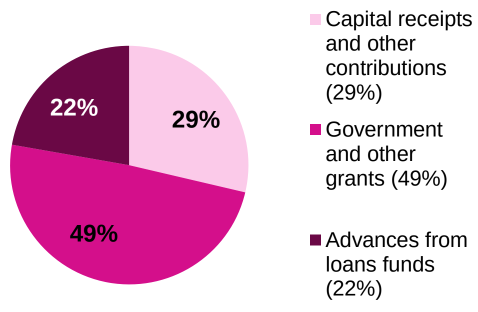


Source: 2017/18 Outturn Report

Capital Expenditure

123. During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. In so doing the council delivered on 91% of the revised general fund capital programme and 93% of the HRA revised capital programme. This was funded as shown in Exhibit 8.

Exhibit 8: Sources of Capital Funding



Source: Capital outturn report 2017/18

Edinburgh Trams extension

124. In November 2015, the council approved in principle Stage 1 plans to extend the Edinburgh tram line from York Place to Newhaven. An Outline Business Case (OBC) was presented to the council in December 2015 and a high level governance structure was agreed in order to progress Stage 1 activities. This included mobilisation of internal resource, commencement of the procurement process for internal support, site investigation and waiving the Contract Standing Orders to retain the existing tram senior advisor.

125. As set out in our 2017/18 External Audit Plan, we are undertaking work in conjunction with the council's internal auditors to review the tram extension project. The scope of our review was considered by the Tram Extension and Leith Programme Board in August 2018. The key areas included within the scope are:

- Options appraisal process;
- Financial model;
- Project business case;
- Project governance;
- Procurement process and supplier management; and
- Lessons learned.

126. Our work has focused on the options appraisal process and the financial model, while internal audit are considering the project business case, governance arrangements, procurement processes and lessons learned.

Options appraisal process

127. We have considered whether the council has completed a detailed options appraisal. It is best practice to consider a wide range of options at the planning stage, assessing them against a range of financial and non-financial criteria, including value for money.

128. In June 2015, a draft Outline Business Case was presented to council for approval. This considered four potential route options, with further information on these options presented to the council in November 2015. The benefit to cost ratio was calculated for each of the four options, and the council considered the wider benefits derived and strategic objectives met through extending the tram line. This work was subsequently updated in the Outline Business Case, approved by Council.

129. In November 2015 the council approved in principle the selection of option 1 (extension to Newhaven) as its preferred route.

130. Action has been taken to economically appraise the four potential route options. This appraisal has not looked at alternative transport modes to the tram extension. The council has confirmed that the pre-appraisal and appraisal was carried out between 2001 and 2006 resulting in the Edinburgh Tram (Line One) and Edinburgh Tram (Line Two) Acts 2006. This legislation provides the council with the necessary powers to construct the network assessed in the various studies, including planning permission. The option appraisal and the Environmental Impact Assessments were used to support the application for the legislation. Whilst we acknowledge this position we consider that to comply with best practice, the council should reconsider the option appraisal undertaken in support of the Bill in light of the current circumstances. We recommend that this appraisal should be undertaken as part of the final business case being presented to Council.

Action plan point 5

131. In September 2017, following a referral from the Transport and Environment Committee, the council approved the commencement of Stage 2 activities for the project and an updated (OBC) was presented. Stage 2 is the procurement phase and takes approximately twelve months. This will incorporate public consultation and outline initial designs. The council aims to complete tender evaluations by September 2018. Subject to Council approval, the main construction contract is intended to be awarded to the preferred bidder and approval granted to start Stage 3 by December 2018.

Financial model

132. The outline business case for the York Place to Newhaven extension which was presented to council in November 2017 outlined the financial case for the project to go ahead. This focused on the evaluation of the affordability of the project.

133. The capital cost of the project, including risk and inflation, is estimated to be £165.2million. In the short to medium term, an estimated funding gap of £1million exists after utilising £20million of assured extraordinary dividend from Lothian Buses. In the longer term, the council expects the extension to be funded through tram revenues, providing the council with an additional source of income. The council's finance team has developed a financial model to enable the project costs and revenues to be calculated and closely monitored.

134. Since the outline business case was presented work has continued to refine the financial model. We have carried out preliminary work on the model and have concluded that the model has been appropriately designed and functions in line with expectation. Further work is however required to consider the appropriateness and validity of the key assumptions which underpin the model. We understand that further refinements are due to take place in advance of the full business case being presented to the council in December 2018. We will review the key assumptions and the functionality of the model soon after it is updated.

135. As part of our initial review of the model we noted that the potential impact of delays to the start or completion date of the capital works had not been considered to date. It is our understanding that in advance of the full business case this analysis will be carried out along with a sensitivity analysis on the impact of movements in the key assumptions. We will ensure this is considered as part of our continuing audit work on the trams project.

Other areas identified

136. As reported to the Tram Extension and Leith Programme Board meeting in August 2018, the Head of Finance has requested that the project team investigate how other similar projects dealt with risk and contingency at the final business case stage, and where possible, gain an understanding of how this compared with the outturn cost. The project team has reached out to Dublin, Manchester and Birmingham, all of which have completed schemes recently. This exercise will need to be completed prior to the approval of the final business case.

137. The council has identified a number of project risks that, if realised, may cause delay in the approval of the final business case. These include for example the findings from the Lord Hardie independent tram inquiry not being published in sufficient time. Any delays will result in budget challenges given the project team will have to continue to operate beyond the original project dates.

138. Our work on the review of the trams project is ongoing. Our findings will be reported in conjunction with the work being carried out by internal audit.

Systems of internal control

139. 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.

140. As reported more fully in our Review of Internal Financial Controls report, we did not identify any significant deficiencies in the design, implementation or operation of internal financial controls over the council's key financial systems. We considered the systems to be well designed. We did identify a number of areas with scope for improvement which, if addressed, would further strengthen the system of internal financial control. These findings are included within our Review of Internal Financial Controls report.

Internal audit

141. 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).

142. 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.

143. In its 2017/18 annual report, internal audit noted that it had not fully conformed with Public Sector Internal Audit Standards (PSIAS) for the following reasons:

144. There had been insufficient follow-up of Internal Audit findings between April 2015 and October 2017 to monitor and ensure that management actions have been effectively implemented; and

145. Long term sickness absence and recruitment challenges within the Internal Audit team had impacted completion of the two internal quality assurance reviews included in the 2017/18 Internal Audit annual plan to ensure consistency of audit quality.

146. Action has been taken to address instances of non PSIAS conformance. We have considered these areas on non PSIAS conformance when assessing whether reliance can be placed on the work of internal audit. We concluded that this has not had a direct impact on our assessment.

147. Overall we concluded that we will place reliance on the work of internal audit where appropriate.

Fraud and irregularity

148. In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and irregularity. Overall, we found the council's arrangements to be sufficient and appropriate.

National Fraud Initiative (NFI)

149. 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.

150. 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.

151. 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 February 2018. Overall we concluded that the council has actively participated in the NFI exercise.

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 and responsive Medium Term Revenue Budget Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities.

Significant audit risk

152. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

During our 2016-17 audit, we highlighted that 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. However, at the most recent Revenue Budget Framework update, presented to the Finance & Resources Committee in February 2018, the projected cumulative savings gap to 2022-23 was estimated at £151.2million.

The council continues to implement a third phase of the transformation programme, along with the programme management necessary to deliver on this challenging target. There is a risk that the change and transformation programme may not deliver the level of savings intended, or at the pace of change required.

Excerpt from the 2017/18 External Audit Plan

153. We use this section of the report to describe the council's approach to medium term financial planning. Changes to the underlying assumptions have meant that the projected savings gap has reduced in the most recent update presented to the Finance and Resources Committee. During 2017/18 the council has implemented a Change Board to ensure that key improvement and savings projects are managed in a consistent way, with a focus on strategic priorities and the preventative agenda. However, demographic change and underlying performance issues continue to present a significant financial sustainability risk to the council's management of social care.

Action Plan Point 6

Medium Term Financial planning

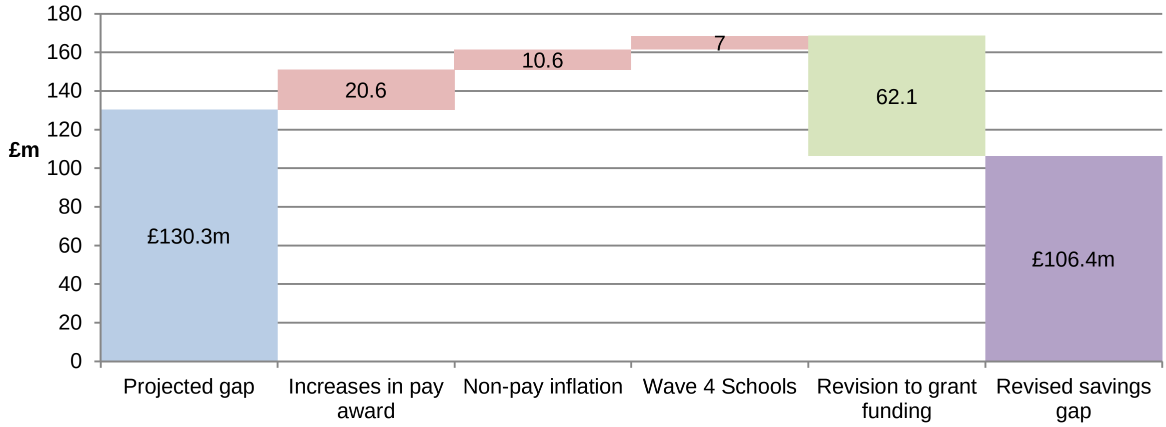
154. The council developed its Revenue Budget Framework in 2015-16 and updates the assumptions and forecasts underpinning the framework on a regular basis. The Framework is subject to review and scrutiny by the Finance and Resources Committee every six months and is used to inform the development of budget proposals.

155. In February 2018, the Finance and Resources Committee considered a report which updated the Revenue Budget Framework to reflect significant changes to the assumptions relating to grant funding. The Framework had assumed decreases in grant levels of around 4.3%. As a result of additional monies within the Local Government financial settlement for 2018-19, the actual grant reduction is around 0.4%, resulting in a favourable movement in financial projections of £27.1million.

156. Officer proposals for the additional income were targeted to council priorities including £4million additional funding for Health and Social Care to provide additional capacity, and £0.9million to support private sector leases for homelessness. The priorities and spending proposals have also been informed by public engagement on budget proposals.

157. As Exhibit 9 demonstrates, the change in assumption has had a significant impact on the projected savings gap to 2022-23. The projected savings requirement has reduced from £130million reported in September 2017, to £106.4million. Scenario modelling continues to be used to consider the implications of a further 1% and 2% reduction in grant funding. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

Exhibit 9: Changes to the assumptions within the Revenue Budget Framework have resulted In a reduction to the projected savings gap, although savings over £100m are required in a 4 year period.



Source: Revenue Budget Framework update reports to the Finance and Resources Committee

158. During 2017/18 we reviewed the analysis used to produce the Revenue Budget Framework 2018-23 and we are satisfied that it was based on a strong understanding of the impact of demand, current levels of service expenditure, emerging pressures and up to date expectations of future government funding.

159. The council continues to report on the financial impact associated with a growing population. Demand for social care services continued to create financial pressure. Failure to deliver planned savings meant that the council was required to increase its financial allocation to the Edinburgh Integration Joint Board by £7.463million.

160. In June 2018, the Finance and Resources Committee received a report on the financial impact of rising school rolls. The report outlined the council's approach to deliver additional capacity for 810 primary school places at a cost of £7.1million plus revenue and capital on costs.

Transformation Programme

161. The Transformation Programme has been the council's key approach to delivering a sustainable financial position. In 2017/18, improvements were made to the monitoring and governance of the programme. All significant projects will now be managed through a single Change Board.

162. The Change Board is composed of the council's Corporate Leadership Team. The Change Board meets each month to review new Business Cases, act as the Escalation Point and review the monthly dashboard that sets out progress of the council's portfolio of project which currently contains 54 projects.

163. The council estimates that it has delivered £240million of recurring savings since 2012-13. An overarching strategy is in development to ensure that future change projects address the savings gap while delivering on strategic priorities to:

- Provide high quality services at the right level
- Move Edinburgh to a radical preventative agenda
- Achieve sustainable, inclusive growth.

164. The Change Strategy is expected to be presented to the Finance and Resources Committee in September 2018. Reporting on progress to the council and Governance, Risk and Best Value Committee has been limited to date and we therefore consider it too early to conclude on the effectiveness of the arrangements.

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 has appropriate governance arrangements in place and has identified areas for refinement.

Partnership working is central to the council's delivery of its vision for the city. Locality working has the potential to deliver significant improvements, but the council must ensure that it continues to demonstrate improvements in outcomes.

Following concerns regarding the CGI contract for ICT arrangements, we reviewed whether CGI had made progress against the weaknesses identified. Whilst a number of areas had been addressed, a number of actions still remained to be completed.

Governance arrangements

165. The local government elections in May 2017 resulted in significant changes to the membership and profile of the council. The new council reviewed its political management arrangements in June 2017 and agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. It was hoped that the revised arrangements would address historic areas of imbalance in relation to workload and time commitment associated with the previous committee structure.

166. In June 2018, the council considered the 2018 Review of Political Management Arrangements. The review found that overall, the committee structure has delivered a more balanced set of committees, and that remits, decision-making and accountability are clear. The review did, however, note that the number of reports considered by the council has increased substantially since the last election, and the numbers are significantly higher than other Scottish City councils. The review also found that the average length of committees has increased.

167. The Chief Executive has launched a review of committee reporting to ensure that technology can be used to streamline reporting while continuing to deliver scrutiny requirements. Our observations are that current scrutiny at the council is good. There is evidence of well engaged members who hold officers to account for performance.

168. The Executive Committee structure is supported by the Governance, Risk and Best Value Committee (GRBV), which performs the role of an Audit Committee but with an extended remit. In March 2018, CIPFA released updated guidance on Audit Committees for Local Authorities. Exhibit 10, presents our assessment of the role of the GRBV against the core functions of an audit committee identified by CIPFA. We found only one area of weakness, relating to the consideration of the authority's assurance statements.

169. We highlighted within our action plan for 2016/17 that the council's Annual Governance Statement had not been subject to separate scrutiny by any committee as part of the preparations for the annual accounts process. We note that no changes have been made to the process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

Follow up of prior year recommendations – Action plan point 6

Openness and transparency

170. One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations on openness and transparency.

171. We found that the council has clear arrangements in place to ensure that members of the public can attend council and committee meetings as observers, and that agendas were available in advance of each meeting. All committee meetings are broadcast on the council's website and a large archive is available for review. In our experience the level of private papers is appropriate and the reason for privacy is legitimate.

Register of interests

172. On review of the councillors' register of interests in 2016/17, we identified four councillors for which not all interests had been disclosed. We recommended that the council remind councillors of the importance of ensuring their registers of interest are complete and updated on a regular basis.

173. There is ongoing engagement with political group staff to ensure they are aware of members' responsibilities regarding the register of interests. Governance and Democratic Services provide ongoing support to members and offer/deliver one-off briefings for councillors to assist in compliance with the Code. The register of interest process has recently been recorded and a log created to ensure updates are tracked through the approval process.

174. Periodic targeted reminders are also issued following committee and external body appointments approved by the council. The council also hosted a regional roadshow for elected members on the Councillors' Code of Conduct, delivered by the Standards Commission, in November 2017, with all elected members invited to attend.

175. Despite the actions noted above, from our review of the councillors' register of interests in 2017/18, we identified eight councillors for whom not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased.

176. While the responsibility for complying with the Code of Conduct rests with individual elected members, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 impose a duty on councils to support their members to comply with the relevant code.

Follow up of prior year recommendations – Action plan point 2

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee

Core Function	Achieved	Our observations
To be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to change it, and demonstrate how governance supports the achievement of the authority's objectives	Partly	The GRBV considered the Corporate Governance Framework 2016-17 in November 2017. The Annual Governance Statement was not subject to separate review prior to the Unaudited Accounts being presented to full Council in June 2018.
In relation to the authority's internal audit function: • To oversee its independence, objectivity, performance and professionalism • To support the effectiveness of internal audit process • To promote the effective use of internal audit within the assurance framework	Yes	The GRBV has played a strong role in highlighting and addressing weaknesses identified in the follow up and actioning of historic internal audit recommendations.
To consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.	Yes	The GRBV considers a quarterly report from the Chief Risk Officer on the Corporate Leadership Team's assessment and mitigation of corporate risks.

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee

Core Function	Achieved	Our observations
To monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.	Yes	The GRBV has played a decisive role in addressing performance issues identified in relation to the council's ICT arrangements.
To consider the reports of external audit and inspection agencies and their implications for governance, risk management or control.	Yes	Includes consideration of national reports from Audit Scotland.
To support effective relationships between external and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.	Yes	Audit plans considered during March meeting. The National and Local Scrutiny Plan was considered in June 2018.
To review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.	Yes	Reporting on follow up of actions has been presented to the GRBV in January and May 2018.

Source: CIPFA Audit Committees: Practical Guidance for Local Authorities and the Police, March 2018

Leadership and Vision

177. In August 2017, the new Administration published its Business Plan 2017-22. The plan sets out the five Strategic Aims and 20 outcomes for the current term, and links the aims and outcomes to 52 coalition commitments. As the capital city, and lead for the Regional City Deal, the council's role in delivering leadership and clarity of vision for the future will be critical.

178. Since 2016, the council has engaged with partners and communities to develop the Edinburgh City Vision 2050. An ambitious public engagement exercise has recently been launched to work with residents to refine the vision and planning to deliver improvements in the long term. The vision work led by a steering group has identified areas of consensus that have been reflected within the Business Plan, and will be used to inform the revised Community Plan.

Best value focus: Partnership Working

179. The public service landscape in Scotland requires councils to work in partnership with a wide range of national, regional and local agencies and interests across the public, third and private sectors. As part of our Best Value programme of work for 2017/18, we reviewed the council's approach to partnership working to ensure that there are effective arrangements in place with clear lines of responsibility and accountability, and agreement around targets and milestones to allow the council to demonstrate improvements in outcomes.

Community Planning

180. The council performs the lead role for the Edinburgh Partnership, the Community Planning Partnership (CPP). The CPP includes statutory partners such as NHS Lothian, Scottish Enterprise, Police Scotland and the Scottish Fire and Rescue Service. It also involves a range of other partners such as representatives from the third sector.

181. The Community Empowerment (Scotland) Act 2015 requires each CPP to produce the following plans:

- A Community Plan for the whole council area.

- A Locality or Neighbourhood Plan for each locality it has identified as experiencing significantly poorer outcomes.

182. The current Community -Plan was developed by the previous Administration and covered the period from 2015-18. CPP is undergoing a significant exercise to develop the next Community Plan, which will reflect the council's Business Plan and key strategies to deliver the longer term 2050 City Vision.

183. A significant governance review is also underway to ensure that the CPP is fit for purpose and structured to deliver improved outcomes. However, we note that as a result of the significant development work, the Edinburgh Partnership has not considered progress against outcomes since June 2017.

184. A final performance report will be prepared on outcomes against the 2015-18 Community Plan to coincide with the launch of the new Plan In winter 2018. Our own analysis of performance against some of the key targets within the Community Plan (Exhibit 11) suggests that the pace of change against some priorities has been slower than anticipated.

Locality Planning

185. Good progress has been made in 2017/18 to develop locality planning. Locality Improvement Plans are in place for the 4 localities created by the council and its partners. In addition, in February 2018, the first round of Locality Committee meetings were held.

186. Locality Committees represent a significant change in the way that the council engages with communities, and we noted that the new way of working was welcomed with enthusiasm by elected members. Officers of the council and its partners attend the meetings to ensure a local focus and understanding is used to drive improvements. The council has committed to reviewing the effectiveness of the Locality Committee arrangements in January 2019.

187. We understand that one of the aims of the committees is to devolve budgets and decision-making to locality level. Each Committee receives a performance dashboard highlighting key activity trends. We note that the dashboards are not tailored to the individual locality priorities, and focus on activity data rather than performance outcomes.

188. Elected members have expressed interest in further financial information to support improved scrutiny at locality level. Progress in this area has been limited as a result of the complexities of allocating city wide resources across localities. We recognise that Locality Committees are in their infancy but we will continue to monitor the adequacy and usefulness of performance reporting to ensure that Locality Committees have sufficient information to fulfil their potential.

Exhibit 11: Community Plan 2015-18 Strategic Outcomes

Selected indicators against the CPP's four priority areas

Priority	Indicator	Baseline (Sept 2014)	Community Plan Target	Latest Performance	Status
Economy	Unemployment rate	2.1%	2.5%	2.4% (2017 data)	
Health and Wellbeing	Balance of care: % of older people who are cared for at home	34.6%	Increase	57.3% (2018)	
	Delayed discharges	68	Reduce to zero	267 (March 2018)	
Children and Young People	%age achieving development milestones	79%	85%	79.2% (2015-16)	
	Looked after children per 1000 popn	16.9	16.7	15.5 (2017/18)	
Safer communities	Violent crime (Group 1) per 10,000 population	18	Reduce	16.3	
	Dwelling fires	525	Reduce	453	
	Affordable housing completions	1285 completed	800	1475	

Source: Community Plan 2015-18 / Performance reports

Significant audit risk

189. Our annual audit plan identified a significant audit risk relating to the council's ICT transformation programme:

CGI contract management

At its meeting on 16 January 2018, the Governance, Risk and Best Value Committee considered an update report on the CGI-led transformation programme. The report highlighted a number of failings in relation to original and revised timescales not having been met. The GRBV Committee requested a progress update to be taken to the May 2018 meeting. Audit Scotland has also expressed interest in CGI's delivery given that they have a number of high profile contracts in Scotland (e.g. Glasgow City Council and Rural Payments IT system which was heavily criticised in an Audit Scotland report in June 2017).

Excerpt from the 2017/18 External Audit Plan

190. At the GRBV meeting on 16 January 2018, the committee requested that we prepare a follow up report for the May 2018 meeting to provide an update on the audit recommendations and general security management arrangements.

191. During early April 2018, our specialist ICT auditors conducted additional follow-up work to establish the extent of progress that had been made by CGI in addressing the recommendations contained within our original report from October 2017.

192. We held a number of meetings with senior personnel within CGI, including the Chief Information Security Officer (CISO) dedicated to the CEC account, to discuss the actions that had been taken by CGI to address the recommendations. The meetings were also attended by the council's Enterprise Architect, ICT Security and Governance Manager.

193. We were also provided with evidence by CGI, wherever possible, to demonstrate the progress made.

194. From our discussions with CGI and CEC ICT management as well as review of documentation, we were able to conclude that, whilst progress had been made and mitigating actions put in place in some areas, a number of actions still remained to be completed, all of which had passed their target completion date. In summary:

- Three (25%) actions were regarded as completed
- One action (8%) was regarded as complete as the risk has been accepted by the council.
- Three actions (25%) have been assessed as being substantially complete. In this case, the core actions had been implemented by CGI but our requirement was to confirm that they were in place over a sustained period. At the time of our review that time requirement had not yet been achieved.
- Five actions (42%) have been assessed as partially complete.

Following the Public Pound

195. In May 2018, Audit Scotland published its national performance report on Arm's Length External Organisations (ALEOs) across Scottish Local Government. The report found that ALEOs can bring both financial and operational benefits and that councils have generally improved and strengthened their oversight of ALEOs. The report made a number of recommendations for councils, including the need to set clear criteria for how councillors and officers are involved with ALEOs, and take steps to demonstrate more clearly how ALEOs secure Best Value.

196. The GRBV considered the national report at its meeting in August 2018. The covering report included a self-assessment of the City of Edinburgh Council's arrangements against the nine recommendations. A further report will be prepared for the Corporate Policy & Strategy

Committee to consider the advantages and disadvantages associated with appointing elected members on the boards of the council's ALEOs.

197. The council has continued to actively manage its ALEOs during 2017/18, using the Governance Hub. The council has also progressed plans to bring the EDI Group back in-house. The council consider this decision will bring significant financial advantages.

Risk Management

198. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Corporate Policy and Strategy Committee approved a revised Risk Policy and Risk Appetite Statement in August 2018.

199. Ownership of the council's risk management framework rests with the Corporate Leadership Team's (CLT) Risk and Assurance Committee for oversight, scrutiny and confirmation of scoring. The Chief Risk Officer chairs Directorate level Risk Committees and ensures that any emerging risks are escalated to the CLT as appropriate. During our review, we were satisfied that risks are actively managed and subject to escalation or scaling down as appropriate.

200. As we note In Exhibit 12, the council's Risk Management Team won an ALARM award for Excellence in 2018.

Exhibit 12: The council were awarded the 2018 ALARM award for Operational Risk

City of Edinburgh Council won the 2018 Operational Award for the Self-Assurance Framework in place to manage operational risk

The framework is used to manage operational risk and improve the effectiveness of their control environment.

The framework Is fully embedded within communities and families and the framework is used as a first line of defence tool within all schools, libraries, residential establishments and care homes.

The multi-disciplinary framework is now being rolled out across other areas of the council, with the enthusiastic support from directors, heads of service and managers at all levels.

Source: ALARM Excellence Awards 2018

201. The CLT risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top prioritised risks, current mitigating controls and further actions to be delivered. Six risks remain within the council's "high" risk category after mitigating actions had been applied:

- Health and Social Care
- Capital asset management
- ICT capabilities
- Change
- Major incident
- Information Governance.

202. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation and are well-integrated with the council's internal audit arrangements.

Impact of EU Withdrawal

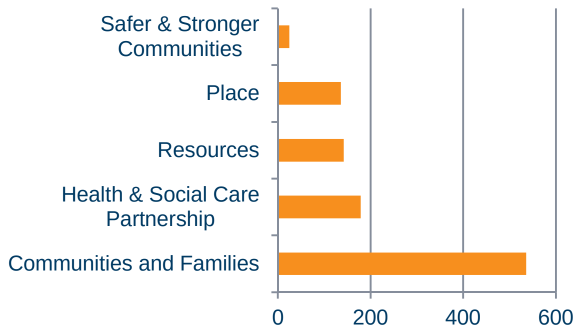
203. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation

204. The council has recognised workforce and economy as being the most significant risk areas.

205. The council's Human Resources team has undertaken a significant programme of work to develop sufficient data and understanding of the service areas that are most likely to be impacted by EU withdrawal. As Exhibit 13 highlights, the employees most likely to be affected predominantly work in the council's Education and Social Care services.

Exhibit 13: The Council's analysis of current EU nationals employed by service



Source: Analysis undertaken by the Council's Human Resources Team

206. The council has issued guidance and offered support to all employees believed to be directly impacted. Further guidance will be made available as the EU withdrawal process becomes clearer.

207. While the council now understands the impact for its directly employed workforce, a significant amount of uncertainty remains around those employed through third party contracted service providers.

208. The council has also recognised EU withdrawal as a key area of challenge in achieving their vision of Edinburgh as a welcoming international city. As a result, the Edinburgh Economy Strategy, approved in June 2018 recognises the transition as an area requiring action.

209. The strategy highlights three key actions to help minimise the city respond to the challenges and opportunities that EU withdrawal brings:

- Focus on innovation
- Focus on skills
- Focus on places.

210. The council has recognised the potential risk to levels of funding within the Economic Development risk register. The council continues to work with other local authorities and COSLA to assess the potential impact on funding after the guarantees around funding until 2020 have ended. The council's Corporate Policy and Strategy Committee agreed at its August 2018 meeting that a Brexit Working Group should be reinstated to review actions currently in place and report on future options to provide support for Non-UK EU nationals within the council workforce and the wider city population.

Standards of conduct

211. In our opinion, the council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

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 has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide appropriate scrutiny and challenge to reported performance outcomes

The council demonstrates good self awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards.

Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change.

Performance Framework

212. The council published *The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22* in August 2018. The Business plan sets out the council's vision, and Strategic Aims for the term of the Administration:

- A Vibrant City
- A City of Opportunity
- A Resilient City
- A Forward Looking Council
- An Empowering Council.

213. The plan links the Aims to 52 coalition commitments and the council wide approaches, values and behaviours needed to deliver the commitments and improvements to services.

214. In November 2017, the Council developed the Performance Framework necessary to measure and monitor progress against the Business Plan. By February 2018, SMART measures and targets were in place for each of the coalition commitments and were subject to robust scrutiny at the Corporate Policy and Strategy Committee. We are satisfied that the measures adopted will provide sufficient information to elected members to allow them to scrutinise the pace and depth of improvement.

Public Performance Reporting

215. The council considered the corporate performance report for 2017/18 in August 2018. The report was comprehensive, and included monthly analysis of key corporate indicators, along with traffic light reporting on achievement against targets. The report contains analysis of key challenges and context impacting performance, such as the demographic pressures associated with a rising and ageing population. It also outlines a number of opportunities, such as the investment associated with the City Region Deal, continuing job growth and low levels of unemployment.

Local Government Benchmarking Framework

216. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applies until 31st March 2019, reinforced the Accounts Commission's focus on public performance reporting (PPR) prescribed two Statutory Performance Indicators (SPIs):

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.

217. We are satisfied that the council Performance Report 2017/18 fulfils the requirements of most of SPI 1. As we note in paragraph 182, the council has not yet reported on its performance on improving local outcomes with partners. We were therefore unable to conclude in full on the achievement of SP1 1.

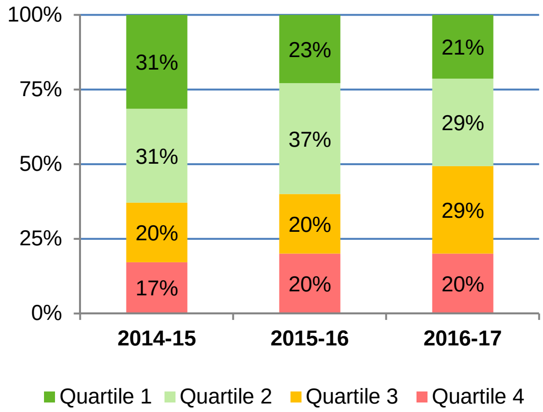
Action Plan Point 7

218. The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including areas for improvement and trends was presented to the council within the Performance Report in August 2018.

219. Exhibit 14 highlights that Edinburgh's performance compared to other Scottish councils continued to fall in 2016-17. Persistent areas of poor performance include

- The quality and standard of council-provided housing (as measured by the dwellings meeting the Scottish Housing Quality Standard) is the lowest of any council. It is rated at 75.7% compared to an average of 92.5%. Edinburgh has been the lowest performing council for this indicator since 2014-15.
- The percentage of adults satisfied with refuse collection services was 66.3% in 2016-17. Edinburgh has been the lowest performing council since 2014.
- For asset management, the percentage of Council accommodation that is suitable for its current use is 59.3%. This indicator has been the lowest performing in Scotland since 2011-12.
- Adult satisfaction with local schools is the lowest in the country at 62.7%. This has been the lowest In Scotland since 2015-16.

Exhibit 14:Overall performance declined relative to other councils in Scotland during 2016-17



Source: Local Government Benchmarking Framework, Improvement Service 2018

220. Sixteen indicators were in the top performance quartile: Areas of good performance include the level of Looked After Children being looked after in the community (91.9% against a national average of 89.9%), resident satisfaction with parks and museums/galleries, and a number of cost indicators such as the cost per primary and secondary school pupil educated.

Best Value: Improvement

221. The Best Value assessment considers whether the council has achieved continuous improvement not in all services areas, but in the outcomes within the council's strategic priority areas. We therefore drew upon the council's Annual Performance Report 2017/18 to consider the pace of improvement against areas that the council has identified as a priority.

222. The report highlights good progress in the priority area to narrow the educational gap between children from deprived areas and the rest of the population. There is also evidence of significant improvements as a result of a transformational review into Looked After Children. The council's improvements resulted in the looked after children rate per 1000 population falling from 16.9 in 2013 to 15.5 in 2018, which means that more children are remaining in their own home. The transformation activity has also resulted in a significant increase in in-house foster care capacity. In five years, the council has improved the in-house proportion from 55% to 63%.

223. The report identifies concerns relating to homelessness case length as, at 327 days, it is significantly higher than the target of 200 days. While homelessness presentation continues to fall, the council has recognised it as such a significant priority that a member led Homelessness Task Force has been created. The council continues to focus on prevention and long term solutions for homelessness, including the acceleration of the affordable housing programme.

Health and Social Care

224. The council's performance report does, however, identify that progress on shifting the balance of care for older people has remained static over 2017/18. The council is one of the key partners in the Edinburgh Health and Social Care Partnership. The partnership's performance analysis of performance against the rest of Scotland for national outcome indicators continues to place it in the lowest quartile for a number of key indicators including:

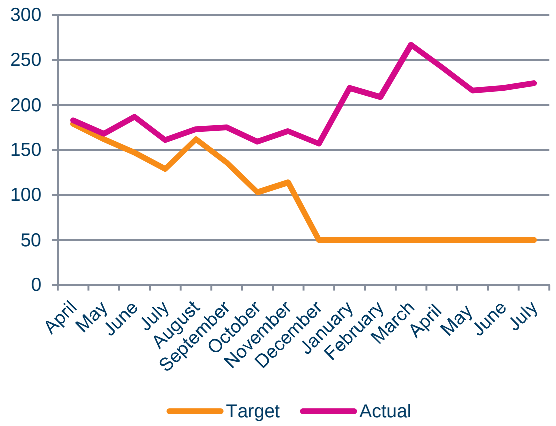
- The number of days people spend in hospital when they are ready to be discharged (refer to Exhibit 15 on "delayed discharges")
- The percentage of carers who feel supported to continue in their role
- The proportion of the last 6 months of life spent at home or in a community setting.

225. The IJB planned to reduce non-complex delayed discharges to 50 by December 2017. As Exhibit 15 highlights, the planned targets have not been achieved at any point in the year.

226. Over the last 2 years, a number of intervention actions have been taken to reduce delayed discharges, including the creation of a Delayed Discharge Oversight Group which has representation of the whole system.

227. The main reasons for the high level of delayed discharges are lack of available care packages (54% of the total reported) and care home places (27%) due to lack of funding and suspensions in admissions.

Exhibit 15: The Edinburgh Health and Social Care Partnership has not reached delayed discharge targets for 2017/18.

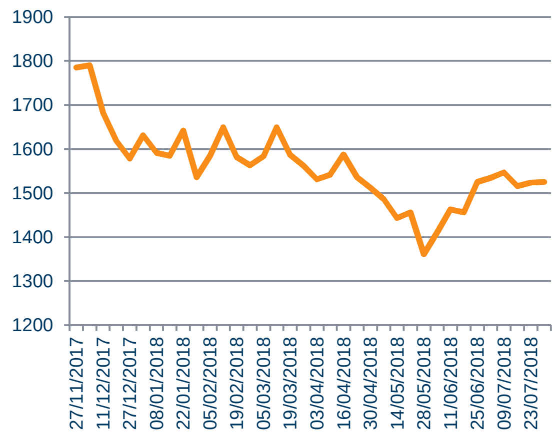


Source: Whole System Delays report to Edinburgh IJB

228. Assessments on the current performance and improvement plans have been considered by the GRBV and a special meeting of the Corporate Policy and Strategy Committee in January 2018. *The Plan for Immediate Pressures and Long Term Sustainability* identified the backlog in people awaiting assessment in the community as an immediate priority for the Partnership.

229. A specific investment was made to recruit a short-term team of assessors with the aim to clear all of the backlog assessments by the end of July 2018. Over 700 individuals were transferred to the team to conduct assessments. The team were able to clear the backlog waiting list within the planned timescale. As Exhibit 16 demonstrates, this reduced the waiting list, but improvements have not been sustained.

Exhibit 16: The Waiting List for Assessments fell during intense intervention but has begun to rise again



Source: Whole System Delay Reports to Edinburgh IJB

230. The Partnership has also had an improvement plan in place to respond to a very critical Joint Inspection of Older People's Services, which was published in May 2017. The actions and format of the improvement plan changed during 2017/18, partly as a result of significant changes in senior management. However, our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough.

Action Plan Point 8

Service Improvement Plans

231. The council demonstrates good self-awareness around areas of poor performance, and we found that the performance reporting in 2017/18 was honest and robust. We noted during 2016/17 that the council created service improvement plans to address specific, persistent performance concerns in waste and road services.

232. Exhibit 17 outlines our analysis of performance against these areas. We found that while the waste improvement plan was substantially complete and leading to improved outcomes, progress against the roads improvement plan was disappointing.

233. In August 2018, the GRBV received a report on an Improvement Plan for Building Standards, which had been referred from the Planning Committee. As a result of Ministerial concern about the performance of the service, the Scottish Government's Building Standards Division (BSD) visited the council in February 2017. The Scottish Government made recommendations which resulted in a one year appointment as local authority verifier of building warrants, and the threat that without improvement, the appointment would be withdrawn thereafter. The council was required to develop an improvement plan, which was reported to the Planning Committee.

234. In November 2017, the BSD carried out an audit of the service which examined progress made on the improvement plan since the last visit. The audit concluded that insufficient progress had been made. A refreshed improvement plan is now in place and the Council, in conjunction with Scottish Government has appointed an improvement team to assist with the delivery of this improvement plan.

235. The council has recently established a Change Management process to improve the quality, consistency and governance of all significant change projects. Service Improvement projects are one of five change types that will be tracked by the council's officer-led Change Board. Progress against the portfolio of projects will be reported to the Governance, Risk and Best Value Committee on a six-monthly basis. The first of the dashboard reports was presented to the GRBV in June 2018.

236. The GRBV must be confident that the dashboard reporting gives the committee sufficient understanding of progress, barriers and accountability for improvement. We will review the impact of the Change Strategy as part of our work in 2018-19.

Exhibit 17: Service Improvement Plans

Waste Improvement Plan - evidence of success

The Waste and Cleansing Improvement Plan was developed in response to concerns from Elected Members and members of the public over the poor quality of waste collection and street cleansing services. An improvement plan was approved by the Transport and Environment Committee in November 2016.

Good progress was made in implementing the plan, and a final update was provided to the Committee in March 2018, allowing the improvement plan to be closed. Of the 65 actions identified, 63 had been completed In full.

The service has identified significant improvements, including:

- Satisfaction rates with street cleaning, the refuse service and recycling have increased from 2014-16
- Individual missed bin complaints in November and December 2017 were the lowest they had been in any month since August 2014
- The cost of waste collection is lower than the Scottish average.

Roads Improvement Plan - further work needed

The roads improvement plan was put in place in April 2016 following significant resident dissatisfaction with services. The original improvement plan identified 32 actions. In March 2017 a further four actions were added.

As at March 2018, the majority of the actions remain open. Only 8 of the 36 actions (22%) have been achieved.

The Roads Service Identify 2 key measures of success; customer satisfaction (as measured using the Edinburgh People Survey) and the condition of Edinburgh's roads. Our analysis of performance information highlights that:

- Resident satisfaction with road maintenance fell slightly between the survey in 2012-14 and 2015-17, from 52% to 51%. Satisfaction with Pavement maintenance fell from 60% to 53%.
- The roads condition index improved and the percentage of roads considered for maintenance was better than the Scottish average
- The cost of road maintenance is significantly higher than the Scottish average (£19,905 per kilometre against the Scottish average of £10,456).

Source: Reporting to the Transport and Environment Committee, Edinburgh People Survey and LGBF data 2018

7

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;
- complying with legislation; 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 2017/18 Code of the state of the affairs of the body and its group as at 31 March 2018 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 2017/18 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 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

International Standard on Auditing (UK) 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.

Group non-audit services

Scott-Moncrieff provides taxation services to CEC Holdings Group and Transport for Edinburgh Group. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £28,000.

Confirmation of independence

We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Best Value Programme

In October 2016, Audit Scotland introduced a new approach to auditing Best Value in Scottish councils. The new approach continues to audit against the statutory duties but has an increased focus on the pace and depth of improvement at each council. Each council will be subject to a full Best Value Assurance report over a 5 year period.

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. Audit Scotland has recently announced the councils that will be subject to full Best Value in Year 3 of the programme. We therefore anticipate that City of Edinburgh Council will fall within Year 4 or 5 of the programme. The table below outlines our coverage to date and plans for the remaining 3 years of our appointment.

Wider Scope Dimension	**Year 1 2016-17**	**Year 2 2017/18**	**Year 3 2018-19**	**Year 4 2019-20**	**Year 5 2020-21**
				Anticipated BVAR at CEC	
Financial Management/ Sustainability	**Effective use of resources** Financial governance Financial and service planning	**Effective use of resources** Financial governance Resource management			**Sustainability**
Governance and transparency	**Governance & accountability** Governance, decision making and scrutiny Member training and development	**Governance & accountability** Governance, decision making and scrutiny	**Governance & accountability** Managing risk effectively	**Governance & accountability** Public performance reporting Member training and development	**Governance & accountability** Governance, decision making and scrutiny
		Partnership and collaborative working	**Community responsive-ness** **Fairness and equality**	**Vision and leadership**	
Value for money		**Performance outcomes and improvement** Improvement		**Performance outcomes and improvement** Performance and outcomes	

Appendix 3: Accounts Commission Strategic Priorities

Each year, the Accounts Commission sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission's work by using our annual audit work and Best Value assessments to assess how the City of Edinburgh Council is progressing against the Commission's priorities. The Strategic Plan for 2017-22 (http://www.audit-scotland.gov.uk/report/accounts-commission-strategy-and-annual-action-plan-2017-22) contains five Strategic Priorities.

Our assessment against the priorities is outlined below

2017/18 Strategic Priority	Our assessment
Having clear priorities and better long term planning	Following the local government elections, the council quickly set out its Business Plan 2017-22, which refined the strategic priorities and linked them to the coalition commitments. A wider Strategic Planning Framework is in place, which includes the Health and Social Care Partnership Strategic Plan and the Economic Strategy. We found consistency and clarity of priorities across the strategies. The council also works well with partners, both in developing the City Vision 2050, and on the Edinburgh Partnership (the Community Planning Partnership/CPP). Work on the Community Plan for 2019 and beyond is underway, and expected to considered by the CPP in Winter 2018.
Evaluating and implementing options for more significant changes in how they deliver services	During 2016/17 and 2017/18, we have found limited examples of the use of option appraisal, although options appraisal has been conducted to assist decision making in relation to ALEOs, particularly the decision to bring the EDI Group in house, and early decisions on Edinburgh Trams. We understand that under the revised Change Programme, each new Project requires a completed Business Case at the initiation stage which is informed by the Green Book 5 Case Model. The council's Corporate Leadership Team acts as the Change Board to scrutinise all change projects.
Ensuring members and officers have the right knowledge, skills and support to deliver effective services in the future	During May-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. Additional, tailored training sessions have been held for members of the GRBV. Throughout our appointment we have noted that the council's elected members are well-engaged and perform their scrutiny role well.
Involving citizens more in making decisions about local services and empowering local	In February 2018, the council held its first round of Locality Committee meetings. The Locality Committees are elected member led but involve representatives from a range of services including health and social care, and bridge the gap between Neighbourhood Partnerships and the Executive

2017/18 Strategic Priority	Our assessment
communities to identify and help deliver services they need	Committees. The Committees have a Locality Improvement Plan in place which identifies local priorities, based on local engagement. As part of the budget development process, the council uses Budget Engagement to identify and understand the potential impacts of proposals that have been considered by the Finance and Resources Committee. Areas of concern, solutions and opportunities emerging from the consultation are considered by the Committee before savings plans are finalised.
Reporting their performance in a way that enhances accountability to **citizens and communities**	We reviewed the Performance Management Framework and Corporate Performance Report for 2017/18 as part of our work on the council's arrangements to secure Value for Money. We found that the report was comprehensive and provided useful commentary on context, performance concerns and improvement actions. The report included an appendix on how the council compares to others within the Local Government Benchmarking Framework. We do, however, note that the council has not yet reported on delivery of outcomes against the 2015-18 Community Plan.

The Accounts Commission Strategic Plan for 2018-23 was published in June 2018 (http://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac_strategy_plan_18-23.pdf) and refines the five strategic priorities:

1. Having clear priorities with a focus on outcomes, supported by effective long term planning.
2. Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
3. Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
4. Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
5. Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

We will continue to monitor and report on the council's approach as part of our approach to the audit in 2018/19.

Appendix 4: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences***;*** *or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences***;*** *or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance ; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.
Advisory	• A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Current year action plan

Action plan point	Issue, Risk & Recommendation	Management Comments
1. User access controls **Rating** **Low** **Paragraph ref** **20**	**Issue** We noted during our audit that any member of the council finance team with ledger access can post entries to organisations that the council provides financial ledger services to even though they may have no interaction with those organisations. **Risk** There is a risk that incorrect or fraudulent postings could be made to those organisations' financial ledgers. **Recommendation** We recommend that the council reviews user access controls to the financial ledger.	There is no existing system-based means of preventing staff from posting journal entries affecting other organisations. Initial indications are that the cost of introducing such controls would likely be prohibitive relative to the resulting benefits. As part of the detailed monitoring of these organisations' financial affairs, however, transaction lists for the Lothian Valuation Joint Board and SEStran are reviewed on a monthly basis and this identifies any of an unexpected nature. This check will be formally evidenced going forward. **Responsible officer:** Business Partnering Senior Manager, Finance **Implementation date:** October 2018

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Property, plant and equipment **Rating** **High** **Paragraph ref** **24 & 27**	**Issue** **Valuation** We noted the following through our review of the valuation process: • The instructions from the council to the internal valuer are not disseminated to individual valuers who carry out the valuations; • A material adjustment was made to the annual accounts as differences were identified between the valuations provided by the valuer and those recorded in the council's asset register; and • The results of the valuation exercise are not formally communicated to the council. **Impairment** We noted that no assessment of impairment of the estates portfolio has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme. **Risk** There is a risk that the valuations carried out are not consistently prepared, in line with the instructions issued by the council. There is also a risk that the results of the valuations or impairment reviews are not correctly disclosed and accounted for in the annual accounts. **Recommendation** We recommend: • The instructions are circulated to all those responsible for carrying out the valuations; • Reconciliations are performed between the records held by the valuers and the council's asset register; • An overarching valuation report is prepared; the content of which is in accordance with the RICS Red Book; and • The council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.	For the 2018/19 process, both a handbook for valuers and a manager's checklist of all the steps involved in the asset valuations have been produced. The year-end instructions have been incorporated within the handbook and are being issued to all staff involved in the valuation process. A reconciliation between Logotech and AIS will be carried out to ensure the respective systems are in balance, with any differences investigated. An overarching valuation report, consistent with the requirements of the RICS Red Book, will be produced for 2018/19. A formal procedure will be put in place with regard to assessing whether an impairment has occurred and included within the handbook. **Responsible officer:** Operational Estate Manager, Resources **Implementation date:** April 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
3. Common good – income and expenditure transactions **Rating** **Medium** **Paragraph ref** **57**	**Issue** The council's unaudited common good fund accounts did not disclose all transactions pertaining to the common good fund (value approximately £5.8million). These transactions were included within the council's accounting records. The accounts were subsequently updated. **Risk** There is a risk that the accounts of the common good funds are not transparent and show the true position of the operation of those funds. **Recommendation** We would encourage the council to review its relationship and use of the common good funds/assets and put in place documented arrangement for the use and maintenance of those assets.	To ensure the effective management of relevant assets and associated costs as part of the Council's wider property portfolio, income and expenditure of the Common Good will continue to be coded within the Council's accounts during the year. At the year end, an adjustment will be made between the respective funds to ensure that the income and expenditure are appropriately reflected in both accounts. Property and Facilities Management will review the relationship between the Council and the Common Good Fund and consider proportionate improvements to arrangements for the use and maintenance of the latter's assets. **Responsible officer:** Principal Accountant (Corporate Accounts), Finance (working with relevant colleagues as appropriate) **Implementation date:** February 2019

<table>
<tr><th>Action plan point</th><th>Issue, Risk & Recommendation</th><th>Management Comments</th></tr>
<tr><td>4. Common good – asset register

Rating

High

Paragraph ref

62</td><td>Issue

The council is currently compiling a common good register to comply with the requirements of the Community Empowerment (Scotland) Act 2015. We noted during our audit that there are assets included on this register which are not currently accounted for as common good in the annual accounts. No adjustment was made to the 2017/18 annual accounts however it is anticipated that there will be an increase in value of common good assets in 2018/19.

Risk

There is a risk that the common good accounts are misstated.

Recommendation

The council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that:

• The assets are classified correctly;
• The appropriate valuation basis has been applied; and
• Depreciation is applied dependent on the accounting policy and classification of the asset.</td><td>The consultation on the revised common good register is anticipated to begin on 27 September 2018. During this consultation and in advance of the 2018/19 year end, the respective assets of the Common Good Fund and the Council will continue to be assessed and any required reclassification undertaken.

As part of this reclassification of assets, the Council will consider the appropriate valuation basis, paying due consideration to statutory mitigation, and ensure that the depreciation applied is consistent with the accounting policy and classification.

Responsible officer: Principal Accountant (Corporate Accounts), Finance

Implementation date: May 2019</td></tr>
</table>

Action plan point	Issue, Risk & Recommendation	Management Comments
5. Options appraisal – tram extension project	**Issue** Reliance has been placed on the original options appraisal for transport modes which took place in support of the Parliamentary bill. The council has not validated this original appraisal. **Risk** There is a risk that findings of the original option appraisal are diluted given the passage of time. **Recommendation** A high-level options assessment should be carried out to validate the conclusions reached in the 2006 STAG 2 appraisal which formed the basis for the Edinburgh Tram (Line One) Act 2006. This work should include the assessment of viable modal options against assessment criteria and objectives derived from the original STAG appraisal in light of current policy. This work should conclude prior to any decision.	A high-level options assessment will be carried out and presented as part of the Final Business Case. **Responsible officer:** Project Senior Responsible Officer **Implementation date:** December 2018
Rating		
High		
Paragraph ref		
130		

Action plan point	Issue, Risk & Recommendation	Management Comments
6. Financial sustainability – Health and Social Care **Rating** **High** **Paragraph ref** **153**	**Issue** During 2017/18 it became clear that the services that the council deliver for Edinburgh Integration Joint Board would incur an overspend of over £7million. Planned savings of £6million were not delivered in 2017/18. As a result, and as in 2016-17, additional contributions were made to the IJB. The council has allocated an additional non-recurring contribution of £4million in 2018-19 to help support capacity challenges. **Risk** There is a risk that the budget for adult social care is insufficient to deliver the level of improvement required. **Recommendation** The council should work with the Edinburgh IJB and other partners to ensure that funding is sufficient to support transformation change.	The Health and Social Care Partnership has identified a broad programme of activity/ transformational changes to optimise delivery within the funding available from the two partner organisations, CEC and NHS Lothian. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
7. Performance reporting **Rating** **Medium** **Paragraph ref** **217**	**Issue** As a result of ongoing development work on the new Community Plan, the Edinburgh Partnership has not yet reported on the outcomes achieved against the Community Plan 2015-18. **Risk** The council has not fully complied with the Accounts Commission's Statutory Performance Indicator Direction. Without regular reporting on the achievement of outcomes, it may be difficult to assess effectiveness of steps taken by the Partnership. **Recommendation** The council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.	The Council team supporting the Edinburgh Partnership (EP) is aware of the delay in the production of the annual performance report and is currently working on drafting this report. It should be noted that the Edinburgh Partnership will be focusing its attention on a review of governance arrangements and the new community plan currently in development, so discussion of the performance report will likely not happen until the end of 2018. As part of the development of the new community plan, high-level performance indicators are being identified to support monitoring of progress going forward. Creating a performance framework around these indicators will be a key stage in the early days of the new plan. Finally, the EP has also started to shift the focus of its discussions onto thematic outcomes. This allows it to have more in-depth discussions on progress to date, covering joint working, existing barriers and impact for communities. At its last meeting in June, the discussion focused on partnership working to address causes of motorbike crime. **Responsible officer:** Policy and Insight Senior Manager **Implementation date:** December 2018

Action plan point	Issue, Risk & Recommendation	Management Comments
8. Health and Social Care performance	**Issue** Despite investment in interventions, some of the key performance measures for health and social care remain poor. Our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough. **Risk** There is a risk that key indicators continue to decline. Delayed discharges mean that partnership resources are directed towards unnecessary acute care, rather than the preventative strategic priorities. **Recommendation** The council must ensure that effective scrutiny arrangements are in place to monitor and assess improvement.	The transformational programme, which is still in the final stages of development, is intended to optimise the systems, processes and delivery within existing statutory expectations, as well as shift the strategic focus to prevention and early intervention in order to deliver best possible outcomes and constrain the growth of demand. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019
Rating		
High		
Paragraph ref		
230		

Follow up of prior year recommendations

Of the eight recommendations raised within our 2017/18 annual audit report, we note that five have now been implemented, two have been partially implemented and one has yet to be implemented. Details are given below.

1. Authorisation of journals

Initial rating	Issue & recommendation	Management comments
Medium	During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.	While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process. **Responsible Officer:** Corporate Finance Senior Manager Completion Date: **March 2018**
Current status	**Audit update**	**Management response**
Complete	Year-end procedures have been modified to introduce proportionate evidenced review of all journals posted as part of the 2017/18 accounts closure process.	N/A

2. Register of interests

Initial rating	Issue & recommendation	Management comments
Medium	The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts. It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely	The council has robust arrangements to remind councillors of their duties under the Act. • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. For the new Council in May 2017: • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017). • We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect

2. Register of interests		
Initial rating	**Issue & recommendation**	**Management comments**
		appointments made at Council in June 2017; • We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality. We will continue to remind regularly councillors of their duties under the Act. **Responsible Officers:** Governance and Democratic Services Manager Councillors **Completion Date:** Ongoing
Current status	**Audit update**	**Management response**
Partially complete	Despite actions been taken during 2017/18 to remind and support councillors in their responsibilities to maintain a register of interests, our review of the councillors' register of interests in 2017/18, identified eight councillors for which not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased. While 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 do impose on councils a duty to help their members to comply with the relevant code. We would encourage the council to consider the following: • Request that councillors' review and update their register of interests on a formal basis at least twice a year; one of which should be done as at the 31 March 2018. Confirmation of no changes should also be obtained. • Council staff should review the disclosures against, for example Companies House records, to ensure disclosures are complete and discuss with councillors any omissions identified with a view to updating the registers.	The Council continues to have robust arrangements to support elected members in fulfilling their duties under the Councillors' Code of Conduct. This includes a twice-yearly reminder and additional reminders after appointments at Council meetings. Officers have concerns over reviewing disclosures to Companies House with elected members as the responsibility for complying with the Code is for each individual member and the Council should not put in place arrangements that could dilute that ownership and responsibility. However, as a means of continuing to improve the process, committee management software is being explored that would simplify the process for elected members in updating their register which currently is a paper-based exercise. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** On-going

3. Budget monitoring reports		
Initial rating	**Issue & Recommendation**	**Management Comments**
Medium	The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny. In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.	Based on a best-practice review 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. Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined. **Responsible Officers**: Head of Finance **Completion Date**: February 2018
Current status	**Audit update**	**Management response**
Complete	In a report to GRBV in May 2018, management reported that "due to other pressures, a revised report format, drawing on an analysis of best practice adopted elsewhere, will be presented to the Finance and Resources Committee's meeting on 16 August 2018 as part of the first quarter's revenue monitoring report". We confirmed that the report presented to Finance and Resources Committee in August 2018 has been updated.	N/A

4. People Plan		
Initial rating	**Issue & recommendation**	**Management comments**
Medium	The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce. The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.	People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September. **Responsible Officer:** Head of Human Resources **Completion Date:** September 2017
Current status	**Audit update**	**Management response**
Complete	People Plans are in place that chart a twelve-month outlook for each service area, detailing planned HR delivery and service initiatives which have a 'people' impact. Workforce dashboards are presented to the Finance and Resources Committee for scrutiny.	N/A

5. Edinburgh IJB Annual Performance Report		
Initial rating	**Issue & recommendation**	**Management comments**
Medium	We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board. The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.	The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017. **Responsible Officer:** Interim Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date**: October 2017
Current status	**Audit update**	**Management response**
Complete	The report was considered by the Corporate Policy and Strategy Committee on 3 October 2017.	N/A

6. Publication of the council's Corporate Governance framework self-assessment

Initial rating	Issue & Recommendation	Management Comments
Medium	In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.	The council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017. As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration. **Responsible Officer:** Governance and Democratic Services Manager **Completion Date**: November 2017
Current status	**Audit update**	**Management response**
Partially complete	It is good practice for the Audit Committee (GRBV at the council) to review the Annual Governance Statement and Assurance Statements as part of preparations for the annual accounts. We noted during our review in 2017/18 (refer to paragraph 169) that the Annual Governance Statement had not been subject to separate scrutiny.	The process for completion of the annual assurance statements and the Corporate Governance Framework is being reviewed and the new timescales will allow for early scrutiny of the assurance statements and annual governance statement for 2018/19. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** December 2018

7. Development of performance management framework		
Initial rating	**Issue & Recommendation**	**Management Comments**
Medium	Each council will report a range of information setting out: • Its performance in improving local public services (including with partners) • Its performance in improving local outcomes (including with partners) • Its performance in engaging with communities and service uses, and responding to their views and concerns • Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources. The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the council.	A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking. **Responsible Officers:** Interim Strategy and Insight Senior Manager **Completion Date**: March 2018
Current status	**Audit update**	**Management response**
Complete	The Performance Management Framework was approved by Council on 23 November 2017. The Annual Performance Overview for 2017/18 was presented to the council and Corporate Policy and Strategy Committee in August 2018.	N/A

8. Delayed discharges

Initial rating	Issue & recommendation	Management comments
High	The council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	Performance is closely monitored at: • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. **Responsible Officers:** Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director **Completion Date**: December 2017
Current status	**Audit update**	**Management response**
Incomplete	We note that while a range of interventions have been taken to improve performance, the level of delayed discharges continues to significantly exceed target levels.	There is a large-scale remedy programme being undertaken across the entire Discharge Pathway, including: • Whole-systems Delayed Discharge Oversight Group established and chaired by CO • New dedicated Delayed Discharge Lead appointed • Whole-system analysis and impact undertaken and Action Plan formulated with stretch timescales • Realignment of delivery platform – including interface with acute services via the Hub – is in the process of being implemented **Responsible Officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date:** August 2019

Scott-Moncrieff
business advisers and accountants

Appendix 2

2017/2018

AUDITED ANNUAL ACCOUNTS

The City of Edinburgh Council

Annual Accounts

Year to 31 March 2018

CONTENTS

MANAGEMENT COMMENTARY

Basis of Accounts

The Audited Annual Accounts present the financial position and performance of the Council, together with the financial position of the wider Council Group, for the year to 31 March 2018.

The Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 using the management structure as a reporting basis, which is the same basis as in the previous year.

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.

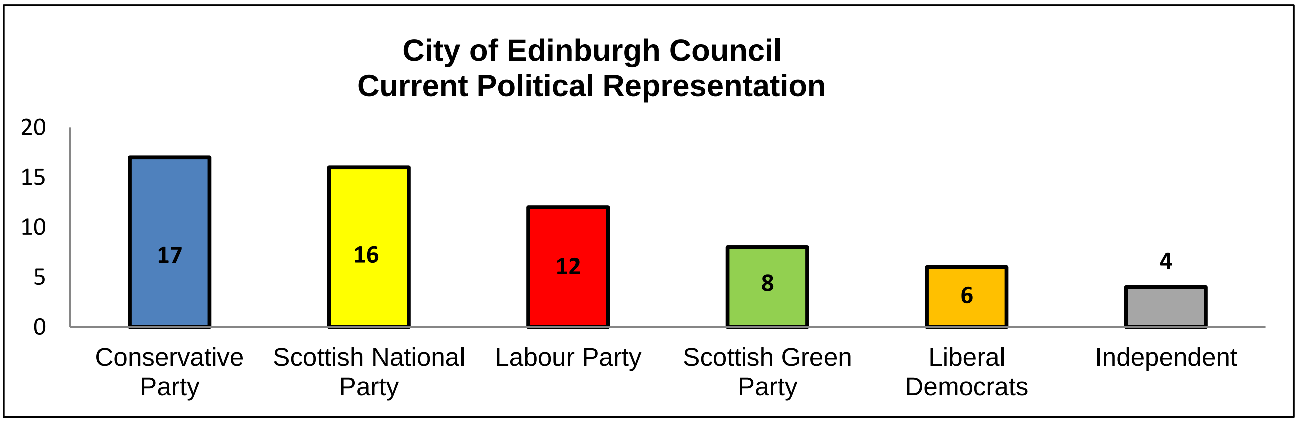
The Council has been undergoing a significant Transformation Programme which has revised the key services and their structure. The current structure is still evolving but the tables below indicate the latest position. For the period covered by these accounts, Safer and Stronger Communities was a separate service but it now sits within Communities and Families.

Communities and Families	**Place**	**Health and Social Care**
Schools and Lifelong Learning	Environment (inc. waste and parks)	Edinburgh Integration 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

Safer and Stronger Communities	**Resources**	**Chief Executive**
Community Justice	Customer Services and Information Technology	Strategy and Insight
Homelessness services		Communications
Family and Household Support	Finance	
	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.

There was a Local Government Election on 4 May 2017 which resulted in a change in political representation for the Council, with a new minority SNP and Labour administration formed.
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 146 of these financial statements.

MANAGEMENT COMMENTARY

Demographic Trends

Edinburgh has seen significant recent population growth, with a 12.2% increase between 2006 to 2016, compared to a rise of 5.3% for Scotland. Analysis of population trends suggests that the city is likely to see further growth, with the total number of residents projected to increase by at least 80,000 people, or 16%, over the next twenty years. These projections show strong growth at both ends of the age spectrum, with the number aged 12 to 17 projected to increase by 23%, and those over 75 by 25%, by 2027. This growth will place further demand on a range of frontline services. In recognition of this additional demand, the Council's budget framework continues to provide additional annual sums in respect of growing numbers of school pupils, at-risk children, older people and those with physical and/or learning disabilities, although the ability to do so against a backdrop of real-terms funding reductions is becoming increasingly challenging.

A growing population is one of the most visible signs of the city's economic success. However, not all of our citizens share in that success and alongside our affluent areas, the city contains some of the most deprived communities in Scotland. Our estimates show that in 2016, almost 80,000 people in Edinburgh were living on incomes below the UK poverty threshold. These estimates, however, mask the depth of poverty and income inequality faced by the city's residents. Within the most deprived wards of our city as many as 30% of all residents live in households below the poverty threshold. Narrowing these gaps and allowing all residents to share in the city's success therefore forms a key strand of the City Vision.

Corporate Strategy

The **Programme for the Capital: Council Business Plan for 2017/22** describes the Council's commitments to the city, the strategic aims and outcomes, the challenges, how success will be measured and the future of the organisation. The plan sets out overlapping strategic themes common to the work of all service areas. The strategic aims, set out below are underpinned by the 52 commitments to the city.

- **Deliver an economy for all;**
- **Build for a future Edinburgh;**
- **Deliver a sustainable future;**
- **Deliver for our children and families; and**
- **Deliver a Council that works for all**

To deliver the vision and strategic aims, the Administration has set out 20 associated outcomes, these are shown in the diagram below. These outcomes link to the **52 commitments** to the city which will be prioritised over the duration of the plan and into the future.

A new **Council Performance Framework 2017-22** has been revised to support the implementation of the Council Business Plan 2017-22.

The framework will be reviewed annually and will include refreshing the measures, actions and milestones to ensure that the data collected is useful in terms of being able to measure performance and delivery.

MANAGEMENT COMMENTARY

Risks and Uncertainty

The **Corporate Leadership Team**'s (CLT) prioritised risks reported to the Governance, Risk and Best Value Committee on 8 May 2018 are outlined below. The report reflects the current highest priority risks of the Council along with the key controls in place to mitigate them.

A brief description of the top risks contained within the report is included below;

1 **Health and Social Care** - Increased demand for services and associated demographic changes results in significant financial pressures which, when compounded by historic funding arrangements and traditional service models, creates a significant risk that the Council fails to implement and/or deliver appropriate health and social care arrangements, as required by the Edinburgh Integration Joint Board.

2 **Capital asset management -** Due to the age of a number of properties across the Council's operational estate, there is risk that properties are not of a sufficiently safe and sustainable standard for their continued use, potentially resulting in structural failures and/or negative health and safety consequences for staff, service users or members of the public.

3 **ICT Capabilities -** Despite increased scrutiny, and robust performance and contract management arrangements within the Council, there is a risk that the level of ICT service provided to the Council by its external partner remains below that required for the Council to transform and enable its services digitally in an effective, efficient, and secure manner, or in line with planned savings.

4 **Change -** Key deliverables, benefits and timescales for achieving change across the Council and third party suppliers may not be achieved in line with business expectations, governance and assurance requirements, budgets and resources.

5 **Major Incident -** A sudden high impact event causes harm to people and damages infrastructure, systems or buildings. Buildings, staff and/or systems are non-operational for a time, resulting in a reduced ability to deliver services.

6 **Information Governance** - A loss of data from the Council's control could result in fines, claims, loss of public trust and reputational damage. This risk takes into account the new requirements arising from the new General Data Protection Regulation that took effect in May 2018.

7 **Customer experience and expectations -** Customer dissatisfaction around delivery of citizen facing services (e.g. waste management, roads, etc.) may lead to an increase in complaints with consequential financial pressures and reputational damage.

8 **Health and Safety -** There is a risk of non-compliance with the Council's legislative requirements and associated suite of health and safety policies and/or failure to comply with procedures or applicable legislation which could lead to an incident resulting in harm to staff, service users or members of the public, liability claims, regulatory breaches, fines and associated reputational damage.

9 **Homelessness -** There is a risk that due to planned welfare changes, the introduction of Universal Credit, changes to the benefit payment process, and a buoyant private rented market, greater demands will be placed on homelessness services across the city that cannot be met.

10 **Major Programme and Project Delivery and Assurance -** The Council is unable to ensure the effective management and successful delivery, on time and budget, of major programmes and projects.

11 **Tram Extension Project -** There are risks to the delivery of the proposed tram extension project, including reputational risks to the Council. Although the Council has not yet committed to this project it is now considered appropriate to report it as a risk.

12 **Workforce Capacity and Capability** - The risk is that the Council is unable to recruit, retain, develop, engage and reward its employees effectively, including those in specialist roles to enable service delivery in a sustainable and affordable manner.

13 **Housebuilding Programme -** Due to capacity within the house-building industry, the availability of suitable land, uncertainties around planning assumptions used in financial models (demographics, demand, economic factors etc.) there are risks to the delivery of the Council's housebuilding programme, including subsequent knock-on impacts in relation to Council income and reputation.

MANAGEMENT COMMENTARY

Other Risks, Challenges and Uncertainties

Per the April 2018 Accounts Commission Report, '**Local Government in Scotland Challenges and Performance 2018**', 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, including potential impacts on availability of staffing for Council services.
  The latest update went to Corporate Policy and Strategy on 7 August 2018.
- 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.
- The Scottish Government aims to create a school and teacher led education system, where decisions and funding will be at school level and Regional Improvement Collaboratives (RICs) will provide support to schools.
- Councils and their partners are developing fresh approaches to financially empowering local communities and actively involving them in making decisions. For example, the Council is developing a case for the introduction of a **Transient Visitor Levy**.

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 Executive Committees will consider an overview of performance relevant to their area, scrutinising indicators, improvement actions, issues and opportunities on an annual basis. This thematic reporting is intended to complement financial data in giving a more rounded and informed picture of overall performance.

Edinburgh-specific performance data for 2017/18 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 and Best Value

The **City of Edinburgh Council Performance 2017-18** was reported to Council on 23 August 2018.

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.

The Council's Annual Audit Report for 2016/17 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.

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.

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 2017/18 data will not be available in sufficient time for inclusion in the unaudited or audited annual accounts. An overview of the Council's 2016/17 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.

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 (page 18).

An Expenditure and Funding Analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found in Note 2 and the Expenditure and Income Analysed by Nature in Note 3.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below.

	Budget 2017/18 £000	Actual 2017/18 £000	(Under) / Over Spend £000
General Fund services	**822,581**	**822,083**	**(498)**
Non-service specific areas			
Loans charges / interest on revenue balances	111,762	110,545	(1,217)
Other non-service specific costs	18,516	19,604	1,088
Council Tax Reduction Scheme*	26,672	24,217	(2,455)
Centrally funded release costs	2,815	2,727	(88)
Net Cost of Benefits	(62)	(625)	(563)
Dividend and other interest received	(9,545)	(10,274)	(729)
Non-service specific areas total	**150,158**	**146,194**	**(3,964)**
Movements in Reserves			
Net contribution to / (from) earmarked funds*	2,943	5,398	2,455
Contribution to / (from) Repair and Renewals Fund	93	93	0
Contribution to / (from) Capital Fund	(1,899)	(1,899)	0
Movements in Reserves total	**1,137**	**3,592**	**2,455**
Sources of funding			
General Revenue Grant	(345,757)	(345,757)	0
Distribution from non-domestic rate pool	(355,063)	(355,063)	0
Council Tax	(273,056)	(273,465)	(409)
Sources of funding total	**(973,876)**	**(974,285)**	**(409)**
Transfer to Council Priorities Fund	**0**	**(2,416)**	**(2,416)**

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.

*uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.455m were transferred to an earmarked reserve.

MANAGEMENT COMMENTARY

Financial Performance - continued

Budget performance - General Fund - continued

The approved budget for 2017/18 was predicated on the delivery of £39.5m of service-specific and corporate savings. Throughout the financial year it was reported to Committee that there were underlying pressures within, in particular, the Health and Social Care and Safer and Stronger Communities services. In light of these pressures, a number of measures, including further tightening of workforce and financial controls, a review of discretionary expenditure and identification of other non-recurring income and expenditure savings, was initiated such that a balanced outturn for the year as a whole was delivered.

The Council's outturn position shows a net underspend against budget of £2.416m. This net position is attributable to two main factors:

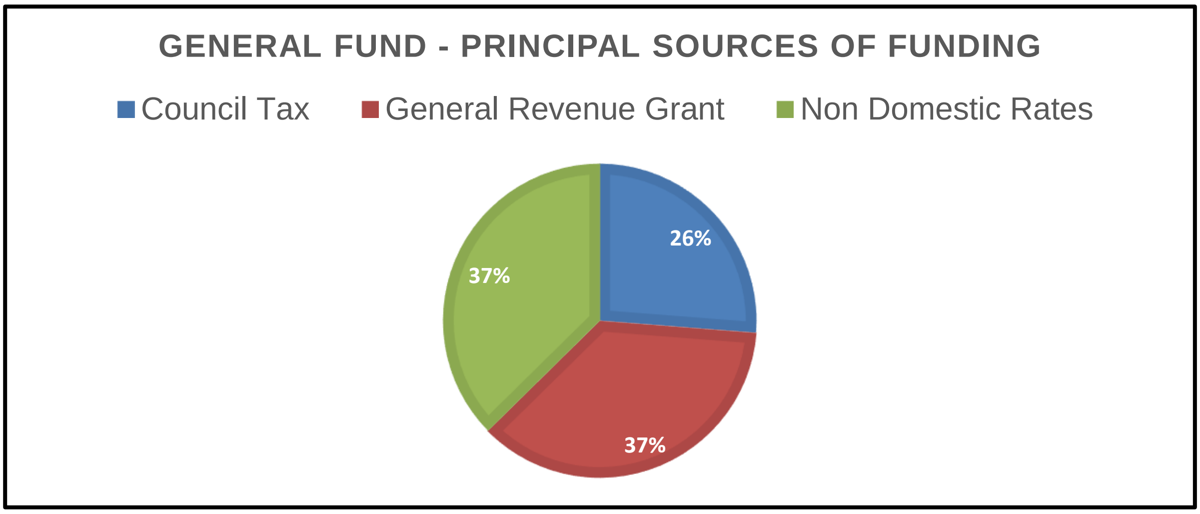
- There was an underspend within General Fund services of £0.498m. This position is expressed net of the £7.772m of supplementary funding made available during the year to address pressures within Health and Social Care and Safer and Stronger Communities, in turn reflecting additional Council Tax income relative to budget assumptions, savings in loan charge expenditure and a number of one-off contributions from earmarked funds.
- Net savings in loan charges (in excess of the savings supporting the additional expenditure above), mainly attributable to the Council's on-going strategy of using available cash balances in lieu of external borrowing, and additional interest and investment income received, together totalling £1.946m.

The net underspend of £2.416m has been set aside within the Council Priorities Fund.

Principal Sources of Funding - General Fund

The principal sources of funding used by the Council during the year were:

	£000
Council Tax, net of Council Tax Reduction Scheme (CTRS)	249,248
General revenue funding	345,757
Distribution from non-domestic rates pool	355,063
Total	950,068



MANAGEMENT COMMENTARY

Financial Performance - continued

Reserves

General Fund

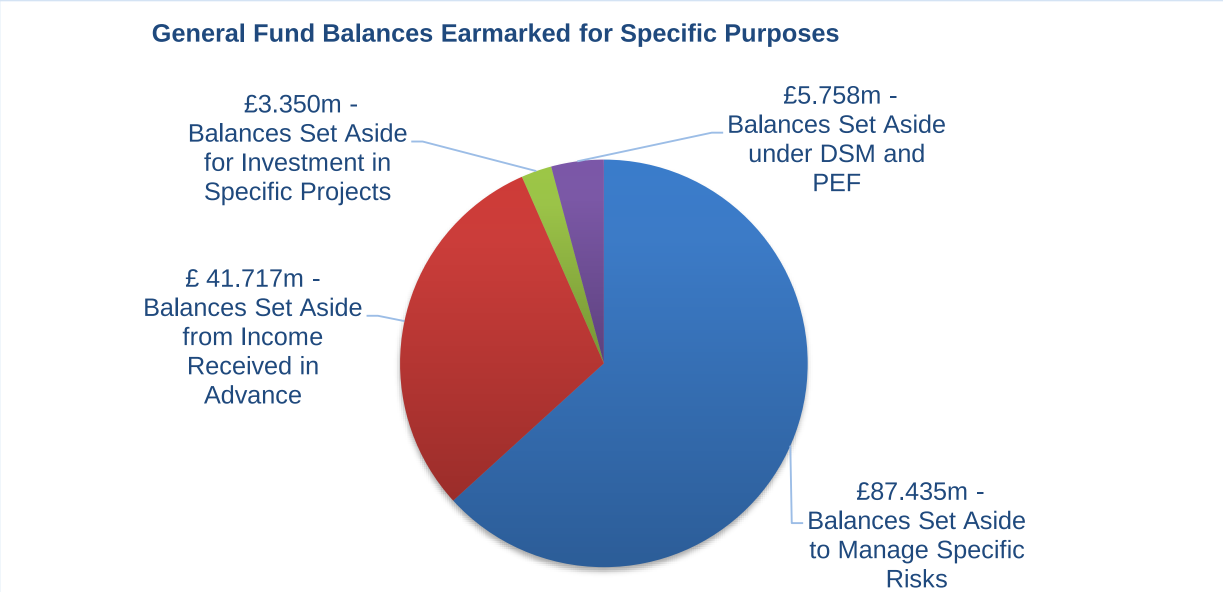
The Council's General Fund reserves comprise two elements:

- 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 February 2018, as part of the 2018/19 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 2017/18.

In addition, the Council has a further £138.260m 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, dilapidations related contractual commitments 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, such as Spend to Save. These savings are used, initially, to reimburse the earmarked balances.
- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF), which permits balances on individual school budgets to be carried forward to the following financial year and academic years.

The increase in reserves from the previous year mainly reflects differences between the timing of receipt of external funding and the related expenditure. Included amongst these is an element of the Council's revenue grant funding for 2018/19 which was paid by the Scottish Government in 2017/18.

In summary, the level of reserves at 31 March 2018, 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 £4.796m, the Capital Fund with a balance of £63.558m and the Renewal and Repairs Fund with a balance of £58.123m, including £16.930m of monies for schools prepaid under PPP arrangements.

MANAGEMENT COMMENTARY

Financial Performance - continued

Treasury Management Strategy and Loans Fund

The **Annual Treasury Strategy 2017/18** was approved on 23 February 2017.
The **Annual Treasury Strategy 2018/19** was approved on 15 March 2018. This 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.

Annual Treasury Strategy 2018/19 Key Points

- the Council's total capital expenditure is forecast to be £1.361 billion between 2018/19 and 2022/23;
- the opportunity to mitigate future interest rate risk with alternatives to the PWLB will continue to be sought and the risk locked out where appropriate;
- the Council's underlying need to borrow at 31 March 2023 is forecast to be £1.828 billion; and
- between 1 April 2018 and 31 March 2023, £258m of the Council's external debt is due to mature.

On-Going and Future Developments

Transformation Programme and Change Strategy

The Council continues to operate in a challenging environment with increases in demand for services within ongoing financial constraints. In response, the Council 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.

Since the start of transformation to 17 September 2018, staff accounting for approximately 1009 FTE have left or are confirmed to be leaving the organisation under Voluntary Early Release Arrangements (VERA) or Voluntary Redundancy (VR) arrangements, under the Transformation Programme. The one-off cost associated with these cases is £43.2m and the overall payback is 13.5 months, which is in line with the original planning assumptions.

Budget framework

On **22 February 2018**, the Council set a balanced budget for 2018/19. As in 2017/18, 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.

Change Strategy

The Council has delivered over £240m of recurring savings since 2012/13, equivalent to around 25% of its net budget. This has allowed the combined financial challenges of increasing demographic-led service demand, inflationary pressures and legislative reform to be addressed whilst steadily improving performance across many areas. However, there is a need to place much greater focus on service transformation and prioritisation, designed using insight from active engagement from citizens, communities and elected members.

The Council's Change Strategy has therefore identified three key themes of (i) providing high-quality services at the right level, (ii) moving Edinburgh to a radical preventative agenda and (iii) achieving sustainable inclusive growth, to improve services whilst securing longer-term financial sustainability. In recognising that such a transformational shift can only be achieved over the medium- to longer-term, however, a staged approach will be adopted, with a suite of shorter-term measures identified to provide necessary financial breathing space in 2019/20 to provide the foundation for this more fundamental longer-term change.

Equality and Rights

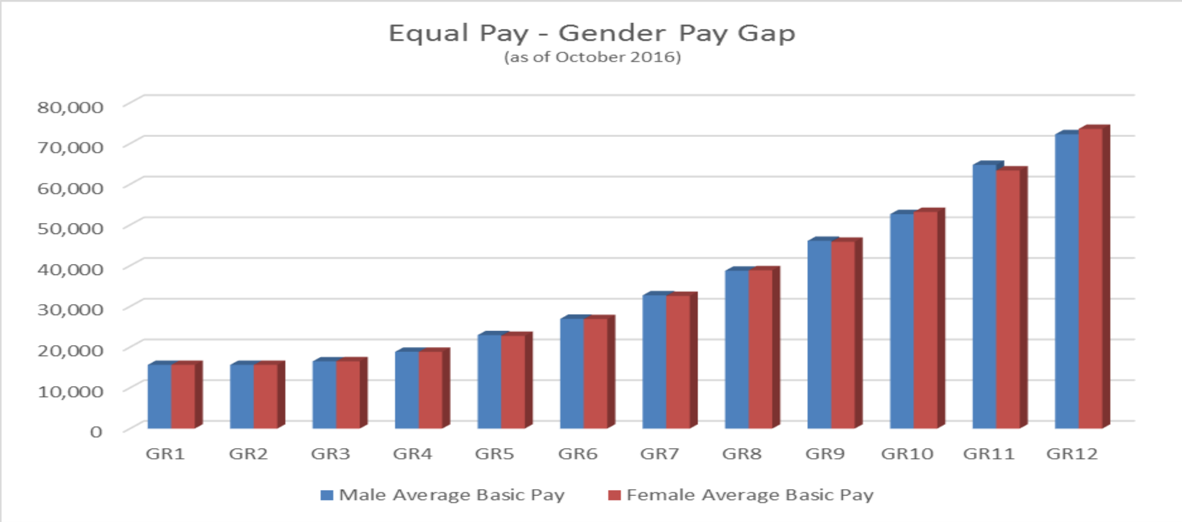
The Council's second **Equality, Diversity, and Rights Framework** covers the period 2017-21. Central to the Framework is the ambition to better engage and empower citizens, communities and employees who share the protected characteristics.

The Council is committed to the principle that all employees should receive equal pay for doing equal work, or work of equal value, regardless of age, sex, race, disability status, sexual orientation, religion or belief, working pattern, employment status, caring responsibilities or trade union membership. It is also an equal opportunities employer and positively values the different backgrounds, perspectives and skills that a diverse workforce brings to the Council.

Financial Performance - continued

Equality and Rights - continued

The analysis below has indicated that the gender pay gap in the Council for all grades (GR1 to GR12) is within the + or – 3% threshold recommended by the Equalities and Human Rights Commission Scotland.



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.

The most recent update was considered by the Finance and Resources Committee on **23 January 2018**.

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.

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. In addition, it is anticipated the deal will generate over £5bn worth of Gross Value Added (GVA) over the same period.

Welfare Reform

The most recent update on Welfare Reform was considered by the Corporate Policy and Strategy Committee on **27 February 2018**.

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.

As part of the Universal Credit (UC) live service, UC has been available to new, single claimants in Edinburgh, who would previously have been eligible for Job Seekers Allowance. As a result of the Chancellor's Autumn budget on 23 November 2017, no new claims will now be accepted for the UC live service. This decision will allow DWP to concentrate on the implementation of 'full service UC'. In addition the rollout of full service UC in Edinburgh has been rescheduled from June to October 2018.

MANAGEMENT COMMENTARY

Financial Performance

Financial Ratios

Financial ratios relating to Council Tax, debt and borrowing are shown below.

Council Tax	2017/18	2016/17	Notes on Ratios
In-year collection rate	96.78%	96.42%	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	26.20%	23.50%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS). The increase is mainly due to the introduction of revised multipliers for higher value properties.
Debt and Borrowing - Prudence			**Notes on Ratios**
Capital Financing Requirement	£1,575.9m	£1,610.0m	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	£1,476.4m	£1,543.3m	External debt levels include long-term commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure. External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
Debt and Borrowing - Affordability			**Notes on Ratios**
Financing costs to net revenue stream - General Fund	11.64%	11.92%	These ratios show the proportion of total revenue funding that is used to meet financing costs. The ratios exclude any voluntary repayments of debt made during the year.
Financing costs to net revenue stream - HRA	33.83%	34.48%	
Impact of capital investment on Council Tax	-0.60%	-0.55%	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	-2.78%	-1.62%	

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 February 2017, the Council approved the five year Housing Revenue Account Budget Strategy. This budget was set to accelerate the strategy previously approved by Council for 2016/17. The two main 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.

This 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 to meet current need and demand. In response to this the investment strategy included 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 agreed to match the Council's house-building target and collectively deliver 16,000 new affordable and low cost homes over the next ten years. Subsequently, in February 2018, the Council approved a revised HRA budget strategy that increased the house building ambition from 16,000 to 20,000 new homes within 10 years, making it one of the largest affordable house-building programmes in the UK.

Delivery in 2017/18 has been strong. There were over 2,000 Council and housing association homes under construction on 32 sites across the city at the end of 2017. The Council's house building programme continues to expand, with around 1,600 homes completed or under construction this year. A further 3,000 homes are in design and development stage.

Progress on measures to reduce tenants' cost of living has also been strong. Over the last five years almost half of all Council homes have benefited from the installation of new heating systems, insulation or other energy efficiency measures. In addition, over 8,000 tenants have had their heating systems modernised over the last five years. By 2020 all homes will have benefited from internal modernisation programmes. The commitment to replace all kitchens and bathrooms over 20 years old by 2020 is on track to be delivered in 2019, a year ahead of schedule. All Council homes need to meet the Energy Efficiency Standard for Social Housing (EESSH) by 2020. The Capital Programme also focused delivery on an external fabric programme to improve energy efficiency in blocks across the city, through a combination of insulation and external render upgrades.

In addition to this, tenants have benefited from further modernisation investment to common areas including lift car upgrades, stair windows, door entry systems and external fabric improvements. New initiatives such as the tenants discount card, low cost energy, energy advisers and employment opportunities for tenants have been introduced. Other initiatives such as the community gardens programme, digital access, online repairs reporting and flexible payment options will be further expanded in 2018/19.

The majority of the delivery of the 2017/18 capital investment programme is through the Housing Asset Management framework. The 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 framework also gives the Council more flexibility and includes performance measures enabling robust contract management.

Recognising the financial hardship facing its customers the Housing Service has started a process of changing the way it works with tenants and the communities in which they live. These changes include: (1) Patch based working - replacement of specialist teams with patch teams, where generic housing officers working with an average of 200 tenants each; (2) Integrated locality teams - co-location of property and housing management teams in localities; (3) Good neighbour campaigns - establish an annual campaign to recognise and reward tenants and residents who support their neighbours and look after their communities; (4) Reducing energy costs - partner with Our Power, a not-for-profit member owned energy company to provide low cost energy and pilot an energy advice service based in localities; and (5) Employment opportunities for tenants: Expansion of modern apprenticeship in the Housing Service and targeted support for tenants and their families to find secure and long term employment.

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 (e.g. Home Energy Efficiency Programme Scotland and Affordable Housing Supply Programme) 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. The investment strategy continues to reflect tenants' priorities. In 2015 tenants indicated strong support for the budget strategy and identified building new affordable homes as their top priority for investment. Other significant priorities included reducing energy costs. In 2016, 82% of tenants said they supported the 2% rent increase with one third of tenants supporting higher rent increases if delivery is accelerated. In 2017, 80% of tenants expressed support for the investment proposals and rent strategy, which aims to expand and accelerate the development of affordable and low-cost housing; continue to modernise existing Council homes and neighbourhoods; and transformation of front line services to tenants to tackle inequality and reduce their cost of living.

In line with the HRA Business Plan, at the end of 2017/18 the HRA was balanced after making a contribution of £0.438m to the Renewal and Repairs Fund and £9.042m towards in-year capital investment. The funds held in the Renewal and Repairs Fund are earmarked for investment in existing housing stock and future capital investment in new homes through the Council's own housing development programme.

Capital Expenditure

Capital expenditure is controlled through the Prudential Code that provides the framework for investing in infrastructure. In Scotland, local authorities are required by regulation to comply with the Prudential Code under Part 7 of the Local Government (Scotland) Act 2003. The key objectives of the Prudential Code are to ensure that capital plans are affordable, prudent and sustainable and that treasury decisions are taken in accordance with professional guidance and best practice.

In addition, capital plans must be consistent with, and support, local strategic planning, local asset management planning and proper option appraisal.

The outturn position for capital expenditure is summarised below:

Capital expenditure	Revised Budget 2017/18 £000	Actual 2017/18 £000	(Slippage) / Acceleration £000
General Fund services	165,143	150,143	(15,000)
Housing Revenue Account	78,004	72,816	(5,188)
Total capital expenditure	243,147	222,959	(20,188)
Capital receipts and other contributions			
- General Fund services	(40,207)	(31,277)	8,930
- Housing Revenue Account	(27,937)	(32,688)	(4,751)
Government and other grants			
- General Fund services	(105,028)	(104,350)	678
- Housing Revenue Account	(7,075)	(5,050)	2,025
Total capital income	(180,247)	(173,365)	6,882
Balance to be funded through borrowing			
- General Fund services	19,908	14,516	(5,392)
- Housing Revenue Account	42,992	35,078	(7,914)
Total advances from loans fund	62,900	49,594	(13,306)

Expenditure on General Fund services slipped in total by £15.00m. The majority of slippage related to delays on the Depot Rationalisation programme, 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 partly offset the slippage in these projects. Expenditure on the Housing Revenue Account slipped by £5.188m largely due to delays in on site starts for new build projects.

The Council received £53.696m of general capital grant. The support provided through general capital grant enables the Council to direct resources to its own priorities.

Financial Performance - continued

Capital Expenditure - continued

Capital expenditure for the year totalled £222.959m. Major capital projects undertaken during the year included:

- Educational properties - £43.031m;
- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £72.816m;
- Social housing through the housing development fund - £40.693m;
- Roads, carriageways and other infrastructure - £29.120m;
- Health and Social Care establishments - £0.583m;
- Depot Rationalisation Programme - £4.088m;
- Cultural, Sporting and other Recreational venues - £10.207m; and
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £6.470m.

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, Group Accounts have been prepared, which consolidate the financial interests the Council has in subsidiaries, associates and joint ventures, where the interest is considered material. Note 9 details the interests the Council holds and further financial details about the entities.

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, with the majority of land transferring to the Council and most of the staff leaving the company in June 2018. The company will continue to trade into 2019 and beyond until such time as all projects currently being undertaken by EDI have either concluded or have been transferred to the Council.

- **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 £600m of economic impact for the city region.

  In 2017, the Centre made a profit before tax from continuing operations of £0.579m, (2016 loss £0.127m). Notwithstanding the continuing pressure on clients' budgets, increased competition from a growing number of conference centres worldwide and aggressive price competition from venues across the globe, the year to 31 December 2017 saw a marked improvement in the Company's operating profitability. The Company's revenues for the year amounted to £7.919m, which was an increase of £0.754m on the previous year and generated a gross profit of £1.137m, an increase of 107.48%.

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. At that time 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 wider materiality levels, this Joint Venture has been consolidated into the Group accounts for the year to 31 March 2018, see note 9.3.

The Board was in the second year of implementing its three year strategic plan, which sets out how the health and social care services delegated by the City of Edinburgh Council and NHS Lothian will be developed and changed over the period to meet the changing needs of the population and achieve better outcomes for people. The budget of around £700m will fund community health and social care services, including GP practices and some elements of acute hospital services.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Lothian Valuation Joint Board (LVJB)

The Board reported an audited overall outturn overspend of £0.213m against a revised budget of £6.118m during 2017/18, which will be funded from funds carried forward. The primary reason for the reported position against budget was due to a one-off Voluntary Redundancy cost which was partly off-set by savings on Rates, ICT and postages. The cost of Individual Electoral Registration (IER) was fully funded by a grant, against which an underspend of £0.350m was carried forward to 2018/19 to mitigate the risk of sudden removal of Cabinet Office funding.

Looking forward, LVJB faces a number of financial and operational risks including:

- Some uncertainty over continuing Cabinet Office funding support for IER;
- Pressures arising from the Scottish Government led change from a five yearly revaluation to a three year cycle from 2022, as recommended by the Barclay Review of NDR;
- Concerns over the viability of the Council Tax system in future years;
- Pressures on current levels of resources to resolve appeals arising from the 2017 Revaluation within the statutory timetable; and
- Continuing pressure on the level of grant and other funding available to the Board's constituent authorities.

Capital Theatres (formerly Festival City Theatres Trust)

2017/18 saw another positive year for the Trust, with an exciting and growing programme of work.

The Trust changed its name to Capital Theatres on 28 February 2018 to reflect the organisation's growth and to establish a brand for the Trust's three venues – the Festival Theatre, King's Theatre and The Studio. The three venues have welcomed a varied and thought-provoking collection of productions over the last year.

The Festival Theatre recently underwent a refurbishment exercise to replace all its ageing chairs and a major transformation project is at the planning stage for the refurbishment and development of the King's Theatre.

The Trust achieved record sales and attendances during the Christmas season and also welcomed four local amateur companies to perform their shows on stage. The theatres hosted a plethora of shows throughout the year ranging from Scottish opera, dance performances, musicals, international festivals to films.

The pioneering work with the Life Changes Trust dementia project will continue for a further two years after receiving additional funding which has been matched by the Trust.

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, with the aim of inspiring Edinburgh to become a more active and healthy city. The range of facilities includes sport and leisure centres, swim centres, golf courses, tennis courts, bowling greens and sports pitches.

In 2017/18, an underlying surplus on unrestricted funds of £0.487m 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, including providing Steady Steps classes for older adults who are at the risk of falling and the launch of the Movement for Memories project to support people living with dementia to get active. Edinburgh Leisure now processes bookings for all High School sport facilities as part of the Community Access to Schools programme.

Transport for Edinburgh Ltd

The core purpose of Transport for Edinburgh Ltd (TfE) is to deliver a high-quality and integrated transport service for the city. 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 the Lothians. Year-on-year revenue increased by 5.8%, with a profit from operations margin of 7.3% or £8.9m net after tax. The Group faced significant operating and cost pressures in 2017 and expects these pressures to persist in 2018, however, the Group will remain proactive in seeking to relieve their impact

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Trusts

International Conference Centre Expenditure and Income Trusts

The Trusts were set up in 1992 for the purpose of holding funds from the Council and from the sale of land at the Edinburgh International Conference Centre site, to further develop the Conference Centre, as set out in Note 10. The Trustee for both Trusts was the Bank of Scotland and until this year they held and managed the funds on behalf of the Trusts.

During 2017/18 the bank opted to resign as Trustee and a review was undertaken to establish a suitable means to manage the funds on an ongoing basis. It was determined that the Council could manage this in-house going forward and the majority of the funds were transferred to the Council by 31 March 2018, with a small amount of interest being transferred after the year end date, at which point the Trusts were discharged.

The former Expenditure Trust has £4.028m held and managed in accordance with the Treasury Management Strategy of the Council, as detailed on Page 9. These monies are earmarked to support the future capital works of the EICC Limited.

The former Income Trust has £0.795m held on reserves on the Council's balance sheet.

Group

Net assets for 2017/18 include a combined group pension liability of £428.245m (2016/17 £722.078m), 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 2018. 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	STEPHEN S. MOIR Executive Director of Resources	ADAM MCVEY Council Leader
27 September 2018	27 September 2018	27 September 2018

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs, including group interests, and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Head of Finance
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- 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 2003).
- 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 27 September 2018.

ADAM MCVEY
Council Leader

27 September 2018

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 2018.

HUGH DUNN, CPFA
Head of Finance
Section 95 Officer

27 September 2018

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.

2017/18	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Renewal and Repairs Fund £000**
Balance at 31 March 2017	142,611	0	64,149
Movement in reserves during 2017/18			
Total Comprehensive Income and Expenditure	(75,058)	14,469	0
Adjustments between accounting basis and funding basis under regulations (Note 11)	86,748	(23,511)	0
Net increase / (decrease) before transfers to statutory reserves	11,690	(9,042)	0
Transfer (to) / from other statutory reserves (Note 12.3)	(3,016)	9,042	(6,026)
Increase / (decrease) in year	8,674	0	(6,026)
Balance at 31 March 2018	**151,285**	**0**	**58,123**

2017/18	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Council's Total Usable Reserves £000**	**Group Usable Reserves £000**
Balance at 31 March 2017	766	61,178	268,704	28,516
Movement in reserves during 2017/18				
Total Comprehensive Income and Expenditure	0	0	(60,589)	57,280
Adjustments between accounting basis and funding basis under regulations (Note 11)	4,030	2,379	69,646	0
Net increase / (decrease) before transfers to statutory reserves	4,030	2,380	9,058	57,280
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	(3,031)
Increase / (decrease) in year	4,030	2,380	9,058	54,249
Balance at 31 March 2018	**4,796**	**63,558**	**277,762**	**82,765**

2017/18	**Total Usable Reserves £000**	**Council's Unusable Reserves £000**	**Group Unusable Reserves £000**	**Total Reserves £000**
Balance at 31 March 2017	297,220	1,511,573	112,678	1,921,471
Movement in reserves during 2017/18				
Total Comprehensive Income and Expenditure	(3,309)	529,625	3,722	530,038
Adjustments between accounting basis and funding basis under regulations (Note 11)	69,646	(69,646)	0	0
Net increase / (decrease) before transfers to statutory reserves	66,337	459,979	3,722	530,038
Transfer (to) / from other statutory reserves (Note 12.3)	(3,031)	0	3,031	0
Increase / (decrease) in year	63,306	459,979	6,753	530,038
Balance at 31 March 2018	**360,526**	**1,971,552**	**119,431**	**2,451,510**

MOVEMENT IN RESERVES STATEMENT

Re-stated 2016/17 Comparative Data	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000
Balance at 31 March 2016	128,396	0	38,194
Movement in reserves during 2016/17			
Total Comprehensive Income and Expenditure	145	17,995	0
Adjustments between accounting basis and funding basis under regulations (Note 11)	27,376	(6,109)	0
Net increase / (decrease) before transfers to statutory reserves	27,521	11,886	0
Transfer (to) / from other statutory reserves (Note 12.3)	(13,306)	(11,886)	25,955
Increase / (decrease) in year	14,215	0	25,955
Balance at 31 March 2017	**142,611**	**0**	**64,149**

2016/17 Comparative Data	Capital Grants Unapplied Account £000	Capital Fund £000	Council's Total Usable Reserves £000	Group Usable Reserves £000
Balance at 31 March 2016	2,657	68,793	238,040	40,418
Movement in reserves during 2016/17				
Total Comprehensive Income and Expenditure	0	0	18,140	(12,522)
Adjustments between accounting basis and funding basis under regulations (Note 11)	(1,891)	(7,615)	11,761	0
Net increase / (decrease) before transfers to statutory reserves	(1,891)	(7,615)	29,901	(12,522)
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	763	620
Increase / (decrease) in year	(1,891)	(7,615)	30,664	(11,902)
Balance at 31 March 2017	**766**	**61,178**	**268,704**	**28,516**

2016/17 Comparative Data	Total Usable Reserves £000	Council's Unusable Reserves £000	Group Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2016	278,458	1,731,418	111,243	2,121,119
Movement in reserves during 2016/17				
Total Comprehensive Income and Expenditure	5,618	(207,321)	2,055	(199,648)
Adjustments between accounting basis and funding basis under regulations (Note 11)	11,761	(11,761)	0	0
Net increase / (decrease) before transfers to statutory reserves	17,379	(219,082)	2,055	(199,648)
Transfer (to) / from other statutory reserves (Note 12.3)	1,383	(763)	(620)	0
Increase / (decrease) in year	18,762	(219,845)	1,435	(199,648)
Balance at 31 March 2017	**297,220**	**1,511,573**	**112,678**	**1,921,471**

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 2018

Re-stated 2016/17 £000		**Notes**	**Gross Expend. £000**	**Income £000**	**Net Expend. £000**
	SERVICES				
351,651	Communities and Families		385,752	(28,983)	356,769
140,258	Place		334,154	(177,596)	156,558
(28,160)	Housing Revenue Account		75,273	(101,445)	(26,172)
188,959	Health and Social Care		481,579	(279,186)	202,393
153,220	Resources		266,123	(43,647)	222,476
41,920	Chief Executive		13,331	(2,198)	11,133
25,621	Safer and Stronger Communities		83,696	(51,334)	32,362
3,744	Lothian Valuation Joint Board		3,741	(112)	3,629
(369)	Net cost of benefits		190,000	(190,625)	(625)
15,610	Early release costs		2,815	0	2,815
2,248	Other non-service specific costs		25,098	1,200	26,298
(13,947)	Subsidiary Companies		169,592	(177,437)	(7,845)
880,755	**COST OF SERVICES**		2,031,154	(1,051,363)	979,791
(12,009)	Other Operating Income	13.			5,263
93,155	Financing and Investment Income and Exp.	14.			93,901
(994,670)	Taxation and Non-Specific Grant Income	15.			(1,026,666)
(32,769)	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				52,289
273	Associates and Joint Ventures Accounted for on an Equity Basis				3,339
1,895	Taxation of Group entities	15.			2,106
(30,601)	**GROUP (SURPLUS) / DEFICIT**				57,734
(40,474)	Surplus on Revaluation of Non-Current Assets			(255,820)	
(16)	(Surplus) on Revaluation of Available for Sale Financial Assets			(14)	
(428,706)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			77,350	
672,917	Changes in Financial and Demographic Assumptions / Other Experience			(351,162)	
26,528	Other Unrealised (Gains) / Losses			(58,126)	
230,249	Other Comprehensive Income and Expend.				(587,772)
199,648	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				(530,038)

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.

Re-stated 2016/17			for the year ended 31 March 2018		
			Gross Expend.	**Income**	**Net Expend.**
£000	**SERVICES**	**Notes**	**£000**	**£000**	**£000**
351,651	Communities and Families		385,752	(28,983)	356,769
140,258	Place		334,154	(177,596)	156,558
(28,160)	Housing Revenue Account		75,273	(101,445)	(26,172)
188,959	Health and Social Care		481,579	(279,186)	202,393
153,220	Resources		266,123	(43,647)	222,476
41,920	Chief Executive		13,331	(2,198)	11,133
25,621	Safer and Stronger Communities		83,696	(51,334)	32,362
3,744	Lothian Valuation Joint Board		3,741	(112)	3,629
(369)	Net cost of benefits		190,000	(190,625)	(625)
15,610	Early release costs		2,815	0	2,815
2,248	Other non-service specific costs		25,098	1,200	26,298
894,702	**COST OF SERVICES**		1,861,562	(873,926)	987,636
(12,061)	Other Operating Income	13.			5,292
93,889	Financing and Investment Income and Exp.	14.			94,327
(994,670)	Taxation and Non-Specific Grant Income	15.			(1,026,666)
(18,140)	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				60,589
(40,473)	Surplus on Revaluation of Non-Current Assets			(255,820)	
(428,706)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			77,350	
672,917	Changes in Financial and Demographic Assumptions / Other Experience			(351,162)	
3,583	Other Unrealised Losses			7	
207,321	Other Comprehensive Income and Expend.				(529,625)
189,181	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				(469,036)

RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		**£000**
189,181	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)	(469,036)
(6,197)	Subsidiary and associate transactions included in the Council's CIES	(6,941)
10,030	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	(49,768)
6,634	Associates and Joint Ventures	(4,293)
199,648	Group total Comprehensive (Income) / Expenditure for the year	(530,038)

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by the reserves held by the Group. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Group may use to provide services. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the revaluation reserve) where amounts would only become available to provide services if the assets are sold.

Re-stated 31 March 2017 £000		**Notes**	**31 March 2018 £000**	**£000**
2,665	Intangible Assets	18.		1,444
1,024,223	Council Dwellings		1,029,398	
1,715,608	Other Land and Buildings		1,966,912	
171,153	Vehicles, Plant, Furniture and Equipment		181,168	
835,684	Infrastructure Assets		798,235	
14,562	Community Assets		14,050	
2,421	Surplus Assets		1,421	
53,096	Assets under Construction		56,299	
3,816,747	**Property, Plant and Equipment**	16.		4,047,483
16,821	Investment Properties	17.		18,321
31,127	Heritage Assets	19.		30,885
13,498	Assets Held for Sale	24.		2,580
726	Available for Sale Financial Assets			619
351	Deferred Tax			0
0	Other Long-Term Assets (Pension)			59,466
11,970	Long-Term Investments			8,288
32,188	Investments in Associates and Joint Ventures			29,823
106,970	Long-Term Debtors	22.		99,830
4,033,063	**Long-Term Assets**			4,298,739
26,477	Short-Term Investments		21,757	
29,359	Assets Held for Sale	24.	20,126	
967	Available for Sale Financial Assets	20.	26,836	
16,166	Inventories	21.	13,958	
100,939	Short-Term Debtors	22.	130,199	
159,831	Cash and Cash Equivalents	23.	137,022	
333,739	**Current Assets**			349,898
(70,334)	Short-Term Borrowing		(70,945)	
(167,067)	Short-Term Creditors	25.	(176,797)	
(12,863)	Provisions	26.	(29,272)	
(250,264)	**Current Liabilities**			(277,014)

GROUP BALANCE SHEET

Re-stated 31 March 2017			31 March 2018	
£000		Notes	£000	£000
(1,241,014)	Long-Term Borrowing		(1,187,742)	
(205,700)	Other Long-Term Liabilities		(204,720)	
(5,490)	Deferred Tax		(16,452)	
(22,707)	Deferred Liability	20.	(25,223)	
(9,574)	Liabilities in Associates and Joint Ventures		(2,916)	
(710,582)	Other Long-Term Liabilities (Pensions)		(483,060)	
(2,195,067)	**Long-Term Liabilities**			(1,920,113)
1,921,471	**Net Assets**			**2,451,510**
873,986	Revaluation Reserve		1,108,975	
1,402,884	Capital Adjustment Account		1,403,298	
(45,390)	Financial Instruments Adjustment Account		(43,467)	
(705,786)	Pensions Reserve		(482,493)	
(14,121)	Employee Statutory Adjustment Account		(14,761)	
112,678	Group Unusable Reserves		119,431	
1,624,251	**Unusable Reserves**	28.		2,090,983
766	Capital Grants Unapplied Account		4,796	
61,178	Capital Fund		63,558	
64,149	Renewal and Repairs Fund		58,123	
142,611	General Fund		151,285	
28,516	Group Usable Reserves		82,765	
297,220	**Usable Reserves**	12.		360,527
1,921,471	**Total Reserves**			**2,451,510**

The unaudited accounts were issued on 15 June 2018. The audited accounts were authorised for issue on 27 September 2018.

HUGH DUNN, CPFA
Head of Finance
27 September 2018

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital fund that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the revaluation reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

Re-stated 31 March 2017			**31 March 2018**	
£000		**Notes**	**£000**	**£000**
2,665	Intangible Assets	18.		1,444
1,024,223	Council Dwellings		1,029,398	
1,684,809	Other Land and Buildings		1,936,311	
94,981	Vehicles, Plant, Furniture and Equipment		88,502	
834,928	Infrastructure Assets		797,768	
14,562	Community Assets		14,050	
2,421	Surplus Assets		1,421	
53,096	Assets under Construction		56,299	
3,709,020	**Property, Plant and Equipment**	16.		3,923,749
16,471	Investment Properties	17.		17,891
31,127	Heritage Assets	19.		30,885
13,498	Assets Held for Sale	24.		2,580
23,436	Long-Term Investments	20.		20,280
111,684	Long-Term Debtors	22.		106,275
3,907,901	**Long-Term Assets**			4,103,104
25,709	Short-Term Investments	20.	20,722	
29,359	Assets Held for Sale	24.	20,126	
967	Available for Sale Financial Assets	20.	26,836	
3,048	Inventories	21.	2,513	
88,397	Short-Term Debtors	22.	113,922	
133,142	Cash and Cash Equivalents	23.	113,405	
280,622	**Current Assets**			297,524
(70,334)	Short-Term Borrowing	20.	(70,946)	
(140,196)	Short-Term Creditors	25.	(149,750)	
(10,551)	Provisions	26.	(25,431)	
(221,081)	**Current Liabilities**			(246,127)

BALANCE SHEET

Re-stated 31 March 2017			31 March 2018	
£000		Notes	£000	£000
(1,254,590)	Long-Term Borrowing	20.	(1,201,404)	
(204,082)	Other Long-Term Liabilities	20.	(196,067)	
(22,707)	Deferred Liability	20.	(25,223)	
(705,786)	Other Long-Term Liabilities (Pensions)	43.9	(482,493)	
(2,187,165)	**Long-Term Liabilities**			(1,905,187)
1,780,277	**Net Assets**			**2,249,314**
873,986	Revaluation Reserve		1,108,975	
1,402,884	Capital Adjustment Account		1,403,298	
(45,390)	Financial Instruments Adjustment Account		(43,467)	
(705,786)	Pensions Reserve		(482,493)	
(14,121)	Employee Statutory Adjustment Account		(14,761)	
1,511,573	**Unusable Reserves**	28.		1,971,552
766	Capital Grants Unapplied Account		4,796	
61,178	Capital Fund		63,558	
64,149	Renewal and Repairs Fund		58,123	
142,611	General Fund		151,285	
268,704	**Usable Reserves**	12.		277,762
1,780,277	**Total Reserves**			**2,249,314**

The unaudited accounts were issued on 15 June 2018. The audited accounts were authorised for issue on 27 September 2018.

HUGH DUNN, CPFA
Head of Finance
27 September 2018

GROUP CASH FLOW STATEMENT

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

Re-stated 2016/17 £000		**Notes**	**Year ended 31 March 2018 £000**	**£000**
	Operating Activities			
(32,769)	Surplus on the Provision of Services		52,289	
1,895	Adjustment to Surplus / (Deficit) for Taxation of Group entities		2,106	
(164,271)	Adjustments to Surplus on the Provision of Services for non-cash movements		(281,640)	
(39,444)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(17,303)	
(234,589)	Net cash flows from operating activities	29.		(244,548)
	Investing Activities			
140,427	Net cash flows from investing activities	31.		202,805
	Financing Activities			
53,043	Net cash flows from financing activities	32.		64,552
(41,119)	**Net increase in cash and cash equivalents**			22,809
(118,712)	Cash and cash equivalents at 1 April			(159,831)
(159,831)	Cash and cash equivalents at 31 March	23.		(137,022)
(41,119)	**Net increase in cash and cash equivalents**			22,809

CASH FLOW STATEMENT

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

Re-stated 2016/17 £000		**Notes**	**Year ended 31 March 2018 £000**	**£000**
	Operating Activities			
(18,140)	Surplus on the Provision of Services		60,589	
(150,053)	Adjustments to Surplus on the Provision of Services for non-cash movements		(268,582)	
(40,178)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(17,729)	
(208,371)	Net cash flows from operating activities	29.		(225,722)
	Investing Activities			
120,978	Net cash flows from investing activities	31.		179,919
	Financing Activities			
52,242	Net cash flows from financing activities	32.		65,540
(35,151)	**Net increase in cash and cash equivalents**			19,737
(97,991)	Cash and cash equivalents at 1 April			(133,142)
(133,142)	Cash and cash equivalents at 31 March	23.		(113,405)
(35,151)	**Net increase in cash and cash equivalents**			19,737

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The Annual Accounts summarises the authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The authority is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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 write-down 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 out with 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 of 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 depreciates 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 plus the cost of acquisitions and enhancements during the year over the remaining useful life of the asset. Thus the charge to the Comprehensive Income and Expenditure Statement for the year is impacted by changes in asset value during the year arising from enhancements but not revaluation.

  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.

- **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 and funds for PPP school lifecycle maintenance. 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 '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 non-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.

2017/18	**Net Expend. Chargeable to the General Fund and HRA Balances**	**Adjustments**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Communities and Families	342,940	13,829	356,769
Place	70,449	86,109	156,558
Housing Revenue Account	0	(26,172)	(26,172)
Health and Social Care	193,273	9,120	202,393
Resources	170,304	52,172	222,476
Chief Executive	11,019	114	11,133
Safer and Stronger Communities	30,470	1,892	32,362
Lothian Valuation Joint Board	3,629	0	3,629
Cost of Services	**822,084**	**137,064**	**959,148**
Other income and expenditure			
Early release costs	2,727	88	2,815
Net cost of benefits	(625)	0	(625)
Other non-service specific costs	19,604	6,694	26,298
Net deficit on trading activities	0	42	42
Net income and changes in relation to investment properties and changes in their fair value	0	(3,014)	(3,014)
Interest and investment income	(10,274)	(139)	(10,413)
Interest payable and similar charges *(loan charges in management reporting)*	110,545	(21,595)	88,950
Net pension interest cost	0	18,762	18,762
Gains on disposal of assets	0	5,292	5,292
Contribution to Renewal and Repairs Fund	93	(93)	0
Contribution from Capital Fund	(1,899)	1,899	0
Contribution to General Fund	5,397	(5,397)	0
Income from Council Tax	(249,248)	0	(249,248)
Government Grants	(345,757)	0	(345,757)
Distribution from NDRI pool	(355,063)	0	(355,063)
Capital grants and contributions	0	(76,598)	(76,598)
(Surplus) / Deficit on the provision of services	**(2,416)**	**63,005**	**60,589**

Opening General Fund and HRA Balance	142,611
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	11,090
Surplus on the provision of services	(2,416)
Closing General Fund and HRA Balance at 31 March	151,285

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 continued to undergo a programme of transformation during 2017/18. The most significant service reporting change related to ICT services being transferred from the Chief Executive service to Resources, during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

2016/17 Comparative Data	**Net Expend. Chargeable to the General Fund and HRA Balances**	**Adjustments**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Communities and Families	341,807	9,844	351,651
Place	68,365	71,893	140,258
Housing Revenue Account	0	(28,160)	(28,160)
Health and Social Care	187,838	1,121	188,959
Resources	130,860	22,360	153,220
Chief Executive	41,302	618	41,920
Safer and Stronger Communities	25,486	135	25,621
Lothian Valuation Joint Board	3,744	0	3,744
Cost of Services	**799,402**	**77,811**	**877,213**
Other income and expenditure			
Early release costs	15,610	0	15,610
Net cost of benefits	(369)	0	(369)
Other non-service specific costs	15,315	(13,067)	2,248
Net deficit on trading activities	0	191	191
Net income and changes in relation to investment properties and changes in their fair value	0	(600)	(600)
Interest and investment income	(9,552)	(117)	(9,669)
Interest payable and similar charges *(loan charges in management reporting)*	112,188	(23,697)	88,491
Net pension interest cost	0	15,476	15,476
(Gains) / Losses 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 from General Fund	9,367	(9,367)	0
Income from Council tax	(221,390)	0	(221,390)
Revenue support grant	(344,919)	0	(344,919)
Distribution from NDRI pool	(374,650)	0	(374,650)
Capital grants and contributions	0	(53,711)	(53,711)
Surplus on the provision of services	**(1,058)**	**(17,082)**	**(18,140)**

Opening General Fund and HRA Balance	128,396
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	15,273
Surplus on the provision of services	(1,058)
Closing General Fund and HRA Balance at 31 March	142,611

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

2017/18	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families	4,600	10,058	578	15,236
Place	72,078	7,874	(84)	79,868
Housing Revenue Account	(35,443)	768	(539)	(35,214)
Health and Social Care	233	7,490	41	7,764
Resources	65,091	7,408	221	72,720
Chief Executive	9	236	(91)	154
Safer and Stronger Communities	0	1,910	(27)	1,883
Cost of Services	**106,568**	**35,744**	**99**	**142,411**
Other income and expenditure				
Other non-service specific costs	16,350	(3,987)	3	12,366
Net income and changes in relation to investment properties and changes in their fair value	0	0	(1,420)	(1,420)
Interest and investment income	(57)	0	0	(57)
Interest payable and similar charges	(38,718)	0	(1,392)	(40,110)
Net pension interest cost	0	18,762	0	18,762
Gains on disposal of assets	5,292	0	0	5,292
Capital grants and contributions	(76,598)	0	0	(76,598)
Total Adjustments	**12,837**	**50,519**	**(2,710)**	**60,646**

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

2017/18	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families	15,236	962	(2,369)	13,829
Place	79,868	328	5,913	86,109
Housing Revenue Account	(35,214)	0	9,042	(26,172)
Health and Social Care	7,764	(527)	1,883	9,120
Resources	72,720	(16,632)	(3,916)	52,172
Chief Executive	154	39	(79)	114
Safer and Stronger Communities	1,883	75	(66)	1,892
Cost of Services	**142,411**	**(15,755)**	**10,408**	**137,064**
Other income and expenditure				
Early release costs	0	88	0	88
Other non-service specific costs	12,366	(1,296)	(4,376)	6,694
Net deficit on trading activities	0	42	0	42
Net income and changes in relation to investment properties and changes in their fair value	(1,420)	(1,594)	0	(3,014)
Interest and investment income	(57)	0	(82)	(139)
Interest payable and similar charges	(40,110)	18,515	0	(21,595)
Net pension interest cost	18,762	0	0	18,762
Gains on disposal of assets	5,292	0	0	5,292
Use of reserves	0	0	(3,591)	(3,591)
Capital grants and contributions	(76,598)	0	0	(76,598)
Total Adjustments	**60,646**	**0**	**2,359**	**63,005**

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

Re-stated

2016/17 Comparative Data	**Adjusts. For Capital Purposes £000**	**Net Change for Pensions Adjusts. £000**	**Other Differences £000**	**Total Statutory Adjusts. £000**
Communities and Families	4,478	1,363	2,135	7,976
Place	71,318	1,052	(1,147)	71,223
Housing Revenue Account	(15,751)	117	(640)	(16,274)
Health and Social Care	157	1,064	(1,538)	(317)
Resources	43,183	976	(188)	43,971
Chief Executive	1,325	35	95	1,455
Safer and Stronger Communities	0	264	(135)	129
Cost of Services	**104,710**	**4,871**	**(1,418)**	**108,163**
Other income and expenditure				
Other non-service specific costs	(470)	2,288	178	1,996
Net income and changes in relation to investment properties and changes in their fair value	0	0	779	779
Interest and investment income	(52)	0	0	(52)
Interest payable and similar charges	(40,245)	0	(1,399)	(41,644)
Net pension interest cost	0	15,476	0	15,476
Gains on disposal of assets	(12,061)	0	0	(12,061)
Capital grants and contributions	(53,711)	0	0	(53,711)
Total Adjustments	**(1,829)**	**22,635**	**(1,860)**	**18,946**

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

Re-stated

2016/17 Comparative Data	**Total Statutory Adjusts. b/fwd**	**Presentation Adjusts.**	**Use of Reserves**	**Total Adjusts.**
	£000	**£000**	**£000**	**£000**
Communities and Families	7,976	(108)	1,976	9,844
Place	71,223	36	634	71,893
Housing Revenue Account	(16,274)	0	(11,886)	(28,160)
Health and Social Care	(317)	0	1,438	1,121
Resources	43,971	(16,469)	(5,142)	22,360
Chief Executive	1,455	0	(837)	618
Safer and Stronger Communities	129	0	6	135
Cost of Services	**108,163**	**(16,541)**	**(13,811)**	**77,811**
Other income and expenditure				
Other non-service specific costs	1,996	(218)	(14,845)	(13,067)
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	(7,307)	(7,307)
Capital grants and contributions	(53,711)	0	0	(53,711)
Total Adjustments	**18,946**	**0**	**(36,028)**	**(17,082)**

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

2017/18	**Communities and Families**	**Place**	**Housing Revenue Account**	**Health and Social Care**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	266,856	77,709	8,142	85,796
Other service expenses	110,026	176,912	38,989	195,325
Support service recharges	0	0	7,389	0
Depreciation, amortisation and impairment	0	0	0	0
Interest payments	91	0	19,628	0
Debt repayments *(HRA only)*	0	0	37,764	0
Total Expenditure	**376,973**	**254,621**	**111,912**	**281,121**
Income				
Revenues from external customers	(7,128)	(125,641)	(99,542)	(19,494)
Income from recharges for services	(27)	(419)	(208)	0
Government grants and other contribs.	(26,878)	(58,112)	(12,105)	(68,354)
Interest and investment income	0	0	(57)	0
Total Income	**(34,033)**	**(184,172)**	**(111,912)**	**(87,848)**
Cost of Services	**342,940**	**70,449**	**0**	**193,273**

	Resources	**Chief Executive**	**Safer and Stronger Communities**	**Lothian Valuation Joint Board**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	71,834	7,697	19,354	0
Other service expenses	129,339	5,613	62,565	3,741
Support service recharges	63	0	0	0
Depreciation, amortisation and impairment	0	0	0	0
Interest payments	18,450	0	0	0
Debt repayments *(HRA only)*	0	0	0	0
Total Expenditure	**219,686**	**13,310**	**81,919**	**3,741**
Income				
Revenues from external customers	(28,001)	(410)	(38,026)	(112)
Income from recharges for services	(9,236)	(490)	0	0
Government grants and other contribs.	(12,145)	(1,391)	(13,423)	0
Interest and investment income	0	0	0	0
Total Income	**(49,382)**	**(2,291)**	**(51,449)**	**(112)**
Cost of Services	**170,304**	**11,019**	**30,470**	**3,629**

	Council Total	**Subsidiaries**	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	537,388	98,306	0	635,694
Other service expenses	722,510	61,143	0	783,653
Support service recharges	7,452	0	0	7,452
Depreciation, amortisation and impairment	0	10,143	0	10,143
Interest payments	38,169	0	0	38,169
Debt repayments *(HRA only)*	37,764	0	0	37,764
Net expend from Associates and Joint Ventures	0	0	5,790	5,790
Total Expenditure	**1,343,283**	**169,592**	**5,790**	**1,518,665**
Income				
Revenues from external customers	(318,354)	(146,468)	0	(464,822)
Income from recharges for services	(10,380)	0	0	(10,380)
Government grants and other contribs.	(192,408)	(30,969)	0	(223,377)
Interest and investment income	(57)	0	0	(57)
Net income from Associates and Joint Ventures	0		(2,451)	(2,451)
Total Income	**(521,199)**	**(177,437)**	**(2,451)**	**(701,087)**
Cost of Services	**822,084**	**(7,845)**	**3,339**	**817,578**

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

Re-stated

2016/17 Comparative Data	Communities and Families	Place	Housing Revenue Account	Health and Social Care
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	260,950	78,491	8,198	88,769
Other service expenses	106,341	165,881	38,757	182,339
Support service recharges	0	0	8,450	0
Depreciation, amortisation and impairment	0	47	0	0
Interest payments	104	0	18,660	0
Debt repayments *(HRA only)*	0	0	16,585	0
Total Expenditure	**367,395**	**244,419**	**90,650**	**271,108**
Income				
Revenues from external customers	(6,790)	(125,955)	(87,797)	(20,284)
Income from recharges for services	(16)	(822)	(191)	(16)
Government grants and other contribs.	(18,782)	(49,277)	(2,610)	(62,970)
Interest and investment income	0	0	(52)	0
Total Income	**(25,588)**	**(176,054)**	**(90,650)**	**(83,270)**
Cost of Services	**341,807**	**68,365**	**0**	**187,838**

2016/17 Comparative Data	Resources	Chief Executive	Safer and Stronger Communities	Lothian Valuation Joint Board
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	67,540	11,398	19,813	0
Other service expenses	89,966	36,224	53,754	3,744
Support service recharges	63	0	0	0
Depreciation, amortisation and impairment	0	0	0	0
Interest payments	17,656	0	0	0
Debt repayments *(HRA only)*	0	0	0	0
Total Expenditure	**175,225**	**47,622**	**73,567**	**3,744**
Income				
Revenues from external customers	(24,537)	(1,069)	(35,199)	0
Income from recharges for services	(7,777)	(2,572)	0	0
Government grants and other contribs.	(12,051)	(2,679)	(12,882)	0
Interest and investment income	0	0	0	0
Total Income	**(44,365)**	**(6,320)**	**(48,081)**	**0**
Cost of Services	**130,860**	**41,302**	**25,486**	**3,744**

2016/17 Comparative Data	Council Total	Subsidiaries	Associates and Joint Ventures	Group Total
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	535,159	92,534	0	627,693
Other service expenses	677,006	56,941	0	733,947
Support service recharges	8,513	0	0	8,513
Depreciation, amortisation and impairment	47	9,209	0	9,256
Interest payments	36,420	0	0	36,420
Debt repayments *(HRA only)*	16,585	0	0	16,585
Net expend from Associates and Joint Ventures	0	0	2,222	2,222
Total Expenditure	**1,273,730**	**158,684**	**2,222**	**1,434,636**
Income				
Revenues from external customers	(301,631)	(143,277)	0	(444,908)
Income from recharges for services	(11,394)	0	0	(11,394)
Government grants and other contribs.	(161,251)	(29,354)	0	(190,605)
Interest and investment income	(52)	0	0	(52)
Net income from Associates and Joint Ventures	0	0	(1,949)	(1,949)
Total Income	**(474,328)**	**(172,631)**	**(1,949)**	**(648,908)**
Cost of Services	**799,402**	**(13,947)**	**273**	**785,728**

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

	2017/18	Re-stated 2016/17
Expenditure	**£000**	**£000**
Employee expenses	681,538	645,753
Other service expenses	1,143,754	918,315
Support service recharges	7,452	8,513
Depreciation, amortisation and impairment	200,477	160,887
Interest payments	192,026	197,097
Net Interest in the profit/loss of associates and joint ventures	3,339	273
Total Expenditure	**2,228,586**	**1,930,838**
Income		
Fees, charges and other service income	(903,257)	(675,235)
(Gain) / Loss on the disposal of assets	5,263	(12,009)
Interest and investment income	(98,087)	(103,983)
Income from Council Tax and Non-Domestic Rates	(604,311)	(596,040)
Government grants and other contributions	(493,862)	(520,460)
Recognised capital income	(76,598)	(53,712)
Total Income	**(2,170,852)**	**(1,961,439)**
Group (Surplus) / Deficit	**57,734**	**(30,601)**

Council

3.2 The authority's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows

	2017/18	Re-stated 2016/17
Expenditure	**£000**	**£000**
Employee expenses	583,232	553,219
Other service expenses	1,080,586	859,628
Support service recharges	7,452	8,513
Depreciation, amortisation and impairment	190,334	151,678
Interest payments	178,891	182,465
Total Expenditure	**2,040,495**	**1,755,503**
Income		
Fees, charges and other service income	(696,318)	(530,677)
(Gain) / Loss on the disposal of assets	5,292	(12,061)
Interest and investment income	(84,606)	(88,766)
Income from Council Tax and Non-Domestic Rates	(604,311)	(596,040)
Government grants and other contributions	(523,365)	(492,387)
Recognised capital income	(76,598)	(53,712)
Total Income	**(1,979,906)**	**(1,773,643)**
(Surplus) / Deficit on the Provision of Services	**60,589**	**(18,140)**

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 2018/19 Code:

The Code requires implementation from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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 £549.815m at 31 March 2018) 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 notes 9 and 10 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.

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 £9.824m 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 £27.945m. A review of significant balances suggested that an impairment of doubtful debts of £3.495m (12.5%) 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 £1.397m 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 over an average 7 year period, a minimum repayment of £3.827m would potentially be due to HM Revenue and Customs.

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 97.00% of Council Tax will be collected. An impairment for doubtful debts of £8.425m 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 £2.882m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £6.876m. A review of significant balances suggested that an impairment of doubtful debts of £5.73m (83.3%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There is a relatively high level of arrears and the impairment set aside should help protect against potential loss of income to the Council arising from 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 £19.045m.

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 set aside an additional £15.9m in respect of provisions. £11.9m of this relates to contractual obligations and claims identified during the year and £4m (in Other Provisions) from the International Conference Centre Expenditure Trust. The Trust was discharged at the year end by the Trustee and the funds remitted to the Council for future support of the EICC capital programme.

8. Events After the Balance Sheet Date

On 28 June 2018 Council approved providing a formal pension guarantee to Lothian Pension Funds on behalf of Lothian Buses, to enable them to take advantage of the Funds low-risk strategy benefits. Acting as guarantor will not impact on the Council, provided Lothian Buses Limited meets its pension liabilities, as they fall due.

The Pension Fund liability included in the Unaudited Annual Accounts was based on an actuarial valuation prepared by Lothian Pension Funds' actuaries, Hymans Robertson. This was based on information provided by the Administering Authority as at 31 December 2017, allowing for index returns where necessary. Following review of the Unaudited Accounts of Lothian Pension Fund, updated information on the valuation of the Council’s share of fund assets was provided, which resulted in an increase in the Council’s share of asset values and a consequent decrease in the Pension Fund liability of £45.866 million.

9. Subsidiaries and Associates

The Council holds shares in various trading companies, either as a controlling or minority shareholder.

The Council is also represented on the Boards of various companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding and management support.

The following entities have a significant impact on the Council's operations and have been consolidated into the Group Accounts:

Subsidiaries:	**Shareholding**	
• CEC Holdings Limited	100.00%	
• Transport for Edinburgh Limited	100.00%	
Associates:		
• Edinburgh Leisure	33.33%	Board representation
• Capital Theatres (formerly Festival City Theatres Trust)	33.33%	Board representation
• Lothian Valuation Joint Board	61.15%	Funding percentage
• Common Good	100.00%	
Joint Venture	**Interest**	
• Edinburgh Integration Joint Board	50.00%	Board representation

Trusts:

- International Conference Centre Income Trust
- International Conference Centre Expenditure Trust

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

	Shareholding
• Capital City Partnership Limited	100.00%
• CEC Recovery Limited (formerly tie Limited)	100.00%
• Marketing Edinburgh Limited	100.00%
• LPFE Limited	100.00%
• LPFI Limited	100.00%
• Energy for Edinburgh 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.

9. Subsidiaries and Associates - continued

9.1 Subsidiary Companies

- **Capital City Partnership**

The company is a private company limited by guarantee and is a charitable organisation. The Council became the sole member of the company in January 2012.

The principal activities of the company are to promote community regeneration, by bringing together key statutory, voluntary, community and private sector bodies.

The most recent audited results of the company are as follows:	31.03.18 £000	31.03.17 £000
Net assets	1,267	877
Net (profit) / loss before taxation	(258)	(16)
Retained profit / (loss) carried forward	190	(123)

- **CEC Holdings Limited**

The principal activities of the company are property development and the operation of an international conference centre. The company is wholly owned by the City of Edinburgh Council.

The most recent audited results of the company are as follows:	31.12.17 £000	(re-stated) 31.12.16 £000
Net assets	17,263	19,090
Net (profit) / loss before taxation	3,648	(464)
Retained profit / (loss) carried forward	(51,338)	(51,410)

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 2018 and is actively pursuing the transferral of project documentation to Transport Scotland. The company changed its name from tie Limited to CEC Recovery Limited on 13 May 2013.

The City of Edinburgh Council owns 100% (1,000 shares) of the issued share capital through Transport Edinburgh Limited (a dormant company), the immediate parent company of CEC Recovery Limited. The most recent unaudited results of the company are as follows:

	31.03.18 £000	31.03.17 £000
Net assets	0	0
Net deficit before taxation	0	0
Retained profit / (loss) carried forward	(1)	(1)

- **LPFE Limited**

The company was incorporated on 11 February 2015 and commenced trading on 1 May 2015.

The principal activity of the company is the provision of staff to the City of Edinburgh Council and LPFI Limited in support of the administration of Pension Funds. All pension funds are part of the Local Government Pension Scheme in Scotland.

The audited results of the company are as follows:	31.03.18 £000	31.03.17 £000
Net liabilities	(1,393)	(539)
Net (profit) / loss before taxation	1,535	(6)
Retained profit / (loss) carried forward	(1,393)	(539)

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.1 Subsidiary Companies - continued

- **LPFI Limited**

The company was incorporated on 11 February 2015 and commenced trading during 2016/17.

The principal activity of the company is the provision of FCA-regulated services to the City of Edinburgh Council in support of the administration of Pension Funds. All pension funds are part of the Local Government Pension Scheme in Scotland.

The audited results of the company are as follows:	31.03.18 £000	31.03.17 £000
Net assets	95	50
Net (profit) / loss before taxation	(43)	(1)
Retained profit / (loss) carried forward	(35)	0

- **Marketing Edinburgh Limited**

The company is a private company limited by guarantee. The Council is the sole member.

The principal activities of the company are to increase economic activity within the Edinburgh area by promoting it as a destination to live, work, study, etc.

The most recent audited results of the company are as follows:	31.03.18 £000	31.03.17 £000
Net assets	229	284
Net (profit) / loss before taxation	55	(23)
Retained profit / (loss) carried forward	229	284

- **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:

Transport for Edinburgh Limited (Consolidated Group)	31.12.17 £000	31.12.16 £000
Net assets	154,951	95,955
Net (profit) / loss before taxation	(11,948)	(14,165)
Retained earnings	63,923	9,779
Dividend paid	6,610	5,517

A copy of the latest accounts can be obtained by writing to the Finance Director, Lothian Buses Limited, Annandale Street, Edinburgh, EH7 4AZ.

- **Energy for Edinburgh Limited**

Energy for Edinburgh Limited was incorporated on 8 November 2016. The principal activities of the company are to identify and deliver energy projects across areas of energy efficiency, district heating and renewables in line with the Council's Sustainable Energy Action Plan.

The most recent audited results of the company are as follows:	31.12.17 £000	31.12.16 £000
Net assets	18	0
Net (profit) / loss before taxation	34	0
Retained profit / (loss) carried forward	18	0

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.2 Associates

- **Edinburgh Leisure**

This is a non-profit-distributing company limited by guarantee and registered as a Charity. Each member has undertaken to contribute an amount not exceeding £1 towards any deficit arising in the event of the company being wound up.

The principal activity of the company is the provision of recreation and leisure facilities.

The City of Edinburgh Council is represented on the company's Board of Directors and contributes a substantial sum to the company towards the cost of operating sport and leisure facilities.

The City of Edinburgh Council leases its sport and leisure centres to the company.

The most recent audited results of the company are as follows:	**31.03.18 £000**	**31.03.17 £000**
Net assets / (liabilities)	209	(8,638)
Net operating (profit) / loss	683	944
Earnings / (Losses) carried forward	209	(8,638)

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% (2016/17 33.33%) Board Representation, is as follows:

	31.03.18 £000	**31.03.17 £000**
Total Comprehensive (Income) and Expenditure	2,949	3,098
Net assets / (liabilities)	70	(2,879)
Total usable reserves	70	(2,879)

- **Capital Theatres (formerly Festival City Theatres Trust)**

This is a non-profit-distributing company limited by guarantee and registered as a Charity.

The City of Edinburgh Council is represented on the trust's board of directors and gives substantial financial assistance. The City of Edinburgh Council leases the King's Theatre and the Festival Theatre to the trust.

The most recent audited results of the company are as follows:	**31.03.18 £000**	**31.03.17 £000**
Net assets	3,920	3,261
Net operational (profit) / loss	(360)	359
Fund balances carried forward	3,920	3,261

Although Capital Theatres 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 Capital Theatres, based on 33.33% (2016/17 33.33%) Board representation, is as follows:

	31.03.18 £000	**31.03.17 £000**
Total Comprehensive Expenditure	220	158
Net assets	1,307	1,087
Total usable reserves	1,307	1,087

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.

	31.03.18 £000	31.03.17 £000
Deficit for the year	1,121	145
Net Liabilities	(4,769)	(10,940)
Usable reserves	798	1,011
Unusable reserves	(5,567)	(11,951)
Total reserves	(4,769)	(10,940)

The group share of the results of the Lothian Valuation Joint Board, based on a 61.15% (2016/17 61.19%) funding percentage is as follows:

	31.03.18 £000	31.03.17 £000
Funding - requisitions	(3,741)	(3,744)
Other income	(1,027)	(1,320)
Total income	(4,768)	(5,064)
Deficit for the year	685	89
Net liabilities	(2,916)	(6,694)
Usable reserves	488	619
Unusable reserves	(3,404)	(7,313)
Total reserves	(2,916)	(6,694)

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.

The most recent audited results of the company are as follows:	31.03.18 £000	31.03.17 £000
Gross expenditure	704,815	676,164
Surplus for the year	(4,662)	(3,690)
Usable reserves	8,352	3,690

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% (2016/17 50%) funding percentage is as follows:

	31.03.18 £000	31.03.17 £000
Net assets	4,176	1,845
Usable reserves	4,176	1,845

9.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are audited.

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), Capital Theatres (formerly 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 £202.196m (2016/17 £141.194m) 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 2018 was £0.020m (31 March 2017 £4.072m).

  The Expenditure Trust received interest of £0.026m during the year.

  The Trustee (Bank of Scotland) resigned during the financial year and the Trust was discharged, with the remaining funds being transferred to the Council. £4.008m was transferred as at 31 March 2018 and is held on the Council's Balance Sheet to support future capital works of the EICC Limited. A balance of interest of £0.020m was transferred after the year end date. Payments were also made to EICC Limited during the year for capital works (£0.066m).

- **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 2018 was nil (31 March 2017 £0.810m).

  The Trustee (Bank of Scotland) resigned during the financial year and the Trust was discharged, with the remaining funds being transferred to the Council. £0.795m was transferred as at 31 March 2018 and is held on the Council's Balance Sheet. 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.

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

2017/18	Usable Reserves General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	167,712	21,356	0
Movements in the market value of investment properties	(1,420)	0	0
Amortisation and impairment of intangible assets	1,267	0	0
Capital grants and contributions applied	(65,319)	(11,280)	0
Capital funded from revenue	(2,726)	(19,474)	0
Revenue expenditure funded from capital under statute	44,411	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(63,110)	(18,290)	0
Capital expenditure charged against General Fund and HRA balances	(44,411)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	1,825	3,467	21,879
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(21,879)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,393)	(536)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	108,133	2,377	0
Employer's pension contributions and direct payments to pensioners payable in the year	(58,864)	(1,128)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	643	(3)	0
Total Adjustments	86,748	(23,511)	0

NOTES TO THE FINANCIAL STATEMENTS

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

2017/18	Usable Reserves: Capital Grants Unapplied Account £000	Usable Reserves: Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(189,068)
Movements in the market value of investment properties	0	0	1,420
Amortisation of intangible assets	0	0	(1,267)
Capital grants and contributions applied	4,051	0	72,548
Capital funded from revenue	0	0	22,200
Revenue expenditure funded from capital under statute	0	0	(44,411)
Insertion of items not debited or credited to the CIES	0	0	0
Statutory provision for the financing of capital investment	0	2,379	79,021
Capital expenditure charged against General Fund and HRA balances	0	0	44,411
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(21)	0	21
Adjustments primarily involving the Capital Receipts Reserve			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(27,171)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	21,879
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,929
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(110,510)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	59,992
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(640)
Total Adjustments	4,030	2,379	(69,646)

NOTES TO THE FINANCIAL STATEMENTS

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

Re-stated 2016/17 Comparative Data	Usable Reserves General Fund Balance £000	 Housing Revenue Account Balance £000	 Capital Receipts Reserve £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	131,514	18,944	0
Movements in the market value of investment properties	779	0	0
Amortisation of intangible assets	1,221	0	0
Capital grants and contributions applied	(46,125)	(7,587)	0
Capital funded from revenue	(2,056)	0	0
Revenue expenditure funded from capital under statute	40,301	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(66,774)	(16,585)	0
Capital expenditure charged against General Fund and HRA balances	(40,301)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	(11,306)	(754)	27,922
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(27,922)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,400)	(498)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	86,883	2,016	0
Employer's pension contributions and direct payments to pensioners payable in the year	(64,761)	(1,503)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(599)	(142)	0
Total Adjustments	27,376	(6,109)	0

NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
Re-stated **2016/17 Comparative Data**	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(150,458)
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	53,698
Capital funded from revenue	0	0	2,056
Revenue expenditure funded from capital under statute	0	0	(40,301)
Insertion of items not debited or credited to the CIES	0	0	
Statutory provision for the financing of capital investment	0	(7,615)	90,974
Capital expenditure charged against General Fund and HRA balances	0	0	40,301
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,905)	0	1,905
Adjustments primarily involving the Capital Receipts Reserve			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(15,862)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	27,922
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,898
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(88,899)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	66,264
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	741
Total Adjustments	(1,891)	(7,615)	(11,761)

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves

12.1 Transfers to and from Usable Reserves

This note sets out the amounts set aside in the Group's and the Council's usable reserves and the amounts posted back from these reserves to meet expenditure during the year.

Group Reserves	Balance at 01.04.17 £000	Net Transfers Out 2017/18 £000	Net Transfers In 2017/18 £000	Balance at 31.03.18 £000
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,410)	0	72	(51,338)
Capital grants unapplied account	2,262	(459)	0	1,803
Transport for Edinburgh Limited				
Revenue reserves	69,708	0	54,144	123,852
Total Usable Reserves - Subsidiaries	**20,560**	**(459)**	**54,216**	**74,317**
Associates and Joint Ventures				
Common Good Fund				
Earmarked revenue reserve	2,402	(15)	0	2,387
Edinburgh Leisure				
Earmarked revenue reserve	(3,008)	0	2,933	(75)
Revenue reserves	129	0	15	144
International Conference Centre Trusts				
Income Trust	810	(809)	0	1
Expenditure Trust	4,072	(4,052)	0	20
Capital Theatres				
Earmarked capital reserve	1,084	0	104	1,188
Revenue reserves	3	0	116	119
Lothian Valuation Joint Board				
Revenue reserves	619	(131)	0	488
Edinburgh Integration Joint Board				
Revenue reserves	1,845	0	2,331	4,176
Total Usable Reserves - Associates and Joint Ventures	**7,956**	**(5,007)**	**5,499**	**8,448**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**28,516**	**(5,466)**	**59,715**	**82,765**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.16 £000	Net Transfers Out 2016/17 £000	Net Transfers In 2016/17 £000	Balance at 31.03.17 £000
Group Reserves				
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,361)	0	(49)	(51,410)
Capital grants unapplied account	2,729	(467)	0	2,262
Transport for Edinburgh				
Revenue reserves	78,249	(8,541)	0	69,708
Total Usable Reserves - Subsidiaries	**29,617**	**(9,008)**	**(49)**	**20,560**
Associates and Joint Ventures				
Common Good Fund				
Earmarked revenue reserves	2,298	0	104	2,402
Edinburgh Leisure				
Earmarked revenue reserve	44	(3,052)	0	(3,008)
Revenue reserves	174	(45)	0	129
International Conference Centre Trusts				
Income Trust	2,398	(1,588)	0	810
Expenditure Trust	4,183	(111)	0	4,072
Capital Theatres (formerly Festival City Theatres Trust)				
Earmarked capital reserve	1,202	(118)	0	1,084
Revenue reserves	43	(40)	0	3
Lothian Valuation Joint Board				
Revenue reserves	459	0	160	619
Edinburgh Integration Joint Board				
Revenue reserves	0	0	1,845	1,845
Total Usable Reserves - Associates and Joint Ventures	**10,801**	**(4,954)**	**2,109**	**7,956**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**40,418**	**(13,962)**	**2,060**	**28,516**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued
12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.17 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Balance at 31.03.18 £000
Council's Usable Reserves				
General Fund				
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	25,659	(8,813)	23,803	40,649
Council Priorities Fund	4,886	(1,312)	4,117	7,691
Contingency funding, workforce mgmt.	18,094	0	49	18,143
Dilapidations Fund	12,344	(9,267)	2,000	5,077
Insurance Funds	14,666	(17)	1,226	15,875
	75,649	(19,409)	31,195	87,435
Balances Set Aside from Income Received in Advance				
Licensing and Registration Income	3,093	(272)	259	3,080
Recycling balances	1,161	(464)	0	697
Revenue grants and contributions received in advance of planned expenditure	8,885	(6,309)	2,254	4,830
Council Tax Discount Fund	24,234	0	3,198	27,432
Other earmarked balances	236	(18)	0	218
City Strategic Investment Fund	6,180	(768)	49	5,461
	43,789	(7,831)	5,760	41,718
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy Efficiency Fund	98	0	80	178
Spend to Save Fund and similar projects	7,362	(4,418)	227	3,171
	7,460	(4,418)	307	3,349
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	2,688	(2,688)	5,758	5,758
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	(432)	432	0
Unallocated General Fund	13,025	0	0	13,025
Total General Fund	142,611	(34,778)	43,452	151,285
Housing Revenue Account Balance	0	(432)	432	0
Renewal and Repairs Fund	64,149	(9,474)	3,448	58,123
Capital Fund	61,178	(2,513)	4,893	63,558
Capital Receipts Reserve	0	(21,879)	21,879	0
Capital Grants Unapplied Account	766	(21)	4,051	4,796
Total Usable Reserves - Council	**268,704**	**(69,097)**	**78,155**	**277,762**
Total Usable Reserves - Group	**297,220**	**(74,563)**	**137,870**	**360,527**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued
12.1 Transfers to and from Usable Reserves - continued

(Re-stated)	Balance at 01.04.16 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31.03.17 £000
General Fund				
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	12,565	(4,011)	17,105	25,659
Council Priorities Fund	1,128	0	3,758	4,886
Contingency funding, workforce mgmt.	18,075	0	19	18,094
Dilapidations Fund	12,094	(450)	700	12,344
Insurance Funds	13,539	(99)	1,226	14,666
	57,401	(4,560)	22,808	75,649
Balances Set Aside from Income Received in Advance				
Licensing 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 expend.	15,243	(9,301)	2,943	8,885
Council Tax Discount Fund	21,596	(250)	2,888	24,234
Other earmarked balances	240	(17)	13	236
City Strategic Investment Fund	7,458	(1,278)	0	6,180
	47,303	(11,057)	7,543	43,789
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy Efficiency Fund	846	(830)	82	98
Spend to Save Fund and similar projects	7,017	(1,558)	1,903	7,362
	7,863	(2,388)	1,985	7,460
Balances Set Aside under Devolved School Management Scheme				
Balances held by schools under DSM	2,804	(2,804)	2,688	2,688
	2,804	(2,804)	2,688	2,688
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	(11,886)	11,886	0
Unallocated General Fund	13,025	0	0	13,025
Total General Fund	128,396	(32,695)	46,910	142,611
Housing Revenue Account Balance	0	(11,886)	11,886	0
Renewal and Repairs Fund	38,194	0	25,955	64,149
Capital Fund	68,793	(8,165)	550	61,178
Capital Receipts Reserve	0	(27,922)	27,922	0
Capital Grants Unapplied Account	2,657	(1,905)	14	766
Total Usable Reserves - Council	**238,040**	**(82,573)**	**113,237**	**268,704**
Total Usable Reserves - Group	**278,458**	**(96,535)**	**115,297**	**297,220**

12.2 Devolved School Management and Pupil Equity Funding

A net credit balance of £5.758m (2016/17 £2.688m) is held within the General Fund in accordance with the Devolved School Management scheme and permitted carry forward of the newly resourced Pupil Equity Fund.

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

2017/18	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(34,778)	(432)	(9,474)	(21,879)
Transfers in	43,452	432	3,448	21,879
Total movements in fund	8,674	0	(6,026)	0
Recognised in Comprehensive Income and Expenditure Statement	11,690	(9,042)	0	0
Transfers to other earmarked reserves	(3,016)	9,042	(6,026)	0
Total movements in fund	8,674	0	(6,026)	0

	Capital Grants Unapplied £000	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(21)	(2,513)	(5,466)	**(74,563)**
Transfers in	4,051	4,893	59,715	**137,870**
Total movements in fund	4,030	2,380	54,249	**63,307**
Recognised in Comprehensive Income and Expenditure Statement	4,030	2,380	57,280	**66,338**
Transfers to other earmarked reserves	0	0	(3,031)	**(3,031)**
Total movements in fund	4,030	2,380	54,249	**63,307**

2016/17 Comparative Data	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(32,695)	(11,886)	0	(27,922)
Transfers in	46,910	11,886	25,955	27,922
Total movements in fund	14,215	0	25,955	0
Recognised in Comprehensive Income and Expenditure Statement	27,521	11,886	0	0
Transfers to other earmarked reserves	(13,306)	(11,886)	25,955	0
Total movements in fund	14,215	0	25,955	0

12. Usable Reserves - continued

12.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves - continued

2016/17 Comparative Data	Capital Grants Unapplied £000	Capital Fund £000	Group Usable Reserves £000	Total £000
Transfers out	(1,905)	(8,165)	(13,962)	**(96,535)**
Transfers in	14	550	2,060	**115,297**
Total movements in fund	(1,891)	(7,615)	(11,902)	**18,762**
Recognised in Comprehensive Income and Expenditure Statement	(1,891)	(7,615)	(12,522)	**17,379**
Transfers to other earmarked reserves	0	0	620	**1,383**
Total movements in fund	(1,891)	(7,615)	(11,902)	**18,762**

13. Other Operating Expenditure

	2017/18		2016/17	
	Group £000	Council £000	Group £000	Council £000
Gains on the disposal of non-current assets	5,263	5,292	(12,009)	(12,061)
	5,263	5,292	(12,009)	(12,061)

14. Financing and Investment Income and Expenditure

	2017/18		2016/17	
	Group £000	Council £000	Group £000	Council £000
Interest payable and similar charges	89,236	88,950	88,756	88,491
Interest cost on defined benefit obligation	102,790	89,941	108,342	93,974
Interest receivable and similar income	(10,504)	(10,413)	(9,838)	(9,669)
Interest income on plan assets	(84,563)	(71,179)	(93,498)	(78,498)
Net income in relation to investment properties and changes in their fair value	(3,094)	(3,014)	(750)	(600)
Net (surplus) / deficit from trading activities	36	42	143	191
	93,901	94,327	93,155	93,889

15. Taxation and Non-Specific Grant Income

	2017/18		Re-stated 2016/17	
	Group £000	Council £000	Group £000	Council £000
Council Tax income	(249,248)	(249,248)	(221,390)	(221,390)
Non-domestic rates	(355,063)	(355,063)	(374,650)	(374,650)
Non-ring fenced government grants	(345,757)	(345,757)	(344,919)	(344,919)
Capital grants and contributions	(76,598)	(76,598)	(53,711)	(53,711)
Taxation expenses	2,106	0	1,895	0
	(1,024,560)	(1,026,666)	(992,775)	(994,670)

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment

16.1 Depreciation

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 2018, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £256.725m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2017 were £226.111m.

	£000	Expected Completion Date
Free school meals kitchens retention	64	Aug-18
Rising school rolls 6 school extension	5,688	Aug-18
Rising school rolls temporary units	1,924	Aug-18
Nurseries phase 2	1,104	Aug-18
St John's Primary School	4,977	Aug-18
Seafield Depot phase 2	763	Aug-18
Meadowbank Sports Centre (demolition works)	750	Dec-18
Lift upgrade works	1,313	Mar-19
Heating works	2,644	Mar-19
Kitchen and bathroom upgrade	14,320	Mar-19
Royston Care Home retention	289	2018-2019
School upgrade works	1,062	2018-2019
Parks infrastructure improvements	393	2018-2019
Water of Leith phase 2 (flood defence work)	2,909	2018-2019
Communities and Families fire and other upgrade works	544	2019-2020
Water Tank upgrade works for Legionella	650	2019-2020
Zero Waste - Millerhill Project	28,000	2019-2020
St James Quarter - Growth Accelerator Model	61,400	2020-2021
Greendykes	7,638	Apr-19
Bankhead depot	10,600	Jun-19
North Sighthill	13,204	Aug-19
Small sites programme	15,606	Aug-19
Treverlen Park	1,147	Sep-19
Craigmillar town centre	24,565	Mar-20
Pennywell town centre	22,633	Mar-22
ICT capital investment / ICT transformational change investment	14,167	Mar-23
Pennywell phases 1 to 4	18,371	Oct-24
	256,725	

16. Property, Plant and Equipment - continued

16.3 Movements on Balances - Group

Movements in 2017/18

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2017	1,077,207	1,852,238	304,161	1,403,042
Additions	33,712	37,357	30,220	28,336
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(6,031)	198,430	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(69)	(52,970)	0	0
Derecognition - disposals	(11,215)	(2,324)	(6,387)	0
Derecognition - other	0	(819)	(4,010)	0
Assets reclassified (to) / from held for sale	0	6,463	0	0
Other movements in cost or valuation	7,394	36,989	0	0
At 31 March 2018	1,100,998	2,075,364	323,984	1,431,378
Accumulated Depreciation and Impairment				
At 1 April 2017	(52,984)	(136,630)	(133,008)	(567,358)
Depreciation charge	(19,625)	(46,356)	(19,432)	(65,785)
Depreciation charge written out to Revaluation Reserve	241	63,191	0	0
Depreciation written out to the Surplus on the Provision of Services	4	11,098	0	0
Derecognition - disposals	764	115	5,614	0
Derecognition - other	0	130	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	4,010	0
Other movements in cost or valuation	0	0	0	0
At 31 March 2018	(71,600)	(108,452)	(142,816)	(633,143)
Net book value				
At 31 March 2018	1,029,398	1,966,912	181,168	798,235
At 31 March 2017	1,024,223	1,715,608	171,153	835,684

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.3 Movements on Balances - Group

Movements in 2017/18

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2017	14,562	2,421	53,096	**4,706,727**
Additions	5,168	362	46,224	**181,379**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	**192,391**
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	**(58,711)**
Derecognition - disposals	0	0	0	**(19,926)**
Derecognition - other	0	0	0	**(4,829)**
Assets reclassified (to) / from held for sale	0	0	0	**6,463**
Other movements in cost or valuation	0	(1,362)	(43,021)	**0**
At 31 March 2018	14,050	1,421	56,299	**5,003,494**
Accumulated Depreciation and Impairment				
At 1 April 2017	0	0	0	**(889,980)**
Depreciation charge	0	0	0	**(151,198)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**63,432**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,102**
Derecognition - disposals	0	0	0	**6,493**
Derecognition - other	0	0	0	**130**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**4,010**
Other movements in cost or valuation	0	0	0	**0**
At 31 March 2018	0	0	0	**(956,011)**
Net book value				
At 31 March 2018	14,050	1,421	56,299	**4,047,483**
At 31 March 2017	14,562	2,421	53,096	**3,816,747**

16. Property, Plant and Equipment - continued
16.4 Movements on Balances - Group Accounts
2016/17 Comparative Data

Re-stated	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2016	1,066,016	1,724,709	312,404	1,376,084
Additions	34,269	32,436	18,756	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	28,723	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(20,312)	(3,935)	0
Derecognition - disposals	(15,580)	(148)	(1,403)	0
Derecognition - other	0	0	(21,661)	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	(7,043)	83,765	0	0
At 31 March 2017	1,077,207	1,852,238	304,161	1,403,042
Accumulated Depreciation and Impairment				
At 1 April 2016	(35,393)	(111,507)	(134,661)	(503,164)
Depreciation charge	(18,574)	(42,269)	(21,205)	(64,194)
Depreciation charge written out to Revaluation Reserve	209	7,855	0	0
Depreciation written out to the Surplus on the Provision of Services	0	9,307	15	0
Derecognition - disposals	774	5	1,182	0
Derecognition - other	0	0	21,661	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	(52,984)	(136,630)	(133,008)	(567,358)
Net book value				
At 31 March 2017	1,024,223	1,715,608	171,153	835,684
At 31 March 2016	1,030,623	1,613,202	177,743	872,920

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.4 Movements on Balances - Group

2016/17 Comparative Data

Re-stated	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total Property Plant and Equipment £000**
Cost or Valuation				
At 1 April 2016	12,964	2,420	89,688	**4,584,285**
Additions	1,842	1	40,130	**154,392**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	**28,268**
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	**(24,491)**
Derecognition - disposals	0	0	0	**(17,131)**
Derecognition - other	0	0	0	**(21,661)**
Assets reclassified (to) / from held for sale	0	0	0	**3,065**
Other movements in cost or valuation	0	0	(76,722)	**0**
At 31 March 2017	14,562	2,421	53,096	**4,706,727**
Accumulated Depreciation and Impairment				
At 1 April 2016	0	0	0	**(784,725)**
Depreciation charge	0	0	0	**(146,242)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**8,064**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**9,322**
Derecognition - disposals	0	0	0	**1,961**
Derecognition - other	0	0	0	**21,661**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**
Other movements in cost or valuation	0	0	0	**(21)**
At 31 March 2017	0	0	0	**(889,980)**
Net book value				
At 31 March 2017	14,562	2,421	53,096	**3,816,747**
At 31 March 2016	12,964	2,420	89,688	**3,799,560**

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.5 Movements on Balances - Council

Movements in 2017/18

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2017	1,077,207	1,790,335	159,328	1,396,372
Additions	33,712	37,357	3,510	28,336
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(6,031)	198,430	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(69)	(52,970)	0	0
Derecognition - disposals	(11,215)	(2,324)	(2,290)	0
Derecognition - other	0	(819)	(4,010)	0
Assets reclassified (to) / from held for sale	0	6,463	0	0
Other movements in cost or valuation	7,394	36,989	0	0
At 31 March 2018	1,100,998	2,013,461	156,538	1,424,708
Accumulated Depreciation and Impairment				
At 1 April 2017	(52,984)	(105,526)	(64,347)	(561,444)
Depreciation charge	(19,625)	(46,158)	(9,776)	(65,496)
Depreciation charge written out to Revaluation Reserve	241	63,191	0	0
Depreciation written out to the Surplus on the Provision of Services	4	11,098	0	0
Derecognition - disposals	764	115	2,077	0
Derecognition - other	0	130	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	4,010	0
Other movements in cost or valuation	0	0	0	0
At 31 March 2018	(71,600)	(77,150)	(68,036)	(626,940)
Net book value				
At 31 March 2018	1,029,398	1,936,311	88,502	797,768
At 31 March 2017	1,024,223	1,684,809	94,981	834,928

16. Property, Plant and Equipment - continued
16.5 Movements on Balances - Council
Movements in 2017/18

Cost or Valuation	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total Property Plant and Equipment £000**	**PPP Assets £000**
At 1 April 2017	14,562	2,421	53,096	**4,493,321**	594,858
Additions	5,168	362	46,224	**154,669**	40
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	**192,391**	(1,480)
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	**(58,711)**	0
Derecognition - disposals	0	0	0	**(15,829)**	0
Derecognition - other	0	0	0	**(4,829)**	0
Assets reclassified (to) / from held for sale	0	0	0	**6,463**	0
Other movements in cost or valuation	0	(1,362)	(43,021)	**0**	0
At 31 March 2018	14,050	1,421	56,299	**4,767,475**	593,418
Accumulated Depreciation and Impairment					
At 1 April 2017	0	0	0	**(784,301)**	(32,687)
Depreciation charge	0	0	0	**(141,055)**	(14,106)
Depreciation charge written out to Revaluation Reserve	0	0	0	**63,432**	3,190
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,102**	0
Derecognition - disposals	0	0	0	**2,956**	0
Derecognition - other	0	0	0	**130**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**4,010**	0
Other movements in cost or valuation	0	0	0	**0**	0
At 31 March 2018	0	0	0	**(843,726)**	(43,603)
Net book value					
At 31 March 2018	14,050	1,421	56,299	**3,923,749**	549,815
At 31 March 2017	14,562	2,421	53,096	**3,709,020**	562,171

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

16. Property, Plant and Equipment - continued
16.6 Movements on Balances - Council
2016/17 Comparative Data

Re-stated Cost or Valuation	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
At 1 April 2016	1,066,016	1,663,708	179,516	1,369,414
Additions	34,269	31,534	5,408	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	28,723	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(20,312)	(25)	0
Derecognition - disposals	(15,580)	(148)	0	0
Derecognition - other	0	0	(25,571)	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	(7,043)	83,765	0	0
At 31 March 2017	1,077,207	1,790,335	159,328	1,396,372
Accumulated Depreciation and Impairment				
At 1 April 2016	(35,393)	(80,585)	(73,555)	(497,540)
Depreciation charge	(18,574)	(42,087)	(12,468)	(63,904)
Depreciation charge written out to Revaluation Reserve	209	7,855	0	0
Depreciation written out to the Surplus on the Provision of Services	0	9,307	15	0
Derecognition - disposals	774	5	0	0
Derecognition - other	0	0	21,661	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	(52,984)	(105,526)	(64,347)	(561,444)
Net book value				
At 31 March 2017	1,024,223	1,684,809	94,981	834,928
At 31 March 2016	1,030,623	1,583,123	105,961	871,874

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant and Equipment - continued

16.6 Movements on Balances - Council

2016/17 Comparative Data

Re-stated	**Community Assets £000**	**Surplus Assets £000**	**Total Assets Under Construction £000**	**Total Property Plant and Equipment £000**	**PPP Assets £000**
Cost or Valuation					
At 1 April 2016	12,964	2,420	89,688	**4,383,726**	583,781
Additions	1,842	1	40,130	**140,142**	34
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	**28,268**	6,951
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	**(20,581)**	0
Derecognition - disposals	0	0	0	**(15,728)**	0
Derecognition - other	0	0	0	**(25,571)**	0
Assets reclassified (to) / from held for sale	0	0	0	**3,065**	0
Other movements in cost or valuation	0	0	(76,722)	**0**	4,092
At 31 March 2017	14,562	2,421	53,096	**4,493,321**	594,858
Accumulated Depreciation and Impairment					
At 1 April 2016	0	0	0	**(687,073)**	(22,252)
Depreciation charge	0	0	0	**(137,033)**	(13,155)
Depreciation charge written out to Revaluation Reserve	0	0	0	**8,064**	2,720
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**9,322**	0
Derecognition - disposals	0	0	0	**779**	0
Derecognition - other	0	0	0	**21,661**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**	0
Other movements in cost or valuation	0	0	0	**(21)**	0
At 31 March 2017	0	0	0	**(784,301)**	(32,687)
Net book value					
At 31 March 2017	14,562	2,421	53,096	**3,709,020**	562,171
At 31 March 2016	12,964	2,420	89,688	**3,696,653**	561,529

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings'.

16. Property, Plant and Equipment - continued

16.7 Council Dwellings, Other Land and Buildings and Investment Properties

The Council carries out a rolling programme of revaluations that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out under the direction of the Council's Operational Estate Manager, L. Turner RICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

The significant assumptions applied in estimating fair value are:

- Unless otherwise stated, all properties with a greater than de minimis value were assumed to be in a reasonable state of repair and have a life expectancy of more than fifty years. Where the Council has a planned replacement programme asset life is reviewed accordingly.

- The valuations were prepared using information from the Council's internal records, together with the valuation roll produced by Lothian Valuation Joint Board.

- Not all properties were inspected.

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of property, plant and equipment.

Council assets	**Council Dwellings £000**	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**
Carried at historical cost	107,508	50,036	88,739	1,424,708
Valued at fair value as at:				
31 March 2018	551	876,374	0	0
31 March 2017	0	232,137	0	0
31 March 2016	1,011	231,141	0	0
31 March 2015	1,425	230,799	67,674	0
31 March 2014	990,503	392,974	125	0
Total cost or valuation	1,100,998	2,013,461	156,538	1,424,708

Council assets	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total £000**
Carried at historical cost	14,050	1	56,299	1,741,341
Valued at fair value as at:				
31 March 2018	0	0	0	876,925
31 March 2017	0	0	0	232,137
31 March 2016	0	1,420	0	233,572
31 March 2015	0	0	0	299,898
31 March 2014	0	0	0	1,383,602
Total cost or valuation	14,050	1,421	56,299	4,767,475

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 2018
	£000	£000	£000	£000
Surplus assets	0	1,421	0	1,421
Investment properties - advertising hoardings	0	17,891	0	17,891
Total cost or valuation	0	19,312	0	19,312

- 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.

	2017/18		2016/17	
	Group	Council	Group	Council
	£000	£000	£000	£000
Rental income from investment properties	(1,594)	(1,594)	(1,384)	(1,384)
Direct operating expenses arising from investment property	0	0	5	5
	(1,594)	(1,594)	(1,379)	(1,379)

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.

	2017/18		2016/17	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Value at 1 April	16,821	16,471	17,450	17,250
Additions:				
- Subsequent expenditure	0	0	0	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	1,500	1,420	(629)	(779)
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	18,321	17,891	16,821	16,471

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 £1.249m in 2017/18 (2016/17 £1.221m) was charged to Resources.

	2017/18 £000	2016/17 £000
Resources	1,249	1,221
Total amortisation	1,249	1,221

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

	2017/18		2016/17	
	Group £000	Council £000	Group £000	Council £000
Balance at 1 April				
Gross carrying amount	8,778	8,778	8,557	8,557
Less: Accumulated amortisation	(6,113)	(6,113)	(4,892)	(4,892)
Net carrying amount at 1 April	2,665	2,665	3,665	3,665
Additions during the year				
- Purchased intangible assets	46	46	221	221
Impairment during the year	(18)	(18)	0	0
Amortisation for the period	(1,249)	(1,249)	(1,221)	(1,221)
Net carrying amount at 31 March	1,444	1,444	2,665	2,665
Comprising:				
Gross carrying amounts	8,806	8,806	8,778	8,778
Accumulated amortisation	(7,362)	(7,362)	(6,113)	(6,113)
Net carrying amount at 31 March	1,444	1,444	2,665	2,665

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

	Carrying Amount		Remaining Amortisation Period
	2017/18 £000	2016/17 £000	31.03.18
Master data management software	222	444	1 year
Web-based solution software, including web forms	238	476	1 year
Integration engine software	203	405	1 year
Customer relationship management solutions	422	844	1 year
Security management software	71	143	1 year
Telephony system software	183	220	4 years

NOTES TO THE FINANCIAL STATEMENTS

19. Heritage Assets

19.1 Reconciliation of the Carrying Value of Heritage Assets

Movements in 2017/18

Cost or Valuation	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
At 1 April 2017	665	2,047	6,797
Additions	166	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	(4)	0	0
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	(404)	0	0
At 31 March 2018	423	2,047	6,797
Accumulated Impairment			
At 1 April 2017	0	0	0
At 31 March 2018	0	0	0
Net book value			
At 31 March 2018	423	2,047	6,797
At 31 March 2017	665	2,047	6,797

Cost or Valuation	**Libraries' Special Collections £000**	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
At 1 April 2017	1,975	19,643	31,127
Additions	0	0	166
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	(4)
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	0	0	(404)
At 31 March 2018	1,975	19,643	30,885
Accumulated Impairment			
At 1 April 2017	0	0	0
At 31 March 2018	0	0	0
Net book value			
At 31 March 2018	1,975	19,643	30,885
At 31 March 2017	1,975	19,643	31,127

NOTES TO THE FINANCIAL STATEMENTS

19. Heritage Assets - continued

19.1 Reconciliation of the Carrying Value of Heritage Assets - continued

2016/17 Comparative Data

Cost or Valuation	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
At 1 April 2016	654	2,047	6,797
Additions	11	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
At 31 March 2017	665	2,047	6,797
Accumulated Impairment			
At 1 April 2016	0	0	0
At 31 March 2017	0	0	0
Net book value			
At 31 March 2017	665	2,047	6,797
At 31 March 2016	654	2,047	6,797

Cost or Valuation	**Libraries' Special Collections £000**	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
At 1 April 2016	1,975	19,643	31,116
Additions	0	0	11
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	0
At 31 March 2017	1,975	19,643	31,127
Accumulated Impairment			
At 1 April 2016	0	0	0
At 31 March 2017	0	0	0
Net book value			
At 31 March 2017	1,975	19,643	31,127
At 31 March 2016	1,975	19,643	31,116

19.2 Details of Heritage Assets

- Valuations on Monuments and Statues are carried out under the direction of the Council's Operational Estate Manager. Monuments and Statues are valued on a historic basis.
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.

19. Heritage Assets - continued

19.2 Details of Heritage Assets - continued

- Libraries' special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.

- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers' Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.

- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.

- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.

- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these.

20. Financial Instruments

20.1 Categories of Financial Instruments

The following categories of financial instrument are carried on the Council's Balance Sheet

	Long-Term		Current	
	31.03.18	**31.03.17**	**31.03.18**	**31.03.17**
Investments	**£000**	**£000**	**£000**	**£000**
Loans and receivables	0	0	149,098	172,542
Available for sale	0	0	26,836	967
Unquoted equity investment at cost	20,280	23,436	0	0
Total investments	20,280	23,436	175,934	173,509
Debtors				
Loans and receivables	105,549	100,953	60,375	60,047
Total debtors	105,549	100,953	60,375	60,047
Borrowings				
Financial liabilities (principal amount)	(1,190,586)	(1,245,546)	(54,960)	(54,355)
Accrued interest	0	0	(16,009)	(16,019)
Cost of amortisation	(10,818)	(9,044)	24	30
Total borrowings	(1,201,404)	(1,254,590)	(70,945)	(70,344)

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 20.4.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial Instruments - continued

20.1 Categories of Financial Instruments - continued

	Long-Term 31.03.18 £000	(re-stated) Long-Term 31.03.17 £000
Other Long-Term Liabilities		
PPP and finance lease liabilities	(196,067)	(204,082)
Deferred liability	(25,223)	(22,707)
Total other long-term liabilities	(221,290)	(226,789)

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

Other deferred liabilities relate to income received in advance, which is required to be put on interest bearing deposit.

Further detail on the finance lease and PPP liabilities can be seen in notes 40 and 41.

	Current 31.03.18 £000	Current 31.03.17 £000
Creditors		
Financial liabilities at amortised cost	(20,328)	(23,548)
PPP and finance leases due within 1 year	(8,022)	(10,370)
Total creditors	(28,350)	(33,918)

20.2 Income, Expenses, Gains and Losses

	Financial Liabilities: Measured at Amortised Cost £000	Financial Assets: Loans and Receivables £000	Available for Sale £000	Unquoted Equity at Amortised Cost £000	Total £000
Interest expense	70,233	0	0	0	70,233
Impairment (gain) / loss	0	0	0	3,116	3,116
Total expense in Surplus on the Provision of Services	70,233	0	0	3,116	73,349
Interest income	0	(1,105)	(103)	0	(1,208)
Dividend Income	0	0	0	(6,180)	(6,180)
Total Interest and investment income	0	(1,105)	(103)	(6,180)	(7,388)
Net (gain) / loss for the year	70,233	(1,105)	(103)	(3,064)	65,961

In addition to the above interest expense, £1.849m (2016/17 £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 £0.208m (2016/17 £0.211m) of loans fund expenses charged to the Council.

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 2018, 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:	Fair Value Level	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000	31.03.17 Carrying Amount £000	31.03.17 Fair Value £000
Public Works Loans Board	2	(981,692)	(1,283,157)	(1,034,769)	(1,400,491)
Salix	2	(1,462)	(1,484)	(1,736)	(1,791)
Market debt	2	(289,195)	(535,839)	(288,419)	(559,498)
Other long-term liabilities	n/a	(25,223)	(25,223)	(22,707)	(22,707)
Trade creditors	n/a	(20,328)	(20,328)	(23,548)	(23,548)
Finance Leases	3	(204,089)	(276,650)	(215,887)	(313,562)
Financial liabilities		(1,521,989)	(2,142,681)	(1,587,066)	(2,321,597)

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

Investments held at Fair Value	Fair Value Level	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000	(re-stated) 31.03.17 Carrying Amount £000	(re-stated) 31.03.17 Fair Value £000
Treasury Bills	1	0	0	0	0
Money Market Funds	1	26,836	26,836	967	967
		26,836	26,836	967	967
Investment held at Amortised Cost					
Bank Call Accounts	n/a	19,415	19,415	17,646	17,646
Building Society Deposits	2	0	0	0	0
Local Authority Loans	2	129,683	129,723	154,896	154,927
Unquoted Equity investment at cost	n/a	20,280	20,280	23,436	23,436
		169,378	169,418	195,978	196,009
Debtors					
Loan Stock	n/a	6,445	6,445	4,714	4,714
Soft Loans	3	992	992	951	951
Other trade debtors	n/a	60,375	60,375	60,047	60,047
		67,812	67,812	65,712	65,712
Total Investments		264,026	264,066	262,657	262,688

20.4 Short-Term Investments

Investment held at Amortised Cost	Fair Value Level	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000	31.03.17 Carrying Amount £000	31.03.17 Fair Value £000
Local Authority Loans	2	20,722	20,730	25,709	25,714
		20,722	20,730	25,709	25,714

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.

Investments held at Fair Value	Fair Value Level	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000	31.03.17 Carrying Amount £000	31.03.17 Fair Value £000
Treasury Bills	1	0	0	0	0
Money Market Funds	1	26,836	26,836	967	967
		26,836	26,836	967	967

There was no unrealised gain on the available for sale financial assets (2016/17 £nil).

NOTES TO THE FINANCIAL STATEMENTS

21. Inventories
Movements in 2017/18 and 2016/17

	2017/18		2016/17	
	Group	Council	Group	Council
Fuel Stocks	£000	£000	£000	£000
Balance at 1 April	575	171	391	115
Purchases	23,679	2,337	21,863	2,461
Recognised as an expense in the year	(23,741)	(2,393)	(21,679)	(2,405)
Balance at 31 March	513	115	575	171
Gift Stock and Community Equipment	£000	£000	£000	£000
Balance at 1 April	1,457	1,457	1,423	1,423
Purchases	3,202	3,202	2,650	2,650
Held by a third party	39	39	37	37
Recognised as an expense in the year	(3,426)	(3,426)	(2,653)	(2,653)
Balance at 31 March	1,272	1,272	1,457	1,457
Construction and Other Raw Materials	£000	£000	£000	£000
Balance at 1 April	1,347	1,099	1,173	835
Purchases	23,670	4,847	20,394	4,832
Recognised as an expense in the year	(23,913)	(5,185)	(20,220)	(4,568)
Stock written off	(1)	(1)	0	0
Balance at 31 March	1,103	760	1,347	1,099
Items held for sale	£000	£000	£000	£000
Balance at 1 April	122	122	108	108
Purchases	351	351	317	317
Recognised as an expense in the year	(301)	(301)	(301)	(301)
Stock written off	(1)	(1)	(2)	(2)
Balance at 31 March	171	171	122	122
Work in Progress	£000	£000	£000	£000
Balance at 1 April	12,466	0	14,348	0
Purchases	0	0	0	0
Recognised as an expense in the year	(1,762)	0	(1,882)	0
Balance at 31 March	10,704	0	12,466	0
Clothing and Equipment	£000	£000	£000	£000
Balance at 1 April	83	83	95	95
Purchases	210	210	196	196
Recognised as an expense in the year	(201)	(201)	(208)	(208)
Balance at 31 March	92	92	83	83
Catering Stocks	£000	£000	£000	£000
Balance at 1 April	116	116	123	123
Purchases	2,976	2,976	2,862	2,862
Recognised as an expense in the year	(2,989)	(2,989)	(2,869)	(2,869)
Balance at 31 March	103	103	116	116

21. Inventories - continued

Total	**2017/18 Group £000**	**2017/18 Council £000**	**2016/17 Group £000**	**2016/17 Council £000**
Balance at 1 April	16,166	3,048	17,661	2,699
Purchases	54,088	13,923	48,282	13,318
Held by a third party	39	39	37	37
Recognised as an expense in the year	(56,333)	(14,495)	(49,812)	(13,004)
Stock written off	(2)	(2)	(2)	(2)
Balance at 31 March	13,958	2,513	16,166	3,048

22. Debtors

22.1 Long-term Debtors

	2017/18 Group £000	**2017/18 Council £000**	**2016/17 Group £000**	**2016/17 Council £000**
Central government bodies	20,491	20,491	26,115	26,115
Other entities and individuals	189,506	195,951	186,556	191,270
Total long-term debtors before provision for impairment	209,997	216,442	212,671	217,385
Less: Provision for impairment	(110,167)	(110,167)	(105,701)	(105,701)
Total net long-term debtors	99,830	106,275	106,970	111,684

22.2 Analysis of Long-term Debtors

Long-term debtors comprise the following elements:

	2017/18 Group £000	**2017/18 Council £000**	**2016/17 Group £000**	**2016/17 Council £000**
Capital advances				
Police Scotland	12,440	12,440	14,198	14,198
Fire Scotland	319	319	1,043	1,043
Council Tax	83,295	83,295	80,121	80,121
Non-Domestic Rates	2,216	2,216	1,896	1,896
CEC Holdings	0	6,445	0	4,714
NHT Loans (see note 34.4)	66,725	66,725	60,255	60,255
House rents	5,544	5,544	5,492	5,492
Car loan scheme	45	45	71	71
Shared equity scheme (see note 34.3)	339	339	401	401
Scheme of assistance (see note 34.3)	870	870	920	920
Other debtors	38,204	38,204	48,274	48,274
	209,997	216,442	212,671	217,385

Long-term debtors include £12.440m (2016/17 £14.198m) and £0.319m (2016/17 £1.043m) for sums recoverable from Police Scotland and Fire Scotland respectively. These sums relate to monies advanced to the former joint boards for capital expenditure.

22. Debtors - continued

22.3 Current Debtors

	2017/18		Re-stated 2016/17	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	51,717	47,838	25,436	21,456
Other local authorities	3,539	3,141	688	406
NHS bodies	3,626	3,626	1,026	1,026
Public corporations and trading funds	79	79	9	9
Other entities and individuals	178,395	166,395	181,364	173,075
Total current debtors before provision for impairment	237,356	221,079	208,523	195,972
Less: Provision for impairment	(107,157)	(107,157)	(107,584)	(107,575)
Total net current debtors	130,199	113,922	100,939	88,397

22.4 Provision for Impairment

	2017/18		2016/17	
	Group	Council	Group	Council
Long-term provision for impairment	£000	£000	£000	£000
Council tax	(81,431)	(81,431)	(78,295)	(78,295)
Non-Domestic rates	(1,600)	(1,600)	(1,373)	(1,373)
Sundry debtors	(27,136)	(27,136)	(26,033)	(26,033)
Total long-term provision for impairment	(110,167)	(110,167)	(105,701)	(105,701)
Current provision for impairment	£000	£000	£000	£000
Council tax	(98,998)	(98,998)	(98,119)	(98,119)
Non-Domestic rates	(211)	(211)	(226)	(226)
Sundry debtors	(7,948)	(7,948)	(9,239)	(9,230)
Total current provision for impairment	(107,157)	(107,157)	(107,584)	(107,575)

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.

	2017/18		2016/17	
	Group £000	Council £000	Group £000	Council £000
Cash held	360	360	387	387
Bank current accounts	8,287	(15,330)	12,610	(14,079)
Short-term deposits:				
With banks or building societies	19,415	19,415	17,646	17,646
With other local authorities	108,960	108,960	129,188	129,188
	137,022	113,405	159,831	133,142

NOTES TO THE FINANCIAL STATEMENTS

24. Assets Held for Sale

24.1 Non-Current Assets	2017/18 Group £000	2017/18 Council £000	2016/17 Group £000	2016/17 Council £000
Balance at 1 April	13,498	13,498	43,746	43,746
Additions	9	9	259	259
Revaluation gains/(losses) recognised in the revaluation reserve	0	0	4,427	4,427
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	0	0	(1,660)	-1,660
Assets reclassified as held for sale: Property, Plant and Equipment	(53)	(53)	(3,116)	(3,116)
Assets sold	(3,477)	(3,477)	(913)	(913)
Transfers from non-current to current	(7,397)	(7,397)	(29,245)	(29,245)
Balance at 31 March	2,580	2,580	13,498	13,498

24.2 Current Assets	2017/18 Group £000	2017/18 Council £000	2016/17 Group £000	2016/17 Council £000
Balance at 1 April	29,359	29,359	683	683
Additions	(88)	(88)	3	3
Revaluation gains/(losses) recognised in the revaluation reserve	0	0	(284)	(284)
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	0	0	(288)	(288)
Assets reclassified as held for sale: Property, Plant and Equipment	(6,410)	(6,410)	0	0
Assets sold	(10,132)	(10,132)	0	0
Transfers from non-current to current	7,397	7,397	29,245	29,245
Balance at 31 March	20,126	20,126	29,359	29,359

25. Creditors

	2017/18 Group £000	2017/18 Council £000	Re-stated 2016/17 Group £000	Re-stated 2016/17 Council £000
Central government bodies	(18,746)	(14,717)	(12,763)	(8,545)
Other local authorities	(7,009)	(6,202)	(9,116)	(8,065)
NHS bodies	(9,078)	(9,078)	(270)	(270)
Public corporations and trading funds	(389)	(389)	(1,082)	(1,082)
Other entities and individuals	(141,575)	(119,364)	(143,836)	(122,234)
	(176,797)	(149,750)	(167,067)	(140,196)

26. Provisions

Provision has been made within the Group Financial Statements for outstanding payments of £29.272m (2016/17 £12.863m). The main reasons for this movement are included in Note 7.

Of this amount, £25.431m (2016/17 £10.551m) relates to the Council. These include estimates of settlements on outstanding equal pay, compensation, insurance and other claims, land acquisition costs for the tram project and Council Tax discounts that require to be set aside for housing projects. The precise amount of these payments is unknown, however, provision has been made in the accounts, as summarised below, based on the Council's assessment of the costs.

	Trams £000	Equal Pay Claims £000	Council Tax Discounts £000
Balance at 1 April 2017	(3,118)	(462)	(1,888)
Additional provisions made during the year	(3,090)	0	(263)
Amounts used during the year	0	48	0
Unused amounts reversed during the year	0	26	0
Balance at 31 March 2018	(6,208)	(388)	(2,151)

	Housing Benefit Subsidy £000	Insurance Claims £000	Other Provisions £000
Balance at 1 April 2017	(170)	(550)	(4,363)
Additional provisions made during the year	0	(288)	(12,271)
Amounts used during the year	0	191	741
Unused amounts reversed during the year	0	0	26
Balance at 31 March 2018	(170)	(647)	(15,867)

	Total Council Provisions £000	Group Provisions £000	Total Provisions £000
Balance at 1 April 2017	(10,551)	(2,312)	(12,863)
Additional provisions made during the year	(15,912)	(3,102)	(19,014)
Amounts used during the year	980	1,573	2,553
Unused amounts reversed during the year	52	0	52
Balance at 31 March 2018	(25,431)	(3,841)	(29,272)

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

	31 March 2018 £000	Re-stated Balance as at: 31 March 2017 £000
Revaluation Reserve	1,108,975	873,986
Capital Adjustment Account	1,403,298	1,402,884
Financial Instruments Adjustment Account	(43,467)	(45,390)
Pensions Reserve	(482,493)	(705,786)
Employee Statutory Adjustment Account	(14,761)	(14,121)
Total Council Unusable Reserves	1,971,552	1,511,573
Subsidiaries, Associates and Joint Ventures	119,431	112,678
Total Group Unusable Reserves	2,090,983	1,624,251

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.

		2017/18 £000		2016/17 £000
Balance at 1 April		873,986		856,303
Upward revaluation of assets	334,452		47,395	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(78,632)		(6,922)	
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service		255,820		40,473
Difference between fair value depreciation and historical cost depreciation	(5,665)		(18,868)	
Accumulated gains on assets sold	(15,166)		(3,922)	
Amount written off to the capital adjustment account		(20,831)		(22,790)
Balance at 31 March		1,108,975		873,986

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.

		2017/18 £000		Re-stated 2016/17 £000
Balance at 1 April		1,402,884		1,376,129
Reversal of items relating to capital expenditure debited or credited to the CIES				
Charges for depreciation and impairment of non-current assets	(141,055)		(137,033)	
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(48,012)		(13,425)	
Amortisation and impairment of intangible assets	(1,267)		(1,221)	
Capital funded from revenue	22,200		2,056	
Revenue exp. funded from capital under statute	(44,411)		(40,301)	
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(27,172)		(15,862)	
	(239,717)		(205,786)	
Adjusting amounts written out of the revaluation reserve	20,831		22,790	
Net written out amount of the costs of non-current assets consumed in the year		(218,886)		(182,996)
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	21,879		27,922	
Capital grants and contributions credited to the CIES that have been applied to capital financing	72,548		53,698	
Application of grants from the capital grants unapplied account / capital fund	21		1,905	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	79,021		90,975	
Capital expenditure charged against the General Fund and HRA balances	44,411		40,301	
		217,880		214,801
Movements in the market value of investment properties credited to the CIES		1,420		(779)
Transfer to the General Fund		0		(762)
Other unrealised losses debited to the CIES		0		(3,509)
Balance at 31 March		1,403,298		1,402,884

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.

		2017/18 £000		2016/17 £000
Balance at 1 April		(45,390)		(47,214)
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)	74		48	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements		1,923		1,897
Difference between actual interest paid and interest rate assumed in equivalent interest rate calculation on transition		0		(73)
Balance at 31 March		(43,467)		(45,390)

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 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
28.5 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.

	2017/18 £000	2016/17 £000
Balance at 1 April	(705,786)	(438,940)
Actuarial gains or (losses) on pension assets and liabilities	273,812	(244,211)
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	(110,511)	(88,899)
Employer's pension contributions and direct payments to pensioners payable in the year	59,992	66,264
Balance at 31 March	(482,493)	(705,786)

28.6 Employee Statutory Adjustment Account

The employee statutory adjustment account provides a balancing mechanism arising from the different arrangements that would otherwise impact on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year (annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is mitigated by transfers to or from this account.

		2017/18 £000		2016/17 £000
Balance at 1 April		(14,121)		(14,862)
Settlement or cancellation of accrual made at the end of the preceding year	14,121		14,862	
Amount accrued at the end of the current year	(14,761)		(14,121)	
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		(640)		741
Balance at 31 March		(14,761)		(14,121)

28. Unusable Reserves - continued

28.7 Unusable Reserves - Group Members

	Balance as at: 31 March 2018 £000	31 March 2017 £000
Subsidiaries		
CEC Holdings Limited		
Capital financing account	64,466	64,466
Capital contribution	11,230	13,130
Transport for Edinburgh		
Revaluation reserve	11,309	11,309
Non Controlling Interest	13,258	8,110
Other Unusable Reserves	708	1,004
Total Unusable Reserves - Subsidiaries	100,971	98,019
Associates and Joint Ventures		
Common Good		
Capital adjustment account	(22)	(22)
Revaluation reserve	21,886	21,994
Lothian Valuation Joint Board		
Capital adjustment account	262	329
Employee statutory adjustment account	(38)	(58)
Pension reserve	(3,628)	(7,584)
Total Unusable Reserves - Associates and Joint Ventures	18,460	14,659
Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures	119,431	112,678

29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2017/18		2016/17	
	Group £000	Council £000	Group £000	Council £000
Cash paid to and on behalf of employees	560,154	560,154	567,959	567,959
General Revenue Grant	(345,757)	(345,757)	(344,919)	(344,919)
Non-Domestic Rates receipts from national pool	(355,063)	(355,063)	(374,650)	(374,650)
Other net operating cash payments / (receipts)	(85,056)	(85,056)	(56,761)	(56,761)
Net cash flows from subsidiary companies	(18,826)	0	(26,218)	0
Net cash flows from operating activities	(244,548)	(225,722)	(234,589)	(208,371)

NOTES TO THE FINANCIAL STATEMENTS

30. Cash Flow Statement - Operating Activities - continued

The cash flows for operating activities include the following items:

	2017/18		2016/17	
	Group	**Council**	**Group**	**Council**
	£000	**£000**	**£000**	**£000**
Interest received	(4,324)	(4,233)	(3,840)	(3,669)
Interest paid	89,285	88,950	87,805	87,431
Investment income received	(6,180)	(6,180)	(6,000)	(6,000)

31. Cash Flow Statement - Investing Activities

	2017/18		Re-stated 2016/17	
	Group	**Council**	**Group**	**Council**
	£000	**£000**	**£000**	**£000**
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	187,617	170,649	174,616	160,367
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible	(24,841)	(24,277)	(25,146)	(24,916)
Net purchase of Short-Term and Long-Term Investments	20,773	20,884	(50,681)	(50,658)
Other payments for investing activities	49,211	42,601	53,279	47,762
Other receipts from investing activities	(29,955)	(29,938)	(11,641)	(11,577)
Net cash flows from investing activities	202,805	179,919	140,427	120,978

32. Cash Flow Statement - Financing Activities

	2017/18		Re-stated 2016/17	
	Group	**Council**	**Group**	**Council**
	£000	**£000**	**£000**	**£000**
Cash Receipts of Short- and Long-Term Borrowing	(1,891)	0	(193)	(70)
Other Receipts for Financing Activities	3,297	3,297	(28,244)	(28,244)
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	8,791	7,888	11,637	10,713
Repayment of short-term and long-term borrowing	54,355	54,355	69,843	69,843
Net cash flows from financing activities	64,552	65,540	53,043	52,242

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.

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.

	2017/18 £000	2016/17 £000	2015/16 £000	Cumulative £000
Turnover	931	902	980	n/a
Deficit	(42)	(191)	(232)	(465)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period.

In 2017/18, a new Catering Manager was recruited and all other recruitment is now complete which will result in a significant reduction in agency spend. Renegotiation of suppliers contract terms will reduce the operating costs and transportation costs. Catering for Lothian Chambers will cease with the property now being leased out. The refresh of the service and the products on offer aims to deliver financial benefits in terms of income maximisation.

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

34. Financial Support and Guarantees

34.1 Loans and guarantees

The Council has made loans to the following organisations at less than market interest rates (soft loans).

	2017/18 £000 Transport for Edinburgh Ltd.	2016/17 £000 Transport for Edinburgh Ltd.	2017/18 £000 Spartans Community Football Academy	2016/17 £000 Spartans Community Football Academy
Opening Balance	899	861	54	52
New Loans	0	0	0	0
Increase in the Discounted Amount	40	38	4	5
Fair Value Adjustment	0	0	0	0
Loan Repayment	0	0	(3)	(3)
Balance Carried Forward	939	899	55	54
Nominal Value Carried Forward	1,000	1,000	102	105

Adjustments have been made under the requirements of IAS 39 Financial Instruments: Recognition and Measurement, as required by the Code.

The Transport for Edinburgh loan relates to two £500,000 loans to Transport for Edinburgh Ltd. to provide a loan facility to Tramco for its general working capital purposes and funding its business and activities.

The Spartans loan relates to the lease of an area of ground lying immediately to the west of Ainslie Park Leisure Centre, Pilton Drive, Edinburgh. The original outstanding payment was £120,000, with £3,000 to be paid on or before 31 March each year for ten consecutive years from 31 March 2012 and £9,000 to be paid for ten consecutive years on or before 31 March from 31 March 2022.

34.2 Guarantees

In February 2018 the Council agreed to provide a formal pension guarantee to Lothian Pension Funds on behalf of Edinburgh Leisure.

From 1 April 2018 Lothian Pension Fund introduced a new investment strategy, whereby for those employers closed to new entrants but who do not meet the criteria for the Funds low-risk strategy, would be moved to a medium risk strategy.

Edinburgh Leisure would fall into this category and the impact would be a considerable increase in contribution rates and would likely result in a significant impact on services provided by Edinburgh Leisure.

The Council approved providing a pension guarantee which enabled Edinburgh Leisure to be moved back to a low-risk strategy, avoiding the additional financial costs.

34. Financial Support and Guarantees - continued
34.3 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.

34.4 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 £50.1m for three projects which will deliver up to 368 new affordable homes. Fruitmarket is the first NHT 3 project to have completed, with investment totalling £9.153m. £2.683m of expenditure was incurred in 2016/17 and the remaining balance of £6.470m was spent in 2017/18. Spend on the two remaining projects under NHT Phase 3 will commence in 2018/19, with the expected value of the projects being £17.28m and £23.68m respectively, totalling c. £40.96m. Around £9m of this total spend is expected to fall into 2019/20 but this is subject to construction timescales.

The Council has advanced the following sums through the NHT scheme:

Developer	Development Site	Phase	Total No. of Units	2017/18 £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	0	11,908	11,908
Ediston Homes Ltd	Fruitmarket	3	80	6,470	2,683	9,153
			598	**6,470**	**60,256**	**66,726**

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:

Expenditure	2017/18 £000	2016/17 £000
Payments to other local authorities in respect of:		
Area waste project	6	74
Educational services for children	3,023	1,727
Care services for children	297	1,644
Planning and Building Standards	132	119
Scottish Cities Alliance Investment Fund (see note 46.)	913	978
Others		
Business Improvement District Scheme - Payments to Schemes	1,180	1,319
Police Scotland - Community Police	2,587	2,561
Police Scotland - cab inspection	120	124
Scottish Fire - HMO assessments	56	63
Scottish Water - Integrated Water Catchment Model	0	84
NHS Lothian - Blue Badge medical assessments	57	44
Total Expenditure	**8,370**	**8,737**
Income		
Receipts in respect of library services:		
Health Boards	(19)	(19)
Scottish Prison Service	0	(24)
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	(231)	(1,233)
Receipts in respect of rates collection services:		
Scottish Water	(1,680)	(1,680)
Midlothian Council	(68)	(63)
BID Income Levy	(1,232)	(1,433)
Receipts in respect of property management		
Police Scotland	(23)	(60)
Receipts in respect of park management		
Scottish Water	(11)	(11)
Receipts from other local authorities in respect of:		
Criminal justice services	(1,008)	(1,007)
Educating pupils	(525)	(649)
Pentland Hills Regional Park management	(78)	(78)
Care services for children	(542)	(797)
Risk Factory	(40)	(38)
Social work undertakings	(4,427)	(3,689)
City Mortuary	(318)	(250)
Scientific Services	(378)	(379)
Area waste project	(174)	(96)
Miscellaneous Licensing	(109)	(100)
Structural Engineering	(10)	0
Total Income	**(10,872)**	**(11,605)**

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 £0.563m (2016/17 £0.561m to Audit Scotland).

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 2017/18 (2016/17 £0.002m) for the audit of 2016/17 financial statements.

37. Grant Income

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2017/18		Re-stated 2016/17	
Revenue Funding	**£000**	**£000**	**£000**	**£000**
Credited to taxation and non-specific grant income				
General revenue funding	(345,757)		(344,919)	
Non-domestic rates	(355,063)		(374,650)	
		(700,820)		(719,569)
Credited to services				
Government grants	(32,324)		(22,200)	
Department for Work and Pensions				
- Housing benefits	(174,593)		(199,556)	
- Other funding	(3,962)		(4,044)	
N.H.S. Lothian	(62,588)		(55,507)	
Other Local Authorities	(2,895)		(3,231)	
Scottish Water	(1,691)		(1,770)	
Lothian Road Income Trust	0		(65)	
Edinburgh Leisure	(723)		(708)	
Scottish Prison Service	(549)		(536)	
Lottery funding	(105)		(113)	
SportScotland	(799)		(889)	
		(280,229)		(288,619)
Total		(981,049)		(1,008,188)
Capital Funding				
Scottish Government		(62,000)		(45,719)
Other grants and contributions, including contributions from developers and individuals		(10,301)		(1,409)
Port of Leith Housing Association		(4)		(148)
Sustrans		(456)		(2,559)
Edinburgh World Heritage		(1,302)		0
Cala Homes		(1,832)		(1,311)
Walker Homes		(621)		(1,179)
Heritage Lottery Fund		(80)		(478)
Creative Scotland		(2)		(164)
Lothian Road Income Trust		0		(744)
Total		**(76,598)**		**(53,711)**

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

	2017/18 £000	2016/17 £000
● **Revenue Expenditure**		
Capital City Partnership	4,666	4,225
CEC Holdings (including EDI Group, EICC)	65	284
Edinburgh Festival Theatres	644	704
Edinburgh Leisure Limited		
Revenue funding	8,075	8,449
Other expenditure	395	30
Edinburgh Trams Ltd	648	714
Lothian Buses Limited		
Supported bus services	833	985
Other expenditure	610	1,536
Edinburgh Integration Joint Board		
Contributions	197,194	193,286
Corporate Services	163	158
Services in kind	261	332
NHS Bodies	3,026	2,356
Other Local Authorities	2,876	2,486
Scottish Government	216	208
Scottish Police Authority	2,787	3,333
Scottish Qualifications Authority	1,510	1,523
Subsidiaries / Voluntary Organisations		
Bethany Christian Trust	1,487	1,538
Criminal Justice Bodies	616	592
Dean and Cauvin Charitable Trust	1,192	854
Edinburgh International Festival Society	2,246	2,317
Edinburgh Voluntary Organisations Council	1,328	1,185
Festivals Edinburgh Ltd	176	173
Handicab	449	448
Lifecare Edinburgh	340	288
Marketing Edinburgh	1,146	918
Royal Blind Asylum and School	1,347	794
Royal Lyceum Theatre Co Ltd	361	358
Total Revenue Expenditure	**234,657**	**230,074**
● **Revenue Income**		
CEC Holdings Limited (EDI Group Limited)		
Loan interest	(203)	(200)
Other	(20)	(23)
Edinburgh Festival Theatres	(129)	(150)
Edinburgh Trams	(2,655)	(2,318)
Lothian Buses	(42)	(51)
Edinburgh Tattoo	(401)	(401)
Edinburgh Integration Joint Board	(216,697)	(189,698)
Professional services, rents, other grants and funding		
Other Local Authorities	(1,984)	(698)
Scottish Government	(60)	(86)
Lothian Health Board		
Change Fund	(4,910)	(6,994)
Resource transfers	(21,406)	(21,406)
Total Revenue Income	**(248,507)**	**(222,025)**

38. Related Parties - continued

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

	2017/18 £000	2016/17 £000
● **Joint Board Requisitions**		
Lothian Valuation Joint Board	3,629	3,744
Total Joint Board Requisitions	**3,629**	**3,744**
● **Central Support Income**		
Lothian Valuation Joint Board	(65)	(49)
Pension Funds	(250)	(264)
Total Central Support Income	**(315)**	**(313)**
● **Interest on Revenue Balances**		
Lothian Valuation Joint Board	3	3
Pension Funds	4	5
SESTRAN	1	1
Total Interest on Revenue Balances	**8**	**9**
● **Loans Charges Recovered**		
Scottish Fire and Rescue Service	(777)	(1,112)
Police Scotland	(2,484)	(2,771)
Total Loans Charges	**(3,261)**	**(3,883)**

38.2 Subsidiaries and Other Organisations - Capital Expenditure

	2017/18 £000	2016/17 £000
● **Capital Expenditure**		
CEC Holdings (including EDI Group, EICC)	401	1,155
Edinburgh Leisure	105	165
Hubco	3,648	9,204
Other Local Authorities	172	148
Scottish Government	7,552	3,352
Total Capital Expenditure	**11,878**	**14,024**

38. Related Parties - continued

38.3 Related Parties - Indebtedness

The following represent material amounts due to / (by) the Council, at 31 March 2018:

	2017/18 £000	2016/17 £000
CEC Holdings Limited (including all subsidiaries)	(332)	(535)
Edinburgh Military Tattoo	0	(11)
Hubco	0	(273)
Lothian and Borders Criminal Justice Authority	0	237
Scottish Fire and Rescue Service	964	674
Police Scotland	12,412	14,160
Lothian Valuation Joint Board	0	(1,512)
Edinburgh Integration Joint Board	(8,378)	(3,678)
Other Local Authorities	502	75
NHS Bodies	4,587	14,158
Pension Funds	(247)	(499)
Scottish Government	21,780	620
Scottish Water	70	70
SESTRAN	0	(84)
SUSTRANS	10	1,246
Audit Scotland	(387)	374
Transport Scotland	629	0
	31,610	**25,022**

- **Other Indebtedness**

HM Revenue and Customs - VAT	10,545	9,170
HM Revenue and Customs - PAYE and NI	(9,624)	(9,041)
HM Revenue and Customs - Apprenticeship Levy	(340)	0
	581	**129**

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.

	2017/18		Re-stated 2016/17	
	£000	**£000**	**£000**	**£000**
Opening capital financing requirement		1,610,256		1,632,820
Capital Investment				
Property, plant and equipment	154,669		140,142	
Heritage Assets	166		11	
Assets held for sale	(79)		262	
Intangible assets	46		221	
Capital Receipts transferred to Capital Fund	4,971		420	
National Housing Trust - Consent to borrow (see note 34.4)	6,470		13,093	
Revenue expenditure funded from capital under statute	44,411		40,301	
Adjustments to PPP schools during the year	0		(9)	
		210,654		194,441
Sources of Finance				
Capital receipts	(21,879)		(27,922)	
Capital Funded from Current Revenue	(22,200)		(2,056)	
Government grants and other contributions	(116,980)		(95,789)	
Loans fund / finance lease repayments	(83,987)		(91,238)	
		(245,046)		(217,005)
Closing capital financing requirement		1,575,864		1,610,256
Explanation of movements in year				
(Decrease) / increase in underlying need to borrow		(34,392)		(22,564)
(Decrease) / Increase in capital financing requirement		(34,392)		(22,564)

40. Leases

40.1 Assets Leased in - Finance Leases

The Council no longer has any arrangements classed as finance leases. The assets classified under these leases are included in property, plant and equipment in the Balance Sheet:

	2017/18		(re-stated) 2016/17	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Value at 1 April	0	0	7,380	6,707
Additions during the year	9,742	0	0	0
Repayments during the year	(649)	0	(3,470)	(2,797)
Derecognition	0	0	(3,910)	(3,910)
Value at 31 March	9,093	0	0	0
Other land and buildings	0	0	0	0
Vehicles, plant, equipment and furniture	9,093	0	0	0
Value at 31 March	9,093	0	0	0

Finance Lease Liabilities	**£000**	**£000**	**£000**	**£000**
Not later than one year	1,949	0	0	0
Later than one year and not later than five years	7,144	0	0	0
	9,093	0	0	0

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 2016/17, 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 £0m of contributions paid by employees towards cost of car leasing (2016/17 £0.036m).

Under these operating leases, the Group and Council is committed to paying the following sums, of which £0m is recoverable from employees (2016/17 £0.002m):

	2017/18		2016/17	
	Group	Council	Group	Council
Future Repayment Period	£000	£000	£000	£000
Not later than one year	1,603	1,155	1,896	1,398
Later than one year and not later than five years	2,875	1,859	4,978	3,842
Later than five years	5,154	4,001	5,915	4,479
	9,632	**7,015**	**12,789**	**9,719**
Value at 31 March				
Other land and buildings	8,922	6,989	11,838	9,680
Vehicles, plant, equipment and furniture	710	26	951	39
	9,632	**7,015**	**12,789**	**9,719**
Recognised as an expense during the year	2,043	1,508	2,573	2,027

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 arms-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:

	2017/18	2016/17
	£000	£000
Not later than one year	12,683	11,965
Later than one year and not later than five years	39,978	39,169
Later than five years	149,919	150,186
	202,580	201,320

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

41. Public Private Partnerships and Similar Contracts

41.1 PPP - Education Projects

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

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

In December 2013, the Council entered in to an agreement with Hub South East Scotland for the provision of a new building for James Gillespie's High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with Hub South East Scotland. The concession is due to terminate in July 2041.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Total £000
Payable in 2018/19	18,673	8,022	18,259	44,954
Payable within two to five years	83,296	33,062	69,596	185,954
Payable within six to ten years	125,344	43,750	77,863	246,957
Payable within eleven to fifteen years	142,822	55,733	65,699	264,254
Payable within sixteen to twenty years	89,163	52,140	43,541	184,844
Payable within twenty one to twenty five years	9,121	11,382	3,692	24,195
	468,419	204,089	278,650	951,158

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 amounts disclosed as reimbursement of capital expenditure are included in creditors and other long-term liabilities on the Balance Sheet. These are not subject to the above inflationary uplifts.

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:

	2017/18 £000	2016/17 £000
Balance at 1 April	211,977	219,893
PPP unitary charge restatement adjustment	4	(8)
Repayments during the year	(7,892)	(7,908)
Balance at 31 March	204,089	211,977

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	Inflationary Uplift
2018/19	34,561	2.0%
2019/20 - 2022/23	94,366	2.0%
	128,927	

The cost of information technology has been 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
2018/19	6,700
2019/20	3,350
	10,050

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.

During 2017/18 the Council negotiated an early end to the contract, with effect from December 2018.

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
2018/19	5,823
	5,823

41.5 Food Waste Contract

The Council entered into a twenty year contract with Alauna Renewable Energy to supply food waste treatment at Millerhill from 1 April 2016.

Future Repayment Period	£000	Inflationary Uplift
2018/19	536	3.40%
2019/20 - 2022/23	2,329	3.40%
2023/24 - 2027/28	3,375	3.40%
2028/29 - 2032/33	3,976	3.40%
2033/34 - 2035/36	2,718	3.40%
	12,934	

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
2018/19	3,110	3.40%
2019/20 - 2022/23	27,538	3.40%
2023/24 - 2027/28	36,673	3.40%
2028/29 - 2032/33	39,599	3.40%
2033/34 - 2037/38	43,056	3.40%
2038/39 - 2042/43	47,143	3.40%
	197,119	

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 £18.266m.

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.

	2017/18		2016/17	
	£000	%	£000	%
Amount paid to Scottish Government in respect of teachers' pension costs	21,971		21,315	
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	18,220		19,765	

At 31 March 2018, creditors include £2.989m (2016/17 £2.763m) 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 2017/18 the Council paid an employer's contribution of £54.042m (2016/17 £52.689m) into the Lothian Pension Fund, representing 21.3% (2016/17 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 2017.

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.

	2017/18		2016/17	
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**
Cost of services:				
Service cost, comprising:				
Current service costs	93,031		66,394	
Past service costs	287		7,029	
Effect of Settlements	(1,569)		0	
		91,749		73,423
Financing and investment income:				
Net interest expense		18,762		15,476
Total post employee benefit charged to the surplus on the provision of services		110,511		88,899
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	77,350		(428,706)	
Actuarial (gains) and losses arising on changes in financial assumptions	(92,581)		669,702	
Actuarial (gains) and losses arising on changes in demographic assumptions	(8,303)		0	
Other experience	(250,278)		3,215	
		(273,812)		244,211
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		(163,301)		333,110
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(110,511)		(88,899)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		54,403		60,457
Contributions in respect of unfunded benefits		5,589		5,807
		59,992		66,264

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:

	2017/18 £000	2016/17 £000
Fair value of employer assets	2,720,975	2,747,964
Present value of funded liabilities	(3,124,427)	(3,368,139)
Present value of unfunded liabilities	(79,041)	(85,611)
Net liability arising from defined benefit obligation	(482,493)	(705,786)

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

	2017/18 £000	2016/17 £000
Opening fair value of scheme assets	2,747,964	2,247,877
Effect of settlements	(5,711)	0
Interest income	71,179	78,498
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	(77,350)	428,706
Contributions from employer	54,403	60,457
Contributions from employees into the scheme	15,508	13,845
Contributions in respect of unfunded benefits	5,589	5,807
Benefits paid	(85,018)	(81,419)
Unfunded benefits paid	(5,589)	(5,807)
Closing fair value of scheme assets	2,720,975	2,747,964

Reconciliation of Present Value of the Scheme Liabilities	**2017/18 £000**	**2016/17 £000**
Present value of funded liabilities	(3,368,139)	(2,605,380)
Present value of unfunded liabilities	(85,611)	(81,437)
Opening balance at 1 April	(3,453,750)	(2,686,817)
Current service cost	(93,031)	(66,394)
Interest cost	(89,941)	(93,974)
Contributions from employees into the scheme	(15,508)	(13,845)
Re-measurement gain / (loss):		
Change in financial assumptions	92,581	(669,702)
Change in demographic assumptions	8,303	0
Other experience	250,278	(3,215)
Past service cost	(287)	(7,029)
Effects of settlements	7,280	0
Benefits paid	85,018	81,419
Unfunded benefits paid	5,589	5,807
Closing balance at 31 March	(3,203,468)	(3,453,750)

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.

	2017/18 £000	%	2016/17 £000	%
Consumer *	372,813	14	412,549	15
Manufacturing *	405,093	15	416,581	15
Energy and Utilities *	170,219	6	203,906	8
Financial Institutions *	241,734	9	191,883	7
Health and Care *	133,399	5	161,077	6
Information technology *	165,884	6	136,000	5
Other *	170,750	6	189,359	7
Sub-total Equity Securities	1,659,891		1,711,355	
Debt Securities:				
UK Government *	263,793	10	275,933	10
Corporate Bonds (non-investment grade)	53,015	2	0	0
Other *	0	0	5,710	0
Sub-total Debt Securities	316,808		281,643	
Private Equity All *	8,672	0	31,954	1
All	41,007	2	56,808	2
Sub-total Private Equity	49,679		88,762	
Real Estate: UK Property	174,887	6	185,409	7
Overseas Property	2,845	0	0	0
Sub-total Real Estate	177,732		185,409	
Investment Funds and Unit Trusts:				
Equities *	26,153	1	0	0
Bonds *	0	0	6,153	0
Bonds	0	0	34,601	1
Commodities *	0	0	8,058	0
Infrastructure *	0	0	17,459	1
Infrastructure	322,478	12	228,444	8
Other	6,215	0	58,621	2
Sub-total Investment Funds and Unit Trusts	354,846		353,336	
Derivatives:				
Foreign Exchange *	1,252	0	0	0
Sub-total Derivatives	1,252		0	
Cash and Cash Equivalents All *	160,768	6	127,459	5
Sub-total Cash and Cash Equivalents	160,768		127,459	
Total Fair Value of Employer Assets	2,720,975	100	2,747,964	100

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 2018 were those from the beginning of the year (i.e. 31 March 2017) and have not been changed during the year. The main assumptions in the calculations are:

Investment returns	
Actual return for period from 1 April 2017 to 31 January 2018	3.20%
Estimated return for period from 1 April 2017 to 31 March 2018	(1.40%)

Average future life expectancies at age 65:		**31.03.18**	**31.03.17**
Current pensioners	male	21.7 years	22.1 years
Current pensioners	female	24.3 years	23.7 years
Future pensioners	male	24.7 years	24.2 years
Future pensioners	female	27.5 years	26.3 years

Period ended	**31.03.18**	**31.03.17**
Pension increase rate	2.4%	2.4%
Salary Increase rate	4.1%	4.4%
Discount rate	2.7%	2.6%

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 2018 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 2018	**Approximate % Increase to Employer**	**Approximate Monetary Amount £000**
0.5% decrease in Real Discount Rate	10%	306,767
0.5% increase in the Salary Increase Rate	2%	54,982
0.5% increase in the Pension Increase Rate	8%	246,318

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 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.

43. Defined Pension Schemes - continued
43.8 Information about the defined benefit obligation

	Liability Split £000	%	Weighted Average Duration
Active members	1,418,298	45.4	24.8
Deferred members	430,947	13.8	24.7
Pensioner members	1,275,182	40.8	13.1
Total	3,124,427	100.0	19.5

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 2017.

The unfunded pensioner liability at 31 March 2018 comprises approximately £60.821m (2016/17 £65.846m) in respect of LGPS unfunded pensions and £18.220m (2016/17 £19.765m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2018, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

43.9 Pension Reserves - Group Position

The pension reserves shown in the Group Balance Sheet relate to the Council. Pension reserves for the Valuation Joint Board are included in unusable reserves. Local government legislation provides that local authorities have an obligation to meet the expenditure of the joint boards of which they are constituent members. As a consequence, the City of Edinburgh Council has obligations to meet the liabilities arising from the joint board pension deficits as they fall due. Pension reserves for other companies in the group are included in usable reserves. The value of the pension reserves is shown separately below.

Unusable Reserves	**2017/18 Pension Reserve £000**	**2016/17 Pension Reserve £000**
Council	(482,493)	(705,786)
Lothian Valuation Joint Board	(3,628)	(7,585)
	(486,121)	(713,371)

Usable Reserves	**2017/18 £000**	**2016/17 £000**
CEC Holdings	(567)	(1,757)
Capital Theatres (formerly Festival City Theatres Trust)	0	(116)
Edinburgh Leisure	(1,023)	(3,795)
Transport for Edinburgh Ltd	59,466	(3,039)
	57,876	(8,707)

43. Defined Pension Schemes - continued

43.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2018

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Current service cost	0	(96,226)	(96,226)	(38.3%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(96,226)	(96,226)	(38.3%)
Interest income on plan assets	73,290	0	73,290	29.1%
Interest cost on defined benefit obligation	0	(86,795)	(86,795)	(34.5%)
Total Net Interest Cost	73,290	(86,795)	(13,505)	(5.4%)
Total included in Profit or Loss	73,290	(183,021)	(109,731)	(43.7%)

The Council's estimated contribution to Lothian Pension Fund for 2018/19 is £54.860m.

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 £0.998m, including accrued payments (2016/17 £10.933m).

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 2018. 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.

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 significant claims against local authorities in Scotland, including the Council.

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 15 March 2018 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2018/19 has been set at £2.151bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2018/19 has been set at £1.671bn. This is the expected upper level of borrowing and other short and long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 75% of the Council's net debt respectively.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council.

45.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

45.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

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

45.3 Credit Risk - continued

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31 March 2018, the Council had £20.7m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 70.2% were loans to other local authorities, a further 17.3% was held in two AAA rated Money Market Funds, leaving only 12.5% with banks. All of the monies held on deposit with banks at 31 March 2018 was in call or near call accounts.

The Council's principal cash holding under its treasury management arrangements at 31 March 2018 was £175.8 million (31 March 2017: £173.5m). This was held with the following institutions:

Summary	Standard and Poor's Rating	Principal Outstanding 31.03.18 £000	Carry Value 31.03.18 £000	Fair Value 31.03.18 £000	Carry Value 31.03.17 £000
Money Market Funds					
Deutsche Bank AG, London	AAAm	758	760	760	947
Goldman Sachs	AAAm	1	1	1	20
Standard Life	AAAm	26,064	26,075	26,075	0
Bank Call Accounts					
Bank of Scotland	A	17,364	17,371	17,371	17,314
Royal Bank of Scotland	BBB+	640	640	640	246
Santander UK	A	462	462	462	43
Barclays Bank	A-	14	14	14	3
Svenska Handelsbanken	AA-	862	862	862	34
HSBC Bank Plc	AA-	65	65	65	0
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see below)	n/a	129,553	129,683	129,723	154,896
	Total	175,783	175,933	175,973	173,503

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2018 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 £129.6m above, £13.3m is with a local authority which had an 'Aa3' credit rating from Moody's.

The Council's maximum exposure to credit risk in relation to its direct investments in banks and building societies of £19.4m 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 2018 that this risk was likely to crystallise.

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 2018 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2018 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2018. 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 £2.172m (2016/17 £2.641m), trade debtors past due date can be analysed by age as follows:

	2017/18	2016/17
	£000	£000
Less than two months	14,355	14,823
Two to four months	1,805	1,292
Four to six months	716	1,002
Six months to one year	1,928	1,838
More than one year	7,555	9,338
Total	26,359	28,293

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

45.4 Liquidity risk

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

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

45.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 45.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

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

45.5 Re-financing and Maturity Risk - continued

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

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

	2017/18 £000	2016/17 £000
Less than one year	(62,982)	(64,725)
Between one and two years	(61,787)	(64,419)
Between two and five years	(174,166)	(181,620)
Between five and ten years	(270,794)	(278,115)
More than ten years	(879,907)	(926,909)
Financial Liabilities	(1,449,636)	(1,515,788)

All trade and other payables are due to be paid in less than one year and trade creditors of £20.328m (2016/17 £23.548m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £16.009m (2016/17 £16.019m) nor net equivalent interest rate (EIR) adjustments of £10.863m (2016/17 £9.014m) to the carrying amounts of market debt shown in the financial liabilities are included. Deferred liabilities are also not included.

The only investment which the Council has with a maturity of greater than one year is £6.4m 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.

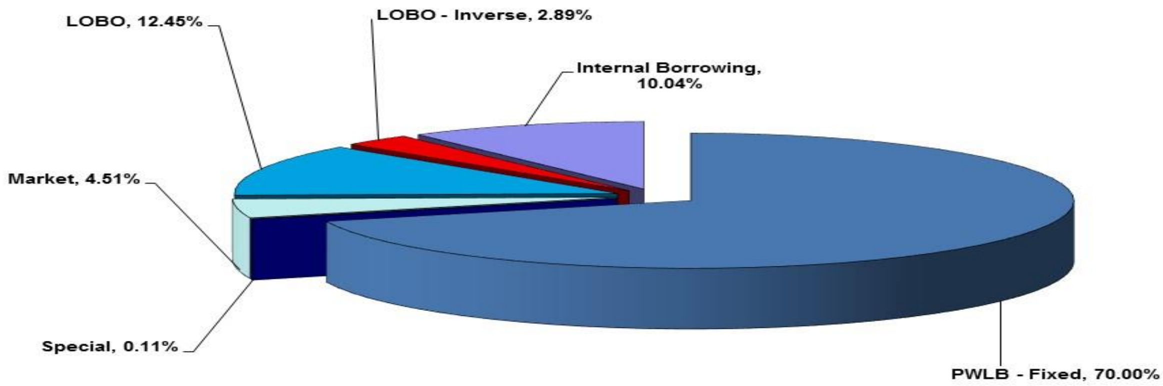
The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy includes a forecast for short and longer term interest rates. The Treasury Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. 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.

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.



CEC Source of Borrowing (31/03/18)

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	(839)
Impact on Comprehensive Income and Expenditure Statement	(839)
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	274,152

Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £20.280m (2016/17 £23.436m) 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.

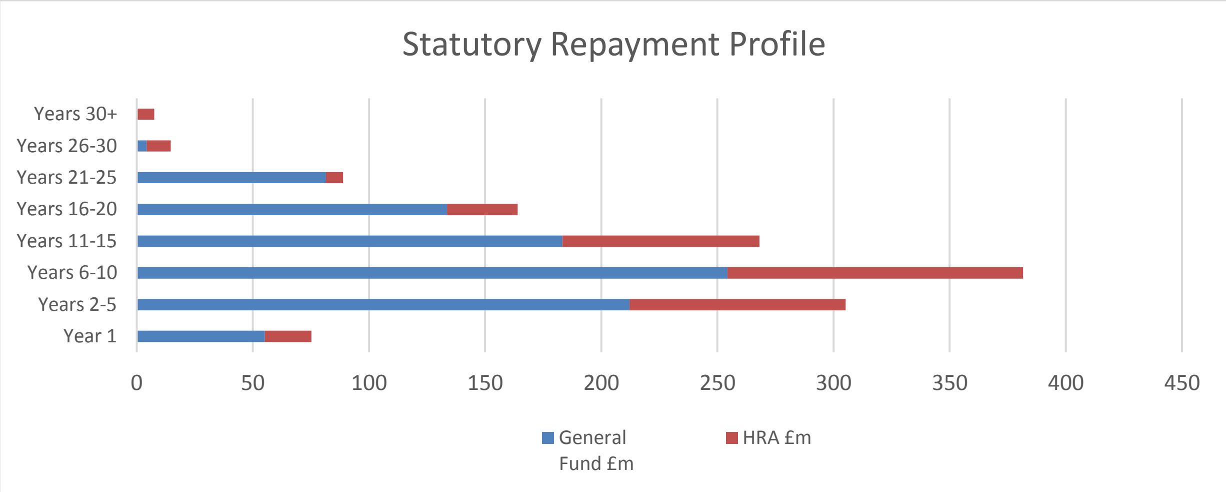
Foreign exchange risk

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 £0.91m was paid out to the respective lead authorities of the projects concerned.

	2017/18		2016/17	
	£000	£000	£000	£000
Balance as at 1 April		2,875		3,846
Investment income		6		7
Less: Payments made:				
Aberdeen City Council	(134)		(136)	
City of Edinburgh Council	(62)		(117)	
Dundee City Council	0		(33)	
Glasgow City Council	(461)		(269)	
Perth and Kinross Council	(19)		(73)	
Stirling Council	(237)		(350)	
		(913)		(978)
Balance as at 31 March		**1,968**		**2,875**

As of April 2018, the Alliance had approved total project funding allocations of £5.97m (£5.79m April 2017), covering a range of initiatives spanning the areas of Infrastructure, Investment Promotion, Low Carbon and Smart Cities.

47. Business Improvement District Scheme

The Council acts as the Billing Authority for a number of Business Improvement Districts (BIDs). The Council collects a levy from the business rate payers on behalf of the BID bodies, Essential Edinburgh, Greater Grassmarket (wound up February 2018), Queensferry Ambition (wound up August 2017) and Edinburgh's West End.

	2017/18 £000	(re-stated) 2016/17 £000
BID Levy Income	1,232	1,433
Payments made / due to schemes	(1,180)	(1,319)
Monies still to be recovered from ratepayers at 31 March	23	75

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 six, with Usher Hall Conservation Trust wound-up in 2017/18 and further plans in place to wind up the Boyd Anderson Trust in 2018/19.

48.1 The funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value 31.03.18 £000	Market Value 31.03.17 £000
Lauriston Castle	SC020737	7,041	7,041
Jean F. Watson	SC018971	6,311	6,274
Edinburgh Education Trust	SC042754	948	919
Nelson Halls	SC018946	228	227
Boyd Anderson	SC025067	109	113
Usher Hall	SC030180	0	65
The Royal Scots Trust	SC018945	32	32
Total market value		14,669	14,671

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

2016/17 £000	Income and Expenditure Account	2017/18 £000
	Income	
73	Investment income	89
14	Other non-investment income	0
87		89
	Expenditure	
(22)	Prizes, awards and other expenses	(87)
(15)	Governance Costs	(13)
(37)		(100)
50	Surplus / (Deficit) for the year	(11)

2016/17 £000	Balance Sheet	2017/18 £000
	Long-Term Assets	
2,066	Investments	2,075
5,275	Artworks - Jean Watson Trust	5,275
7,020	Heritable property	7,020
14,361	**Total Long-Term Assets**	14,370
	Current Assets	
333	Cash and bank	313
0	Debtors	16
333		329
	Current Liabilities	
(23)	Creditors	(30)
(23)		(30)
14,671	**Total Assets less Liabilities**	14,669
	Funds	
3,120	Capital at 1 April	3,293
50	Surplus / (Deficit) for the year	(11)
123	Realised and unrealised gains on investments	9
0	Realised and unrealised losses on investments	0
3,293		3,291
11,378	Revaluation reserve	11,378
14,671	**Funds at 31 March**	14,669

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 at Business Centre 2.6, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG or on the Council's **website** in due course.

NOTES TO THE FINANCIAL STATEMENTS

48. The City of Edinburgh Council Charitable Funds - continued

48.3 Purpose, and financial position, of the largest of the charitable funds

- **Jean F. Watson Bequest (Scottish Charity Reg. No. SC018971)**

  The purpose of the fund is to purchase works of art by artists who have connections with the city.

The financial results of the fund are as follows:	31.03.18 £000	31.03.17 £000
Income	(39)	(47)
Expenditure	5	45
Assets	6,318	6,278
Liabilities	(7)	(4)

- **Lauriston Castle (Scottish Charity Reg. No. SC020737)**

  The purpose of the fund is for the advancement of arts, heritage and culture linked to Lauriston Castle.

The financial results of the fund are as follows:	31.03.18 £000	31.03.17 £000
Income	(2)	(1)
Expenditure	2	1
Assets	7,043	7,042
Liabilities	(2)	(1)

- **Edinburgh Education Trust (Scottish Charity Reg No SC042754)**

  The purposes of the Trust include the advancement of education, citizenship and community development, and the organisation of recreational activities.

The financial results of the fund are as follows:	31.03.18 £000	31.03.17 £000
Income	(38)	(30)
Expenditure	14	13
Assets	952	921
Liabilities	(4)	(2)

48.4 Financial Position of Other Funds

2016/17 £000	Income and Expenditure Account	2017/18 £000
	Income	
0	Investment income	0
0		0
	Expenditure	
1	Administrative expenses	1
0	Other expenditure	42
1		43
1	(Surplus) / Deficit for the year	43

2016/17 £000	Balance Sheet	2017/18 £000
	Current Assets	
44	Cash and bank	0
44		0
	Current Liabilities	
(1)	Balance with City of Edinburgh Council	0
(1)		0
43	**Total Assets less Liabilities**	0
44	**Capital at 1 April**	43
(1)	Deficit for the year	(43)
43	**Capital at 31 March**	0

The entirety of the balance of the Catherine Cowper Trust was used to contribute to the redevelopment of the Museum of Childhood and the bank account has been closed.

NOTES TO THE FINANCIAL STATEMENTS

49. Prior Period Adjustments

49.1 The following prior period adjustments have been made. The changes are adopted retrospectively for the prior period 2017/18, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

- **Development Funding / Scheme of Assistance**
  The previous creation of the debtors for the above scheme had been offset by a movement in the Capital Adjustment Account (CAA) rather than the General Fund. A prior year adjustment has been made to reflect the correct accounting treatment of these debtors.

- **PPP Lifecycle Maintenance**
  The lifecycle maintenance costs within the unitary charges for the PPP schools are, in accordance with the Code, now retained in the Renewal and Repairs Fund rather than the CAA. A prior year adjustment has been made to show this transfer on the balance sheet.

- **Finance Leases**
  In April 2016 the Council entered into a new contract for ICT services and in the absence of information from the new provider continued to account for an embedded finance lease for the ICT assets, which were included in the assets and liabilities on the balance sheet. The contract has been assessed as no longer meeting the criteria of an embedded lease for ICT assets and therefore a prior year adjustment has been made to reflect the reduction in asset values and liabilities.

- **HRA dwellings**
  Capital expenditure on the construction of new housing had been included in council dwellings and had been depreciated in accordance with the depreciation policy. A prior year adjustment has been made to reflect them as Assets Under Construction in the balance sheet and remove the depreciation charge made in year.

- **CEC Holdings Ltd**
  Unsecured loan stock was issued by Edinburgh International Conference Centre Ltd to CEC Holdings Ltd in 2016. A prior year adjustment has been made to reflect this and the effective interest within the Group statements.

49.2 Impact on Financial Statements

Movement in Reserves Statement	**2016/17 Statements £000**	**Devpt Fund / Scheme of Assistance £000**	**PPP Life-cycle Maint. £000**	**HRA Dwellings £000**	**CEC Holdings Ltd £000**	**2016/17 Re-stated £000**
Balance at 31 March 2016						
Group Unusable Reserves	108,367	0	0	0	2,876	111,243
Total Reserves	2,118,243	0	0	0	2,876	2,121,119
Total Comprehensive Inc / Exp.						
Council's Total Usable Reserves	10,768	(4,750)	11,721	401	0	18,140
Total Usable Reserves	(1,754)	(4,750)	11,721	401	0	5,618
Council's Unusable Reserves	(214,358)	4,750	2,287	0	0	(207,321)
Total Reserves	(214,057)	0	14,008	401	0	(199,648)
Adjustments between accounting basis and funding basis under regulations (Note 11)						
Council's Total Usable Reserves	5,103	4,772	2,287	(401)	0	11,761
Total Usable Reserves	5,103	4,772	2,287	(401)	0	11,761
Council's Unusable Reserves	(5,103)	(4,772)	(2,287)	401	0	(11,761)
Net (increase) / decrease before transfer to statutory reserves						
Council's Total Usable Reserves	15,871	22	14,008	0	0	29,901
Total Usable Reserves	3,349	22	14,008	0	0	17,379
Council's Unusable Reserves	(219,461)	(22)	0	401	0	(219,082)
Total Reserves	(214,057)	0	14,008	401	0	(199,648)

NOTES TO THE FINANCIAL STATEMENTS

49. Prior Period Adjustments - continued

49.2 Impact on Financial Statements - continued

Movement in Reserves Statement	**2016/17 Statements £000**	**Devpt Fund / Scheme of Assistance £000**	**PPP Life-cycle Maint. £000**	**HRA Dwellings £000**	**CEC Holdings Ltd £000**	**2016/17 Re-stated £000**
Transfer (to) / from other statutory reserves (Note 12.3)						
Council's Total Usable Reserves	0	763	0	0	0	763
Total Usable Reserves	620	763	0	0	0	1,383
Council's Unusable Reserves	0	(763)	0	0	0	(763)
Increase in year						
Council's Total Usable Reserves	15,871	785	14,008	0	0	30,664
Total Usable Reserves	3,969	785	14,008	0	0	18,762
Council Unusable Reserves	(219,461)	(785)	0	401	0	(219,845)
Total Reserves	(214,057)	0	14,008	401	0	(199,648)
Balance at 31 March 2017						
Council's Total Usable Reserves	253,911	785	14,008	0	0	268,704
Total Usable Reserves	282,427	785	14,008	0	0	297,220
Council's Unusable Reserves	1,511,957	(785)	0	401	0	1,511,573
Total Reserves	1,904,186	0	14,008	401	2,876	1,921,471
Group Comprehensive Income and Expenditure Statement						
Place	140,280	(22)	0	0	0	140,258
Resources	153,220	0	0	0	0	153,220
Housing Revenue Account	(27,759)	0	0	(401)	0	(28,160)
Other non-service specific costs	13,969	0	(11,721)	0	0	2,248
Cost of Services	892,899	(22)	(11,721)	(401)	0	880,755
Taxation and Non-Specific Grant income	(999,442)	4,772	0	0	0	(994,670)
Surplus on Provision of Service	(25,397)	4,750	(11,721)	(401)	0	(32,769)
Other Unrealised (Gains) / Losses	33,565	(4,750)	(2,287)	0	0	26,528
Total Comprehensive (Income) / Expenditure	214,057	0	(14,008)	(401)	0	199,648
Council Comprehensive Income and Expenditure Statement						
Place	140,280	(22)	0	0	0	140,258
Resources	153,220	0	0	0	0	153,220
Housing Revenue Account	(27,759)	0	0	(401)	0	(28,160)
Other non-service specific costs	13,969	0	(11,721)	0	0	2,248
Cost of Services	906,846	(22)	(11,721)	(401)	0	894,702
Taxation and Non-Specific Grant income	(999,442)	4,772	0	0	0	(994,670)
Surplus on Provision of Service	(10,768)	4,750	(11,721)	(401)	0	(18,140)
Other Unrealised (Gains) / Losses	10,620	(4,750)	(2,287)	0	0	3,583
Total Comprehensive (Income) / Expenditure	203,590	0	(14,008)	(401)	0	189,181

49. Prior Period Adjustments - continued
49.2 Impact on Financial Statements - continued

Group Balance Sheet	2016/17 Statements £000	Devpt Fund / Scheme of Assistance £000	PPP Life-cycle Maint. £000	Finance Leases £000	HRA Dwellings £000	CEC Holdings Ltd £000	2016/17 Re-stated £000
Council Dwellings	1,037,991	0	0	0	(13,768)	0	1,024,223
Vehicles, Plant, Furniture and Equipment	175,063	0	0	(3,910)	0	0	171,153
Assets Under Construction	38,927	0	0	0	14,169	0	53,096
Property, Plant and Equipment	3,820,256	0	0	(3,910)	401	0	3,816,747
Debtors	86,931	0	14,008	0	0	0	100,939
Current Assets	319,731	0	14,008	0	0	0	333,739
Creditors	(169,542)	0	0	2,475	0	0	(167,067)
Current Liabilities	(252,739)	0	0	2,475	0	0	(250,264)
Long-Term Borrowing	(1,243,890)	0	0	0	0	2,876	(1,241,014)
Other Long-Term Liabilities	(207,135)	0	0	1,435	0	0	(205,700)
Long-Term Liabilities	(2,199,378)	0	0	1,435	0	2,876	(2,195,067)
Capital Adjustment Account	1,403,268	(785)	0	0	401	0	1,402,884
Group Unusable Reserves	109,802	0	0	0	0	2,876	112,678
Unusable Reserves	1,621,759	(785)	0	0	401	2,876	1,624,251
Renewal and Repairs Fund	50,141	0	14,008	0	0	0	64,149
General Fund	141,826	785	0	0	0	0	142,611
Usable Reserves	282,427	785	14,008	0	0	0	297,220
Total Reserves	1,904,186	0	14,008	0	401	2,876	1,921,471

Council Balance Sheet							
Council Dwellings	1,037,991	0	0	0	(13,768)	0	1,024,223
Vehicles, Plant, Furniture and Equipment	98,891	0	0	(3,910)	0	0	94,981
Assets Under Construction	38,927	0	0	0	14,169	0	53,096
Property, Plant and Equipment	3,712,529	0	0	(3,910)	401	0	3,709,020
Debtors	74,389	0	14,008	0	0	0	88,397
Current Assets	266,614	0	14,008	0	0	0	280,622
Creditors	(142,671)	0	0	2,475	0	0	(140,196)
Current Liabilities	(223,556)	0	0	2,475	0	0	(221,081)
Other Long-Term Liabilities	(205,517)	0	0	1,435	0	0	(204,082)
Long-Term Liabilities	(2,188,600)	0	0	1,435	0	0	(2,187,165)
Capital Adjustment Account	1,403,268	(785)	0	0	401	0	1,402,884
Unusable Reserves	1,511,957	(785)	0	0	401	0	1,511,573
Renewal and Repairs Fund	50,141	0	14,008	0	0	0	64,149
General Fund	141,826	785	0	0	0	0	142,611
Usable Reserves	253,911	785	14,008	0	0	0	268,704
Total Reserves	1,765,868	0	14,008	0	401	0	1,780,277

49. Prior Period Adjustments - continued
49.2 Impact on Financial Statements - continued

Housing Revenue Account Income and Expenditure Statement	2016/17 Statements £000	Depreciation £000	2016/17 Re-stated £000
Expenditure			
Depreciation and impairment of non-current assets	19,345	(401)	18,944
Surplus for the year on HRA services	(17,594)	(401)	(17,995)
Movement on the HRA Statement			
Surplus for the year on the HRA Income and Exp Account	17,594	401	17,995
Adjustment between accounting basis and funding basis under statute	(5,708)	(401)	(6,109)

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT
for the year ended 31 March 2018

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.

Re-stated 2016/17 £000		2017/18 £000	2017/18 £000
	EXPENDITURE		
27,469	Repairs and maintenance	27,964	
21,069	Supervision and management	19,132	
18,944	Depreciation and impairment of non-current assets	21,356	
5,279	Other expenditure	5,627	
251	Impairment of debtors	(40)	
73,012			74,039
	INCOME		
(95,674)	Dwelling rents	(96,050)	
(496)	Non-Dwelling rents (gross)	(47)	
(5,901)	Other income	(5,343)	
(102,071)			(101,440)
(29,059)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(27,401)
191	HRA share of corporate and democratic core		208
708	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		1,021
(28,160)	Net income for HRA Services		(26,172)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
(755)	Gain on sale of HRA fixed assets	3,467	
18,162	Interest payable and similar charges	19,092	
2,410	Interest cost on defined benefit obligation *(pension-related)*	2,306	
(52)	Interest and investment income	(57)	
(2,013)	Interest income on plan assets *(pension-related)*	(1,825)	
(7,587)	Capital grants and contributions	(11,280)	
10,165			11,703
(17,995)	Surplus for the year on HRA services		(14,469)

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

Re-stated 2016/17 £000		2017/18 £000
0	Balance on the HRA at the end of the previous year	0
17,995	Surplus for the year on the HRA Income and Exp Account	14,469
(6,109)	Adjustments between accounting basis and funding basis under statute	(23,511)
11,886	**Net increase before transfers to reserves**	(9,042)
(11,886)	Contribution (to) / from renewal and repairs fund, via the General Fund	9,042
0	**Balance on the HRA at the end of the current year**	0

Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	Adjustments primarily involving the Capital Adjustment Account	
	Reversal of items debited or credited to the Income and Expenditure Statement	
18,944	Charges for depreciation and impairment of non-current assets	21,356
(7,587)	Capital grants and contributions applied	(11,280)
	Insertion of items not debited or credited to the Income and Expenditure Statement	
(16,585)	Statutory provision for the financing of capital investment	(18,290)
0	Capital funded from revenue	(19,474)
	Adjustments primarily involving the Capital Receipts Reserve	
(754)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	3,467
	Adjustments primarily involving the Financial Instruments Adjustment Account	
(498)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(536)
	Adjustments primarily involving the Pensions Reserve	
2,016	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	2,377
(1,503)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,128)
	Adjustments primarily involving the Employee Statutory Adjustment Account	
(142)	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	(3)
(6,109)		(23,511)

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 2018 are as follows:

	2018		2017	
Types of Houses	**Number**	**Annual Average Rent (£)**	**Number**	**Annual Average Rent (£)**
Main provision Council dwellings				
1 Apartment	279	3,891.00	316	3,814.00
2 Apartment	5,312	4,351.00	5,367	4,266.00
3 Apartment	9,753	5,043.00	9,920	4,944.00
4 Apartment	3,306	5,806.00	3,353	5,693.00
5 Apartment	496	6,241.00	505	6,118.00
6 Apartment	9	6,287.00	9	6,164.00
7 Apartment	4	6,090.00	4	5,971.00
8 Apartment	1	6,090.00	1	5,971.00
Mid-market rent dwellings				
2 Apartment	22	5,659.00	23	5,556.00
3 Apartment	81	6,966.00	83	6,821.00
4 Apartment	22	8,770.00	22	8,598.00
	19,285		19,603	

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

2. The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £6.876m (£6.647m 2016/17) against which a provision amounting to £5.730m (£5.757m 2016/17), has been created in respect of non collectable debts.

3. The total value of uncollectable void rents for main provision properties was £0.566m (2016/17 £0.552m). 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 2018

2016/17 £000			2017/18 £000	2017/18 £000
(304,281)	Gross council tax levied and contributions in lieu			(337,413)
50,057	Less:	- Exemptions and other discounts	53,825	
7,731		- Provision for bad debts	8,481	
23,406		- Council Tax Reduction Scheme	24,217	
3,265		- Other reductions	3,766	
84,459				90,289
(219,822)				(247,124)
(1,569)	Previous years' adjustments			(2,123)
(221,391)	**Total transferred to General Fund**			**(249,247)**

Notes to the Council Tax Income Account

The in-year collection rate for Council Tax was 96.8% (2016/17 96.4%). A 3% increase was applied to Council Tax in 2017/18 following the cessation of the Scottish Government freeze.

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. Bands E to H were rebased for 2017/18 by the Scottish Government as per the Council Tax Base table

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 2017/18

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	23,676	74	3,436	3,409	16,905	6/9	11,270	£802.71
B	£27,001 - £35,000	47,429	63	3,585	6,807	37,100	7/9	28,856	£936.50
C	£35,001 - £45,000	44,132	(14)	3,116	5,251	35,751	8/9	31,779	£1,070.28
D	£45,001 - £58,000	39,341	68	2,769	4,080	32,560	9/9	32,560	£1,204.07
E	£58,001 - £80,000	41,446	(24)	3,641	3,488	34,293	473/360	45,057	£1,582.01
F	£80,001 - £106,000	25,246	(32)	1,505	1,776	21,933	585/360	35,641	£1,956.61
G	£106,001 - £212,000	21,556	(107)	478	1,134	19,837	705/360	38,847	£2,357.97
H	Over £212,000	3,992	(28)	133	158	3,673	882/360	8,999	£2,949.97
					Total			233,009	
				Add:	Contributions in Lieu			516	
				Less:	Provision for Non-Payment			(7,006)	
					Council Tax Base			**226,519**	

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 2018

2016/17 £000		2017/18 £000	2017/18 £000
(458,112)	Gross rates levied and contributions in lieu		(461,111)
82,424	Less: - Reliefs and other deductions	99,998	
4,986	- Uncollectable debt written off and provision for impairment	4,794	
87,410			104,792
(370,702)			(356,319)
2,501	Previous years' adjustments		7,305
(368,201)	**Net Non-Domestic Rates Income**		**(349,014)**
	Allocated to:		
(368,712)	Contribution to National Non-Domestic Rates Pool		(349,501)
511	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		487
(368,201)			**(349,014)**

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 31 March 2018	**Number**	**Rateable Value £000**
Shops, offices and other commercial subjects	15,860	661,168
Industrial and freight transport	2,300	68,721
Telecommunications	6	23
Public service subjects	382	41,082
Miscellaneous	4,453	189,034
	23,001	960,027

Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £349.501m (2016/17 £368.712m) 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 £355.063m (2016/17 £374.650m).

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 46.6p per £ in 2017/18 (2016/17 48.4p per £).

Properties with a rateable value greater than £35,000 (2016/17 £35,000) had their rate charges calculated using the poundage of 49.2p per £ (2016/17 51.0p 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	£15,000
25% Relief	£15,001 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.

The Common Good accounts are prepared in accordance with the Council's accounting policies as detailed in Note 1.

In **2015/16**, £2m of the Common Good Fund was earmarked to be utilised to fund a planned property maintenance programme. £110,000 of this funding has been used to fund Scott Monument Lighting work and £3,000 on surveys at the City Observatory. The resulting balance of the Common Good Fund is £2.387m as at 31 March 2018 (£2.402m 2016/17). This is split £0.500m in the fund and £1.887m in the planned property maintenance fund.

During 2017/18, the Council made a deficit of £0.015m on the Common Good fund. This is mainly due to no asset disposals in the financial year and other income and overheads remaining stable.

COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

2017/18 Movements	**Common Good Fund £000**	**Property Maintenance Fund £000**	**Capital Adjust. Account £000**	**Reval. Reserve £000**	**Total Reserves £000**
Balance at 31 March 2017	512	1,890	(22)	21,994	24,374
Movement in reserves during 2017/18					
(Deficit) / Surplus on the provision of services	(15)	0	0	0	(15)
Revaluation Reserve	0	0	0	(108)	(108)
Total Comprehensive Income and Expenditure	(15)	0	0	(108)	(123)
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0
Net increase / decrease before transfers to earmarked reserves	(15)	0	0	(108)	(123)
Transfer (to) / from reserves	3	(3)	0	0	0
Increase / (decrease) in year	(12)	(3)	0	(108)	(123)
Balance at 31 March 2018	500	1,887	(22)	21,886	24,251

COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

2016/17 Comparative Data	**Common Good Fund £000**	**Property Maintenance Fund £000**	**Capital Adjust. Account £000**	**Reval. Reserve £000**	**Total Reserves £000**
Balance at 31 March 2016	298	2,000	(22)	21,994	24,270
Movement in reserves during 2016/17					
Surplus on the provision of services	104	0	0	0	104
Revaluation Reserve	0	0	0	0	0
Total Comprehensive Income and Expenditure	104	0	0	0	104
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0
Net increase / decrease before transfers to earmarked reserves	104	0	0	0	104
Transfer (to) / from reserves	110	(110)	0	0	0
Increase / (decrease) in year	214	(110)	0	0	104
Balance at 31 March 2017	512	1,890	(22)	21,994	24,374

COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Re-stated 2016/17 £000		**2017/18 £000**	**£000**
	EXPENDITURE		
130	Common Good Fund	24	
3,115	Common Good Property Costs	5,858	
3,245	**TOTAL EXPENDITURE**		5,882
	INCOME		
(1,395)	Rent Income	(1,591)	
(526)	Capital Funding	(1,455)	
(1,194)	Recharges Income	(2,812)	
(3,115)	**TOTAL INCOME**	(5,858)	
130	**COST OF SERVICES**		24
(225)	(Gain) / Loss on disposal of Fixed Assets	0	
(9)	Interest and investment income	(9)	
(234)	**Other Comprehensive Income and Expenditure**		(9)
(104)	**(Surplus) / Deficit on Provision of Services**		15
0	(Surplus) / Deficit on revaluation of non-current assets		108
(104)	**TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE**		123

COMMON GOOD FUND - BALANCE SHEET

31 March 2017 £000		31 March 2018 £000	£000
21,892	Community Assets	21,784	
21,892	**Property, Plant and Equipment**		21,784
103	Heritage Assets	103	
103	**Long-term Assets**		103
589	Short-Term Investments	503	
1,790	Cash and Cash Equivalents	1,861	
2,379	**Current Assets**		2,364
24,374	**Net Assets**		**24,251**
21,994	Revaluation Reserve	21,886	
(22)	Capital Adjustment Account	(22)	
21,972	**Unusable Reserves**		21,864
512	Common Good Fund	500	
1,890	Earmarked Reserve	1,887	
2,402	**Usable Reserves**		2,387
24,374	**Total Reserves**		**24,251**

The unaudited accounts were issued on 15 June 2018. The audited accounts were authorised for issue on 27 September 2018.

HUGH DUNN, CPFA
Head of Finance
27 September 2018

COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

1. Property, Plant and Equipment and Heritage Assets

1.1 Movements on Balances

	Community Assets £000	Total Property, Plant and Equipment £000	Heritage Assets £000
Cost or Valuation			
At 1 April 2017	21,892	21,892	103
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(108)	(108)	0
At 31 March 2018	21,784	21,784	103
Net Book Value			
At 31 March 2018	21,784	21,784	103
At 31 March 2017	21,892	21,892	103
Cost or Valuation			
At 1 April 2016	21,892	21,892	103
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0
At 31 March 2017	21,892	21,892	103
Net Book Value			
At 31 March 2017	21,892	21,892	103
At 31 March 2016	21,892	21,892	103

These asset categories are not depreciated.

1.2 Developing a Common Good Register

Work is underway to collate information regarding those properties historically considered by the Council 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. Therefore, at the balance sheet date, the Council's balance sheet may hold heritage assets that belong to the Common Good.

A **response** to the Community Empowerment (Scotland) Act 2015 consultation on Common Good matters was approved by the Finance and Resources Committee on 28 September 2017 and submitted to the Scottish Government.

The **legislation** has now been laid in Parliament. The relevant provisions come into force on 27 June 2018, and the Scottish Government published the accompanying guidance in July. The Common Good Asset Register for public consultation will be considered at the 27 September 2018 Finance and Resources Committee.

2. Usable Reserves

Movements in the Common Good's usable reserves are detailed in the Movement in Reserves Statement (on page 134).

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.

	2017/18		2016/17	
	£000	£000	£000	£000
Balance at 1 April		21,994		21,994
Upward revaluation of assets	0		0	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(108)		0	
Deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Service		(108)		0
Derecognition of asset disposals		0		0
Balance at 31 March		21,886		21,994

3.2 Capital Adjustment Account

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

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

	2017/18	2016/17
	£000	£000
Balance at 1 April	(22)	(22)
Balance at 31 March	(22)	(22)

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

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

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

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement outlines how The City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement explains how the Council has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 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 and 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 Democracy, Governance and Resilience Senior Manager has reviewed the arrangements and is satisfied that the Code continues to be adequate and effective.

The Council's Corporate Governance Framework has three key elements. These are strategic, decision making structure and internal controls:

Strategic

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2017-2022.The plan forms a central part of the 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 approved by the Council in August 2017 and brings together Council strategy, the City Vision, The Community Plan, Budget Plan, People Plan and Directorate business plans into one direction of change. The Plan will be reviewed regularly in order to measure performance and to continue to reflect strategic aims.

- Previously, our programme of transformation focussed 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. As part of the last transformation programme the Council agreed a new approach to delivering change which will ensure decisions to resource new projects are taken as part of an integrated strategy. The new change programme is based on portfolio management principles, with a monthly report taken to the CLT Change Board. The monthly portfolio update reports on all change across the Council including the level of risk being carried, key deliverables and benefits.

- The Council agreed a strategic performance framework 2017-2022 in November 2017. Scrutiny of performance will take place at every level within the organisation to ensure performance monitoring and service improvement. Service areas will continually monitor performance, with senior management teams monitoring their own performance through monthly discussions where areas of risk, good and poor performance will be identified for escalation. The Corporate Leadership Team will focus on performance quarterly, with executive committees considering performance relevant to their area on a six-monthly basis. The Council will consider an annual summary report of all performance issues which will then be further scrutinised by the Corporate Policy and Strategy Committee.

The key elements of the framework are set out below - continued

Decision Making Structures

- The Council amended its political management arrangements in June 2017. It aimed to streamline decision making but also ensure key Council services were aligned so that decisions were taken in an informed and effective manner. The executive committee system was kept in place but executive committees were reduced from eight to six. The Corporate Policy and Strategy Committee was retained but strengthened with scrutiny of police and fire services and increased performance monitoring.
- Committee remits of executive committees have been combined to ensure more connectivity in services, joined up decision-making and informed scrutiny. For example, the committees which considered housing and economic issues have been combined to ensure a more place-based holistic approach to decision making which is further strengthened by the scrutiny of the Local Development Plan also being within the remit of the Housing and Economy Committee.
- The Governance, Risk and Best Value Committee provides the Council with assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides 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.
- 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. 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.
- Locality Committees were established in November 2017. There is a committee for each locality area and all elected members in that area are members. Powers have been delegated to these committees to undertake policy, strategic and financial decisions on local matters. Locality committees will also concentrate on scrutiny on a local basis. This will allow a greater depth and focus on scrutiny of services aided by local knowledge and community needs. Health and Social Care services will also be scrutinised locally by these committees, adding a new layer of scrutiny for the Integration Joint Board to inform their decisions.
- Action Plans are being developed and subsequently considered at Locality Committees to outline how the objectives of the Locality Improvement Plans would be realised.
- The Corporate Leadership Team meets weekly, led by the Chief Executive and includes all executive directors and key heads of service including the Head of HR, Monitoring Officer, Section 95 Officer and Head of Customer and Information Technology.

Internal Controls

A significant part of the governance framework is the system of internal controls in place to ensure that risks are being identified and managed effectively.

- 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 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. Following the replacement of the former Procurement Capability Assessment (PCA) with the Procurement and Commercial Improvement Programme (PCIP), the Council's score in 2017 of 85.4% was the highest of any local authority in Scotland, with best practice demonstrated in Commercial and Procurement Services' approach to commerciality, partnership working and ensuring compliance.
- 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 key elements of the framework are set out below - continued

- The Chief Executive has overall responsibility to Council, as the principal policy adviser to the Council and statutory 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, as the Council's Section 95 Officer, has overall responsibility for ensuring appropriate advice is given to the Council and Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control.
- 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 Democracy, Governance and Resilience Senior Manager, reporting to the Head of Strategy and Insight, has responsibility for advising the Council on corporate governance arrangements.
- The risk management policy and framework set out the responsibilities of Elected Members, the Governance, Risk and Best Value Committee, management and staff for the identification and management of risks to key corporate priorities.
- The Council Risk Register and service area risk registers identify risks and the proposed treatment of actions. There is an escalation process in place to ensure identified risks and emerging issues are highlighted at an appropriate level. These registers are regularly reviewed, updated and reported to the Corporate Leadership Team and Governance, Risk and Best Value Committee for scrutiny and challenge.
- A Council Governance Hub, chaired by the Chief Executive, has been established to scrutinise the management of Council Arm's Length External Organisations (ALEOs), seek assurance over the delivery of services and to ensure that the Council is aware of any risks. This responds to the four 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 ALEOs. The Hub also provides an opportunity for ALEOs to raise issues directly with the Council's Chief Executive and to engage on issues of common interest.
- 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. ALEOs are required to report to the Council's Chief Executive once a year, with their 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.
- 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 a requirement that officers regularly 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 and a current version of the Register is available on the Council's website.

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 Democracy, Governance and Resilience Senior Manager has reviewed the effectiveness of the Code which has resulted in changes to the 2018/19 process to ensure that the Council's annual governance practice is open, transparent and reflects best practice but also is modernised and meets the needs of a changing Council.

An assurance statement on the effectiveness of the system of internal controls has been provided and 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 Democracy, Governance and Resilience Senior 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.

The evidence of effectiveness from these sources includes:

- 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 31 March 2018. It is the Chief Finance Officer's opinion that reasonable but not absolute assurance can be placed upon its effectiveness. Therefore, the Council is continually seeking to improve its internal controls to identify or prevent irregularities.
- Scott-Moncrieff's review of the Council's system of internal controls, the results of which were reported to the Governance, Risk and Best Value Committee in September 2017, concluded that current internal controls were well designed and effective.
- The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit, although some minor instances of non-compliance in 2017/18 were noted. 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.
- 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 them. These reviews have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.
- 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.
- Internal Audit actions are also recorded, monitored and discussed as part of regular update to the Corporate Leadership Team (CLT).
- Following the work in 2014 to improve procure to pay compliance, the target by value of 80% of Oracle expenditure being initiated by a purchase order has been exceeded in every month since May 2017.
- All directorates include in their regular meeting budget issues as standing items on the agenda.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

- Audit actions are reviewed monthly by CLT and quarterly reviewed by Governance, Risk and Best Value Committee. Progress in implementing recommendations from previous audit reports has been closely tracked by the Corporate Leadership Team and the Governance, Risk and Best Value Committee. However, a validation exercise in late 2017/early 2018 identified that there were some historic audit actions that had not been implemented. Led by the Chief Executive, an action plan has been created to address the outstanding actions. This will be monitored by Governance, Risk and Best Value Committee in 2018/19.
- The Council's Governance Hub and the changes to Council Company reporting agreed in June 2016 have strengthened the Council's oversight and scrutiny of its ALEOs whilst addressing conflicts of interest. Reporting of ALEO information has improved but further work is needed to ensure all ALEOs are following the agreed reporting structures.
- The Council's property ALEO, EDI, is being wound down and the remaining projects are being transferred to the Council. This has been supported by an officer working group and extensive reporting to the Housing and Economy Committee.
- New financial controls have been added to those in place in 2017/18 including full documentation of all procedures, development of an anti-money laundering policy, introduction of an independent review of monthly income and expenditure account reconciliations and independent authorisation of changes to Bankline access rights.
- Following an audit by the external auditors on ICT security controls in October 2017, work was undertaken by CGI, in partnership with the Council to resolve the issues identified in the audit. This work was monitored and scrutinised effectively by GRBV with follow up reports in January and April 2018. Progress had been made and work would continue in 2018 to complete the actions.
- A corporate policy framework has been put in place which enables a consistent application of policy assurance across the organisation. The process was further streamlined in 2017 to ensure it was an effective process but maintained a robust assurance role focussing on continuous improvement and best practice.
- The whistleblowing service employs an independent organisation to ensure a robust, transparent and trustworthy process. The Governance, Risk and Best Value Committee receives a quarterly update on whistleblowing and the Finance and Resources Committee reviews the policy annually.
- 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.
- There is a robust health and safety reporting structure which includes directorate health and safety committees, a quarterly Council health and safety group and a quarterly consultation forum involving the trade unions. Health and safety working groups are in place for fire safety, water safety and asbestos.
- All directorates have risk and assurance committee meetings that meet at least quarterly and ensure escalation of risks. The Corporate Leadership Team's Risk Register continues to be scrutinised quarterly at the Governance, Risk and Best Value Committee.
- Programme/project risks are managed through relevant programme structures and are also reported to the Corporate Leadership Team Change Board. Any new significant change ideas must be agreed through the monthly change board. This approach is now bedding in and being applied to the development of the change strategy, with reporting every six months to the Governance, Risk and Best Value Committee.
- A single risk management system is now in use to manage Health and Social Care Partnership and Integration Joint Board risks.
- An internal Council/Edinburgh Leisure Board, supported by Finance to monitor the financial impacts arising from the transfer of the management of secondary school sports facilities to Edinburgh Leisure, has been established. Its role includes mitigating the impact on Council income and expenditure within Communities and Families.
- The Chief Internal Auditor reported to the Governance, Risk and Best Value Committee in August 2017 on the overall adequacy of the Council's framework of governance, risk management and controls and found that controls were adequate but enhancements were required across the Council.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

- 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 Democracy, Governance and Resilience Senior Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. As part of the new intake in May 2017, 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 for those elected members joining the Council in May 2017 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 was structured in two phases – concentrating initially on what was 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. An area on the Orb was also created to store information for elected members so that information was easily accessible. Training had a high uptake with mandatory training on the Code of Conduct being attended by 98% of elected members and the final member attending an individual training session.

Actions

Following the review of effectiveness and the assurance statements from directorates and ALEOs, the following actions have been identified to improve the Council’s governance arrangements:

	Action	Responsible Party	Reporting Date
1	The Chief Executive will report to the Governance, Risk and Best Value Committee in June 2018 outlining the actions taken and status of the historic outstanding audit actions. Internal Audit and directorates will continue to work on ensuring improved processes are in place to avoid repeat issues	Chief Executive	June 2018 and onwards
2	Workforce controls will be reported to committee outlining improved and increased management information to facilitate workforce controls, strategic workforce planning and to measure performance	Executive Director of Resources	June 2018
3	Overpayments to Council wide employees had been identified by Human Resources. A plan has been developed to address this over 2018	Executive Director of Resources	January 2019
4	A review is taking place of health and safety risk assessments in Facilities Management. Work is also undergoing with Communities and Families to ensure clarity around roles and responsibilities regarding health and safety.	Executive Director of Resources	Commences May 2018
5	Corporate health and safety training programme to be reviewed	Executive Director of Resources	January 2019
6	A risk governance framework is being created for Health and Social Care Partnership risks to sit alongside the already established Integration Joint Board risk	Chief Officer - Health and Social Care Partnership	May 2018
7	The Assurance Statement template will be reviewed by December 2018 to ensure more effective, concise but robust process	Chief Executive	January 2019
8	A review has taken place of cash handling within social care and health business support teams and improvements will be rolled out	Chief Officer - Health and Social Care Partnership	January 2019
9	Management actions being implemented to ensure processing of payments to contractors effectively and in line with the Council’s policies and procedures	Executive Director of Resources	January 2019

ANNUAL GOVERNANCE STATEMENT

Actions - continued

	Action	Responsible Party	Reporting Date
10	Development of an improved business continuity plan for the Council's mortuary service	Executive Director of Place	July 2018
11	Reporting of ALEOs has gone to executive committees and the Chief Executive but not all ALEOs are also reporting to the Governance, Risk and Best Value Committee. Work will be undertaken with directors and the Governance Hub to improve awareness and compliance with the reporting process	Chief Executive	August 2018
12	During 2017, issues were identified with service delivery in Building Standards. An improvement plan has been established and will be undertaken with the support of the Scottish Government. Reporting has taken place at the Governance, Risk and Best Value Committee and the Planning Committee	Executive Director of Place	March 2019
13	A review of arrangements is underway to ensure ALEOs have a service level agreement or funding agreement	Executive Director of Place	March 2019
14	Action is being taken to ensure a higher percentage of return from schools regarding self-assurance	Executive Director of Communities and Families	March 2019
15	To ensure the appointment of deputies for resilience co-ordinators in each directorate	All	March 2019
16	Work is ongoing across the Council to identify any gaps regarding compliance with GDPR, this will be monitored and reported to the Council's Leadership Team as well as being reported to committee	All	June 2018 and onwards

Conclusion

In conclusion, our controls framework continues to evolve and improve. Further work will be undertaken to ensure our corporate governance framework and assurance is joined up and complementary. Controls are generally adequate but further work is necessary to ensure that identified improvement plans are monitored and implemented to ensure that controls are fully embedded. Actions included in the plan will improve the Council's governance and many include in built monitoring by both officers and elected members.

We are satisfied that the actions highlighted in this Statement reflect the Council's commitment to continuous improvement and will further enhance our corporate governance and internal control

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
27 September 2018	27 September 2018	27 September 2018

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 was over £150,000 per annum during the year covered by these accounts. 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 146 to 158 in this remuneration report have been audited by Scott-Moncrieff. The other sections of the remuneration report have been 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 2017. 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 2017/18, the remuneration for the Leader of the City of Edinburgh Council was £50,783. 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 2017/18 this was £38,087. 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 Senior Councillors shall not exceed £660,171. 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.

	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 Communities (formerly Culture and Sport), Housing and Economy (formerly Economy), Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Integration Joint Board (formerly Health, Social Care and Housing) Committees	8	62.5%
Convener of Licensing Board	1	55%
Convener of Governance, Risk and Best Value	1	50%
Vice-Conveners of Culture and Communities (formerly Culture and Sport), Housing and Economy (formerly Economy), Education, Children and Families, Finance and Resources, Planning and Transport and Environment Committees	6	50%
Opposition Group Leaders - Conservative, Green and Liberal Democrat Groups	3	47.5%

In addition, 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/149 set the amount of salary for the Chief Executive of the City of Edinburgh Council for the period April 2017 to March 2018. Circular CO/149 also 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 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.

Senior Councillor Roles
There have been a number of changes in Senior Councillors during the year mainly as a result of the local government election in May 2017. The following provides details of Senior Councillor appointments during 2017/18 and the Councillors who served in those capacities. The new administration was formed on 22 June 2017, so the senior roles were vacant from the date of the election to that date. Remuneration for senior councillors therefore includes two months at the basic councillor salary.

Role	Until May 2017 Election	From 22 June 2017 Council Meeting	From 23 November 2017 Council Meeting	From 23 February 2018 Council Meeting	From 15 March 2018 Council Meeting
Leader of the Council	A. Burns	A. McVey	A. McVey	A. McVey	A. McVey
Lord Provost	D. Wilson	F. Ross	F. Ross	F. Ross	F. Ross
Depute Leader of the Council	F. Ross	C. Day	C. Day	C. Day	C. Day
Depute Convener	S. Cardownie	J. Griffiths	J. Griffiths	J. Griffiths	J. Griffiths
Convener of Culture and Communities (formerly Culture and Sport)	R. Lewis	D. Wilson	D. Wilson	D. Wilson	D. Wilson
Convener Housing and Economy (formerly Economy)	G. Barrie	G. Barrie	G. Barrie	G. Barrie	K. Campbell
Convener Education, Children and Families	C. Day	I. Perry	I. Perry	I. Perry	I. Perry
Convener Finance and Resources	A. Rankin	A. Rankin	A. Rankin	A. Rankin	A. Rankin
Convener Edinburgh Integration Joint Board (formerly Health, Social Care and Housing)	R. Henderson	R. Henderson	R. Henderson	R. Henderson	R. Henderson
Convener Planning	I. Perry	L. Ritchie	N. Gardiner	N. Gardiner	N. Gardiner
Convener Regulatory	M. Bridgman	C. Fullerton	C. Fullerton	C. Fullerton	C. Fullerton
Convener Transport and Environment	L. Hinds	L. Macinnes	L. Macinnes	L. Macinnes	L. Macinnes

Senior Councillor Roles - continued

Role	Until May 2017 Election	From 22 June 2017 Council Meeting	From 23 November 2017 Council Meeting	From 23 February 2018 Council Meeting	From 15 March 2018 Council Meeting
Convener Licensing Board	E. Milligan	N. Work	N. Work	N. Work	N. Work
Convener Governance, Risk and Best Value	J. Mowat	J. Mowat	J. Mowat	J. Mowat	J. Mowat
North East Locality Chair	n/a	M. Child	M. Child	M. Child	M. Child
South East Locality Chair	n/a	M. Watt	M. Watt	M. Watt	M. Watt
North West Locality Chair	n/a	G. Gordon	G. Gordon	R. Aldridge (09.02.18)	R. Aldridge
South West Locality Chair	n/a	D. Dixon	D. Dixon	D. Dixon	D. Dixon
Vice Convener of Culture and Communities (formerly Culture and Sport)	N. Austin-Hart	I. Campbell	I. Campbell	I. Campbell	A. McNeese-Mechan
Vice Convener Housing and Economy (formerly Economy)	G. Munro	L. M. Cameron	L. M. Cameron	L. M. Cameron	L. M. Cameron
Vice Convener Education, Children and Families	C. Fullerton	A. Dickie	A. Dickie	A. Dickie	A. Dickie
Vice Convener Finance and Resources	B. Cook	M. Donaldson	M. Donaldson	M. Donaldson	M. Donaldson
Vice Convener Planning	A. Lunn	n/a	n/a	n/a	M. Child
Vice Convener Regulatory	A. Blacklock	n/a	n/a	n/a	n/a
Vice Convener Transport and Environment	A. McVey	K. Doran	K. Doran	K. Doran	K. Doran
Vice Convener Governance, Risk and Best Value	n/a	M. Main	M. Main	M. Main	M. Main
Opposition Group Leaders - Conservative	C. Rose	I. Whyte	I. Whyte	I. Whyte	I. Whyte
Opposition Group Leaders - Green	S. Burgess	S. Burgess	M. Main	M. Main	M. Main
Opposition Group Leaders - Liberal Democrat	n/a	R. Aldridge	R. Aldridge	R. Aldridge	R. Aldridge
Councillors Convener Lothian Valuation Joint Board	N. Work	D. Key (21.08.17)	D. Key	D. Key	D. Key

REMUNERATION REPORT

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 147 and 148. 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. (* Denotes former Councillor)

Council's Leader, Civic Head and Senior Councillors	**Salary, Fees and Allowances £**	**Taxable Expenses £**	**Non-Cash Expenses / Benefits--in-kind £**	**Total Remun. 2017/18 £**	**Total Remun. 2016/17 £**
A. McVey	43,703	0	734	44,437	23,537
(full year equivalent)	*50,783*				
F. Ross	37,284	0	2,819	40,103	38,823
(full year equivalent)	*38,087*				
C. Day	34,790	0	102	34,892	27,246
(full year equivalent)	*38,087*				
J. Griffiths	24,024	0	194	24,218	19,554
(full year equivalent)	*25,391*				*22,807*
A. Burns*	4,632	0	0	4,632	50,786
(full year equivalent)	*50,783*				
S. Cardownie*	2,316	0	6	2,322	25,458
(full year equivalent)	*25,391*				
Conveners *(FYE £31,739)*					
D. Wilson	30,333	25	687	31,045	39,690
A. Rankin	29,870	13	127	30,010	33,169
R. Henderson	24,950	0	725	25,675	33,669
I. Perry	29,870	0	104	29,974	33,123
G. Barrie	29,870	0	1,501	31,371	33,715
K. Campbell	15,380	0	725	16,105	n/a
L. Macinnes	26,859	0	758	27,617	n/a
L. Ritchie	23,466	0	725	24,191	n/a
N. Gardiner	20,317	0	630	20,947	n/a
C. Fullerton	28,944	0	99	29,043	22,923
M. Child	23,040	0	95	23,135	22,903
R. Lewis*	3,011	0	106	3,117	33,133
M. Bridgman*	3,011	0	127	3,138	33,079
L. Hinds*	3,011	0	0	3,011	33,830
Conveners *(FYE £27,930)*					
N. Work *(Note 1)*	25,837	131	1,181	27,149	23,126
E. Milligan*	2,779	0	0	2,779	30,409
Conveners *(FYE £25,391)*					
J. Mowat	24,256	0	95	24,351	24,007
Former Conveners					
W. Henderson*	1,853	0	95	1,948	20,369
(full year equivalent)	*20,273*				
P. Godzik*	n/a	n/a	n/a	n/a	26,631
(full year equivalent)					*32,943*
J. Balfour*	n/a	n/a	n/a	n/a	6,820
(full year equivalent)					*25,341*

REMUNERATION REPORT

Remuneration Paid - continued Council's Leader, Civic Head and Senior Councillors	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2017/18 £	Total Remun. 2016/17 £
Vice-Conveners *(FYE £25,391)*					
G. Munro	17,465	0	804	18,269	23,538
M. Donaldson	23,484	0	112	23,596	n/a
I. Campbell	21,940	0	1,418	23,358	n/a
A. McNeese-Mechan	15,380	0	798	16,178	n/a
A. Dickie	21,940	0	725	22,665	n/a
L M. Cameron	21,940	0	1,983	23,923	n/a
K. Doran	23,484	0	746	24,230	n/a
N. Austin-Hart*	2,085	0	0	2,085	22,807
A. Blacklock*	2,085	0	94	2,179	23,569
B. Cook*	2,085	0	0	2,085	22,807
A. Lunn*	2,085	0	95	2,180	23,536
Locality Committee Conveners *(FYE £24,121)*					
M. Watt	20,955	0	162	21,117	n/a
G. Gordon	20,955	0	728	21,683	n/a
D. Dixon	22,499	24	96	22,619	n/a
Opposition Group Leaders *(FYE £24,121)*					
C. Rose	17,696	0	399	18,095	25,341
I. Whyte	22,499	0	1,149	23,648	n/a
S. Burgess	21,279	0	150	21,429	26,158
M. Main	18,916	0	635	19,551	n/a
R. Aldridge	22,499	0	0	22,499	n/a
Councillors *(FYE £21,160)*					
D. Key *(Note 1)*	20,204	0	14	20,218	n/a

Notes:

1. The amount recharged to Lothian Valuation Joint Board in 2017/18 was £3,560 (2016/17 £4,225). Expenses relate to Councillor role.
2. The full year equivalent under Salary, Fees and Allowances represents the Senior Responsibility Allowance at the year end for the position.

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). The number of elected Members increased from 58 to 63 following the Local Government Elections, held in May 2017:

	2017/18 £	2016/17 £
Salaries	1,330,242	1,280,368
Expenses		
Claimed by councillors	950	1,693
Paid directly by the Council	40,371	25,467
Total	1,371,563	1,307,528

REMUNERATION REPORT

Remuneration Paid - continued
Remuneration paid to Senior Officers

Council's Senior Officers	**Salary, Fees and Allowances £**	**Compensation for Loss of Office £**	**Total Remun. 2017/18 £**	**Total Remun. 2016/17 £**
A. Kerr, Chief Executive	167,468	0	167,468	165,810
A. Gaw, Executive Director of Communities and Families *and Chief Social Work Officer (from 29.08.17)*	150,390	0	150,390	148,901
R. McCulloch-Graham, Integration Joint Board Chief Officer *(to 05.09.17)*	48,422	20,245	68,667	74,451
(full year equivalent)			*75,195*	
P. Lawrence, Executive Director of Place	150,390	0	150,390	148,901
M. Miller, Head of Safer and Stronger Communities and Chief Social Work Officer *(to 29.08.17)* Interim Integration Joint Board Chief Officer *(from 29.08.17)*	87,086	0	87,086	102,256
(full year equivalent)			*75,195*	
S. Moir, Executive Director of Resources *(from 03.07.17)*	111,984	0	111,984	n/a
(full year equivalent)			*150,390*	
H. Dunn, Head of Finance *(from 01.07.17)* and Acting Executive Director of Resources *(to 30.06.17)*	119,138	0	119,138	148,901
(full year equivalent)			*108,720*	
Total	834,878	20,245	855,123	789,220

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 2017/18 amounted to £19,884.
2. R. McCulloch-Graham left his role as Integration Joint Board Chief Officer on 05 September 2017. R. McCulloch-Graham was employed by the Council with 50% of his salary costs reflected above. M. Miller took up the position of Chief Officer with 50% of her salary costs from 29 August 2017 reflected above and the full costs reflected before then. The full year equivalent figure reflects the salary for the Integration Joint Board Chief Officer, funded 50% by NHS Lothian and the Integration Joint Board.
3. S. Moir was appointed Executive Director of Resources in July 2017. Salaries shown for S. Moir and H. Dunn relate to the responsibilities shown. The full year equivalent relates to the role at the end of the year.
4. 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 2017 and 2016 respectively.

Council's Subsidiary Companies	**Salary, Fees and Allowances £**	**Bonus £**	**Other Benefits £**	**Total Remun. 2017/18 £**	**Total Remun. 2016/17 £**
E. Adair, Operations and Finance Director, EDI Group	105,377	0	1,282	106,659	105,665
M. Dallas, Chief Executive, EICC	139,138	27,316	0	166,454	162,900
J. Donnelly, Chief Executive, Marketing Edinburgh Ltd *(Note 1)*	139,200	0	0	139,200	122,960
J. Rafferty, Chief Executive, Capital City Partnership *(until 1.12.16)*	n/a	n/a	n/a	n/a	119,924
(full year equivalent)					*73,524*
R. Hunter, Chief Executive, Capital City Partnership *(from 21.11.16)*	50,414	0	0	50,414	20,204
(full year equivalent)					*48,490*
LPFE Limited					
C. Scott, Chief Executive Officer	100,500	0	0	100,500	92,000
Transport for Edinburgh					
G. Lowder, Chief Executive *(from 07.01.16)*	141,800	0	0	141,800	153,847
(full year equivalent)					*156,664*
Lothian Buses Ltd.					
I. Craig, Managing Director *(until 31.01.16)*	n/a	n/a	n/a	n/a	120,123
(full year equivalent)					*212,786*
W. Devlin, Engineering Director *(until 31.01.17)*	12,900	0	0	12,900	355,103
(full year equivalent)				*154,804*	*212,786*
N. Strachan, Finance Director *(until 31.01.17)*	12,900	0	0	12,900	353,613
(full year equivalent)				*154,804*	*212,786*
R. Hall, Managing Director *(from 01.05.16)*	165,000	46,200	0	211,200	143,188
(full year equivalent)					*214,500*
Edinburgh Trams Ltd.					
L. Harrison, General Manager *(from 01.02.16)*	96,750	14,479	0	111,229	101,672
(full year equivalent)					109,418
	963,979	87,995	1,282	1,053,256	1,851,199

Notes:

1. 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 £139,200 in 2017/18, including VAT (2016/17 £122,960, including VAT).

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.

	2017/18	2016/17		2017/18	2016/17
£50,000 - £54,999	179	199	£110,000 - £114,999	2	1
£55,000 - £59,999	142	116	£115,000 - £119,999	1	1
£60,000 - £64,999	47	42	£120,000 - £124,999	0	1
£65,000 - £69,999	32	41	£125,000 - £129,999	0	1
£70,000 - £74,999	29	26	£130,000 - £134,999	1	0
£75,000 - £79,999	19	20	£135,000 - £139,999	0	1
£80,000 - £84,999	2	2	£140,000 - £144,999	0	1
£85,000 - £89,999	3	4	£145,000 - £149,999	0	3
£90,000 - £94,999	1	3	£150,000 - £154,999	2	0
£95,000 - £99,999	3	1	£155,000 - £159,999	0	0
£100,000 - £104,999	10	8	£160,000 - £164,999	0	0
£105,000 - £109,999	0	0	£165,000 - £169,999	1	1
			Total No. of Employees	**474**	**472**

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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£0 - £20,000							£000	£000
- Council	0	0	48	150	48	150	606	1,855
- Group companies	0	0	2	2	2	2	25	18
£20,001 - £40,000								
- Council	0	0	38	147	38	147	1,112	4,174
- Group companies	0	0	0	0	0	0	0	0
£40,001 - £60,000								
- Council	0	0	13	80	13	80	635	3,904
- Group companies	0	0	0	0	0	0	0	0
£60,001 - £80,000								
- Council	0	0	2	38	2	38	153	2,696
- Group companies	0	0	0	1	0	1	0	71
£80,001 - £100,000								
- Council	0	0	3	15	3	15	250	1,350
- Group companies	0	0	0	1	0	1	0	89
£100,001 - £150,000								
- Council	0	0	1	25	1	25	132	2,958
- Group companies	0	0	0	0	0	0	0	0
£150,001 - £200,000								
- Council	0	0	2	8	2	8	343	1,309
- Group companies	0	0	0	1	0	1	0	190
£200,001 - £250,000								
- Council	0	0	0	2	0	2	0	416
- Group companies	0	0	0	0	0	0	0	0
£250,001 - £300,000								
- Council	0	0	0	0	0	0	0	0
- 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	0	1	0	1	0	325
	0	0	109	471	109	471	3,256	19,355

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 2017/18 were as follows:

Whole Time Pay	**Contribution rate**
On earnings up to and including £20,700 (2016/2017 £20,500)	5.50%
On earnings above £20,700 and up to £25,300 (2016/2017 £20,500 to £25,000)	7.25%
On earnings above £25,300 and up to £34,700 (2016/2017 £25,000 to £34,400)	8.50%
On earnings above £34,700 and up to £46,300 (2016/2017 £34,400 to £45,800)	9.50%
On earnings above £46,300 (2016/2017 £45,800)	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.

Trade Union (Facility Time Publication Requirements) Regulations 2017

The Council is required to report from 1 April 2017 a range of information on facility time made available to its employees who are trade union representatives.

For the reporting year 2017/18, the equivalent of 8.9 FTE (across 15 individuals) of paid facility time was made available, with an associated cost of £0.31m. This sum equates to 0.06% of the Council's overall paybill.

Of the total time made available, four individuals spent 100% of time during the year on trade union-related activities, two between 51% and 99% and the remaining nine between 20% and 50%.

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 2018 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		
Council's Leader and Civic Head	**For year to 31.03.18 £**	**For year to 31.03.17 £**		**As at 31.03.18 £000**	**Difference from 31.03.17 £000**
A. McVey	9,309	4,858	Pension	3	1
			Lump Sum	0	0
F. Ross	7,941	8,096	Pension	4	1
			Lump Sum	0	0
C. Day	6,197	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
J. Griffiths	5,117	4,140	Pension	2	0
			Lump Sum	0	0
A. Burns*	987	10,795	Pension	7	0
			Lump Sum	3	0
Senior Councillors					
D. Wilson	6,461	8,096	Pension	6	1
			Lump Sum	2	0
A. Rankin	6,362	7,017	Pension	4	1
			Lump Sum	0	0
R. Henderson	5,314	7,017	Pension	5	0
			Lump Sum	2	0
I. Perry	6,362	7,017	Pension	5	0
			Lump Sum	2	0
G. Barrie	6,362	7,017	Pension	4	1
			Lump Sum	0	0
M. Child	5,503	4,858	Pension	9	1
			Lump Sum	16	1
G. Munro	3,720	4,858	Pension	4	0
			Lump Sum	2	1
J. Mowat	5,166	5,093	Pension	2	0
			Lump Sum	0	0
R. Aldridge	4,792	n/a	Pension	4	n/a
			Lump Sum	2	n/a
D. Dixon	4,792	n/a	Pension	2	n/a
			Lump Sum	0	n/a
I. Whyte	4,792	n/a	Pension	5	n/a
			Lump Sum	2	n/a
M. Main	4,029	n/a	Pension	2	n/a
			Lump Sum	0	n/a
K. Doran	5,002	n/a	Pension	2	n/a
			Lump Sum	0	n/a
N. Gardiner	4,328	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
K. Campbell	3,275	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a

Pension Benefits - continued
Pension Rights - continued
Council's Leader, Civic Head and Senior Councillors

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.18 £	For year to 31.03.17 £		As at 31.03.18 £000	Difference from 31.03.17 £000
L. Macinnes	5,721	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Donaldson	5,002	n/a	Pension	1	0
			Lump Sum	1	0
M. Watt	4,463	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Gordon	4,463	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
S. Burgess	4,533	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
I. Campbell	4,673	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. McNeese-Mechan	3,276	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Dickie	4,673	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L. M. Cameron	4,673	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Lewis*	651	7,017	Pension	3	0
			Lump Sum	0	0
P. Godzik*	n/a	5,546	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L. Hinds*	641	7,017	Pension	6	0
			Lump Sum	7	0
E. Milligan*	592	6,477	Pension	5	1
			Lump Sum	2	0
M. Bridgman*	641	7,017	Pension	5	0
			Lump Sum	1	0
W. Henderson*	395	4,318	Pension	2	0
			Lump Sum	0	0
N. Austin Hart*	444	4,858	Pension	4	0
			Lump Sum	2	0
A. Blacklock*	444	4,858	Pension	4	0
			Lump Sum	2	0
A. Lunn*	444	4,858	Pension	2	0
			Lump Sum	0	0
N. Work *(including role as Convener of Lothian Valuation Joint Board)*	5,503	4,498	Pension	4	0
			Lump Sum	2	0
D. Key *(including role as Convener of Lothian Valuation Joint Board)*	4,304	n/a	Pension	2	n/a
			Lump Sum	0	n/a

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.

Pension Benefits - continued
Pension Rights - continued
Senior Employees

The pension entitlements of senior employees for the year to 31 March 2018 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 31.03.18 £	For year to 31.03.17 £		As at 31.03.18 £000	Difference from 31.03.17 £000
A. Kerr, Chief Executive *(including returning officer role)*	35,671	35,318	Pension	9	9
			Lump Sum	0	0
A. Gaw, Executive Director of Communities and Families and Chief Social Work Officer *(from 29.08.17)*	32,033	31,716	Pension	71	4
			Lump Sum	142	1
R. McCulloch-Graham, Integration Joint Board Chief Officer *(to 05.09.17)*	6,545	15,858	Pension	n/a	n/a
			Lump Sum	n/a	n/a
S. Moir, Executive Director of Resources (*from 03.07.17*)	23,853	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Lawrence, Executive Director of Place	32,033	31,716	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Miller, Interim Integration Joint Board Chief Officer *(from 29.08.17)* and Chief Social Work Officer *(to 29.08.17)*	27,860	21,781	Pension	55	13
			Lump Sum	105	23
H. Dunn, Head of Finance *(from 01.07.17)* and Acting Executive Director of Resources *(to 30.06.17)*	25,376	31,716	Pension	58	(10)
			Lump Sum	115	(28)
Total	183,371	168,105			

Notes:

All senior employees shown in the previous table above are members of the Local Government Pension Scheme. 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 2018, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 154.

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 2018 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 31.03.18 £	For year to 31.03.17 £		As at 31.03.18 £000	Difference from 31.03.17 £000
E. Adair, Operations and Finance Director, EDI Group	21,606	20,535	Pension	31	4
			Lump Sum	44	3
M. Dallas, Chief Executive, EICC	18,283	17,821	Pension	n/a	n/a
			Lump Sum	n/a	n/a

Pension Benefits - continued
Council's Subsidiary Companies - continued

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.18 £	For year to 31.03.17 £		As at 31.03.18 £000	Difference from 31.03.17 £000
Lothian Buses Ltd.					
I. Craig, Managing Director	n/a	3,789	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Devlin, Engineering Director	3,109	75,587	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Strachan, Finance Director	3,109	210,249	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Hall, Managing Director	16,500	6,875	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Edinburgh Trams Ltd.					
L. Harrison, General Manager *(from 01.02.16)*	9,675	8,225	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Capital City Partnership					
J. Rafferty, Chief Executive *(until 01.12.16)*	n/a	9,558	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Hunter, Chief Executive	9,790	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
LPFE Limited					
C. Scott, Chief Executive Officer	20,685	19,596	Pension	20	3
			Lump Sum	13	1
Total	102,757	372,235			

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 2017 and 31 December 2016 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

27 September 2018

ADAM MCVEY
Council Leader

27 September 2018

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of The City of Edinburgh Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of The City of Edinburgh Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, group and council-only Comprehensive Income and Expenditure Statements, Balance Sheets and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, the Common Good Fund Movement in Reserves Statement, the Common Good Fund Comprehensive Income and Expenditure Statement, the Common Good Fund Balance Sheet, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the Head of Finance and council for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The council is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other information in the annual accounts

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the 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.

We have the following to report in respect of these matters:

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The council failed to comply with this statutory requirement for the three year period ending 31 March 2018 in respect of their significant trading operation, Edinburgh Catering Services - Other Catering.

We have noting to report in respect of the other matters.

Nick Bennett
For and on behalf of Scott-Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

28 September 2018

Finance and Resources Committee

10.00am, Thursday, 27 September 2018

The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2017/18 Audit

Item number	7.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

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 2017/18.

Report

The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2017/18 Audit

1. Recommendations

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 2017/18 and note that these will be submitted to the External Auditor by 30 September 2018 and to OSCR by 31 December 2018;

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 intention is for Boyd Anderson Trust to be formally wound up during the 2018-19 financial year, as approved by the Finance and Resources Committee on 23 January 2018.

2. Background

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

Key Points from the Audit Management Report for 2017/18

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 2017/18 are included in Appendix 2 of this report. The key points the External Auditor has drawn to members' attention are:

i. The external revaluation of Lauriston Castle Trust 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 2017.

   This revaluation has been outstanding for a considerable length of time but the Council will ensure that the valuation is completed for inclusion in the Trustee's Annual Report and Accounts for 2018/19.

ii. During audit testing the External Auditor was unable to verify one item of artwork from the Jean F. Watson collection. This item was identified as unaccounted for in 2015, following a full review of the collection. This item of artwork however remains on the valuation records which are used in the preparation of the financial statements. The value of this item is £2,500.

   The Council will conduct a formal review of the Jean F. Watson collection ensuring that records are up to date and complete.

iii. During audit testing the External Auditor identified two items of artwork (from the Jean F. Watson collection) that did not have labels (either title or ID number).

   As part of the formal review of the Jean F. Watson collection undertaken for action point ii. above, the Council will ensure that all artwork has appropriate labels (either title or ID number).

iv. During the review of councillor declarations of interests for the City of Edinburgh Council the External Auditor noted that not all councillors have recorded their interests as trustees.

As part of the equivalent action for the Council referenced in the 2017/18 annual report on the audit, councillors will continue to be reminded regularly of their duties under the Act.

Plans for the Future Period

3.3 The intention is for Boyd Anderson Trust to be formally wound up during the 2018-19 financial year as approved by the Finance and Resources Committee on 23 January 2018. This is subject to the construction of a purpose-built outdoor learning resource at the Lagganlia Outdoor Centre being carried out in advance of the year end and the Trust contributing towards the cost of that work. Further details of the proposed works and funding of the work was considered by the Finance and Resources Committee on 16 August 2018.

4. Measures of success

4.1 The Charitable Trusts receive an unqualified audit certificate from the External Auditor by 30 September 2018.

5. Financial impact

5.1 There is no direct financial impact arising from the content of this report.

6. Risk, policy, compliance and governance impact

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

7. Equalities impact

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

8. Sustainability impact

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

9. Consultation and engagement

9.1 The Annual Report and Accounts were made available for public inspection from 2 July 2018 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

10.1 'Charitable Trusts Reserves Policy', Finance and Resources Committee, 17 March 2016

10.2 'Report to those charged with Governance on the 2016/17 Audit, Finance and Resources Committee, 28 September 2017

10.3 'Winding Up of Boyd Anderson Charitable Trust', Finance and Resources Committee, 23 January 2018

10.4 'Spend to Save funding application – Lagganlia Outdoor Centre', Finance and Resources Committee, 16 August 2018

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 | Tel: 0131 469 3174

11. Appendices

11.1 The City of Edinburgh Council Charitable Trusts Audit Management Report for the year ended 31 March 2018

11.2 Audited Trustee's Annual Report and Accounts 2017/18

Scott-Moncrieff
business advisers and accountants

The City of Edinburgh Council Charitable Trusts

Audit management report for the year ended 31 March 2018

September 2018

Contents

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Introduction

Introduction

1. International Standards on Auditing (UK) 260, "Communication with those charged with governance" and 265 "Communicating deficiencies in internal control to those charged with governance" require Scott-Moncrieff to report the significant findings from our audit to those charged with governance.

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). 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 Trusts') 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.

The City of Edinburgh Council Charitable Trusts

- 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 Trusts is unqualified. We have, however, drawn attention in our independent auditor's report to the fact that the Usher Hall Conservation Trust and the City of Edinburgh Council Charitable Trusts (Boyd Anderson) have been prepared using a break-up basis of accounting as the trustees consider that they are not going concerns. Our opinion is not modified in respect of this matter.

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's Finance and Resources Committee acts as sole Trustee for these charitable trusts.

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 the 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. 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 (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

Noted in 2017/18 City of Edinburgh Council External Audit Plan

12. We have not identified any indications of management override in the year. We have reviewed the charitable trusts' accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years

13. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While journals continue to be prepared and posted without any secondary review or authorisation, we noted, during our current year audit, that an additional control has been designed and implemented whereby the draft financial statements are reviewed by senior members of the council's finance team. As part of this review process those individuals have access to the ledger system to review all journals posted. We were able to confirm during our audit that this review process had been carried out.

Conclusion: Satisfactory assurance has been gained in respect of the mitigation of this risk.

2. Revenue recognition

Under ISA (UK) 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 and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2017/18 City of Edinburgh Council External Audit Plan

14. While we did not suspect incidences of material fraud and error we have evaluated each type of income transaction and documented our conclusions. We have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we considered the revenue recognition policy and carried out testing to ensure this is appropriate and has been applied consistently throughout the year.

Conclusion: We have gained satisfactory assurance in respect of the completeness and occurrence of revenue transactions in the year.

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

An external revaluation of the collection commenced in 2016 but has yet to be completed. The financial statements in 2016/17 reflected the valuation as at the previous reporting date (31 March 2016).

There is a risk that the result of this valuation is incorrectly accounted for in the 2017/18 financial statements.

Noted in 2017/18 City of Edinburgh Council External Audit Plan

15. The external revaluation of the collection has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date (31 March 2017). The charitable trusts' accounting policy on heritable property states that such properties are included in the financial statements at a revalued amount where this is available. The notes to the financial statements detail that the previous valuation of Lauriston Castle was carried out in 1997.

16. While we concluded that the financial statements have been prepared in accordance with the Charities SORP (FRS 102) in respect of this matter, we recommend that the external valuation of the collection should be concluded as soon as practicable to ensure incorporation in the 2018/19 financial statements.

Action plan point 1

Conclusion: Satisfactory assurance has been gained in respect of the mitigation of this risk.

4. Winding up of Trusts

In February 2017, the Council's Finance and Resources Committee approved the transfer of all funds held by the Usher Hall Conservation Trust to the Usher Hall to contribute to the purchase cost of its new grand piano. Consent to wind up this charitable trust was received from the Office of the Scottish Charity Regulator (OSCR) in December 2016.

In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the Boyd Anderson Charitable Trust and the transfer of the remaining assets to the Lagganlia Outdoor Learning Centre. Consent to wind up this charitable trust was received from the OSCR in December 2017.

There is a risk that these decisions are not accounted for and disclosed correctly In the financial statements.

Noted in 2017/18 City of Edinburgh Council External Audit Plan

17. We have confirmed that the Usher Hall Conservation Trust was removed from the Charity Register on 23 March 2018.

18. In respect of the City of Edinburgh Council Charitable Trust (Boyd Anderson), construction works have not yet been completed at Lagganlia, therefore these monies have not yet been transferred. OSCR has granted consent to wind up this Trust and this will be progressed once construction works have been completed.

19. In respect of these two Trusts, note 1 in the financial statements explains a break-up basis of accounting has been applied as the trustees consider that they are not going concerns. We have disclosed this matter in our independent auditor's report. Our opinion is not modified in respect of this matter.

Conclusion: We have gained satisfactory assurance the appropriate disclosures have been made in the financial statements.

Our application of materiality

20. 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.

21. Our initial assessment of materiality for each charitable 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.

22. Our assessment of materiality is set with reference to gross assets. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance of each charitable trust.

	Initial materiality	Final materiality
Jean F. Watson	125,560	126,360
Edinburgh Education Trust	18,420	19,040
Nelson Halls	4,680	4,740
Boyd Anderson	2,360	2,320
Usher Hall Conservation	1,360	-[1]
Lauriston Castle	140,840	140,860
The Royal Scots Memorial	660	660

23. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

24. 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:

	Weighting
High	50%
Medium	60%
Low	75%

25. 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

26. We did not identify any audit adjustments during our audit other than amendments to the disclosure notes which are reflected in the final set of financial statements.

27. 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

28. 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 2018. 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 trusts. This ensures that

[1] We have tested 100% of transactions in respect of the Usher Hall Conservation Trust. This Trust was wound up and removed from the Charity Register on 23 March 2018.

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.

29. 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.

30. Our standard audit approach is based on performing substantive tests and detailed analytical procedures. 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

31. 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 trusts' accounting records and to safeguard the charitable trusts' assets.

32. 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.

33. Our work identified four areas for improvement during our final audit (one of which is referred to at paragraph 16). We outline the issues identified and our recommendations at Appendix 4.

Action plan points 2 to 4

34. In addition we have followed up on progress in implementing actions raised in the prior year. Full details of our findings are included in Appendix 4.

Fraud and irregularity

35. Responsibility for preventing and detecting fraud and other irregularities lies with the trustees of the charitable trusts'. 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.

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

Legality

37. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.

38. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

39. Under Section 46 of the Charities and Trustee Investment (Scotland) Act 2005, auditors have a responsibility to report items of material significance to the Office of the Scottish Charity Regulator (OSCR).

40. We did not identify any areas of material significance during our audit that required reporting to OSCR.

Going concern and subsequent events

41. We are required under International Standard on Auditing (UK) 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's ability to continue as a going concern which needs to be disclosed in the financial statements.

42. 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) 560, "Subsequent events" requires us to assess all such matters before signing our audit report.

43. In order to gain assurance on these matters our work has included (where applicable):

- reviewing bank facilities;

- enquiring of senior management and the charitable trusts' solicitors concerning litigation, claims and assessments; and
- performing sample testing of post balance sheet transactions.

44. We confirm that there are no issues affecting five[2] of the seven charitable trusts' ability to continue as a going concern.

45. In respect of the Usher Hall Conservation Trust and City of Edinburgh Council Charitable Funds (Boyd Anderson), we draw attention to note 1 in the financial statements, which describes the basis of preparation. The trustees have prepared the financial statements for these two trusts using a break-up basis of accounting as they consider that they are not going concerns. Our opinion is not modified in respect of this matter.

46. No subsequent events were identified requiring amendment to or disclosure in the financial statements.

Other matters identified during our audit

The Local Authority Accounts (Scotland) Regulations 2014

47. As part of our audit, we reviewed the charitable trusts' compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulation 9[3] 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).

Qualitative aspects of accounting practices and financial reporting

48. 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:

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[2] The five charitable trusts referred to are: Jean F. Watson, Edinburgh Education Trust, Nelson Halls Trust, Lauriston Castle Trust and The Royal Scots (The Royal Regiment) Monument Trust Fund

[3] Regulation 9 relates to the notice of public right to inspect and object to the accounts.

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 trusts.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing or the period in which transactions were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of accounting estimates and judgements used in the preparation of the financial statements. We did however note (paragraph 15) that the external revaluation of the Lauriston Castle Trust collection has yet to be completed and the financial statements therefore reflect the valuation as at the previous reporting date.
The appropriateness of the going concern assumption.	Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that five of the seven charitable trusts will continue to operate for at least 12 months from the signing date. In respect of the Usher Hall Conservation Trust and City of Edinburgh Council Charitable Funds (Boyd Anderson) we draw attention to note 1 in the financial statements, which describes the basis of preparation. The trustees have prepared the financial statements for these two trusts using a break-up basis of accounting as they consider that they are not going concerns. Our opinion is not modified in respect of this matter.
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.	There are no uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
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 annual report or material inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the annual 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.

Qualitative aspect considered	Audit conclusion
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 charitable trusts 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 charitable trusts' 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 charitable trusts' 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 trusts 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). 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) 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) 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

Unadjusted audit difference

We identified the following adjustment during the audit. We have discussed this adjustment with council management and agreed that it would not be 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						
	• Jean F Watson				711		
	• Edinburgh Education Trust				599		
	• Royal Scots Monument				24		
	• Nelson Halls				159		
	• Lauriston Castle				32		
	Investments	1,525					

Being understatement of investment income in 2017/18.

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.

	2017/18 £'000	2016/17 £'000	Commentary
Jean F. Watson (SC018971)			
Income	39	47	Only investment income in the current year. In the prior year funding was received to assist in the purchase of 'Moon' (£14,500).
Expenditure	(5)	(6)	
Net gains/(losses) on investments	3	56	
Net income/(expenditure)	**37**	**97**	
Unrestricted funds	1,017	983	
Endowment funds	917	914	
Revaluation reserve	4,377	4,377	
Total funds	**6,311**	**6,274**	
Edinburgh Education Trust (SC042754)			
Income	38	30	
Expenditure	(14)	(13)	The Trust funded £8,427 of activities for looked after children and £2,154 of school prizes. In comparison, in 2016/17 the Trust funded £7,569 of activities for looked after children and £1,316 of school prizes.
Net gains/(losses) on investments	5	50	
Net income/(expenditure)	**29**	**67**	
Unrestricted funds	68	43	
Endowment funds	880	876	
Total funds	**948**	**919**	

	2017/18 £'000	2016/17 £'000	Commentary
Nelson Halls Trust (SC018946)			
Income	9	7	
Expenditure	(9)	(7)	
Net gains/(losses) on investments	1	13	
Net income/(expenditure)	1	13	
Unrestricted funds	3	3	
Endowment funds	225	224	
Total funds	**228**	**227**	
City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)			
Income	-	1	
Expenditure	(4)	(6)	
Net gains/(losses) on investments	-	-	
Net income/(expenditure)	**(4)**	**(5)**	
Unrestricted funds	109	113	
Total funds	**109**	**113**	At the January 2016 Finance and Resources Committee, it was 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 at Lagganlia, therefore these monies have not yet been transferred. A proposal to use the remaining funds for the same purpose was approved by Committee on 23 January 2018. OSCR have granted consent to wind up the Trust and this will be progressed once the log cabin and storage space have been completed.

	2017/18 £'000	2016/17 £'000	Commentary
Usher Hall Conservation Trust (SC030180)			
Income	-	-	
Expenditure	(65)	(3)	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.
Net gains/(losses) on investments	-	-	
Net income/(expenditure)	(65)	(3)	
Unrestricted funds	-	65	
Total funds	**-**	**65**	Confirmation of removal from the Charity Register of Usher Hall Conservation Trust was received on 23 March 2018 from OSCR after the funds had been transferred in January 2018.
Lauriston Castle Trust (SC020737)			
Income	2	1	
Expenditure	(2)	(1)	
Net gains/(losses) on investments	-	2	
Net income/(expenditure)	-	2	
Unrestricted funds	(1)	-	
Endowment funds	41	40	
Revaluation reserve	7,001	7,001	
Total funds	**7,041**	**7,041**	

	2017/18 £'000	2016/17 £'000	Commentary
The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)			
Income	1	1	
Expenditure	(1)	(1)	
Net gains/(losses) on investments	-	2	
Net income/(expenditure)	-	2	
Unrestricted funds	1	1	
Endowment funds	31	31	
Total funds	**32**	**32**	

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 trusts' 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**	**Current year**	**Prior year**
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences***; or*** • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.	-	-
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences***; or*** • ***Significant*** impact on the reputation or brand of the organisation.	-	-
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.	**4**	**2**
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance ; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.	-	-
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.	-	-

Current year (2017/18) recommendations

1.	Issue & Recommendation	Management Comments
Valuation of Lauriston Castle collection **Rating** **Medium**	**Issue** The external valuation of Lauriston Castle collection commenced in 2016 but has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date. The previous valuation of the collection was carried out in 1997. **Recommendation** The external valuation of the collection should be concluded as soon as practicable to ensure incorporation in the 2018/19 financial statements.	The Council will ensure that the valuation is completed for inclusion within the 2018/19 accounts. **Responsible officer:** Service Manager, Cultural Venues (Museums & Galleries), Place **Completion date**: March 2019

2.	Issue & Recommendation	Management Comments
Missing artwork **Rating** **Medium**	**Issue** During our audit testing we were unable to verify one item of artwork from the Jean F Watson collection. We understand that this item was identified as unaccounted for in 2015, following a full review of the collection. This item of artwork however remains on the valuation records which are used in the preparation of the financial statements. The value of this item is £2,500. **Recommendation** A full review of the Jean F Watson artwork should be carried out to ensure records are up to date and complete.	The Council will conduct a formal review of the Jean F. Watson collection ensuring that records are up to date and complete. **Responsible officer:** Service Manager, Cultural Venues (Museums & Galleries), Place **Completion date**: March 2019

3.	Issue & Recommendation	Management Comments
Artwork – asset tagging **Rating** **Medium**	**Issue** We identified, through our sample testing, two items of artwork (from the Jean F Watson collection) that did not have labels (either title or ID number). **Recommendation** A review of all artworks should be carried out to ensure they are appropriately tagged.	As part of the formal review of the Jean F. Watson collection undertaken for Action Point 2, the Council will ensure that all artwork has appropriate labels (either title or ID number). **Responsible officer:** Service Manager, Cultural Venues (Museums & Galleries), Place **Completion date**: March 2019

4.	Issue & Recommendation	Management Comments
Declarations of interest **Rating** **Medium**	**Issue** As part of our review of councillor declarations of interests for the City of Edinburgh Council we noted that not all councillors have recorded their interests as trustees. **Recommendation** We recommend all councillors acting as Trustees to the City of Edinburgh Council charitable trusts review and update their registers of interest, if required, to reflect their role as Trustee on these Trusts.	As part of the equivalent action for the Council referenced in the 2017/18 annual report on the audit, we will continue to remind regularly councillors of their duties under the Act. **Responsible officer:** Governance and Democratic Services Manager Councillors **Completion date**: Ongoing

Prior year recommendations

1.	Issue & Recommendation	Management Comments	2018 Update
Authorisation of journals **Rating** **Medium**	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. Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place 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.	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. **Action owner:** Charitable Trust Accountant, Finance **Due Date:** March 2018	**Action complete** We noted, during our current year audit, that an additional control has been designed and implemented whereby the draft financial statements are reviewed by senior members of the council's finance team. As part of this review process those individuals have access to the ledger system to review all journals posted. We were able to confirm during our audit that this review process had been carried out.

2.	Issue & Recommendation	Management Comments	2018 Update
Accounting for dividend income **Rating** **Medium**	During our audit testing we noted that dividend income has been accounted for on a cash basis instead of an accruals basis. Dividend income should be accounted for on an accruals basis.	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. **Action owner:** Charitable Trust Accountant, Finance **Due date:** March 2018	**Action complete** Dividend income has been accounted for on an accruals basis in the 2017/18 financial statements.

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 2018 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 trusts for the year ended 31 March 2018, 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 trusts;
    - 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 of five of the seven charitable trusts 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. The Usher Hall Conservation Trust and the City of Edinburgh Council Charitable Trusts (Boyd Anderson) have been prepared using a break-up basis of accounting as we consider that they are not going concerns.

9. We have 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.

10. 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

11. 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.

12. 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.

13. 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.

14. 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

15. 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.

16. The charitable trusts 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

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

Related parties

18. 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.

19. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.

20. 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

21. 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.

22. 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.

23. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

24. 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.

25. 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

26. 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 trustees of the charities

On……………………………………….. (date)

The above individual is signing this letter on behalf of the trustees 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 trusts 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 trusts for that purpose, in order to be aware of any information needed by the charitable trusts' auditor in connection with preparing their report and to establish that the charitable trusts' 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 2018

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."

Reference and Administrative Details

At the year end the Council acted as sole trustee for a total of six 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.

Registered Office

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

Auditor

Scott-Moncrieff
Exchange Place 3
Semple 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 2017/18

The trustee presents the Audited Annual Report and Accounts of the City of Edinburgh Council Charitable Trusts for the year ending 31 March 2018. 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 Commitee. 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. The Children's Panel consists of council officers Andy Gray, Andy Jeffries, Robin Yellowlees and Linda Lees.

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:
   - i) the charities are operating efficiently and effectively;
   - ii) the charitable assets are safeguarded against unauthorised use or disposition;
   - iii) proper records are maintained and financial information used by the charities is reliable;
   - iv) 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; and
4. Identification and management of risks.

The Trustee is 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 and Funds held as Custodian Trustee on Behalf of Others

None.

Trustee's Audited Annual Report 2017/18
Objectives and Activities

Details of the charitable purposes of the charities as at 31 March 2018 are as follows:

Official Name *(Name Used in Accounts)*	**Scottish Charity Registration Number**	**Purpose**	**Market Value at 31/3/18 £'000**
Jean Fletcher Watson *(Jean F. Watson)*	**SC018971**	The purchase of works of art by artists who have connections with the city	**6,311**
Edinburgh Education Trust *(Edinburgh Education Trust)*	**SC042754**	To fund activities to support Looked after Children and school prizes	**948**
Nelson Halls Trust *(Nelson Halls)*	**SC018946**	Maintenance of the four "Nelson Halls" in Edinburgh to provide reading rooms for the poor	**228**
City of Edinburgh Council Charitable Funds *(Boyd Anderson)*	**SC025067**	Provision of outdoor education and skiing opportunities	**109**
Usher Hall Conservation Trust *(Usher Hall)*	**SC030180**	Raise funds for the renovation of the Usher Hall	**-**
Lauriston Castle Trust *(Lauriston Castle)*	**SC020737**	To make the artefacts and buildings available to be viewed by the public	**7,041**
The Royal Scots (The Royal Regiment) Monument Trust Fund *(The Royal Scots Trust)*	**SC018945**	Maintenance of the Royal Scots Monument	**32**
Total			**14,669**

In addition to the funds outlined above, the Council administered the Catherine Cowper Trust which is not included in the accounts as it is not a registered charity and the funds were disbursed in 2017/18 to assist with the redevelopment of the Museum of Childhood.

The main activities undertaken in relation to the Trusts' purposes are outlined below;
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. Confirmation of removal from the Charity Register of Usher Hall Conservation Trust was received on 23 March 2018 from OSCR after the funds had been transferred in January 2018.

Jean F. Watson purchased 'Princes Street Station, Edinburgh' by William Wilson for £550 during the financial year. Additional purchases were approved at the Committee meeting on 15 December 2017 and will be progressed and finalised throughout the next financial year.

The Edinburgh Education Trust funded £8,427 of activities for looked after children (£7,569 2016/17) and £2,154 of school prizes (£1,316 2016/17). 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. Unused funds from the current year will be rolled forward into the new year.

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 to use the remaining funds for the same purpose was approved by Committee on 23 January 2018. OSCR have granted consent to wind up the Trust and this will be progressed once the log cabin and storage space has been completed.

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

The Lauriston Castle is open to the public with the interest received in 2017/18 used to cover some of the running costs.

For The Royal Scots Trust, the interest received in 2017/18 was used to cover some of the running costs.

Trustee's Audited Annual Report 2017/18
Achievements and Performance

Financial Investments Performance

The Trusts' investments are held in the COIF Charities Investment Fund managed by CCLA Investment Management Ltd and the Charibond Charities Fixed Interest Common Investment Fund managed by M&G Charities.

Charibond Charities Fixed Interest Common Investment Fund

Performance information for 12 months to 31 October 2017 by Charibond Charities Fixed Interest Common Investment Fund was a total return (capital performance with gross income reinvested) of 1.2% compared to the FTSE British Government All Stocks Index - a broad index of UK government bonds which does not include corporate bonds - which returned 1.1% over the same period. The fund's distribution yield at 1 November 2017 was 3.7%.

The single year performance for the last five years ending October is outlined in the table below;

	2017	2016	2015	2014	2013
Charibond	1.2%	9.6%	3.0%	4.5%	1.1%

A letter dated March 2018 was received stating that the fund's distribution would be reducing with effect from its next quarterly payment in May 2018. As a result, the fund's distribution yield will reduce to approximately 2.0%. This highlights the implications for bond markets of strengthening inflation and a rising interest rate environment.

COIF Charities Investment Fund

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

	2018	2017	2016	2015	2014	2013
Fund	6.0%	+20%	+0.4%	+14.7%	+7.2%	+18.5%
Comparator	2.2%	+20.4%	-1.5%	+11.1%	+8.1%	+13.7%

The return was supported by a strong contribution from stock selection. Areas of strength included IT and parts of the financial sector; the low weighting to energy was also helpful to returns. Asset allocation was unhelpful, particularly the absence of any significant weighting to fixed income investments, a sector which enjoyed broadly stable values.

The COIF Charities Investment Fund is split 55.0% in overseas equities, 18.3% in UK equities, 21.0% in Property/Other Assets, 0.5% in Fixed Interest and 5.2% in Cash as at 31 March 2018. The overseas equities are split as follows: - North America 33.6%, Europe 12.2%, Pacific Ex. Japan 4.5%, Japan 4.1%, Other Americas 0.6%.

The forecast annual income from the COIF Charities Investment Fund is £59,000, which represents an income yield of around 3.54% based on the current market value of investments.

Financial Review

The financial statements present the financial position of the trusts for the year ended 31 March 2018. 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 £89,000 in 2017/18. (2016/17 £87,000). This marginal increase in income compared to the previous year is due to the change in accounting treatment for the CCLA investments interest. In 2017/18 £16,000 of income was accrued whereas this was not included in 2016/17. The remaining difference between the two years is the £14,500 of grant income received for purchasing art in 2016/17, with no corresponding grant income for purchases received in 2017/18.

The expenditure in the year is higher than last year at £100,000 compared to £37,000. This movement is primarily a result of £65,000 of funds from the Usher Hall Trust being transferred to the City of Edinburgh Council to assist in the purchase of a Grand Piano at the Usher Hall. 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.

Trustee's Audited Annual Report 2017/18

Financial Review - continued

The Balance Sheet Statement shows the fixed asset investments have increased from £2.066m to £2.075m. Movements on the valuation of the investments are further analysed in note 8, 17 and 18.

Fixed asset properties and collections have been included in the accounts at their most recent valuations. The £20,000 decrease in cash is further analysed in the Cash Flow Statement (£87,000 decrease in 2016/17). The detail of the breakdown of the £30,000 owed by the Trusts as at 31 March 2018 is included within Note 18 of the Accounts with the year on year comparative included in Note 11 and additional detail on who is owed monies provided in Note 13.

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 £40,000. 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 £6,311,000, consisting of £917,000 in Investments, £5,275,000 in Fixed Assets, £119,000 in Cash, £7,000 of debtors less Creditors of £7,000.

The annual income for the Edinburgh Education Trust averages around £35,000. 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 £948,000, consisting of £880,000 in Investments, £65,000 in Cash, £7,000 of debtors less Creditors of £4,000.

The annual income for Nelson Halls averages around £8,000. 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 £228,000, consisting of £206,000 in Investments, £19,000 in Heritable Assets, £10,000 in Cash, £2,000 of debtors less Creditors of £9,000.

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 the Lauriston Castle averages around £1,500. 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, £41,000 in Investments, £1,000 in Cash less Creditors of £2,000.

The annual income for The Royal Scots Trust averages around £1,200. 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.

Going Concern Policy

The financial statements for the remaining five trusts, after the closure of Boyd Anderson, are prepared on the going concern basis. The trustees are of the opinion those trusts are a going concern from reviewing activities undertaken, based on expected expenditure commitments in the coming year.

Trustee's Audited Annual Report 2017/18

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 which has been approved by Committee, leaving 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 2018/19 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 2018/19 to ensure that they are also aware of the likely money available in 2019/20 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 27 September 2018 are outlined below;

Councillor Marion Donaldson *(Vice Convener)*
Councillor Kate Campbell *(from 15.03.18)*
Councillor Gavin Corbett
Councillor George Gordon *(from 23.08.18)*
Councillor Graham Hutchison
Councillor Andrew Johnston
Councillor Claire Miller
Councillor Neil Ross
Councillor Mandy Watt
Councillor Iain Whyte

The following were also members during the reporting period;

Councillor Derek Howie *(to 15.03.18)*
Councillor Claire Bridgman *(to 23.08.18)*

Members of the Jean F. Watson Committee as at 27 September 2018 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 2018

		2017/18			2016/17		
	Note	**Unrestricted funds**	**Endowment funds**	**Total funds**	**Unrestricted funds**	**Endowment funds**	**Total funds**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income and Endowments from:							
Charitable activities	*2*	-	-	-	14	-	14
Investments	*2*	89	-	89	73	-	73
Total		89	-	89	87	-	87
Expenditure on:							
Raising Funds	3	-	-	-	(4)	-	(4)
Charitable activities	*4, 5*	(100)	-	(100)	(33)	-	(33)
Total		(100)	-	(100)	(37)	-	(37)
Net gains / (losses) on investments	*17*	-	9	9	-	123	123
Total		-	9	9	-	123	123
Net income / (expenditure)		(11)	9	(2)	50	123	173
Transfers between funds				-	(100)	100	-
Net movement in funds		(11)	9	(2)	(50)	223	173
Reconciliation of funds							
Total funds brought forward		5,585	9,086	14,671	5,635	8,863	14,498
Total funds carried forward	*18*	5,574	9,095	14,669	5,585	9,086	14,671

The City of Edinburgh Council Charitable Trusts
Balance Sheet
As at 31 March 2018

		2017/18			2016/17		
	Note	**Unrestricted funds**	**Endowment funds**	**Total funds**	**Unrestricted funds**	**Endowment funds**	**Total funds**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Assets:							
Jean F. Watson Collection	6	5,275	-	5,275	5,275	-	5,275
Heritable Property	7	-	7,020	7,020	-	7,020	7,020
Investments	8	-	2,075	2,075	-	2,066	2,066
Total fixed assets		5,275	9,095	14,370	5,275	9,086	14,361
Current Assets:							
Cash at Bank	*9*	313	-	313	333	-	333
Debtors	*10*	16	-	16	-	-	-
Total current assets		329	-	329	333	-	333
Liabilities:							
Creditors due within one year	*11, 13*	(30)	-	(30)	(23)	-	(23)
Total Liabilities		(30)	-	(30)	(23)	-	(23)
Net Current Assets		299	-	299	310	-	310
Total Net Assets		5,574	9,095	14,669	5,585	9,086	14,671
The funds of the charity:							
Unrestricted Funds	*18*	1,197	-	1,197	1,208	-	1,208
Endowment Funds	*18*	-	2,094	2,094	-	2,085	2,085
Revaluation Reserve	*18*	4,377	7,001	11,378	4,377	7,001	11,378
Total Charity Funds		5,574	9,095	14,669	5,585	9,086	14,671

The unaudited accounts were issued on 15 June 2018. The audited accounts were authorised for issue on 27 September 2017. I can confirm that the Annual Report and Accounts were approved for signature by the Finance and Resources Committee at its meeting on 27 September 2018.

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 2018

	31 March 2018		31 March 2017
	£'000	£'000	£'000
Operating Activities			
Dividend Income and Interest received (Note 2)	(73)		(72)
Grant Income for Purchase of Art (Note 2)	-		(14)
Cash inflows generated from operating activities		**(73)**	**(86)**
Cash paid for Investment Advice (Note 3)	-		4
Cash paid to Schools and Pupils (Note 4)	11		9
Cash paid for Usher Hall Grand Piano (Note 4)	65		-
Cash paid for Purchase of Art (Note 6)	-		39
Cash paid to the Council	17		21
Cash outflows generated from operating activities		**93**	**73**
Net cash (inflows) / outflows from operating activities		**20**	**(13)**
Investing Activities			
Additional Investment into COIF Charities Investment Fund	-		100
Net cash flows from investing activities		-	100
Net cash flows from financing activities		-	-
Net (increase) / decrease in cash and cash equivalents		**20**	**87**
	April 2017		**April 2016**
Cash and cash equivalents (Note 9)	333		420
	March 2018		**March 2017**
Cash and cash equivalents (Note 9)	313		333
Net (increase) / decrease in cash and cash equivalents		**20**	**87**

1 Accounting policies

a) Basis of preparation

The 2017/18 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).

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. Confirmation of removal from the Charity Register of Usher Hall Conservation Trust was received on 23 March 2018 from OSCR after the funds had been transferred in January 2018.

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 to use the remaining funds for the same purpose was approved by Committee on 23 January 2018. OSCR have granted consent to wind up the Trust and this will be progressed once the log cabin and storage space has been completed.

The financial statements for the Usher Hall and Boyd Anderson trusts have been prepared using a break-up basis of accounting as it is considered that they are not going concerns.

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.

The City of Edinburgh Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

1 Accounting policies - continued

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.

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.

2	**Analysis of Income**	**2017/18 £'000**	**2016/17 £'000**
	Dividend income	73	72
	Accrued dividend income	16	-
	Bank interest received	-	1
	Jean F. Watson grant received for purchase of art	-	14
	Total Income	89	87

3	**Analysis of Expenditure on Raising Funds**	**2017/18 £'000**	**2016/17 £'000**
	Jean F. Watson - Investment Management Costs	-	(2)
	Edinburgh Education Trust - Investment Management Costs	-	(2)
	Total Expenditure on Raising Funds	-	(4)

4	**Analysis of Expenditure on Charitable Activities**	**2017/18 £'000**	**2016/17 £'000**
	Edinburgh Education Trust - Grants to Individuals	(9)	(8)
	Edinburgh Education Trust - Grants to Schools	(2)	(1)
	Lauriston Castle - Maintenance of Assets	(2)	(1)
	Nelson Halls - Maintenance of Assets	(8)	(7)
	The Royal Scots Trusts - Maintenance of Assets	(1)	(1)
	Usher Hall - Purchase of Grand Piano	(65)	-
		(87)	(18)
	Allocation of support costs	(13)	(15)
	Total Expenditure on Charitable Activities	(100)	(33)

5	**Analysis of Support Costs**	**Governance £'000**	**Finance £'000**	**Total £'000**
	Edinburgh Education Trust	(1)	(2)	(3)
	Boyd Anderson	(2)	(3)	(5)
	Jean F. Watson	(2)	(3)	(5)
	Total Support Costs	(5)	(8)	(13)

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 2018. There are no employees of the City of Edinburgh Council Charitable Trusts.

6 Jean F. Watson Collection	**2017/18**	**2016/17**
	£'000	**£'000**
Balance brought forward at 1 April	5,275	5,236
Purchases during the year	-	39
Balance carried forward at 31 March	5,275	5,275

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. There have been three purchases in the last five financial years (Moon, Crags at Dawn and Princess Street Station) and no disposals. These are classified as heritage assets.

7 Analysis of Heritable Property	**2017/18**	**2016/17**
	£'000	**£'000**
Nelson Halls	19	19
Lauriston Castle	7,001	7,001
Total Heritable Property	7,020	7,020

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 2017/18 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.

8 Analysis of Investments	**At 31/3/17**	**Realised Investments**	**Purchases at cost**	**Net Gain on revaluation**	**At 31/3/18**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Edinburgh Education Trust	876	-	-	4	880
Jean F. Watson	914	-	-	3	917
Lauriston Castle	40	-	-	1	41
Nelson Halls	205	-	-	1	206
The Royal Scots Trust	31	-	-	-	31
Total Investments	2,066	-	-	9	2,075

9 Analysis of Cash and Cash Equivalents

	2017/18 £'000	2016/17 £'000
Edinburgh Education Trust	65	45
Boyd Anderson	116	118
Jean F. Watson	119	89
Lauriston Castle	1	1
Nelson Halls	10	10
The Royal Scots Trust	2	2
Usher Hall	-	68
Total Cash and Cash Equivalents	313	333

10 Analysis of Debtors

	2017/18 £'000	2016/17 £'000
Edinburgh Education Trust	7	-
Jean F. Watson	7	-
Nelson Halls	2	-
Total Debtors	16	-

This figure relates to the accrued interest for the CCLA investments.

11 Analysis of Creditors Due Within One Year

	Unrestricted funds £'000	Endowment funds £'000	2017/18 Total £'000	2016/17 Total £'000
Amounts due to the Council	(30)	-	(30)	(23)
Total Liabilities	(30)	-	(30)	(23)

Detail of the amounts due per Trust is available in Note 18.

12 Analysis of Financial Assets and Liabilities

	2017/18 £'000	2016/17 £'000
Financial assets measured at amortised cost	329	333
Financial liabilities measured at amortised cost	(30)	(23)
Financial assets measured at market value	2,075	2,066
Total Financial Assets and Liabilities	2,374	2,376

13 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 £16,072 was owed to the Council by the Trusts (2016-17 £15,996). Detail of the amounts due per Trust is available in Note 18.

14 Prior Year Adjustment

There have been no prior year adjustments that require disclosure within these accounts.

15 Post Balance Sheet Event

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

16 Audit Fee

The fee payable to Scott-Moncrieff in respect of the audit services for the Council's Charitable Trusts is £7,500 for 2017/18. (2016/17 £7,500) This fee is included in the overall governance costs and allocated proportionately to each individual Trust.

17 Trusts at Market Value - Year Ended 31 March 2018

Charity Name	SC Number	Funds brought forward £'000	Income in year £'000	Expenditure in year £'000	Gains on investments £'000	Funds carried forward £'000	2016/17 Market Value £'000
Edinburgh Education Trust	**SC042754**	919	38	(14)	5	**948**	919
Boyd Anderson	**SC025067**	113	-	(4)	-	**109**	113
Jean F. Watson	**SC018971**	6,274	39	(5)	3	**6,311**	6,274
Lauriston Castle	**SC020737**	7,041	2	(2)	-	**7,041**	7,041
Nelson Halls	**SC018946**	227	9	(9)	1	**228**	227
The Royal Scots Trust	**SC018945**	32	1	(1)	-	**32**	32
Usher Hall	**SC030180**	65	-	(65)	-	**0**	65
Total Funds		14,671	89	(100)	9	**14,669**	14,671

The City of Edinburgh Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

18 Trusts at Market Value - Year Ended 31 March 2018

						Revaluation Reserve						
		Unresticted Funds					Endowment Funds					
Charity Name	**SC Number**	**Cash at Bank**	**Debtors**	**Amounts owed**	**Jean F. Watson Collection**	**Jean F. Watson Collection**	**Heritable Property**	**Heritable Property incl. Lauriston Castle**	**Investments**	**Investments Market Value Adjustment**	**2017/18 Market Value**	**2016/17 Market Value**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Edinburgh Education Trust	**SC042754**	65	7	(4)	-	-	-	-	844	36	**948**	919
Boyd Anderson	**SC025067**	116	-	(7)	-	-	-	-	-	-	**109**	113
Jean F. Watson	**SC018971**	119	7	(7)	898	4,377	-	-	881	36	**6,311**	6,274
Lauriston Castle	**SC020737**	1	-	(2)	-	-	7,001	-	39	2	**7,041**	7,041
Nelson Halls	**SC018946**	10	2	(9)	-	-	-	19	198	8	**228**	227
The Royal Scots Trust	**SC018945**	2	-	(1)	-	-	-	-	30	1	**32**	32
Usher Hall	**SC030180**	0	-	-	-	-	-	-	-	-	**0**	65
Total Funds		313	16	(30)	898	4,377	7,001	19	1,992	83	**14,669**	14,671

Independent auditor's report to the trustees of The City of Edinburgh Council Charitable Trusts and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the statement of accounts of The City of Edinburgh Council Charitable Trust Funds for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charities as at 31 March 2018 and of their incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charities in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

In respect of the Miss Jean Fletcher Watson Bequest, The Edinburgh Education Trust, Nelson Halls Trust, Lauriston Castle Trust and the Royal Scots (The Royal Regiment) Monument Trust Fund, we have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charities to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter – Basis of preparation

In respect of the City of Edinburgh Council Charitable Funds and the Usher Hall Conservation Trust, we draw attention to note 1 in the financial statements, which describes the basis of preparation. The trustees have prepared the financial statements for these two trusts using a break-up basis of accounting as they consider that they are not going concerns. Our opinion is not modified in respect of this matter.

Responsibilities of the trustees for the financial statements

As explained more fully in the Responsibilities of the Trustee, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charities' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinion on other prescribed matter

In our opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Nick Bennett
For and on behalf of Scott-Moncrieff
Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006)
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date

Finance and Resources Committee

10.00am, Thursday, 27 September 2018

2017-18 Common Good Annual Performance Report

Item number	7.3
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The report presents the outturn position for the Common Good Fund and the performance of its cash investments for the 2017/2018 financial year.

The report includes an update on the Common Good Property Planned Maintenance Fund and the plans for the 2018/19 financial year.

The report also includes an update on current issues affecting the Common Good in Edinburgh.

Report

2017-18 Common Good Annual Performance Report

1. Recommendations

1.1 Members are asked to:

1.1.1 Note the contents of this report; and

1.1.2 Approve the issuing of the Common Good Asset Register for public consultation.

2. Background

2.1 The City of Edinburgh Council has a statutory obligation under the Local Government, etc. (Scotland) Act 1994, Section 15(4) (b) in administering property held as part of the common good to have regard to the interests of all the inhabitants of the city. In effect the Council holds the Common Good Fund for the benefit of the city as a whole.

2.2 Section 102 of the Community Empowerment (Scotland) Act 2015 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" (a common good register). Before establishing a common good register, the Act requires a local authority to publish a list of property that it proposes to include in the register, and to consult on this list. When the list of property is published, the local authority must notify community councils and other community bodies so that these groups can consider the list and give their views (make representations).

3. Main report

Financial Outturn

3.1 All income and expenditure relating to Common Good property, including that which is incurred from within main Council budgets, will be included in the Revenue Account for the Common Good Fund. A recharge equal to the net cost funded from Council budgets is shown, in Appendix 1 and the table below, as being made against the Council for the use of the Common Good assets for £2.811m (£1.194m 2016/17).

3.2 The unaudited accounts for the Common Good Fund for 2017/18 show an in-year deficit of £0.015m, compared to a surplus of £0.104m in 2016/17. All figures within the report are subject to rounding.

3.3 The balance of the Common Good Fund as at 31 March 2018 was £2.387m (£2.402m 2016/17). £2m from the receipt of the sale of East Market Street Garage had been earmarked to fund a maintenance programme for Common Good assets as agreed at the 14 January 2016 Finance and Resources Committee. £1.887m of this earmarked fund remained as at 31 March 2018 and is included within the £2.387m above.

3.4 The following table summarises the income and expenditure for the Common Good Fund for the year.

2016-17		2017-18
£m		£m
3.226	Property Costs	5.862
0.020	Other Expenditure	0.020
3.246		**5.882**
(1.395)	Rents and Other Income	(1.592)
(0.526)	Capital Funding	(1.455)
(0.226)	Sale of Fixed Assets	0.000
(1.194)	Recharge to Council for use of assets	(2.811)
(0.009)	Investment Income	(0.009)
(0.104)	(Surplus) / Deficit	**0.015**

The detailed statement of accounts is shown in Appendix 1, which provides additional detail on the property costs. To ensure transparency, Page 135 of the 2017/18 Audited Annual Accounts has been revised from the Unaudited version to reflect the figures in the table above.

3.5 The Council received income and capital funding of £3.047m (£1.921m 2016/17) on Common Good properties of which £1.592m (£1.395m 2016/17) was funded through revenue and £1.455m (£0.526m 2016/17) was received primarily from City Observatory capital funding through Collective Gallery and Heritage Lottery Fund. The three primary sources of the revenue funding were Princes Street Gardens (£0.695m), City Chambers Complex (£0.343m) and Scott Monument (£0.322m), predominately from events, rental and admission respectively as shown in Appendix 2.

3.6 Much of the cash resources of the Common Good are invested with the Council's cash fund, with a balance held within the Council's loans fund to manage day to day cash flow. The interest earned on the investment amounted to £0.009m (£0.009m in 2016/17). The interest was re-invested within the cash fund throughout the year. A balance of £2.109m was held within the Treasury cash fund at 31 March 2018 (£2.102m 2016/17).

3.7 The Council's cash fund investments' annual rate of return to March 2018 was 0.38% (0.40% 2016/17). This performance has been benchmarked against the 7-day London Inter Bank rate. The Council's cash fund outperformed the benchmark rate of 0.21% by 0.17% (0.20% in 2016/17) during the year.

Common Good Properties

3.8 The properties included in the 2017-18 financial accounts as assets of the Common Good fund are listed in Appendix 3. This list will be updated for the 2018-19 financial accounts to align with the Common Good Asset Register in Appendix 4 following consultation on its content. The value of those assets thought to be common good and not included in the accounting asset register totals £1.68m and represents 42 of the 55 assets identified. The value of the remaining 13 assets has yet to be determined. The value of six assets potentially no longer considered to be common good assets is £4,000.

3.9 The value of Common Good assets is determined in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The property holdings of the Common Good are mainly held at historic cost as Community or Heritage Assets and, as such, are not subject to revaluation. Only those parts which may have the capacity to be used to generate income are subject to revaluation.

3.10 In adhering to the code, the valuations for community and heritage assets on the Common Good balance sheet may appear low. As they are based on a historic cost methodology, the valuation given often acts as a proxy to log ownership of the asset on the register. Due to the historic nature of the Common Good Asset Register and the fact that there is generally no readily available market valuation for a number of the assets, the figures are indicative for accounting purposes. The valuations are similarly notional rather than reflecting the real economic value.

3.11 The properties held by the Council on behalf of the Common Good are managed as part of the overall Council estate. Following the report on the Corporate Asset Strategy 2015-19 to the Corporate Policy and Strategy Committee on 12 May 2015, performance indicators have been established to measure improvement on the condition of the property portfolio. Properties will be surveyed at least every five years and the indicators updated.

3.12 As Common Good properties are used operationally by Council services, any development of and capital investment in them forms part of the Council's capital investment programme. During 2017-18 capital investment was undertaken on Common Good assets to the value of £3.737m, the most significant of which was improvements at the City Observatory (£2.065m) and at the City Chambers (£1.595m) complex.

3.13 Public conveniences in East Princes Street Gardens, where the site was transferred to build a new restaurant and reinstate the public conveniences within that site, have been removed from the Common Good Asset Register during 2017/18, reducing the value of assets by £0.108m.

Current Issues Affecting the Common Good in Edinburgh

Community Empowerment (Scotland) Act 2015

3.14 As reported to Council on 2 June 2016, a team was established, per the Community Empowerment (Scotland) Act 2015, with the responsibility of compiling the updated Common Good Asset Register. This team had an initial focus of examining those assets historically thought to be Common Good.

3.15 The Scottish Government issued draft guidance for consultation on 30 June 2017, with responses to be received by 29 September 2017. The consultation concerned the statutory guidance related to Part 8 of the Community Empowerment (Scotland) Act 2015 – common good registers - and asked for views on issues such as timescales, information about assets, local consultation, publicising proposals and disposal and use of common good property.

3.16 The Scottish Government issued guidance in July 2018 which was broadly in line with the Council's expectations after the initial consultation.

3.17 Council staff have collated information regarding those properties historically considered by the Council 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. A methodology for assessing all properties' common good status has been developed, considering the relevant legal tests.

3.18 The Common Good Asset Register to be issued for consultation to Community Councils and interested parties is included at Appendix 4. The consultation provides an opportunity to make a case for property to be included in, or excluded from, the register. All representations will be published on the Council's website (subject to the Council's policy on data protection), and the Council will aim to consider and respond to representations within 12 weeks of the date of receipt. The Council's response will also be published. Once a representation has been fully considered, the Council's decision will be final, unless significant new information comes to light, or a court decides otherwise.

3.19 A final Common Good Asset Register will be published after public consultation has been carried out. The common good register is intended to be a living document and it will be updated if new property is identified, or if existing property is disposed of, or reclassified. Therefore, it is not intended to be an exhaustive list of Common Good assets in Edinburgh.

Common Good Property Planned Maintenance

3.20 On 19 October 2015, the Governance, Risk and Best Value Committee requested that the Head of Finance explore ways to use the Common Good Fund to maintain proactively and refurbish Common Good property.

3.21 On 14 January 2016, the Finance and Resources Committee approved the use of the Common Good Fund for planned maintenance of the Common Good assets. Since approval, £0.113m has been spent, with the majority spent on Scott Monument lighting.

3.22 Annual stonework safety surveys costing approximately £10,000 will be carried out on the Scott Monument, Nelson Monument, Calton Hill Monuments and buildings, Canongate Tolbooth and Lady Stairs House. Any necessary public safety works identified will be carried out at that time and reported as part of the next Common Good update. Additional survey work and public safety works are being undertaken at Canongate Tolbooth following the initial surveys to understand better the work required there. To ensure that the maximum long-term impact is achieved, it is proposed that the condition survey analysis is completed to allow identification of priorities prior to allocation of common good funding.

3.23 Costs are also being obtained for the refurbishment and the refitting of the public clock that was removed from the previous Portobello Town Hall (now Portobello Baptist Church) due to condition and safety concerns. These will be reported to the Committee for their consideration in conjunction with the outcomes of the condition surveys and proposed programme of works.

3.24 The common good land above Calton Road has been subject to rockfall and failure of restraints. Council engineers and contractors are carrying out make-safe works and there is also traffic management in place for public safety. Investigations are on-going to confirm the suitability of these measures and if any additional measures are required. Advice on how best to proceed has been sought from Historic Environment Scotland, Edinburgh World Heritage and Council planning staff.

4. Measures of success

4.1 Through the Council's Annual Accounts, the Common Good account receives an unqualified audit certificate from the External Auditor by 30 September 2018.

5. Financial impact

5.1 There is no direct financial impact arising from the content of this report. However, outcomes of the condition surveys and the on-going asset review may have future financial impacts. The revised common good asset register will see the value of common good assets increase in the 2018/19 accounts.

6. Risk, policy, compliance and governance impact

6.1 The risk that Common Good property could be unlawfully disposed of or appropriated is managed within the review processes currently in place. This process will be further improved with the establishment and maintenance of a Common Good Asset Register in response to the Community Empowerment (Scotland) Act.

6.2 To comply with legislation, 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, or to provide comments on a proposal to dispose of or change the use of a common good asset.

7. Equalities impact

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 the management of Common Good property is for the benefit of all the city's inhabitants.

8. Sustainability impact

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

9. Consultation and engagement

9.1 The Council's unaudited annual accounts, including the Common Good, were published on the Council's website from 30 June 2018 and made available for public inspection for a period of 15 working days in accordance with the provisions of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014.

9.2 An objection was received in 2017/18 in respect of the common good annual accounts. This objection however was outwith the prescribed period. The objection was in relation to the recognition of income from table and chairs licences. The amounts were deemed to be below materiality and no further work has been performed in respect of the 2017/18 common good fund annual accounts.

9.3 The Common Good Asset Register will be issued for public consultation and engagement following approval at this meeting.

10. Background reading/external references

10.1 'Corporate Asset Strategy 2015-19', Corporate Policy and Strategy Committee, 12 May 2015

10.2 ‘Common Good Planned Maintenance Programme and Common Good Reporting’, Finance and Resources Committee, 14 January 2016

10.3 ‘Common Good Annual Performance Report 2016-17’, Finance and Resources Committee, 5 September 2017

10.4 ‘Community Empowerment (Scotland) Act 2015: Proposed Consultation Response on Common Good Matters’, Finance and Resources Committee, 28 September 2017

10.5 ‘Common good property: statutory guidance for local authorities’, Scottish Government, July 2018

Stephen S. Moir

Executive Director of Resources

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11. Appendices

11.1 2017-18 Common Good Fund Detailed Accounts

11.2 2017-18 Common Good Fund Income and Expenditure

11.3 List of Common Good Assets as at 31 March 2018 per Annual Accounts

11.4 Common Good Asset Register for Public Consultation

COMMON GOOD FUND **Appendix 1**

COMMON GOOD FUND

REVENUE ACCOUNT

2016/17				2017/18
£		**Expenditure**		£
		Property Costs		
79,642		Bruntsfield Links		82,661
39,450		Calton Hill / Calton Road		40,243
48,833		Canongate Tolbooth		70,132
1,496,700		City Chambers		2,790,090
621,299		City Observatory		2,069,795
6,283		Custom House		62,393
54,837		Inch Park		57,109
25,473		Lady Stairs House		30,313
102,712		Meadows		110,637
23,550		Nelson Monument		16,061
10,405		Portobello Park		12,930
25,542		Roseburn Park		26,600
691,050		Princes Street Gardens (including Ross Theatre and Scott Monument)		493,583
379		Other Incidentals		47
3,226,156				5,862,593
		Other		
629		Cash Fund Fees		631
19,056		Central Support Costs		19,039
3,245,842				5,882,263
		Income		
	1,395,013	Rents and Other Income	1,591,855	
	526,430	Capital Funding	1,454,969	
	225,494	Proceeds from sale of Fixed Assets	0	
	9,054	Investment Income	8,531	
	2,155,991		3,055,354	
	1,194,114	Recharge to City of Edinburgh Council for Use of Assets	2,811,787	
3,350,105				5,867,141
(104,263)		**(Surplus) / Deficit for Year**		15,122

STATEMENT OF MOVEMENT ON THE COMMON GOOD FUND

£		£
(104,263)	Deficit / (Surplus) for the Year on the Common Good Income and Expenditure Account	15,122
(104,263)		15,122
	Whereof:	
104,263	Transferred to / (from) Common Good Fund	(15,122)
104,263		(15,122)

COMMON GOOD FUND **Appendix 1**

31st March 2017			**BALANCE SHEET**	31st March 2018		
			Operational Assets			
21,892,050		21,892,050	Community Assets	21,783,616		21,783,616
			Non-Operational Assets			
0			Surplus Assets Held for Disposal			0
0			**Deferred Charges**			0
21,892,050						21,783,616
102,960			**Heritage Assets**			102,960
			Current Assets			
	311,454		Short Term Investments		248,456	
	277,257		Balance with Loans Fund		254,851	
	1,790,573		Cash and Cash Equivalents		1,860,855	
	2,379,285				2,364,162	
			Less: Current Liabilities			
2,379,285	0		Creditors		0	2,364,162
24,374,294			**NET ASSETS**			24,250,738
			Represented by :			
21,994,010			**Revaluation Reserve**			21,885,576
(22,050)			**Capital Adjustment Account**			(22,050)
0			**Disposals/Revaluations**			0
21,971,960						21,863,526
			Common Good Fund			
		2,298,071	Fund at start of year	2,402,334		
2,402,334		104,263	Surplus for year / (Deficit)	(15,122)		2,387,212
24,374,294						24,250,738

COMMON GOOD FUND **Appendix 1**

	Community Assets	Land and Buildings	Surplus Assets Held for Disposal	Total	Heritage Assets
	£	£	£	£	£
Balance as at 1 April 2017	21,892,050	0	0	21,892,050	102,960
Revaluations increases/ (decreases) recognised in the Revaluation Reserve	(108,434)	0	0	-108,434	0
Balance as at 31 March 2018	21,783,616	0	0	21,783,616	102,960

(B) Revaluation Reserve

Balance brought forward as at 1 April 2017		(21,994,010)
Capital Adjustment Account to Revaluation Reserve		0
Revaluation of Assets		
Upward revaluation of assets		
Downward revaluation of assets	108,434	
		108,434
Derecognition - disposals		0
Balance as at 31 March 2018		(21,885,576)

(C) Capital Adjustment Account

Balance brought forward as at 1 April 2017	22,050
Accumulated Depreciation	0
Capital Adjustment Account to Revaluation Reserve	0
Revaluation Losses on Property, Plant and Equipment	0
Adjusting Amounts w/o of Revaluation Reserve	0
Other Movements	0
Balance as at 31 March 2018	22,050

Appendix 2

Common Good Account Income and Expenditure 2017/18										
Property	**Revenue Income**	**Capital Income**	**Total Income**	**Description of Income**	**Revenue Expenditure**	**Capital Expenditure**	**Total Expenditure**	**Description of Expenditure**	**Notional Recharge to CEC for Use of Common Good Assets**
Bruntsfield Links	£0	£0	**£0**	N/A	£82,661	£0	**£82,661**	Expenditure relates to c.£69k of Grounds Maintenance costs and the remainder is an allocation of Park Staff costs	**£82,661**
Calton Hill	£8,460	£0	**£8,460**	Majority of income from events held on the Hill.	£40,243	£0	**£40,243**	Expenditure relates to an allocation of Park Staff costs	**£31,783**
Canongate Tolbooth	£1,221	£0	**£1,221**	Income from People's Story Museum	£70,132	£0	**£70,132**	Expenditure relates to c. £35k on repair and maintenance, c.£21k on other premises costs and c.£14k on operational materials (including books, furniture and food and drink)	**£68,910**
City Chambers Complex	£343,028	£0	**£343,028**	c.£199k for Mary King's Close rental and rechargeable repair costs, c.£67k for internal charges, c.£59k for external catering and c.£18k for other rental income	£1,195,066	£1,595,024	**£2,790,090**	Capital expenditure consists of c.£1.16m of works carried out at 249 High Street, c.£296k on window improvement and c.£136k on lighting improvements	**£2,447,062**
City Observatory	£0	£1,374,969	**£1,374,969**	Capital income is primarily from Heritage Lottery Funding to be used against expenditure costs	£0	£2,069,795	**£2,069,795**	Capital expenditure relates to major redevelopment works at the City Observatory	**£694,825**
Custom House*	£0	£50,000	**£50,000**	Capital income relates to a drawdown from the capital fund	£0	£62,393	**£62,393**	Capital expenditure relates to upgrade works undertaken	**£12,393**
Inch Park	£0	£0	**£0**	N/A	£57,109	£0	**£57,109**	Revenue expenditure relates to Grounds Maintenance costs	**£57,109**
Lady Stairs House	£6,928	£0	**£6,928**	Income from Writers Museum	£30,313	£0	**£30,313**	Expenditure relates to c.£20k on other premises costs, c. £8k on repair and maintenance and c.£2k on operational materials	**£23,385**
Nelson Monument	£115,428	£0	**£115,428**	Income from admission charges	£16,061	£0	**£16,061**	Expenditure was on repair and maintenance and operational equipment	**-£99,368**
Portobello Park	£0	£0	**£0**	N/A	£10,836	£2,094	**£12,930**	Revenue expenditure relates to Grounds Maintenance costs	**£12,930**
Princes St Gardens	£723,175	£0	**£723,175**	Majority of income from events held by Kifdo Limited, Underbelly Limited and Unique Events Limited. (Includes c.£28k of Ross Bandstand income)	£463,510	£7,792	**£471,302**	Revenue expenditure relates to c.£373k of Grounds Maintenance costs, c.£54k of Park Staff costs, c.£29k of costs at the Ross Theatre and c.£7k of costs at the Ross Fountain.	**-£251,873**
Roseburn Park	£0	£0	**£0**	N/A	£26,600	£0	**£26,600**	Expenditure relates to Grounds Maintenance costs	**£26,600**
Scott Monument	£322,826	£0	**£322,826**	Revenue income of c. £323k from admission charges.	£22,281	£0	**£22,281**	Expenditure was on repair and maintenance and operational equipment	**-£300,544**
The Meadows	£70,588	£30,000	**£100,588**	Majority of revenue income from Underbelly and capital income from public realm conservation and enhancement scheme	£106,606	£4,031	**£110,637**	Expenditure relates to c.£89k of Grounds Maintenance costs and the remainder is an allocation of Park Staff costs	**£10,049**
Total	**£1,591,655**	**£1,454,969**	**£3,046,624**		**£2,121,418**	**£3,741,128**	**£5,862,546**		**£2,815,922**

* Custom House is an asset of the Common Good Fund but is not Common Good

Common Good **Appendix 3**
Register of Assets (for Accounting Purposes)
Asset Name

Ballantyne Road - Amenity Ground
Bruntsfield Links
Calton Hill
City Chambers Complex
City Observatory
Custom House
Grassmarket - Martyr's Cross Monument
Inch Park
Lady Stair's House
Meadows
Meadows - Nelson Pillars
Meadows - Sundial West
Memorials - High Street
Canongate Tolbooth (People's Story Museum)
Portobello Park
Princes St Gardens (East)
Princes St Gardens (West)
PSG - Adam Black Statue
PSG - Allan Ramsay Statue
PSG - Burns Monument
PSG - David Livingston Statue
PSG - Dean Ramsay Memorial Cross
PSG - Floral Clock
PSG - Genius of Architecture Statue
PSG - Robert Louis Stevenson Memorial Grove
PSG - Ross Bandstand
PSG - Ross Fountain
PSG - Royal Scots Greys Monument
PSG - Royal Scots Monument
PSG - Scottish American War Memorial
PSG - Scott Monument
PSG - Sir James Y Simpson Statue
PSG (W) - Memorial Stone
PSG - Norwegian Memorial Stone
PSG - St Margaret's Well
PSG - Thomas Guthrie Statue
Roseburn Park
Scotland Street Lane
Session House, Dalmeny
Session Lands, Dalmeny
South Queensferry Harbour
St James Place
Substations

Notes
1.) PSG is used as an abbreviation for Princes Street Gardens
2.) Custom House is an asset of the fund but is not Common Good

Appendix 4

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.
Former Burgh	The former Burgh to which the asset originally belonged.
Location	The most detailed information that the local authority has about the location of the asset e.g. grid reference, map or description.
Additional Information	Any extra information which might be of use.

Key

Identifier	Description
*	Asset is listed as Common Good but there are exceptions
**	Formerly school board property
***	An asset of the fund but not Common Good

Name of Asset	Type of Asset	Location	Post Code	Reference	X-Coord	Y-Coord	Former Burgh linked to asset	Additional Information
Ballantyne Road*	Land	20 Ballantyne Road	EH6	2198	326468.9	676317.1	Leith	
Bruntsfield Links	Land	Bruntsfield Links	EH10	3127	325036.9	672499.4	Edinburgh	
Calton Hill	Land	(34) Calton Hill	EH7	3512	326240.4	674236	Edinburgh	
Calton Hill - City Observatory	Building	38 Calton Hill	EH7	2011	326200.1	674182.3	Edinburgh	
Calton Hill Cannon	Structure	Calton Hill	EH7	745	326224.9	674138.9	Edinburgh	
Calton Crags	Land	6/1 Regent Road	EH1	809	326297	673973.5	Edinburgh	
Dugald Stewart Monument	Monument	Calton Hill	EH7	1711	326138.8	674132.7	Edinburgh	
National Monument, Calton Hill	Monument	36 Calton Hill	EH7	2993	326308.2	674154.5	Edinburgh	
Nelson Monument	Monument	Calton Hill	EH7	3508	326254	674114	Edinburgh	
Playfair Monument	Monument	38B Calton Hill	EH7	3468	326226.7	674163	Edinburgh	
City Chambers	Building	253 High Street	EH1	906	325764.2	673656.6	Edinburgh	
Custom House***	Building	65-67 Commercial Street	EH6				n/a	
Grassmarket - Martyr's Cross Monument	Monument	(114) Grassmarket	EH1	1862	325482.4	673396.6	Edinburgh	
Grassmarket - Bowfoot Well	Structure	118/1 Grassmarket	EH1	1235	325500.6	673416.7	Edinburgh	
High Street - David Hume Statue	Structure	High Street	EH1	32074	325629.2	673591.3	Edinburgh	
High Street - Adam Smith Statue	Structure	High Street	EH1	32076	325789.7	673615.1	Edinburgh	
High Street - Alexander & Bucephalus Statue	Structure	(253A) High Street	EH1	1984	325768.5	673647.4	Edinburgh	
High Street - The Cross Well		172/1 High Street	EH1	962	325826	673618.1	Edinburgh	Also known as Canongate Well, by Old Assembly Close
High Street - Mercat Cross	Monument	192/1 High Street	EH1	1824	325771.7	673597.9	Edinburgh	
High Street - Stone of Remembrance	Monument	253(A) High Street	EH1	13343	325771	673631.2	Edinburgh	Also known as City Chambers War Memorial
High Street - Duke of Buccleuch War Memorial	Monument	253B High Street	EH1	1826	325757.6	673628.4	Edinburgh	
High Street - Netherbow Well	Monument	45/1 High Street	EH1	853	326082.6	673692.4	Edinburgh	Also known as John Knox House Well and Fountain Well
Inch Park*	Land	Gilmerton Road	EH16	13269	327625.4	670824.3	Edinburgh	
Lady Stair's House	Building	3 Lady Stairs Close	EH1	561	325546.6	673607.2	Edinburgh	Also known as Writer's Museum
Meadows	Land	Meadows	EH3	13268	325663.4	672675.1	Edinburgh	
Meadows - Jaw Bone Arch	Structure	West Meadows	EH3	13391	325479.8	672580.9	Edinburgh	
Meadows - Masons Pillars	Structure	Meadows	EH3	1757	325125.3	672760.8	Edinburgh	
Meadows - Nelson Pillars	Structure	(3/1) East Meadows	EH3	1812	326201.1	672567.1	Edinburgh	
Meadows - Sister Cathedral Fountain	Structure	Meadows	EH3	32221	325478.8	672611.6	Edinburgh	Also known as Helen Acquroff Memorial Fountain.
Meadows - Sundial	Structure	West Meadows	EH3	32218	325214.7	672730.1	Edinburgh	
Middle Meadow Walk - Gate Piers	Structure	Meadows	EH3	2185	325689.6	673107.9	Edinburgh	
People's Story Museum	Building	161-163 Canongate	EH8	3639	326413.1	673790.5	Edinburgh	Also known as Canongate Tolbooth
Portobello Municipal Clock	Structure	N/A					Portobello; merged Edinburgh 1896	
Portobello Park	Land	(21) Stanley Street	EH15	13257	330559.6	673163	Portobello; merged Edinburgh 1896	
Princes Street Gardens (East)	Land	Princes Street	EH2	17739	325538.5	673857.5	Edinburgh	
Princes Street Gardens (West)	Land	Princes Street	EH2	16458	325102.5	673716.7	Edinburgh	
PSG - Walter Scott Monument	Monument	(4A) Princes Street	EH2	2280	325586.1	673905.1	Edinburgh	
PSG - Floral Clock	Structure	(5B) Princes Street	EH2	2279	325336.3	673838.4	Edinburgh	
PSG - Genius of Architecture Statue	Structure	(5C) Princes Street	EH2	2458	325268.6	673755.9	Edinburgh	
PSG - Adam Black Statue	Structure	(4D) Princes Street	EH2	1745	325511	673885	Edinburgh	
PSG - Allan Ramsay Statue	Structure	(5F) Princes Street	EH2	1783	325330	673835.2	Edinburgh	
PSG - David Livingston Statue	Structure	(4E) Princes Street	EH2	2251	325617.8	673913	Edinburgh	
PSG - Professor Wilson Statue	Monument	Princes Street	EH2	32085	325446.8	673866.5	Edinburgh	
PSG - Robert Louis Stevenson Memorial Grove	Monument	West Princes Street Gardens	EH2	32082	325009.3	673659.6	Edinburgh	
PSG - Ross Bandstand	Structure	West Princes Street Gardens	EH2	1508	325152.2	673727.3	Edinburgh	
PSG - Ross Fountain	Structure	(5H) Princes Street	EH2	1889	324970.2	673659.6	Edinburgh	
PSG - Royal Scots Greys Monument	Monument	(5L) Princes Street	EH2	1892	325200.3	673795.5	Edinburgh	
PSG - Scottish American War Memorial	Monument	(5N) Princes Street	EH2	1874	325089.9	673767	Edinburgh	
PSG - Sir James Young Simpson Statue	Structure	(5P) Princes Street	EH2	2323	324845.2	673699.1	Edinburgh	
PSG - Memorial Stone (W)	Monument	West Princes Street Gardens	EH2	32255	325224.3	673701	Edinburgh	Also known as Belsen Liberation & Holocaust Memorial
PSG - Norwegian Memorial Stone	Monument	(5E) Princes Street	EH2	1851	325141.3	673679.5	Edinburgh	
PSG - Thomas Guthrie Statue	Structure	(5D) Princes Street	EH2	1342	324996.1	673741.6	Edinburgh	
South Queensferry Harbour	Structure	(C) Head of Harbour	EH30	3375	312983.8	678500.4	Queensferry	
Scotland Street Lane	Land	(1) Scotland Street Lane East	EH3	2601, 3479 & 3580	325559.5	674730	Edinburgh	
Streets of Old Town*	Land	Various					Edinburgh	
Streets of New Town*	Land	Various					Edinburgh	
Streets, Ways and Passages of Leith*	Land	Various					Leith, Edinburgh after 1920	
Burns Monument	Monument	Regent Road	EH1	32449	326519.8	674007.8	Edinburgh	
Flodden Wall	Structure	Various	EH8 & EH3	13351 & 52	326236.7	673486.6	Edinburgh	
Mid Terrace, South Queensferry	Land	4/1 Mid Terrace	EH30	3779	313034.6	678315	Queensferry	
Parliament Square - Charles II Statue	Monument	(12B) Parliament Square	EH1	335	325748.9	673550.1	Edinburgh	
Parliament Square (West) - 5th Duke of Buccleuch	Monument	(12A) Parliament Square	EH1	245	325675.4	673580.8	Edinburgh	Also known as Queensberry Memorial
Parliament Square Well	Structure	(12C) Parliament Square	EH1	679	325646.8	673577.6	Edinburgh	
Portobello Garden	Land	67A Promenade (John Street)	EH15	514	331163	673769.3	Edinburgh	Also known as John Street.
Promenade, Portobello	Land	Promenade	EH15		330729.7	674125.1	Portobello, Edinburgh post 1898	
Rosebery Memorial Hall and House	Building	17 West Terrace, S Queensferry	EH30	2471	312951.4	678337.4	Queensferry, Edinburgh after 1918	
St Bernard's Bridge	Structure	MacKenzie Place - Water of Leith	EH3	2426 & 2956	324483	674311.9	Edinburgh	
South Bridge	Structure	Various	EH1		325969.7	673530	Edinburgh	
Wardie Playing Fields**	Land	Granton Road	EH5	3	324351.8	676660.2	Leith, originally Leith School Board	
Bingham Park	Land	35 Bingham Avenue	EH15	25015	329947.2	672552.8	Portobello, Edinburgh after 1896	
Blackford Hill Public Park	Land	(4) Charterhall Road	EH9	1979	325609.2	670629.2	Edinburgh	
Bloomiehall Public Park	Land	(13) Juniper Park Road	EH14	1442	319446.7	668763.8	Edinburgh	
Bonaly Country Park*	Land	Bonaly Road	EH14	157	321035.4	666928.5	Edinburgh	
Braidburn Valley Public Park	Land	(168) Comiston Road	EH10	2013	324174.2	669841.2	Edinburgh	
Campbell Park	Land	(114A) Woodhall Road	EH13	2579	320554.3	668679.7	Edinburgh	
Corstorphine Hill Public Park*	Land	(2B) Clermiston Road North	EH4	3258	320482	674474.3	Edinburgh	
Craiglockhart Dell Public Park	Land	(31) Lanark Road	EH14	2056	322075.9	670480.8	Edinburgh	
Cramond Park and Foreshore	Land	(2) Cramond Foreshore	EH4	3477	319380.9	677230.2	Edinburgh (part)	
Cramond Walled Garden	Land	20/2 Cramond Glebe Road	EH4	3602	319099.1	676764.6	Edinburgh	
Davidsons Mains Public Park	Land	27 East Barnton Avenue	EH4	3188	320312.5	675255.5	Edinburgh	
Figgate Burn Public Park	Land	Hamilton Drive	EH15	13295	329699.5	673569.5	Edinburgh	
Harrison Park (East and West)	Land	(4) West Bryson Road	EH11	2662 & 31696	323579.4	672000.6	Edinburgh	
Hermitage of Braid Public Park	Land	(163A) Braid Road	EH10	2375	325000.3	670258.8	Edinburgh	
Inverleith Park	Land	8(01) Portgower Place	EH4	2598	324142.7	675174.7	Edinburgh	
King George V Public Park	Land	(13) Logan Street	EH3	2502	325307.1	674823.6	Edinburgh	
Leith Links*	Land	11 Links Place	EH6	21489	327401.8	675936.8	Edinburgh	
Liberton Public Park	Land	Rear of 8-50 Liberton Gardens	EH16	2429	327212.7	669235.3	Edinburgh	
Lochend Public Park*	Land	25 Lochend Road South	EH7	2140	327639.9	674779.4	Edinburgh	
Montgomery Street Park	Land	119A Montgomery Street	EH7	1388	326750.1	674664.5	Edinburgh	
Murieston Public Park	Land	(39) Murieston Crescent	EH11	3267	323456.7	672590.9	Edinburgh	
Pilrig Public Park*	Land	69 Pilrig Street	EH6	2309	326381.6	675676.6	Edinburgh	
Ravelston Public Park	Land	(17) Keith Crescent	EH4	1411	321873.3	674234.6	Edinburgh	
Regent Road Park	Land	(12) Regent Road	EH7	1873	326813.4	674181.6	Edinburgh	
Roseburn Park	Land	(6) Roseburn Park	EH12	3154	322626.8	673108.5	Edinburgh	
Saughton Public Park*	Land	172(09) Balgreen Road	EH11	3276	321977.2	672003.8	Edinburgh	
Sighthill Public Park*	Land	250 Broomhouse Road	EH11	3590	319721.1	671195.6	Edinburgh	
St Margaret's Park*	Land	(29A) Corstorphine High Street	EH12	3599	319852.3	672568.7	Edinburgh	
Starbank Public Park	Land	(18) Laverockbank Road	EH5	3259	325149.7	676899	Leith then Edinburgh 1920	
Victoria Public Park*	Land	(161) Newhaven Road	EH6	3121	325606.8	676442.1	Leith then Edinburgh 1920	
White Park	Land	(1) White Park	EH11	3148	323151.8	672306	Edinburgh	

Finance and Resources Committee

10.00am, Thursday, 27 September 2018

Carbon Reduction Commitment (CRC) Annual Report

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	18

Executive Summary

This report details the Council’s Carbon Reduction Commitment carbon footprint for the financial year 2017/18 and the subsequent submission of the data to the Environment Agency in compliance with legislation. Detail has also been provided on the current projects and initiatives to reduce carbon emissions across the Council’s operational property and street lighting estate.

Report

Carbon Reduction Commitment (CRC) Annual Report

1. Recommendations

1.1 The Finance and Resources Committee:

1.1.1 Notes the Council's carbon footprint for the financial year 2017/18;

1.1.2 Notes the annual report was submitted to the Environment Agency by the statutory deadline of the end of July;

1.1.3 Notes that the CRC handbook has been subject to its annual review and updated as appropriate; and

1.1.4 Notes that the Carbon Reduction Commitment will close from April 2019 and the 2018/19 carbon footprint, which will be submitted in July 2019, will be the final report required under this scheme.

2. Background

2.1 The Carbon Reduction Commitment (CRC) is a mandatory reporting scheme to improve energy efficiency in large public and private organisations. The Council has been required to comply with the CRC since legislation came into force in 2010.

2.2 Organisations that participate are required to monitor their energy use and report on energy consumption annually. An annual report must be submitted by the end of July based on the energy consumed in the previous period from 1 April to 31 March.

2.3 For each compliance year, organisations need to pay for and surrender allowances to cover annual CO_2 emissions. Organisations have two windows in which allowances can be purchased, these being April (forecast sale) with payment due in June, or in September (buy to comply sale).

2.4 In line with recommendations from an external audit of the Council's CRC processes and a subsequent review by the Council's internal audit team, CLT approved the content of the annual report prior to its on-line submission.

2.5 In March 2016, the UK Government announced that it would close the Carbon Reduction Commitment Energy Efficiency Scheme in April 2019. Whilst it is anticipated that there will be a new reporting scheme replacing CRC, at present no detail is available on what form this will take. Given the proximity of scheme closure, it is anticipated that there will be a transition phase for any new reporting requirement.

2.6 In response to the fall in revenue created from the closure of CRC, the UK Government will be increasing Climate Change Levy charges. These charges are applied directly to the invoicing of eligible electricity and gas supplies increasing directly the cost of energy. At present, the increase in Climate Change Levy will be lower than current CRC costs to the Council creating a projected net reduction to the Council of around £0.5m/annum. It is not yet clear if any replacement reporting scheme for CRC will have a fiscal element.

2.7 Property and Facilities Management is in the process of implementing an energy management system in line with ISO50001 and will shortly be seeking accreditation. Under the system, formal procedures will be implemented for both the gathering and reporting of carbon emissions across Council operational properties. It is the intention that this procedure retains the elements of CRC reporting focussed on maintaining data quality. Procedures will also be implemented to ensure appropriate governance and corresponding monitoring of energy management activates. This includes both the recording of opportunities for energy/carbon reduction including projected savings and an active register of savings from completed projects. ISO50001 is discussed further in 3.12.

2.8 The Council has commissioned the Edinburgh Centre for Carbon Innovation to review the Council's approach to sustainability and climate change. This will include the engagement of stakeholders from across the Council to review sustainability and climate change objectives and the current activities to achieve these. It will also include review of current governance and opportunities for improved partnership working with environmental stakeholders across Edinburgh. The outcomes will inform the next iteration of the Edinburgh Council Sustainability Strategy which is due by 2020.

3. Main report

3.1 There are three main energy (gas and electricity) supply categories that the Council must report on under the CRC Scheme. These are:

- Gas and electricity consumption for non-domestic Council buildings;
- Gas and electricity consumption by the Council's property pension portfolio (that qualifies under the rules of the CRC scheme); and
- Electricity consumption by street lighting and traffic signals.

3.2 The following information has been included in the annual report submission to the Environment Agency:

Total Energy Consumption

Source	Consumption (kWh)	Emissions (tCO_2)	Allowances @ £16.60	%of Total Emissions
Electricity	82,673,518	31,615	£524,809	56.6%
Gas	131,867,793	24,269	£402,865	43.4%
TOTAL	**214,541,311**	**55,884**	**£927,674**	-

3.3 2017/18 reportable CRC emissions for the Council are calculated to be 55,884tCO2, with 56.6% of emissions being associated with electricity and 43.4% associated with gas. The total cost of allowances for 2017/18 is £927,674. This cost is representative based on the advance purchase price of allowances for 2017/18. The actual cost to the Council is lower due to allowances equating to 24,406tCO2 being carried forward from the 2016/17 compliance year. A breakdown of energy consumption, associated emissions and details on cost of allowances can be found in Appendix 1.

Reported CRC Emissions Footprint

	Emissions (tCO2)	% decrease
Emissions 2014-15	73,452	
Emissions 2015-16	68,607	6.6%
Emissions 2016-17	60,044	12.5%
Emissions 2017-18	55,884	6.9%
Emissions Reduction (2016/17 to 2017/18)	**4,160**	

3.4 The Council's 2017/18 CRC footprint decreased by 6.9% in comparison to 2016/17 with the annual total emissions for the Council decreasing by 4,160tCO_2. The decrease in carbon emissions can be attributed to a decrease in the carbon emission factor for electricity. The emission factor for electricity in 2017/18 is 15% lower than in 2016/17. This is a result of an increasing portion of renewable generation contributing towards grid supplied electricity.

Impact of Change to Carbon Emission Factors

Source	2017/18 (tCO2)	2017/18 (using 16/17 emission factors) (tCO2)	2016/17 (tCO2)
Electricity	31,615	37,019	37,214
Gas	24,269	24,249	22,830
TOTAL	**55,884**	**61,268**	**60,044**

3.5 The above table details the impact of the change to carbon emission factors and highlights that without the change to electricity emission factors, the Council's CRC footprint in 2017/18 would have been higher than in 2016/17.

3.6 Electricity consumption across the CRC portfolio has remained stable between 2017/18 and 2016/17. There are a number of current and past efficiency initiatives and projects that are delivering electricity reduction however, there are other factors that have led to the static position on electricity between 2017/18 and 2016/17. These include a greater dependence on electrically powered services in new build properties, an increase in electricity being used as a primary source of heat through systems such as heat pumps and the severe winter in 2017/18 and resultant increase in demand for heat in electrically heated buildings.

3.7 Gas consumption across Council buildings increased significantly in 2017/18 compared to the previous year. As with electricity, there are a number of projects focussed on reducing gas consumption across the Council's built estate. Whilst these projects will ultimately have benefited the efficiency of the Council's estate, with natural gas being the main source of heating across the Council estate, the severity of the weather in 2017/18 had a significant impact on gas consumption.

Overview of Carbon Reduction Projects

3.8 The City of Edinburgh Council has awarded a Contract for the conversion of approximately 54,000 street lights across Edinburgh to energy efficient lanterns. The programme will deliver a sustained reduction in electricity consumption, energy costs and carbon use as well as reducing lantern maintenance, replacement and waste disposal costs. Works started in June this year and, once complete, will deliver a significant reduction in associated electricity consumption. The full upgrade is programmed to be complete by 31 May 2021.

3.9 As reported in the 2017, the Council has been running a £2.654m energy retrofit programme in 10 key Council buildings under the London RE:FIT Framework. The RE:FIT scheme has been designed to help public sector organisations achieve substantial financial savings, improve the energy performance of their buildings and reduce their carbon footprint. The project is now delivering financial savings in excess of £300k and is scheduled to reduce CO2 emission by over 1,100 tonnes a year. The savings from the project are guaranteed by the Contractor, Matrix EOn.

3.10 Property and Facilities Management are midway through a £3.2m Building Energy Management System upgrade programme across its operational estate. A Building Energy Management System is a computer-based system that controls the main mechanical and electrical services within a building. The upgrade of Building Energy Management Systems will improve condition of controls and deliver far better functionality providing the platform to deliver improved energy management and targeted maintenance.

3.11 The Council secured Scottish Government grant funding through both the first and second phase of the Scottish Energy Efficiency Programme to carry out energy efficiency works across operational buildings. This included works to improve energy related controls in buildings as well as funding to carry out LED lighting upgrades in buildings such as the Assembly Rooms and Edinburgh Bus Station.

3.12 Property and Facilities Management intend to develop an ISO50001 Energy Management System for major energy consumers across the operational property estate. ISO50001 defines a route for organisations to deliver energy efficiency and carbon reductions by focussing on achieving best practice in energy management. It follows the same management system of continual improvement as other standards such as ISO90001 and ISO140001.

3.13 Implementing ISO50001 will formalise appropriate practices to ensure performance, including the delivery of savings, is appropriately monitored and reported and provide a mechanism to identify and progress on energy reduction opportunities. The standard supports a systematic approach to data management which has gained increasing importance following the announcement to disband CRC.

3.14 The Council's Energy and Sustainability Team have carried out work to set up the necessary systems. Following gathering of sufficient evidence, the intention is to seek ISO50001 accreditation.

4. Measures of success

4.1 The submission of the Council's annual CRC report in accordance with CRC timescales.

5. Financial impact

5.1 The Council's CRC compliance cost for 2016/17 was £962,337. The Council's CRC compliance cost for 2017/18 was £915,471. Purchasing allowances as part of the forecast sale and using carried forward allowances from 2015/16 has resulted in a saving of £73,675 in the 2017/18 financial year as outlined in the table in Appendix 1.

5.2 The allowances carried forward will assist in making savings for the final year of CRC reporting.

5.3 Following the closure of CRC, Climate Change Levy charges will be increased for eligible energy supplies. This change will create a projected net reduction to the

Council of around £0.5m/annum, subject to any replacement reporting scheme not having a fiscal cost.

6. Risk, policy, compliance and governance impact

6.1 Governance in relation to compliance with the CRC scheme across the organisation is enhanced in line with the CRC Handbook. The CRC Handbook has been reviewed and is included with this report in Appendix 2.

6.2 There is a reduced risk of financial penalties for late annual report submission.

7. Equalities impact

7.1 There are no equalities impacts associated with the content of this report.

8. Sustainability impact

8.1 The impacts of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered. Effective monitoring of energy consumption should lead to informed decision making to reduce the Council's carbon emission footprint.

9. Consultation and engagement

9.1 Consultation has taken place with relevant officers in Resources and Place through the CRC working group, which oversees the Council's compliance with the CRC legislation.

10. Background reading/external references

10.1 Environment Protection Agency CRC Phase 2 guidance (2015)

10.2 Carbon Reduction Commitment Annual Report, Finance and Resources Committee, 5 September 2017

10.3 Award of Energy Efficient Street Lighting Programme, Finance and Resources Committee, 23 January 2018

10.4 Sustainable Energy Action Plan – Annual Review 2017/18, Corporate Policy and Strategy Committee, 23 January 2018

Stephen S. Moir

Executive Director of Resources

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11. Appendices

Appendix 1 – Breakdown of CRC Figures

Appendix 2 – CRC Handbook (2018)

Appendix 1 – Breakdown of CRC Figures

The tables presented below provide a breakdown of energy consumption and carbon emissions related to the Council operational property portfolio, Lothian Pension Fund properties and qualifying unmetered electricity supplies.

Council Building Energy Consumption

Source	Consumption (kWh)	Emissions (tCO_2)	Allowances @ £16.60	%of Total Emissions
Electricity	52,260,360	20,013	£332,216	35.81%
Gas	131,503,025	24,202	£401,753	43.31%
TOTAL	**183,763,385**	**44,215**	**£733,969**	79.12%

Council buildings accounted for 183,763,385kWh of energy which equates to 44,215tCO2 or 79.12% of total reportable emissions.

Pension Property Portfolio

Supply	Consumption (kWh)	Carbon (TCO_2e)	Allowances @ £16.60	% of Total Emissions
Electricity	944,694	360	£5,976	0.64%
Gas	364,768	67	£1,112	0.12%
TOTAL	**1,309,462**	**427**	**£7,088**	**0.76%**

Lothian Pension Fund accounted for 1,309,462kWh of energy which equated to 427tCO_2 or 0.76% of total reportable emissions. These costs are recovered from Lothian Pension Fund.

Unmetered Supplies

Supply	Consumption (kWh)	Carbon (TCO_{2e})	Allowances @£16.60	% of Total Emissions
Street Lighting	27,176,046	10,367	£172,092	18.55%
Traffic Signals	2,282,959	871	£14,459	1.56%
Festival Lighting	9,459	4	£66	0.01%
TOTAL	**29,468,464**	**11,242**	**£186,617**	**20.12%**

Unmetered supply consumptions account for 11,242tCO2, or 20.12% of total reportable carbon emissions. Street Lighting is the largest contributor of unmetered consumption, with street lighting representing 18.55% of total reportable emissions. Unmetered supplies do not have a meter and consumption is based on a schedule which details number of lamps (or traffic units) and burn hours.

CRC Allowance Purchases

The information in the table below outlines the purchases of allowances for CRC compliance. Organisations have two windows in which allowances can be purchased, these being April (forecast sale) with payment due in June, or in September (buy to comply sale). Allowances purchased in April in advance of the CRC compliance year attracted a saving of £1.10 per allowance. Council practice has been to purchase allowances in April, thus generating a saving on the costs of CRC. This strategy has been altered for 2018/19, which is the final year of CRC reporting, to mitigate against the risk of having remaining unusable allowances at the end of the CRC scheme. Unused allowances from 2017/18 will be carried forward to the 2018/19 financial year.

	Allowances	£
Allowances brought forward from 2016/17 (@cost of £16.10 per allowance)	24,406	£392,936
Allowances purchased in April 2017 (@ cost of £16.60 per allowance)	52,500	£871,500
Allowances purchased in April 2018 (@ cost of £17.20 per allowance)	10,000	£172,000
Total value of allowances held	86,906	£1,436,436

	Allowances	£
Allocated as follows:		
Applied to 2017/18 carbon footprint	55,884	£915,471
Carried forward to 2018/19 carbon footprint	31,022	£520,965

Cost of allowances at September 2018 prices *(@ £17.70 per allowance)*	£989,146
Cost of allowances brought forward from 2016/17 and allowances purchased in April 2017 and applied to 2017/18 carbon footprint	£915,471
Saving through take up of allowances in the forecast sale	**£73,675**

APPENDIX 2

CARBON REDUCTION COMMITMENT HANDBOOK

Paper for: Finance & Resources Committee

Subject: Carbon Reduction Commitment

Document Version: 0.3

Author: Paul Jones

Energy & Sustainability Manager

Approved: Pending

VERSION CONTROL
This document is reviewed annually to ensure it is accurate and up to date.

No.	Version	Date	Initials	Description
1	0.1	17 March 2016	JF	Approved by Finance & Resources Committee
	0.2	5 September 2017	JF	Annual Review
	0.3	27 September 2018	PJ	Approval Pending

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Table of Contents

1. PURPOSE

The aim of the Carbon Reduction Commitment (CRC) Management Handbook is to communicate the processes, governance arrangements and reporting requirements of the City of Edinburgh Council's compliance with the CRC scheme.

The intended audiences are:

- **For action**:
  Identified managers (to supply compliance data, supporting information, audit overview, progress reports etc);

- **For information**:
  Corporate Leadership Team, Heads of Service.

The handbook will define clear and simple arrangements that are consistently applied, thus improving the standard of information available for decision making while minimising the amount of time taken up with reporting and project administration.

2. BACKGROUND

The CRC Energy Efficiency Scheme is a UK government scheme. The scheme came into force in April 2010 under the CRC Energy Efficiency Scheme Order 2010, being replaced by the CRC Energy Efficiency Scheme Order 2013. It is designed to improve energy efficiency and cut carbon dioxide (CO_2) emissions in private and public sector organisations that are high energy users.

The Scottish Environment Protection Agency (SEPA) oversees the scheme in Scotland.

Qualification for the scheme is based on electricity usage. Organisations will qualify if they consumed over 6000 megawatt hours (MWh) of qualifying electricity through settled half hourly meters[1]. For the purposes of reporting, electricity and gas (where the gas is used for heating purposes) are the only reportable energy supplies for CRC purposes. For more information on the qualification criteria for electricity and gas please see Page 10 of the CRC Phase 2 Guidance.

The CRC scheme is divided into phases. Phase 2 runs from April 2014 to March 2019. Each phase is divided into compliance years which run from 1 April to 31 March.

The scheme carries significant financial penalties if a qualifying organisation does not:

- Register
- Disclose information on registration
- Submit an Annual Report on time
- Provide accurate information or notifications (in relation to registration or designated change)
- Provide an accurate Annual Report;
- Surrender allowances; and

[1] Such meters are defined in the CRC as performing two functions - measuring electricity supplied to a customer on a half hourly basis for billing purposes and measuring electricity for the purposes of balancing the loads on the grid in respect of the wholesale electricity market.

- Maintain an evidence pack.

More information on penalties can be found in Appendix 1.

3. SCOPE

This handbook will clearly define:

- Key roles and responsibilities as required by the CRC scheme;
- The individual officer with day to day management ownership for the CRC Scheme within the Council;
- Requirements of the scheme around the roles and responsibilities (including management, data provision, audit and report submission);
- Internal pre-submission and post submission reporting requirements;
- Membership of a CRC group and the group's responsibilities;
- Process maps of requirements supported by procedure notes for each role;
- Key stage requirements (milestone calendar) to ensure compliance with the scheme.
- Opportunities/ linkages with carbon reduction projects.

4. GOVERNANCE STRUCTURE

All participants that are eligible for the scheme must register on line with the Environment Agency. Authorised contacts for each organisation must be provided as part of the registration process.

For City of Edinburgh Council the named **authorised contacts** are as follows:

Senior Officer:	Andrew Kerr, Chief Executive Officer
Primary contact:	Peter Watton, Head of Corporate Property
Secondary contact:	Alison Henry, Corporate Finance Senior Manager
Account representative:	Alison Henry, Corporate Finance Senior Manager
Paul Jones	Energy and Sustainability Manager, Property and Facilities Management
Mairi Cruickshank	Carbon & Utility Officer/Finance Administration contact, Energy & Sustainability Team

The Corporate Finance Senior Manager will oversee day to day management of the Council's compliance with the scheme.

The following key Council officers play a fundamental role in providing data and overview of the process to ensure that the Council is in a position to meet the scheme's reporting requirements. Key duties will be detailed in the **ROLES & RESPONSIBILITIES** section.

- Corporate Finance Senior Manager
- Energy and Sustainability Manager;
- Carbon and Utility Officer;
- Street Lighting and Traffic Signals Infrastructure Manager;
- Data Auditor;

These officers will form the core representation on a 'CRC Working Group' internal to the Council. This will be chaired by the Corporate Finance Senior Manager.

CRC WORKING GROUP REMIT

The CRC Working Group will:

- Meet two or three times per year (or more frequently if deemed necessary by the Chair) to ensure that the Council is fully prepared to submit an accurate Annual Report within the timescales of the scheme;
- Ensure that the required resources and levels of support are provided to meet the requirements;
- Escalate key risks and issues to the Corporate Leadership Team (CLT) as appropriate;
- Provide a representative forum to discuss the effectiveness of current Council policies (e.g. energy efficiency policy) to reduce energy consumption in buildings and where additional opportunities may exist.
- Ensure communication and awareness of CRC and its financial impact across all Service Areas.

The dedicated Carbon and Utility Officer will provide administrative support for this group.

The Corporate Finance Senior Manager will report annually to the CLT from which reports will be presented to the Finance and Resources Committee (and/or, when required Corporate Policy & Strategy Committee/Full Council) as appropriate.

CORPORATE LEADERSHIP TEAM RESPONSIBILITIES:

The CLT will have a corporate overview of the scheme. This includes

- Approval of Annual Report prior to submission to the Environment Agency;
- Taking cognisance of the impact of CLT decisions on the Council's CRC footprint; and
- Receiving reports from the CRC working group.

LEGAL ADVICE

Legal advice will be requested from time to time to ensure that the Council is fully complying with its legal duties under the CRC Scheme and keeping abreast of any changes to the CRC Energy Efficiency Scheme Order. The Corporate Finance Senior Manager will liaise with the Council's legal team as and when advice is required.

5. ROLES AND RESPONSIBILITIES

Roles and responsibilities are divided into two categories for the purposes of this Handbook.

Firstly, the roles of the authorised Council contacts as registered on the CRC Registry. The authorised contacts are in place to ensure that there is accountability at the most senior level in the organisation for compliance with the scheme.

AUTHORISED CONTACTS

Senior Officer – Chief Executive Officer

The senior officer has overall responsibility for the organisation's compliance with CRC. This means that:

- enforcement and civil penalty notices will be sent to the senior officer;
- the senior officer authorises the primary and secondary contacts and the single or several account representatives to act on behalf of the organisation;
- the senior officer receives notifications of the submission of Annual Reports, and the order, allocation and surrender of allowances;
- the senior officer receives emails from the administrators with information about the scheme

Primary Contact, Secondary Contact and Account Representative

The primary, secondary and account representative contacts are authorised contacts with delegated responsibility from the Senior Officer. All roles have equal access rights to the CRC Registry. More than one contact is in place to ensure availability of an authorised contact to take the necessary actions within the Scheme deadlines. They can access the CRC Registry to perform the following actions:

- register a CRC account;
- submit Annual Reports;
- notify a designated change;
- change participant equivalent details;
- change primary member/compliance account holder details;
- appoint an agent to act on their behalf; and
- order, transfer and surrender allowances as appropriate.

Currently the Corporate Finance Senior Manager is both the Secondary contact and the Account representative with day to day management of the Council's compliance with the scheme. Should the Corporate Finance Senior Manager not be available the Primary Contact will be the first point of contact.

Finance Administrative Contact

This role is primarily to ensure that the annual subsistence fee is paid. This is £1,290 (2018 fee) and the Council will be invoiced in April annually. The fee will be met from the overall budget for compliance with the scheme. This role is currently with the Carbon and Utility Officer.

KEY COUNCIL OFFICERS

Secondly, the following Council officers play a fundamental role in ensuring the City of Edinburgh Council complies with the requirements of the CRC Scheme. Their involvement and input to the scheme is mandatory.

CORPORATE FINANCE SENIOR MANAGER

The Corporate Finance Senior Manager has day to day responsibility for the management of the Council's compliance with the CRC Scheme.

Duties include:

- Chairing the CRC Working Group and escalating key risks and issues to the Corporate Leadership Team;
- Requesting the data required for the Annual Report in March each year;
- Overseeing the financial day to day running of the Council's compliance with the CRC scheme;
- Purchasing, surrendering and paying for carbon allowances within required timescales;
- Sign off the internal audit report prior to the submission of the Annual Report to the Environment Agency;
- Submitting the Council's Annual Report to the Corporate Leadership Team;
- Submitting the Council's Annual Report on-line to the Environment Agency;
- Preparing a financial annual report on CRC for CLT and Finance & Resources Committee annually;
- Overseeing the revision and updating of this handbook every six months;
- Ensuring that the information relating to the Council's compliance with the scheme on the CRC registry is up to date.

ENERGY AND SUSTAINABILITY MANAGER

The Council's Energy Manager has six key roles with respect to CRC compliance.

The Energy Manager will:

- Collate and validate gas and electricity consumption for Council buildings to be provided as part of the Council's CRC Annual Report;
- Provide a total forecast estimate (by mid-April[2]) of the following year's consumption to finance colleagues to inform the purchase of forecast allowances;
- Co-ordinate and collate energy data relating to consumption by street lighting, stair lighting, traffic signals and property pension portfolio (that qualifies for CRC) for inclusion in the Council's CRC Annual Report;
- Liaise with the data auditor with respect to an independent audit of the energy data relating to buildings prior to inclusion in the Annual Report;
- Provide the Council's CRC footprint data in a finalised version ready for uploading to the on-line Annual Report template;

[2] Forecast information will be supplied to the Energy Manager by end of March annually. The Energy Manager will collate all information and provide to Finance colleagues by mid-April.

- Ensure that the Council's CRC Evidence Pack is kept up to date including information on meter breakdowns, change of property ownership, liaison with suppliers, liaison with SEPA, etc. and that this is available for both internal and external auditing purposes.

NON-METERED SUPPLIES

As part of the changes to the CRC scheme in 2014, all non-domestic supplies not covered by street lighting, housing and transport must be reported. In addition, the responsibility for sourcing information and reporting on additional unmetered supplies is the responsibility of Energy Manager.

Therefore the Council's Energy Manager must record in the evidence pack:

- Supply Certificates for unmetered supplies not covered by Housing, Transport or Housing
- Annual or monthly supplier statements detailing consumption for audit trail/evidence pack;
- Consumption data will be validated using the Energy Management System.

Unmetered supplies are part of the Council's wider invoicing and included on the electronic billing files provided by the service providers. These files are imported and processed by the Council's Energy Management System (EMS).

The Energy Manager must be familiar with the detailed requirements of the scheme and to any changes to the legislation that may affect reporting requirements. The Energy Manager will also be familiar with CRC requirements as they apply to the classification of energy supplies, including self-generation, the process employed for estimated reads, number of meter readings required annually etc. More detailed information is available on the CRC website "**CRC Phase 2 Guidance**".

CARBON AND UTILITY OFFICER

The Energy Manager manages the dedicated Carbon and Utility Officer. The Carbon and Utility Officer will support the Energy Manager with the key duties outlined above and in particular will:

- Ensure that the authorised contacts on the CRC Registry are up to date;
- Ensure that the Evidence pack content for the current CRC year is regularly updated;
- Ensure that the Evidence pack for previous years is placed in a secure folder and password protected;
- Be the key liaison with other Council officers identified in this handbook on CRC related tasks;
- Co-ordinate the collation of the data required for the Annual Report within timescales to meet legislative requirements;
- Input to the annual revision of the Handbook;
- Pay the annual subsistence fee;
- Support the Corporate Finance Senior Manager with the running of the CRC Working Group.

STREET LIGHTING AND TRAFFIC SIGNALS INFRASTRUCTURE MANAGER

In April 2014, the UK Government included Street Lighting as part of the CRC footprint. The Council is now legally required to report on electricity consumption by Street Lighting.

Therefore, the Council's Street Lighting and Traffic Signals Infrastructure Manager must provide:

- Annual or monthly supplier statements detailing consumption for audit trail/evidence pack;
- MPANs[3], for all relevant supplies; and
- Evidence of validation undertaken.

This information will be requested by the Corporate Finance Senior Manager in **March annually** and should be provided to the Energy Manager by the **end of May**. The Energy Manager will use this information to collate the Council's total CRC footprint. Any delay in receiving this information will result in either delays in finalising the Annual Report (there are significant fines if the Council does not submit its Annual Report within required timescales), or errors in the validation exercise.

In addition, a forecast estimate of the following year's consumption should be provided to the Energy Manager (by **end of March** annually) in order to assist finance colleagues with the purchase of forecast allowances in April.

It is the Street Lighting and Traffic Signals Infrastructure Manager's responsibility to ensure that:

- Street Lighting and traffic light consumption data is provided timeously (there are significant fines if the Council does not submit its Annual Report within required timescales. See appendix 1).
- Street Lighting and traffic light consumption data is validated and that there is an explanation of the validation process accompanying the data;
- The complete street lighting and traffic light footprints are included (there are significant fines for incomplete data);
- Street Lighting and Traffic Lighting personnel liaise with the data auditor in order that an independent audit of street lighting data and traffic light data can be conducted prior to information being included in the Annual Report.
- A forecast estimate of the following year's consumption is provided timeously.

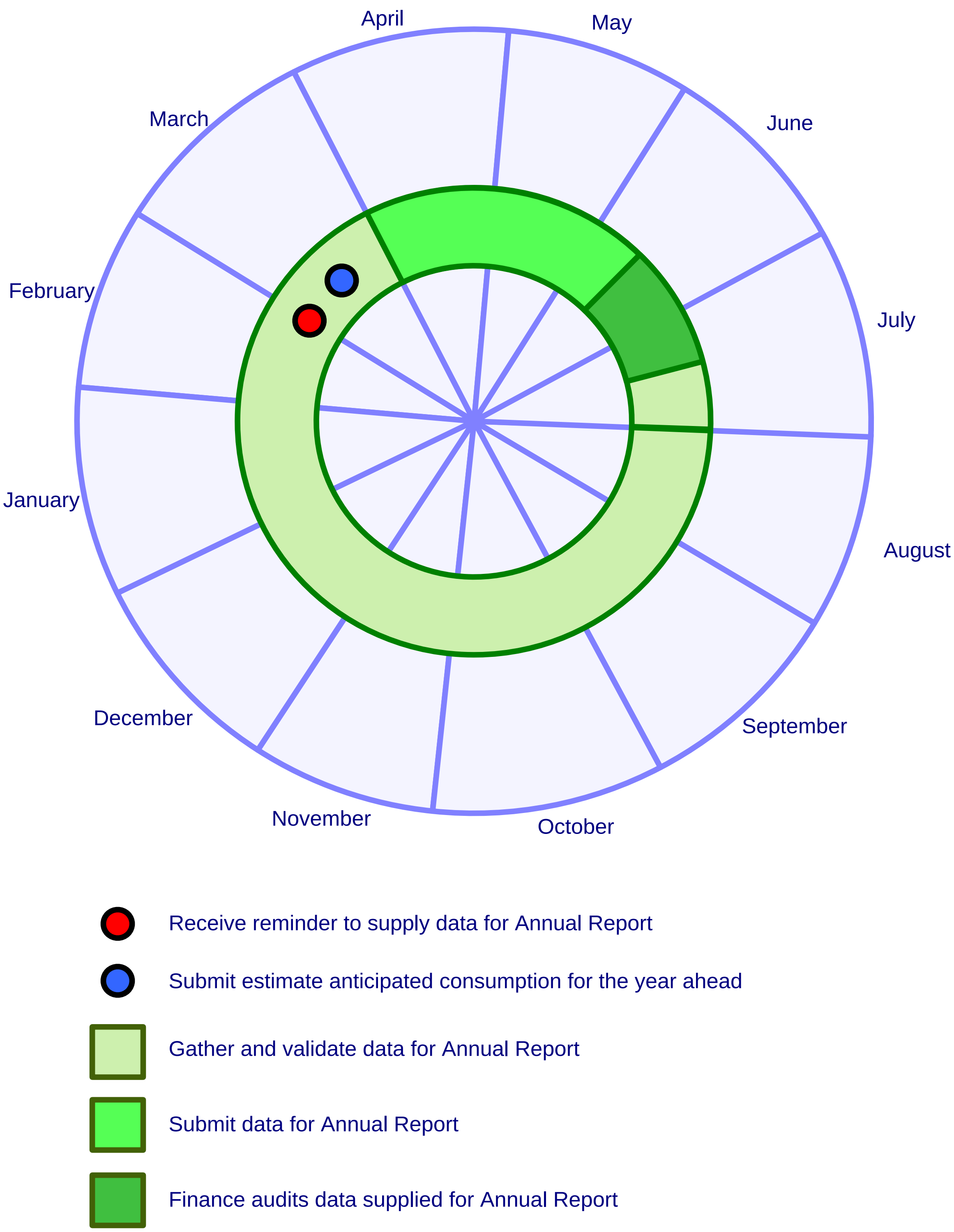
DATA AUDITOR

As noted in the above responsibilities, it is the responsibility of these named officers to liaise with the data auditor to ensure that an independent audit can be conducted prior to information being included in the Annual Report. The Data Auditor role is fulfilled by an Accountant from the Council's Finance division. Further details on this role can be seen on page 11.

[3] Meter Point Administration Number (21-digit reference used in Great Britain to uniquely identify electricity supply points)

FIGURE 1 below outlines the key tasks over any 12 month period as it relates to Council officers who provide data.

Figure 1 Data providers' key tasks



FINANCE RESPONSIBILITIES

Finance colleagues have a key role to play with respect to the financial management associated with the scheme and ensuring that the Council meets the reporting timescales necessary to comply with the scheme.

CORPORATE FINANCE SENIOR MANAGER

Key responsibilities are outlined on page 7.

DATA AUDITOR

The Data Auditor role is undertaken by an Accountant within the Finance department. The Data Auditor will:

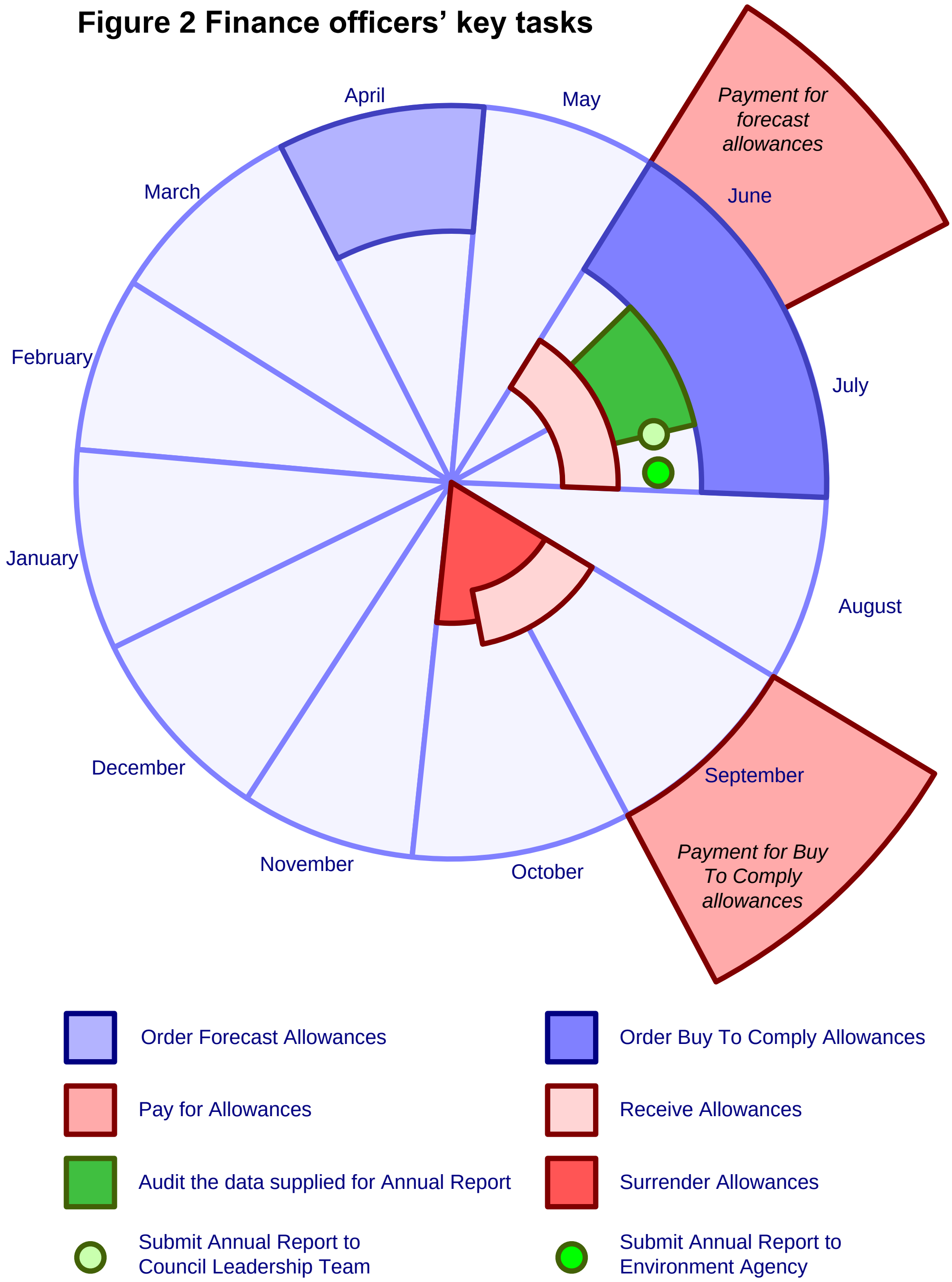
- Audit data (street lighting, traffic signals, unmetered supplies) for the Annual Report prior to being submitted to the Environment Agency;
- Monitor and verify the Evidence Pack structure and content annually;
- Support preparation of a strategy setting out the Council's approach to the purchase of carbon allowances going forward;
- Support the Corporate Finance Senior Manager; and
- Liaise with the Carbon and Utility Officer as appropriate.

Proof that the audit has taken place must be logged in the Council's Evidence Pack annually. Finance officers have been assigned to this task. The audit will include a review of all scheme documentation, verification of a representative sample of source data (provided by the Energy Manager, Street Lighting and Traffic Signals Infrastructure Manager and an independent assessment of progress in addressing recommendations if an external audit has been recently conducted. This audit must take place prior to information being submitted as part of the Annual Report and must be signed off by the Secondary Contact. It should also be made available for external auditing purposes.

The carbon allowance purchasing strategy will take appropriate account of risk and consideration of the financial savings arising from advance purchase with the opportunity cost of interest foregone and/or additional borrowing costs.

Figure 2 overleaf depicts the key Finance-related tasks over any 12 month period.

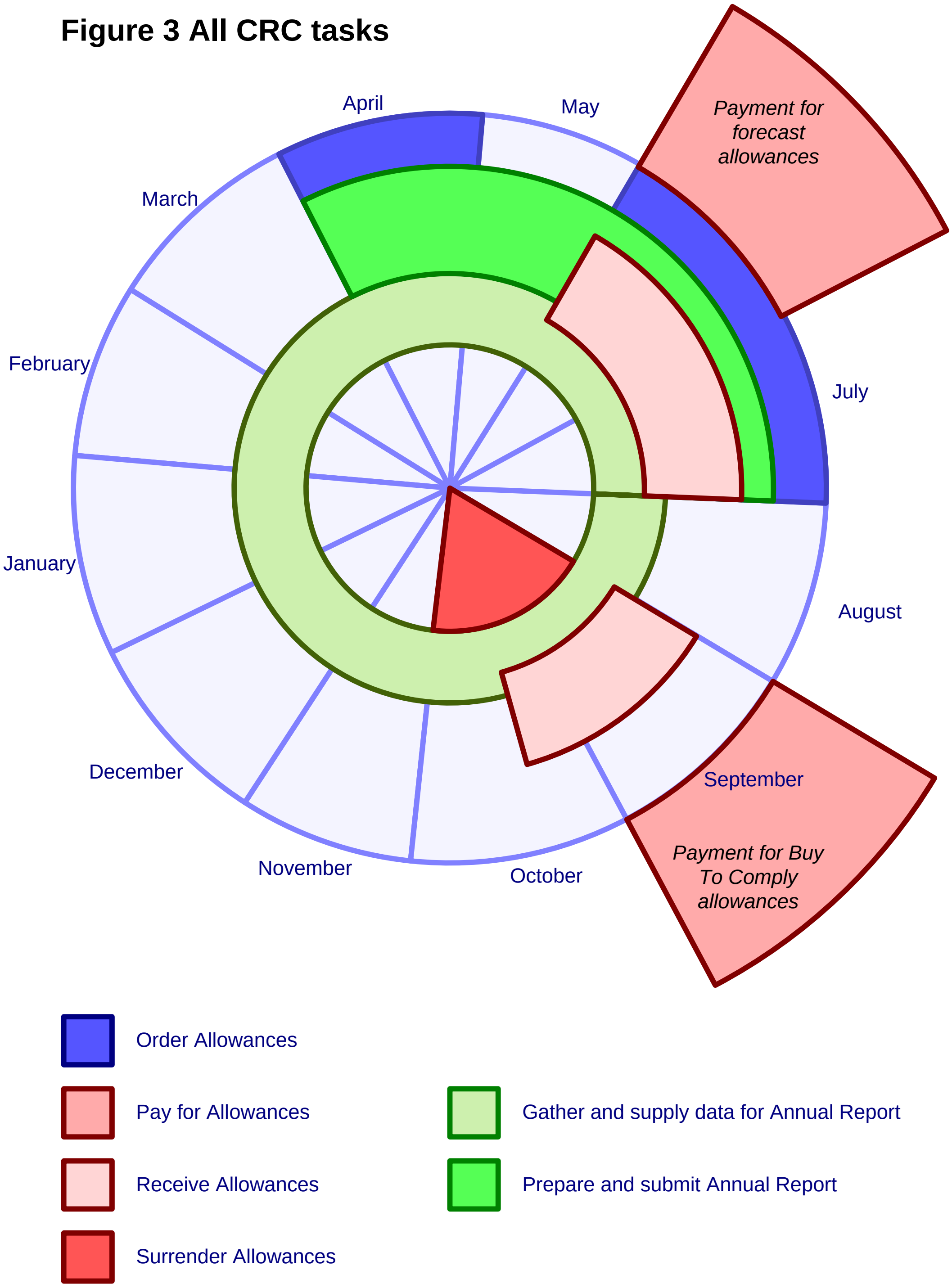
Figure 2 Finance officers' key tasks



6. SCHEME REQUIREMENTS & KEY MILESTONES

Figure 3 summarises the key milestones and requirements for the scheme over any 12 month period.

Figure 3 All CRC tasks



Each year the Council must order, pay for and surrender allowances to cover its annual CRC emissions as set out in its Annual Report for that year. Table 1 sets out the deadline dates.

TABLE 1: Deadlines for the ordering, payment, allocation and surrender of CRC allowances

Action required	**Annual deadline**
Order forecast sale allowances	1 April to 30 April
Payment for forecast sale allowances	2 June to 20 June
Allocation of forecast sale allowances	2 June to 15 July
Order buy to comply sale allowances	2 June to 31 July
Payment for buy to comply sale allowances	1 Sept to 19 Sept
Allocation of buy to comply sale allowances	1 Sept to 15 October
Surrender of allowances	Last working day in October

Each year there will be two fixed price Government sales of **allowances** – one forecast sale at the beginning of the year, and one buy to comply sale after the end of the reporting year. The price at the forecast sale will be lower than the price at the buy to comply sale, giving participants an incentive to forecast their emissions before the start of the year and buy allowances in advance. However, participants have the choice to purchase allowances at either sale and also have the option of hedging risks by trading allowances. Forecast sale allowances are valid for all compliance years from the year in which they are sold for the rest of the phase. They are not valid to meet the surrender obligation for previous compliance years.

Buy to comply allowances are valid retrospectively for the compliance year just ended (31 March) and for any subsequent year in the phase.

Finance colleagues will take this into account as part of the Council's Carbon Allowance Purchasing Strategy.

More detailed information is available on the CRC website "Guidance to Phase 2".

ANNUAL REPORT

Every year before the 31 July, each participating organisation must submit an Annual Report. The Annual Report is completed and submitted on-line. All information relating to the organisation must be up to date on the CRC registry prior to the submission of the report.

An example of an Annual Report is appended for information (Appendix 2).

The Annual Report will be approved by the CLT prior to being submitted on-line by the Corporate Finance Senior Manager.

7. EVIDENCE PACK

To meet CRC record keeping obligations an Evidence Pack must be maintained. The Evidence Pack must contain information that supports and justifies information supplied as part of the registration process and in Annual Reports.

It should also contain information to support any changes to the organisation structure and responsibilities, reporting information, changes that affect data and any excluded uses. The Energy Manager (supported by the Carbon and Utility Officer) will be responsible for ensuring that all information relating to data required as part of the scheme is recorded and filed in the Evidence Pack. Supporting evidence will be reviewed at meetings of the CRC Working Group.

There is no prescribed format that the Evidence Pack must take. The Council has an on-line based Evidence Pack on the G Drive as part of the Energy Management folder structure. The Evidence Pack structure is based on the format as suggested in Table K.1 Page 142 of the CRC Phase 2 guidance

A separate Evidence Pack folder is established for each year that the Council has been participating in the scheme. Following the surrender of allowances in October annually the Evidence Pack for the corresponding year will be placed in a secure folder and password protected. This will be the responsibility of the Carbon and Utility Officer.

8. RISKS AND ISSUES LOG

CRC is included on the Council's Risk Register. If there is a perceived risk that key milestones are not going to be met and that subsequently the Council will incur financial penalties, the risk will be raised by the Secondary contact with the Departmental Risk Officer in the first instance and escalated to a quarterly Risk Committee if appropriate thereafter. Depending on the level of risk, in consultation with the Risk Officer the risk will be escalated by the Secondary contact to CLT.

To provide resilience around key tasks, the data required to meet milestones will be prepared well in advance of final submission dates. In the event of absence of the Corporate Finance Manager, the Energy and Sustainability Manager will assume overall responsibility for compliance with the scheme including liaison with the Primary Contact to meet reporting requirement.

9. CRC LINKAGES TO KEY COUNCIL POLICIES, PLANS AND OTHER LEGISLATION

Energy Policy for Council Buildings

This policy aims to manage energy effectively in Council buildings, stair and street lighting and in doing so reduce the Council's carbon emissions. The effective implementation of this policy will assist in reducing the financial impact of the Council's compliance with the CRC Scheme.

Council's Carbon Management Plan

The Council's Carbon Management Plan 2015/16 – 2020/21 sets out the Council's actions to reduce carbon emissions by 2020/21 and in doing so meet a 42% carbon reduction target. Reductions will be met through a range of projects including energy reduction, fleet, procurement, waste and behavioural change projects. The effective reduction of energy consumption will reduce the Council's carbon footprint as well where relevant reduce the financial impact of the Council's compliance with the CRC Scheme.

Public Bodies Climate Change Duties (Climate Change (Scotland) Act 2009

In 2015 the Scottish Government enacted powers within the Climate Change (Scotland) Act 2009 to introduce a mandatory Public Bodies Duties reporting requirement. The first mandatory report deadline was 31 October 2016. This report requests details of the Council's governance arrangements with respect to carbon management, carbon emissions reduction projects and carbon footprint year on year.

Service delivery and the impact on CRC

All Service Areas need to be aware of the impact on the Council's CRC liability of decisions taken in the process of service delivery. Awareness of CRC and its close linkage to the energy policy, carbon management plan and mandatory carbon reporting shall be raised through the CRC Working Group.

REFERENCES

Environment Agency September 2015 CRC Energy Efficiency Scheme; guidance for participants in Phase 2 (2014-2015 to 2018-2019).

APPENDIX 1

CRC penalties

The table below details the civil penalties that can be applied for non-compliance with the CRC Order.

Non-compliance	CRC Order	Penalties
Failure to register	Article 73	• Immediate fine of £5,000 for failure to register by the deadline • Further £500 per working day for each subsequent working day of delay up to a maximum of 80 working days; and • Publication of non-compliance
Failure to disclose information on registration	Article 73	• £500 per meter not reported in the registration; and • Publication of non-compliance
Failure to submit an Annual Report on time	Article 74	• Immediate fine of £5,000 for failure to report by the deadline; and • Publication of non-compliance Where the report is provided **no more than 40 working days late,** also a fine of £500 per working day for each subsequent working day of delay up to a maximum of 40 working days. Where the report is provided after the last working day of October after the end of the applicable year or not at all: • £45,000 fine; • CRC emissions to which the Annual Report relates are double the CRC emissions reported in the previous year's report, or where no such report exists, double the CRC emissions determined by the administrator • The participant must immediately purchase and surrender allowances equal to the CRC emissions (including the doubling) • £40 per tCO_2 penalty for each allowance not surrendered by the deadline (penalty is only applicable to the CRC emissions before the figure is doubled) and • Transfer of any allowances to third parties is blocked • Publication of non-compliance • If the participant fails to comply with the penalty requirement to purchase and surrender allowances by 31 March after the Annual Report was due and continues in the scheme, the

		unsurrendered allowances will be added to the surrender requirement for the next year.
Failure to provide Accurate information or notifications (in relation to registration or designated change)	Article 75	• £5,000 fine; and • Publication of non-compliance
Inaccurate annual reports	Article 76	• £40 per tCO_2 of so much of those supplies or emissions that were inaccurately reported; and • Publication of non-compliance 'Inaccurate' means where any supplies or emissions differ by more than 5% to those that should have been
Failure to surrender allowances	Article 77	• Participant must immediately acquire and surrender the allowances shortfall • £40 per tCO_2 of so much of the emissions represented by the allowances shortfall • Transfer of any allowances to third parties is blocked; and • Publication of non-compliance If the participant fails to comply with the penalty requirement to surrender sufficient allowances; and continues in the scheme, the shortfall allowances will be added to the surrender requirement for next year.
Later discovered failures to surrender allowances (so long as the error is identified within five years of the submission date for the report containing the error)	Article 78	• Shortfall allowances will be added to the quantity of allowances required to be surrendered in the next reporting year; and • Publication of the non-compliance Where the non-compliant organisation is no longer a participant, a fine is imposed that represents the value of the shortfall allowances. 'Value' means the value of the allowances in the most recent sale of allowances before the shortfall was discovered.
Failure to maintain records in respect of the information used to compile an Annual Report or relevant to any designated change	Article 79	• £40 per tCO_2 of so much of the CRC emissions of the participant in the Annual Reporting year immediately preceding the year in which the noncompliance is discovered; and • Publication of non-compliance

Finance and Resources Committee

10am, Thursday 27 September 2018

Council Change Strategy:
Planning for Change and Delivering Services 2019-2023

Item number	7.5
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

This report sets out the longer-term changes and improvements the Council proposes to achieve, aligned to its statutory responsibility to set a balanced budget for 2019/20 as part of a medium-term financial and strategic framework.

The financial framework estimates that the Council will need to find recurring annual savings of at least £106 million by 2022/23, with £28m required in 2019/20. This report builds on the strong financial management and engagement with the public in recent years with a new approach for the next four years.

The report responds to the citizen engagement plan which was agreed by the Committee on 16 August 2018 and represents the next stage in that plan, detailing how the Council will inform, engage and obtain feedback from citizens to shape the role of the Council in providing services over the next four years.

The report also provides an update on the current financial position including capital spending priorities and the process for the Edinburgh Integration Joint Board for Health and Social Care services to set its budget.

Report

Council Change Strategy:

Planning for Change and Delivering Services

2019-2023

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 Approve the publication of *Planning for Change and Delivering Services* that will then be used to engage citizens ahead of the setting of the Council's 2019/20 budget in February 2019;

1.1.2 Note that the key financial assumptions over the next four years remain unchanged from those reported to the Committee on 12 June 2018, meaning that the Council requires to identify at least £28m of savings in 2019/20 and £106m over the four-year period to 2022/23; and

1.1.3 Note that further reports will be presented to the Finance and Resources Committee in January 2019, setting out the implications for the Council of the provisional Local Government Finance Settlement for 2019/20, the outcome of the engagement process and the main integrated impact assessment findings, in advance of the Council budget-setting meeting in February 2019.

2. Background

Responding to the Challenge

2.1 The Council has achieved significant changes and delivered sustainable savings over the last five years as available resources have not kept pace with demand-led service growth, inflationary pressures and other impacts linked to legislative reform. Since 2012, £240 million of recurring savings have been delivered through a number of savings programmes, with a further £36.5m underpinning the approved budget for 2018/19.

2.2 Most recently, savings have been delivered through the Transformation Programme which was agreed in 2015. Key elements of the programme were:

2.2.1 moving the Council to a locality-based model for the provision of services in communities;

2.2.2 laying the foundations for the development of a digitally-led organisation, with a new strategic ICT partner which will also save the Council £46m over the first seven years of its operation, making it easier for our citizens to access services; and

2.2.3 restructuring the Council using a set of agreed organisational design principles, reducing staffing levels significantly in many areas, and consolidating corporate and support service functions to reduce duplication, improve effectiveness and increase cost efficiency.

2.3 *Planning for Change and Delivering Services* builds on this approach and will broaden engagement with the public and our partner organisations across the city and the sub-region. The engagement process will seek to involve communities, staff, trade unions and our partner organisations by asking them to share with the Council their views on areas for future change, investment, performance improvement and our top priorities. Whilst *Planning for Change and Delivering Services* highlights opportunities for service reform and further financial savings, we are seeking a broader debate with the public on their views of relative priorities for Council resource allocation.

2.4 Subject to the outcomes of the Chancellor's Autumn Budget and Scottish Government Draft Budget, the Council is due to receive a provisional 2019/20 one-year financial settlement in December, with the Council's budget then approved in February 2019. Alongside the budget in February, a final version of *Planning for Change and Delivering Services,* the Council's Change Strategy, will also be published.

3. Main report

***Planning for Change and Delivering Services*, 2019-2023**

3.1 Development of the medium-term financial framework needs to be fully aligned with the future strategic direction and priorities of the Council. The Council Business Plan set out the priorities for the Council and the 52 political commitments made by the Coalition that it will seek to deliver over this Council period.

3.2 The financial planning process builds on this approach and a framework was developed to provide focus to the investment choices over the next four months. This framework is centred around three overarching strategic themes:

3.2.1 Ensuring the growth of the city is inclusive and sustainable;

3.2.2 Targeting investment in prevention and early intervention to reduce long-term reliance on Council services and allowing citizens to lead active, independent lives; and

3.2.3 Delivering basic services to a high quality which citizens expect and rely upon.

3.3 Following development of these themes, the Coalition has worked over several months in a process of co-design, involving Council Officers, to identify opportunities to improve or change service delivery, and in doing so, reduce expenditure or generate additional income.

3.4 This will mean some difficult choices. That is why in *Planning for Change and Delivering Services* we have identified opportunities for service reform and potential financial savings or new income, in order to seek feedback from the public ahead of the budget being set in February. This will take place alongside several engagement processes set out in the previous report to this Committee on 16

August 2018 to elicit as much engagement with the public and other stakeholders as possible.

3.5 *Planning for Change and Delivering Services* clusters the proposals into five priorities. These are:

- **Prevention –** intervening before problems escalate for individuals and communities;
- **Improving How We Operate –** the Council's core job to run services in an efficient and effective way and deliver value for money;
- **Changing How We Work with Our Partners –** delivering better outcomes which will require the Council to work more effectively with all its partners, including the NHS and voluntary organisations;
- **Making the Most of Our Cultural and Leisure Assets –** maximising the impact of Edinburgh's cultural and leisure assets and ensuring their sustainability for future generations; and
- **Increasing Our Income –** ensuring that, where appropriate, the Council takes advantage of opportunities to increase income and diversify funding streams.

Citizen Engagement

3.6 The purpose of *Planning for Change and Delivering Services* is to launch engagement with the citizens of Edinburgh. As set out in the Committee report of 16 August 2018, engagement will be organised around four main activities:

- development of an issues paper (*Planning for Change and Delivering Services*) which presents the evidence base and makes the case for necessary change in the planning and delivery of public services;
- an online budget planner similar in scope to that used in previous budget engagements, but building on the lessons learned in those processes;
- a budget group activity-based approach to making collective decisions about local spending priorities; and
- an initial feedback mechanism for budget themes and proposals.

3.7 Through the approaches set out above, the Council seeks to raise awareness of the challenges, but also the opportunities. Feedback from citizens will help the Council to set out a plan for the next four years to meet the financial, social and demographic pressures, but also start an ongoing engagement with citizens about where there are opportunities to do things differently.

Budget framework 2019/23 – planning assumptions

3.8 *Responding to Change and Delivering Services* is based on budget assumptions which were reported to members of the Finance and Resources Committee on 12 June 2018. At that meeting, the Committee considered an update report on the Council's revenue budget framework for 2018/23. The report outlined a revised estimated annual savings requirement of at least £106m over the period from 2019/20 to 2022/23.

3.9 The updated projection incorporated the effect of upward revisions to pay award and other principal inflationary assumptions, as well as the impact of loans charge expenditure and associated running costs for the Council's proposed Wave 4 schools programme. The latter was based on an assumption of 50% upfront Scottish Government support for the construction costs of the Wave 4 programme, taking account of the existing Capital Investment Programme funding. It is important to emphasise, however, that should either costs increase or funding reduce below these assumed levels, the programme as a whole is not affordable within the stated timescales. The programme is similarly unaffordable if recurring savings of £106m across the four-year period are not identified.

3.10 In addition, the report set out revised Government Grant funding assumptions in each of the next four years, aligned to the actual level of like-for-like cash-terms change seen in 2018/19. The potential was noted, however, for the overall savings requirement to increase should actual funding levels be lower than assumed.

3.11 The principal assumptions contained within the framework are summarised below:

	2019/20	2020/21	2021/22	2022/23
Expenditure				
Employee pay award	3%	3%	3%	3%
Other inflation (applied to Care Home fees, ICT and PPP contracts, Landfill Tax, Non-Domestic Rates and energy tariffs)	3%	3%	3%	3%
Income				
Discretionary fees and charges increase	5%	RPI +2%	RPI +2%	RPI +2%
Council Tax increase	3%	3%	3%	3%
Government Grant funding change	-0.4%	-0.4%	-0.4%	-0.4%

3.12 Council Officers have continued to keep the accuracy and relevance of these assumptions under review. In view of current economic forecasts and wider projections relating to public expenditure levels, no further changes are proposed from the assumptions reported in June 2018. It should be noted, however, that while the above projections reflect an overall 1% increase in required employer pension contributions for non-teaching staff in accordance with the second and third years of the Lothian Pension Fund actuarial assessment, there remains the potential for equivalent increases in teachers' contribution rates, dependent upon the results of the UK Treasury's equivalent assessment.

3.13 Members are reminded, nonetheless, that grant funding estimates are necessarily based on an assessment of the complex interaction of block allocations from the UK Treasury, Scottish Government fiscal policy, priorities and commitments and the complexities of the distribution formulae used to allocate the overall local government quantum amongst Scotland's thirty-two councils.

Demographic provision

3.14 In addition to necessary provision for future employee pay awards and contractual and other inflationary factors, the budget framework incorporates significant additional annual investment for the financial impacts of demographic change, including changes in school pupil rolls, numbers of older people (particularly those aged over 85) and individuals with physical and/or learning disabilities.

3.15 Current incremental provision in this area is summarised below:

	2019/20	2020/21	2021/22	2022/23
Demographic provision	**£m**	**£m**	**£m**	**£m**
Communities and Families - rising school rolls and children's services	2.511	2.862	2.616	2.616
Resources - rising school rolls	0.041	0.034	0.032	0.032
Health and Social Care - older people, disabilities, and mental health	6.096	6.187	6.280	6.374
Place - household numbers (for waste collection and disposal)	0.348	0.348	0.348	0.348
Total	**8.996**	**9.431**	**9.276**	**9.370**

3.16 While review of the level of underlying demographic provision for health and social care services has attested to its on-going appropriateness, pressures are apparent in the level of growth in school rolls relative to earlier assumptions.

3.17 Modelling work in this area is continuing and will be informed by the pupil census return to be submitted to the Scottish Government in September 2018. The affordability of any increase in the current level of demographic provision will be reviewed upon receipt of the Local Government Finance Settlement announcement in December 2018.

3.18 As has been indicated in previous reports, partly due to increasing school rolls across Scotland, the overall level of per capita funding contained within the

Settlement is reducing, such that growth in pupil numbers will not be matched by receipt of corresponding additional funding.

3.19 Of greater importance, therefore, is the Council's relative share of the key client groups used to guide funding distribution. On this basis, the level of additional demographic provision contained within the budget framework has generally been at a lower level than extrapolating current unit costs of delivery, encouraging examination of alternative ways of addressing increases in underlying demand.

Health and Social Care

3.20 Reports to this Committee have consistently highlighted significant underlying pressures within the Health and Social Care service. In recognition of these structural deficits, a total of £7m of additional funding was incorporated within the budget framework baseline in 2018/19.

3.21 The period two-based report considered by the Finance and Resources Committee on 16 August 2018 indicated, however, a delay in implementation of several savings rooted in improved demand management that are necessary to secure on-going financial sustainability.

3.22 Given the overall tightness of the financial framework, it is essential that these savings are delivered, as well as those in future years predicated on closer integration of respective Council and NHS Lothian service provision. More generally, the framework takes as its starting premise that the underlying budget for all service areas is balanced. Given the extent of residual pressures highlighted in the Period 2 report, regular updates will continue to be reported to the Committee to provide additional assurance in this regard.

3.23 Against a backdrop of reducing overall real-terms resource availability, investment in the Council's priority areas can only be sustained through on-going redesign of current processes, more effective channelling of resources into preventative and early intervention activity and, ultimately, prioritisation across other areas of service.

3.24 Future allocations to the Edinburgh Integration Joint Board will take as their baseline the previous year's actual "offer", adjusted for a demographic-related uplift, with the net cost of employee pay awards and other inflationary uplifts requiring to be matched by offsetting savings. This principle will be applied across all four years of the framework.

3.25 The EIJB is responsible for setting a budget for the delivery of its strategic planning intentions utilising the budgets delegated to it by its partner organisations, NHS Lothian (NHSL) and the City of Edinburgh Council (CEC).

3.26 The Chief Officer of the EIJB has developed a protocol taking account of the different budget-setting timelines and processes of the partner organisations. For development of the EIJB proposals for 2019/20, the key elements will be as follows:

- IJB Officers to develop outline savings programme for 2019/20 (August/September 2018)
- IJB workshop on outline proposals (October 2018)

- IJB workshop on final proposals (January 2019)
- IJB budget-setting meeting (February 2019)

3.27 Within this process, there will be clear points of engagement with elected members across the Coalition and other political groups, recognising the requirement for CEC elected members to have an awareness of proposals to inform decisions on the final allocation to be delegated to the EIJB through the Council's budget.

Capital Investment programme 2018/23

3.28 The Council budgets for capital expenditure are based on a rolling five-year capital investment programme which is set within a high-level ten-year capital plan. This allows for a strategic approach to investment in the Council's assets.

3.29 The Council set its current capital investment programme on 22 February 2018 for the period 2018/23. This provided additional funding to invest in additional infrastructure (£56m), the Local Development Plan Action Plan (£35m), the City Region Deal (£21m) and asset management works to improve the condition of Council buildings (£49m). As noted earlier in the report, delivery of this investment is dependent upon the identification of at least £106m of recurring savings by 2022/23.

3.30 The programme was subsequently revised to take account of slippage and acceleration from 2017/18 and approved by this committee on 16 August 2018. The Council's indicative capital investment plan for the period 2019-2024 now totals £805m. Of this, there is currently only £7m of unallocated funding in 2023/24.

3.31 In addition, as reported to this committee on 12 June 2018, the revenue budget framework provides additional loans charge funding to support £78m of capital investment in Wave 4 Schools, subject to an assumption of 50% Scottish Government funding and overall balancing of the revenue framework over the period to 2022/23. The table below sets out the indicative allocation of general fund capital budgets for the period 2019-2024. These plans will underpin the Council's Capital Strategy, due for publication by April 2019.

Planned General Fund Capital Expenditure 2019/20 to 2023/2024[1]

Service	19/20 £m	20/21 £m	21/22 £m	22/23 £m	23/24 £m	Total £m
Communities and Families	54	31	14	-	-	**99**
Edinburgh IJB	2	5	5	-	-	**12**
Place	98	96	30	32	20	**276**
Resources - Asset Management Works	30	30	26	20	14	**120**
On – lending (housing)	26	58	74	118	-	**275**
LDP - unallocated	17	-	-	-	-	**17**
Unallocated	-	-	-	-	7	7
Total	**226**	**220**	**148**	**170**	**41**	**805**
Potential funding for Wave 4 Schools	2	7	50	19	-	**78**

3.32 Should members wish to reprioritise this allocation, this may be done as part of the budget-setting process via Council in February 2019.

3.33 In addition to the sums noted above, the Council receives Transfer of Management Development Fund (TMDF) resourcing, ring-fenced to support the provision of affordable housing, primarily by social landlords, within the city. The annual level of funding provided is intimated as part of the Local Government Finance Settlement but, based on recent years' allocations, is expected to be no less than £160m over the five-year period above.

Capital Funding Assumptions

3.34 As members are aware, the majority of this expenditure is funded from a combination of government grant (£200m), planned sale of Council assets (£18m) and loans fund advances (£548m). The assumed level of government grant and asset sales is conservative, reflecting ongoing fiscal constraint and a reducing number of surplus assets. The level of investment supported by loans fund advances is, however, limited to what is affordable within the Council's revenue

[1] Capital budget figures presented have been subject to rounding

budget. It is therefore unlikely that further capital priorities can be funded without redirecting funding from projects currently in the programme.

Unfunded Capital Priorities

3.35 While there is limited capacity for capital investment, members should be aware of the following unfunded priorities.

(i) **Wave 4 Schools** – The Council aspires to replace the current Currie, Trinity, Castlebrae, Wester Hailes, Liberton and Balerno High Schools under its proposed Wave 4 school programme. The latest cost estimate of this programme is £207m. The Council has an existing budget of £25m for this programme and the additional £78m outlined above would allow the Council to fund 50% of this cost. However, without additional funding from Scottish Government, the full programme is not currently affordable. A report on the Wave 4 school business case will be considered by this committee on 11 October 2018.

(ii) **Rising school rolls** – As the current cohort of primary school pupils moves on to secondary education, there is a requirement to expand existing secondary schools to provide additional capacity.

(iii) **LDP Action Plan** – As reported to the Finance and Resources Committee on 23 January 2018, there is a gap of £202m between the required investment in infrastructure and the amount expected to be received from developers. While the Council has identified £35m to address the immediate gap, it is insufficient to provide the level of infrastructure actions required.

(iv) **Asset Condition/Suitability** – As Council assets continue to age and deteriorate, and the way in which services are provided changes, further investment will be required in the medium to long term to ensure that they remain safe, sustainable and fit for purpose.

3.36 Against a backdrop of increasing pressures on both the capital and revenue budgets, members need to ensure that capital projects are affordable to the Council. In doing so, members must consider the capital costs of each project, the funding available and the impact of loans charges, running costs, maintenance, and lifecycle replacements on revenue budgets.

4. Measures of success

4.1 Relevant measures in setting the revenue budget include:

4.1.1 Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2019/20 and subsequent years to be set as part of a sustainable longer-term framework;

4.1.2 Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and

4.1.3 Subsequent delivery of the approved savings, particularly where these are linked to additional service investment, along with key service performance indicators.

5. Financial impact

5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

6. Risk, policy, compliance and governance impact

6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee and referred to Council as part of setting the revenue and capital budgets.

6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget proposals.

6.3 A summary of progress in respect of savings delivery is reported to the Finance and Resources Committee on a quarterly basis, with additional detail and commentary on risks, mitigations and alternative measures (as appropriate) reported to Executive Committees.

6.4 The assumptions underpinning the Council's budget framework are the subject of on-going review, with the results of the most recent such review detailed within this report. There is a risk, however, that these assumptions (particularly the assumed level of the 2019/20 Local Government Finance Settlement) will understate the overall level of savings required and, on this basis, there may be a need to accelerate savings from later years of the framework, or identify new savings, to allow a balanced budget for 2019/20 to be set in February 2019.

7. Equalities impact

7.1 All budget proposals are subject to an Integrated Impact Assessment which reviews the impact on equalities as well as several other considerations. The budget engagement also allows for any equalities-related impacts highlighted by service users to be taken on board in the implementation of the measures concerned.

8. Sustainability impact

8.1 All budget proposals are subject to an Integrated Impact Assessment which reviews the impact on sustainability as well as several other considerations. Material associated with the Change Strategy and engagement will all be accessible online with printing only where necessary.

9. Consultation and engagement

9.1 As in previous years, an extensive programme of engagement will be undertaken. The main aspects of this programme were set out in the report to this Committee on 16 August 2018.

10. Background reading/external references

10.1 Revenue Budget Framework 2018/23 Update, Finance and Resources Committee, 12 June 2018

10.2 Proposed 2018/19 Citizen Engagement, Finance and Resources Committee, 16 August 2018.

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11. Appendices

Appendix 1: Planning for Change and Delivering Services

Appendix 1

HAPPY TO TRANSLATE Telephone 242 8181
Reference 18-4035

Planning for change and delivering services 2019 – 2023

Tell us what you think

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Foreword

Edinburgh is one of Europe's great capital cities. With a successful economy, the city is of growing international significance and continues to embrace the jobs of today and the opportunities of tomorrow. Unemployment rates are low in both Scottish and UK terms, and our job market remains diverse and forward looking.

This city has always been about more than just economic success. Throughout the year people come here to experience our vibrant cultural scene. Those who live and work here also know what a special place Edinburgh is; 95% of residents think this city is a great place to live. We are proud of this success and will work hard to ensure it continues.

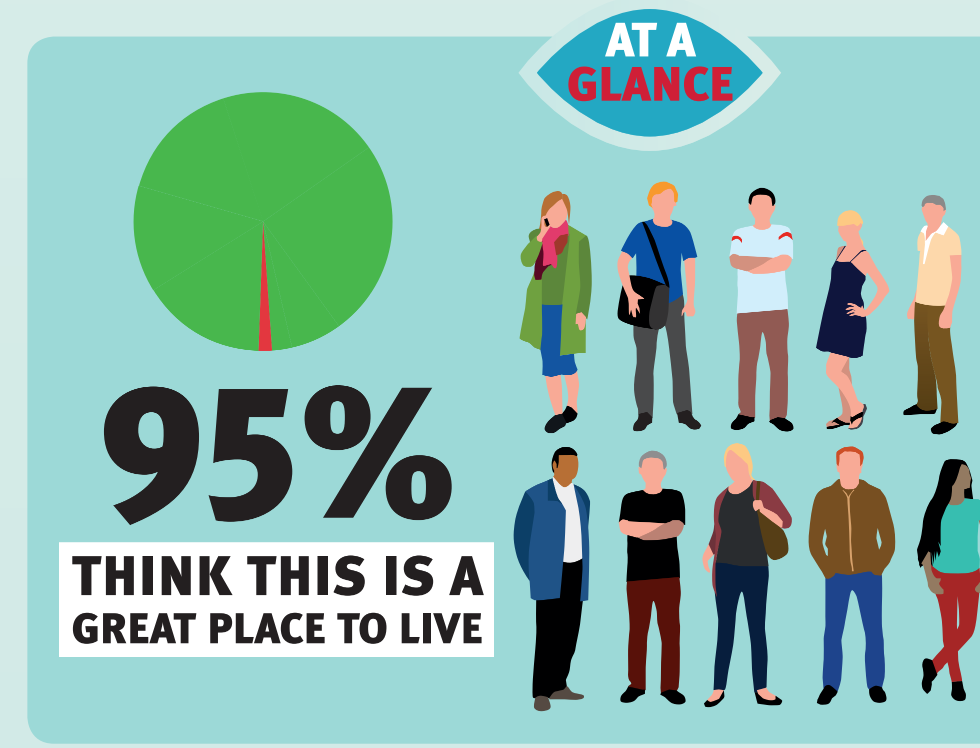
However, there is another side to this city. Today, one in five children in Edinburgh are growing up in poverty, high housing costs are a challenge for many low and middle-income households and the life expectancy in our wealthiest areas is 21 years higher than in the poorest parts of the city. The life chances of people across Edinburgh are still influenced too much by where they are born and not enough by their talent and ability.

Our population is also growing and changing. In 2021, it is forecast that the number of over 65s will overtake the number of under 18s. By 2023 there will be 4,000 more children in our schools than there are today and our total population will have increased by 23,000 people.

Alongside these challenges, the Council needs to make savings of at least £106 million over the next four years. This is in part due to a changing population, but also an increased demand on our services and inflationary pressures across the Council. Our income from taxation and our funding from Scottish Government, which has been impacted by Westminster policies, is not sufficient to deal with the pressures from rising demand on Council services. We need to start planning for change now, and to do this we need to look again at the type of services we provide and how we deliver them.

Our job, then, is to ensure that the city continues to thrive while managing our population growth and expansion in a way that means everyone can share in the benefits. Since 2017, we have already made steps towards this goal. To explore the prevalent inequality in pockets of the city, we recently announced a new Edinburgh Poverty Commission. The Commission will explore the causes of poverty locally and develop recommendations to make real and lasting change across the city. But the choices we make as a Council, in preparing our budget and providing quality services to our citizens, can also contribute to the aim of making real progress by increasing opportunities and reducing inequality.

As our city grows and changes, we have already started investing in the infrastructure needed to support this. For example, this year, through signing the £1.3 billion



Edinburgh and South-East Scotland City Region Deal, £600 million investment and commitment has been secured from Westminster and Holyrood with the balance of funding coming from regional partners. We must continue to invest while responding to the impact of climate change, in particular carbon emissions on our busy streets.

Over the next four years we have committed to invest £125 million in the city's roads, pavements, active travel, and cycle paths and to work with our partners to build 20,000 new affordable homes over the next ten years. This is one of the largest such building programmes in the UK. We are also delivering on funding we receive from the Scottish Government. This includes £7.5 million of annual funds for a Pupil Equity Fund (PEF) and a total of £161 million of additional funding to increase annual provision of early learning and childcare from 600 hours to 1,140 hours by April 2020.

But to achieve these aspirations and meet all our challenges head on, we need to be a modern Council focused on efficient and effective delivery of our public services. We cannot continue to do things the same way we always have. We need to change and improve.

Therefore, the Council is developing a new way of working. We are calling this our Change Strategy, and we believe this needs to be focused on three key objectives for the next four years. Firstly, we will intervene earlier to improve outcomes and prevent the need for expensive services later; secondly, we will ensure everyone benefits from the success of Edinburgh and thirdly, we will continue to deliver high-quality services people can rely on.

Above all else, this strategy has a specific commitment of keeping the people of Edinburgh at the heart of everything we do. We want services for our citizens to be designed with our citizens. We want to make use of new technology to create services tailored to the needs of our people. Services that can be accessed in a way and at a time when people need them most.

The development of this strategy will not happen overnight and cannot be achieved by the Council alone. The next four years will mark a different way of working and this engagement is the first important step in the process. The Council is due to receive its draft financial settlement from the Scottish Government in December 2018 and we will set a balanced budget as required by law for our next financial year in February 2019. Alongside the budget we will publish the Council's Change Strategy.

Before we do, we want to hear from as many people as possible on what your priorities should be and where there are opportunities to do things differently. In this document we set out some initial ideas about how we might respond to this challenge, but we want to hear your views this autumn before the budget is set in February next year. We need to get this right and want to work with you all to do so.

CITY DEAL
is worth over £1.3 billion
to the city

Keeping the people of Edinburgh
AT THE HEART
of everything we do

The financial challenge

We take our responsibility seriously to spend public money wisely and well. Since 2012 the Council has needed to deliver many changes to save over £240 million and keep expenditure and income in balance. We have re-organised our workforce, made better use of our office buildings and changed how we buy goods and services. These changes have ensured that the Council can continue to invest in the services the people of Edinburgh value most. However, neither the city nor the Council can stand still.

We will continue to review all our internal processes to identify where further efficiencies could be made but these alone will not be enough to address the scale of the financial challenge. The risks of not managing our finances are clear. The Accounts Commission has highlighted three other Local Authorities in Scotland that are in danger of running out of General Fund Reserves within the next three years.

What's our annual budget?

Our budget for 2018/19 is almost £1 billion. This includes spending of over £430 million on Education and Children's Social Services, £196 million on Adult Social Care through our role in the Integration Joint Board, £50 million on Environmental and Waste Services and £35 million on arts, culture, sports and lifelong learning.

What do we need to save?

The Council has always recognised the importance of financial sustainability and has balanced its budget every year for over a decade. However, along with many other areas of the public sector we are facing a challenging budgetary position. Based on rising costs, increased demand for our services andgrant funding projections, we estimate that we will need to save at least £106 million over the next four years, with a £28 million saving needed in 2019/20.

Meeting this challenge will require us to make hard choices. This is why the Council needs to embrace a forward thinking and ambitious change strategy. Rather than making small annual reductions across all our services, that over time impact the quality of delivery, a longer term progressive plan for 2019/20 to 2022/23 is needed.

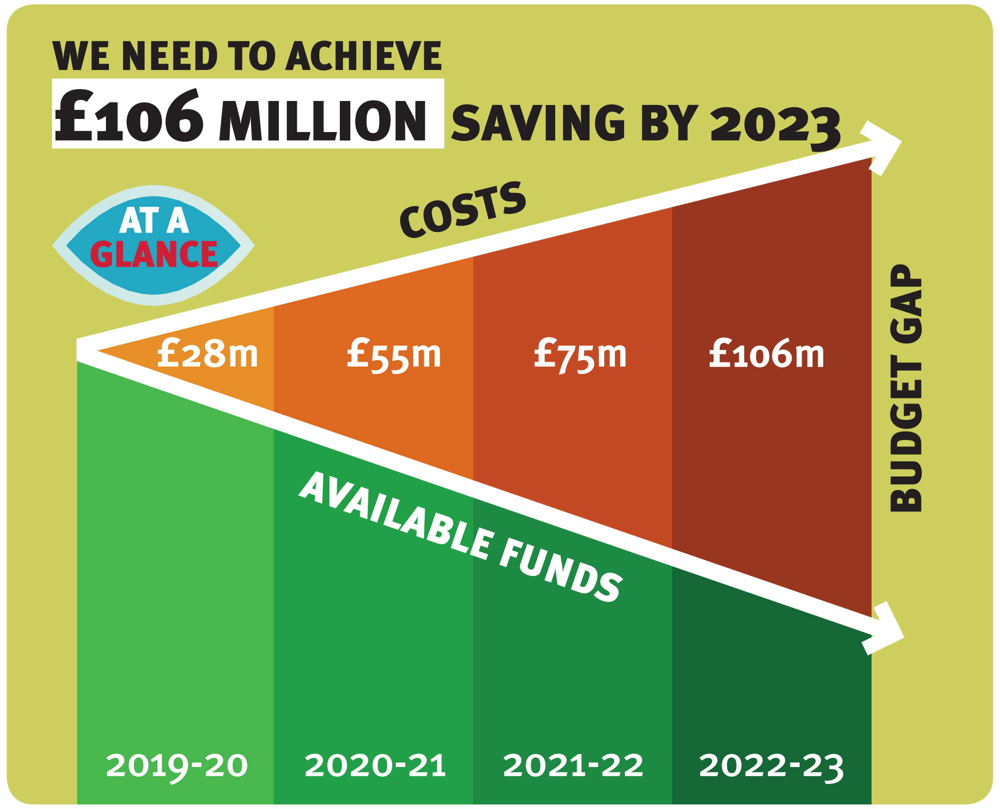
How do we propose to do this?

The Council knows it can be more efficient and effective by:

- working with our suppliers to reduce the cost of the things we buy
- continuing to harness the opportunities of digital technologies
- ensuring our buildings are fit for purpose and the size of our estate is monitored and
- perhaps most importantly of all, ensuring we have a capable, motivated and professional workforce.

Even if we were not facing the pressures described above we believe it is right to challenge the organisation to use public money in the most effective way.

However, it is not possible to address these wider financial pressures through improving and streamlining our operations alone. We will have to face some increasingly difficult choices. In this document we identify some intial areas where we think it is possible to find some financial savings. But, we want to hear what you think, before making decisions and finalising proposals and budgets. We want to hear your views on the priorities for the Council and how we could deliver services differently.



Our change objectives

Objective 1: prevention and early intervention

We want to support people to live healthier, more independent lives and ensure that help is coordinated as early as possible to achieve this. We want citizens to be actively involved in designing how their needs are met and for us to be able to respond quickly to immediate and changing needs.

There are, however, enduring challenges. Over 200 people are waiting in hospital for a package of care allowing them to return home and, close to 2,000 households are still in temporary accommodation. Our aim is not just to eliminate these delays, but to actively improve the circumstances of the people behind the numbers.

In 2018/19 we have already committed to spending:

- £45 million on providing support to those who have become, or are at risk of becoming homeless
- £114 million on children and families who need care or additional support
- £196 million on supporting adult social care
- over £2 million on supporting people with drug and alcohol addiction.

The Council Change strategy is based on three key objectives:

1. investment is targeted on prevention and early intervention to reduce long-term reliance on our services and allow citizens to lead active, independent lives
2. that the growth of this city is sustainable and inclusive
3. we continue to deliver basic services to the high quality our citizens expect and deserve.

These issues are challenging and complex and will not all be achieved in the next four years, but the changes will set us on a new path that will ensure the opportunities for our children will be better than they are today. This begins with the proposals set out in this document but will continue to develop as we move forward.

Objective 2: sustainable and inclusive growth

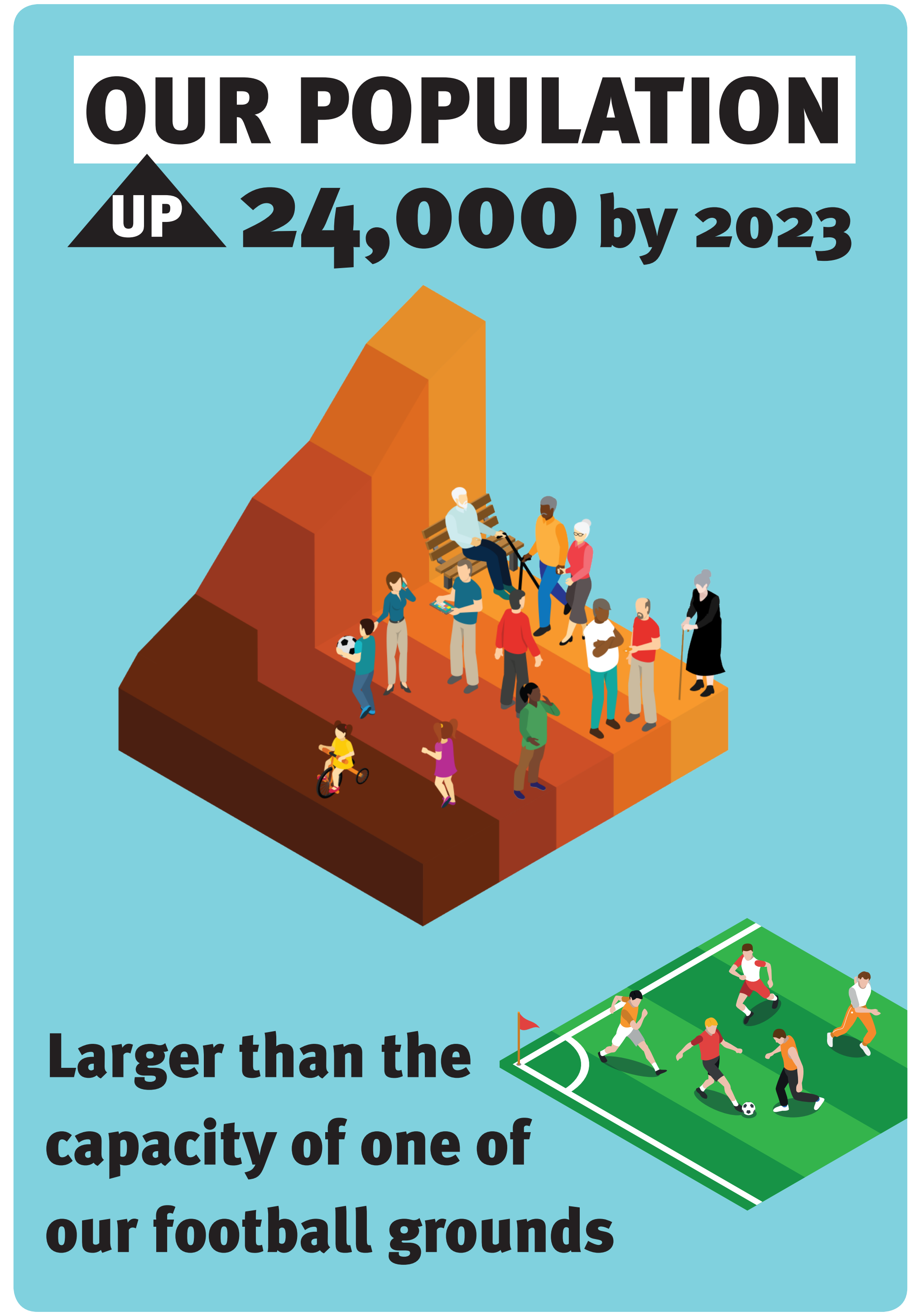
Our population is growing and changing and we need to develop our infrastructure accordingly. We need to ensure that the benefits that investment brings are shared by everyone across the city.

Over the next four years we plan to invest:

- over £600 million in new council homes or refurbishing and upgrading existing homes
- nearly £200 million on school construction and refurbishment
- at least £125 million in the city's roads, pavements, and cycle paths.

As part of this investment, we have the chance to create new, sustainable communities along the waterfront at Granton. We want to maintain our city centre's status as a World Heritage Site but we must also innovate to ensure it is one of the healthiest, most vibrant and well-connected city centres in the UK.

The proposals we are setting out are designed to support the wider growth of our city in a fair, sustainable and balanced way. It is important that we engage and work with local communities to make sure that everyone can benefit from the growth of our city.



"We need to grow the city for everyone and ensure that the benefits that investment brings are shared with everyone across the city."

Objective 3: high quality services

Our strategy is not only about the long-term. The people of Edinburgh expect access to high-quality services today. In a world of increasing pressures and constraints this means difficult choices about the services we provide and how we deliver them.

We can do this by embracing the opportunities that technology brings by putting communities and residents at the heart of what we do and by working closely with our partners within the public, private and voluntary sectors. This is already happening across a range of services. We have highlighted some below.

Health and Social Care Partnership

The Edinburgh Health and Social Care Partnership (EHSCP) was established in 2016. It brought together the Council and NHS Lothian to co-manage social care services. The Integration Joint Board (IJB) controls the overall budget for community health and social care and makes decisions regarding planning, resourcing and delivery by the EHSCP. Integration offers opportunities to organise community health and social care in a more co-ordinated way. The EHSCP is prioritising a shift towards a more active participation of service users and patients in the design and development of support and services, and with a renewed emphasis on prevention and early intervention opportunities.

Homelessness

With more focus on prevention and early intervention, the number of people experiencing homelessness, and in need of support from the Council, has fallen from almost 6,000 to 3,000 over the last few years.

Although the number of people requiring support has fallen, the pressure on our temporary accommodation services has never been greater. This is due to an acute shortage of affordable housing and challenging private renter sector conditions. In most cases people are homeless for more than a year before we can provide permanent or settled housing.

To understand and tackle the causes of homelessness in Edinburgh we set up the Homelessness Task Force in 2017. Recommendations from the Task Torce have included a review of the use of bed and breakfast accommodation and exploring alternatives that meet the needs of individuals and families. We have learned lessons from elsewhere and are preparing to support vulnerable citizens through the transition to Universal Credit.

Roads

The Council looks after 1,511km (939 miles) of roads. The volume of traffic has increased in recent years, putting pressure on the road network's condition. Whilst Edinburgh's Road Condition Index (RCI) demonstrates that the standard of our roads is better than the Scottish average, they are still in need of improvement. To deal with this pressure and improve our road condition the service has developed a Roads Improvement Plan, which is implementing changes to address issues affecting service performance. Work is progressing on the city centre West to East link which will connect many cycle and walking routes in the city's western and northern suburbs to the city centre. As part of the Council's commitment to improving cycling facilities and promoting active travel, we have also allocated 10% of our transport budget for 2018/19 to making cycling in our city easier and safer.

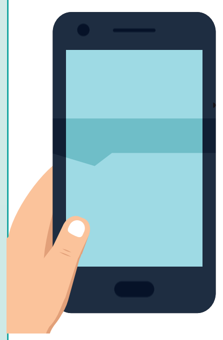
Waste and cleansing

Between 2014 and 2017 residents' satisfaction with waste services and bin collections was amongst the lowest in Scotland. We made a lot of changes and, as a result, complaints are down from 10,437 in 2016/17 to 2,788 in 2017/18. Over the same period, missed bin collections have fallen from 47,700 to 38,000. Yet we want to pursue excellence in the service we deliver and aim to reduce these numbers even further. In April 2017, we opened a new waste collection and street cleaning depot at Seafield. The new depot has significantly improved existing facilities and construction of a similar facility at Bankhead is underway.

Our options for change

Improving how we operate

We provide services that touch everyone's lives, from bin collections, schools and community centres to the care for our elderly and vulnerable citizens. It is our job to run these services in an efficient and effective way and deliver value for money. To do this we need to make the most of our buildings, assets, and our most important resource: our 18,000 employees.



Digital delivery

Increasing the number of services that customers can access and manage online can cut down on back office processing time and would result in services being delivered more quickly while reducing costs. Customers would have the ability to manage and request services 24/7 making us more aligned to public expectations of a modern organisation.

Council depots and sites

The Council has 19 depots around the city, from which we deliver services such as bin collection, road repairs and housing repairs. These depots are outdated and there is the potential to redevelop or dispose of six sites to provide improved facilities and working conditions for our staff as well as improving service delivery for citizens. The Council could perhaps sell the unused land to invest in service delivery.

Managing and maintaining vehicles

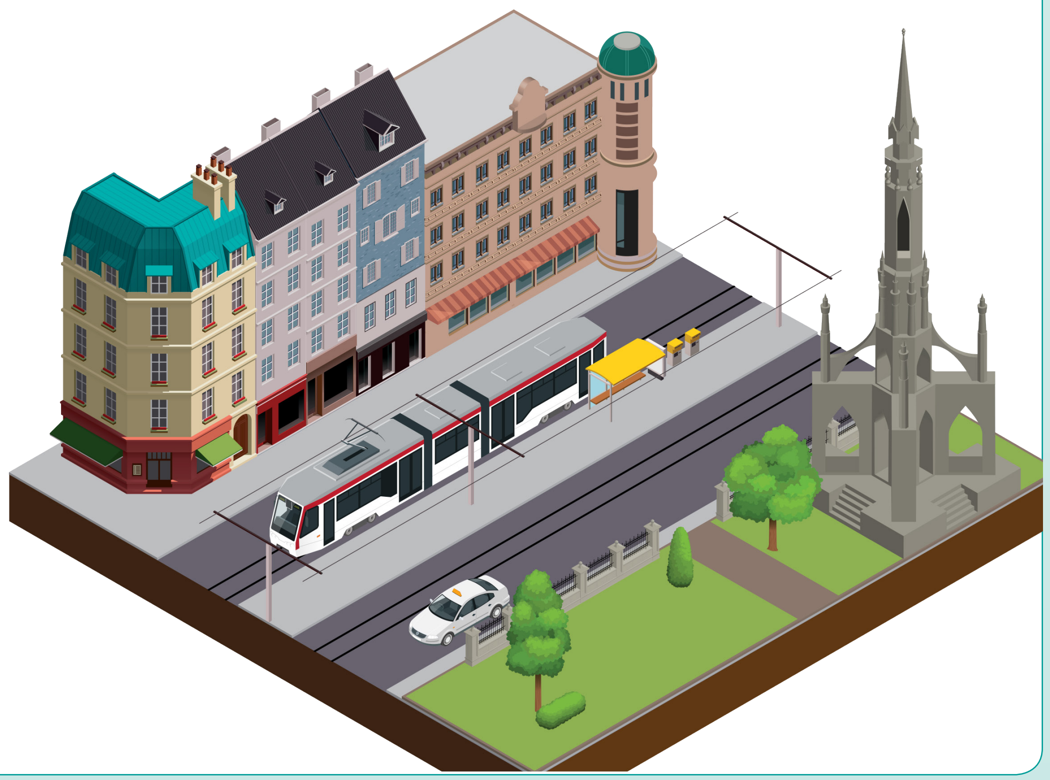
We have roughly 1,000 vehicles to help run our services. These bin lorries, vans, cars and minibuses are currently all maintained and repaired at a central site. By changing how we buy and rent vehicles and re-locating our vehicle maintenance staff to the depots where the vehicles are based, we can save on maintenance and fuel costs as well as reducing our carbon footprint. This means the vehicles we need to transport people and goods around the city will be fit for purpose and well maintained.

City operations and enforcements

The Council has a number of different systems that allow us to manage the public spaces and transport network in Edinburgh. These include our CCTV operations and Traffic Management Centre. Whilst these functions work well, we believe that investing further in them and integrating them into one single operation will allow us to manage the city better.

A City Operations Centre would allow us to not only react better to any incidents or travel disruption. Through greater use of sensor technology (for example our new street lighting sensors or litter/waste bin sensors), we can proactively resolve issues before residents have to report them to us.

In order to maximise the benefit of a City Operations Centre, we would seek to engage key partners to base their operations alongside our own (e.g. Police Scotland, Lothian Buses). This will allow us to manage the city as a whole and make the right decisions based on information and systems that we have traditionally managed separately.



New ways of working

Our current approach to pay and reward was implemented in 2010. Since then we committed to adopting the Scottish Local Government Living Wage in January 2013. We are proud of this commitment to paying the Scottish Local Government Living Wage and to reflect this change our pay structures need to be updated to include it in our basic pay and not as a top up. To successfully deliver this, we need to consult our workforce about pay structure to respond to the changing demands on services. The Council remains committed to making no compulsory redundancies.

The services we deliver

We will look to review services which Local Authorities are not required to provide and whether it remains cost effective to do so. For example, we are one of only three councils in Scotland with an in-house scientific service and we propose to review its operation. We would like to explore how non- statutory services can be best delivered going forward and whether there are opportunities to work in partnership with other authorities or organisations to deliver these and generate income in doing so.

Managing our estate

The Council owns and manages a significant number of buildings and properties across the city. Our buildings range from schools, community centres and offices to museums, libraries, pubs and car parks. Over the next four years, we will ensure that the estate focuses on providing the services which matter most to the people of Edinburgh. Where there are opportunities to do so, we will bring services together, to make them more accessible to citizens through a "one stop shop" approach, by integrating and re-providing existing services in one location, along with our partner organisations, such as the NHS and Police, where possible.

Strategic review of parking

We recognise the increasing pressure of parking in residential streets. We will bring forward a new Parking Action Plan to address this in conjunction with proposals to deliver a workplace parking levy.

Internal efficiencies

Like all businesses, we pay business rates and energy costs and have to manage our borrowing carefully. Over the next four years, we will drive greater cost efficiencies, while ensuring we collect all the Council Tax due to us in an expanding city. We will also ensure we continue to achieve the best value from buying goods and services and management of our contracts.

Education

The school roll is evolving and expanding with the needs of a growing population and the Council is committed to delivering the right capacity and environment for learning while also considering the needs of local communities. We will continue to focus on ensuring all our children, especially our most vulnerable, receive the support they need to achieve their potential.

"We committed to adopting the Scottish Local Government Living Wage in January 2013."

Prevention: intervening before problems escalate for individuals and communities

We will focus on improving wellbeing, increasing social inclusion, and empowering individuals and their families to make informed choices and take greater control of their own lives. By providing the right services at the right time, we can help citizens to live healthy, independent lives with a reduced need to rely on Council-provided services.

Enhancing our support for those living in temporary accommdation

The Council provides temporary accommodation for families and individuals who are homeless. There are lots of things we already do to help individuals and families, but there is still more that we can do.

We propose to employ more officers to make sure that our temporary flats are available quicker to enable households to move on from less suitable forms of temporary accommodation. To make sure that all temporary accommodation properties have the same gas and electricity supplier, by adopting the Scottish Government framework which will reduce household bills. Provide more support for households experiencing homelessness to ensure they receive all the benefits to which they are entitled make it easier for people to maintain their tenancies when they move on to permanent, settled accommodation. This support will be especially important as the roll-out of Universal Credit progresses.

Supporting people to live well

Many long-term conditions and disabilities are of course not preventable, but there are many other instances where personal investment in wellbeing could prevent a problem getting worse. This includes supporting individuals to prioritise an improvement in their lifestyle, including healthy eating and the avoidance of harmful activity. The impact on individuals through lifestyles choices is obvious but there is also a highly significant impact on the demand for complex health and social care services. We would like to turn this around. To achieve this goal, we are asking citizens to work with us in designing opportunities to improve community health, as well as to consider how, as individuals, we could make some reasonable adjustments to contribute to our own wellbeing.

Giving people more control over things which affect them

We know our communities value the opportunity to make more choices and exert greater control over their lives. We also recognise that when additional support is needed, individuals often find that the care system is under strain with an increasing demand due to an ageing demographic. This extra demand represents a rising cost for the Integration Joint Board who are jointly funded by NHS Lothian and the City of Edinburgh Council. We propose to work more closely with our partners, to support individuals and communities to produce solutions together to address the growth in demand and expectation of our heath service.

Helping our most vulnerable to feel part of a community and participate in society

We want all our citizens to feel part of a community. We propose to work closely with the third and independent sectors, the faith community, and other formal and informal networks to find new ways to help make people feel part of their community.

Many citizens feel that their circumstances have changed to the extent that they no longer have the potential to retain their independence. With approaches that help assist the resumption of a normal life, or as close to normal as possible, citizens can restore much of that which they felt they had lost. This could include working on rebuilding confidence and physical strength in older people to allow them to resume independent living and reduced dependency on formal care systems. We will be working with our key partners, to help citizens co-ordinate a network of opportunities in local communities which will contribute to reducing social isolation and in turn some of the causes of dependency on more formal care services.

Changing how we work with our partners

To deliver better outcomes more efficiently we must work more effectively across the public sector to join up delivery to provide higher quality services in areas of highest need that work for and with our communities.

Area based regeneration

As the city grows and develops we are looking to strengthen our focus on integrated placemaking and development. This will involve the establishment of integrated regeneration and development teams to support strategic growth areas such as Granton and West Edinburgh. This will streamline the Council's approach to development and ensure greater collective working both internally and externally with all stakeholders including local communities.

Locally based services

In recent years we have moved many services into a "Locality" model, enabling services to be more responsive to local needs and strengthening the way that public services work together and with local people. We will review this approach to ensure that the services that are delivered through the "Locality" model are those that have the greatest impact on improving outcomes for local communities. This will mean continuing to deliver (and enhancing where possible) some services locally as well as considering which services would be more efficiently managed and delivered on a citywide basis.

Third party capacity building

The Council will look to review how we use grant funding to support multi-agency projects across the city. We must ensure that we are investing in the city's future success and aligning our budgets with partners to deliver on our shared priorities. Community planning is about councils and public bodies like the police, the fire and rescue service and the NHS working with communities, businesses, charities and voluntary groups. Together they plan and deliver better services to improve the lives of local people.

Tourism and marketing reform

In 2015, Edinburgh's thriving tourism sector delivered almost £1.5 billion to the city's economy and as of November 2016, it employed 34,600 people. As a vital part of our economy, with visitor numbers growing each year, it is important that the Council plays a stronger role in the city's tourism management, strategy and delivery. This will mean ensuring that we work more efficiently and effectively with stakeholders and partners to achieve the right outcomes for both residents and visitors. We want to encourage a dialogue about the best way of achieving these outcomes.

Shared procurement on waste disposal

We propose to pursue efficiencies with neighbouring local authorities through shared procurement of waste disposal contracts. This will start with sharing the operational costs for the Millerhill (Zero Waste) site but will progress into other opportunities as these arise. We would also look to develop other options for joint working with surrounding local authorities.

EDINBURGH received over 4 MILLION TOURIST VISITS in 2015, contributing almost £1.5 BILLION TO THE CITY'S ECONOMY, ***with these numbers continuing to increase each year.***

Making the most of our cultural and leisure assets

This city has a unique collection of cultural and leisure assets. There is a huge opportunity to maximise their impact and ensure their sustainability for future generations. This has the potential to reduce their subsidy but will mean that some services currently offered may change either in the way they are delivered, or who they are delivered by.

Ensuring everyone can live an active life

We propose to look again at the provision of sports facilities in Edinburgh. There are many different models we could adopt and we will look at best practice elsewhere to ensure we are delivering a high quality and cost-effective service.

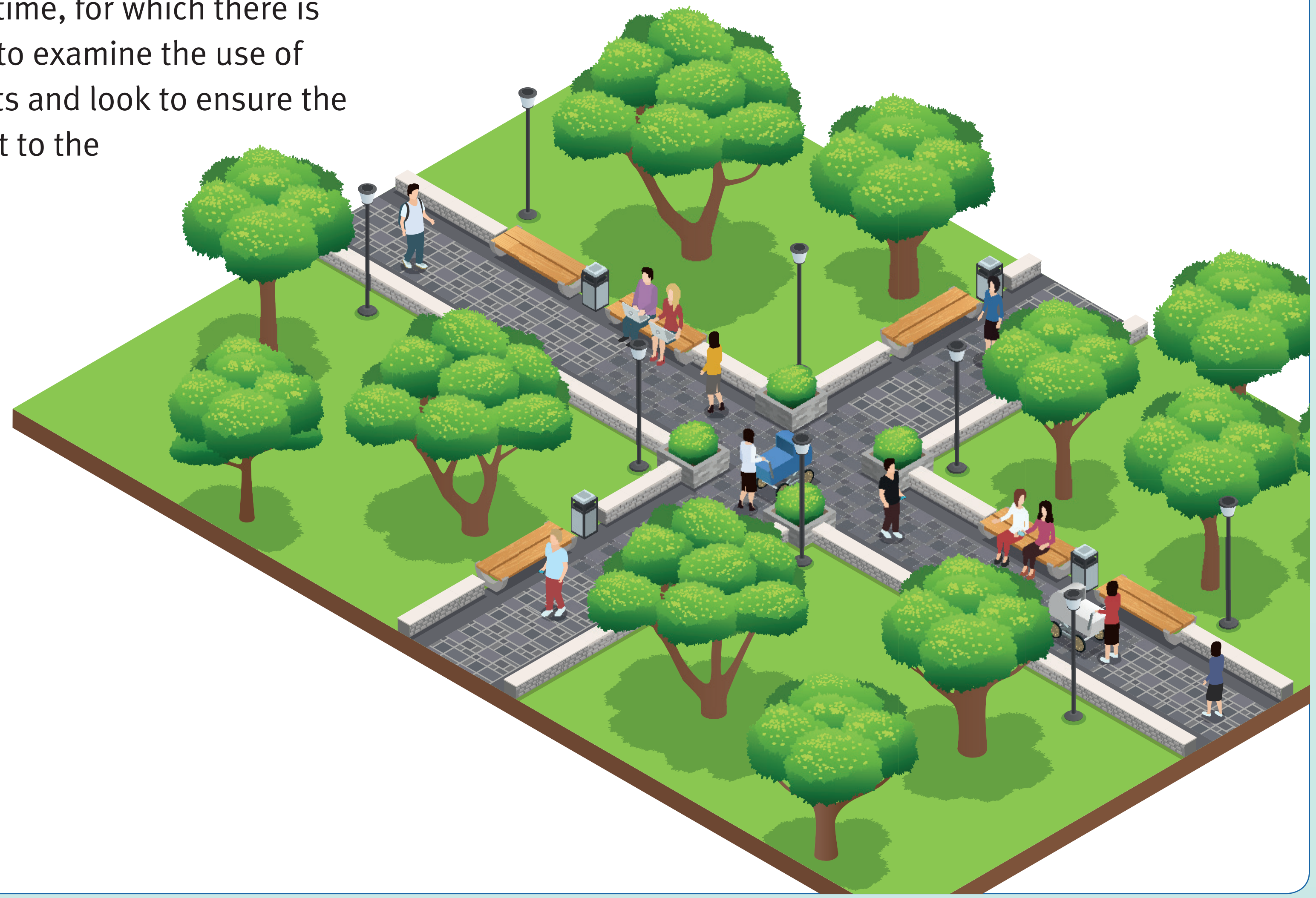
Maximising the potential of our cultural estate

Currently there are various sites for Council museums and galleries spread across the city with over 750,000 objects in our collection. This proposal would create new facilities where all of Edinburgh's collections can be brought together to tell the historic and fascinating story of our city. In doing so, we would ensure that our Cultural offering is fit for the future.

Preserving our parks and greenspaces

Our parks and greenspaces are vital green assets for the city. Some of our Parks and Greenspaces are used for commercial events from time to time, for which there is usually a small fee. We propose to examine the use of Parks and Greenspaces for events and look to ensure the fee charged matches the full cost to the service.

"This city has a unique collection of cultural and leisure assets."



Increasing our income

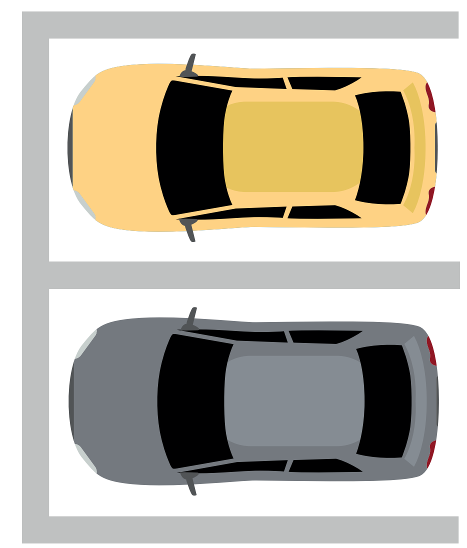
The Council had direct income streams worth £120 million last year. We want to ensure that, where appropriate, we are entrepreneurial in everything we do and believe there are a wide variety of opportunities across the Council to increase our income and diversify our funding streams.

Transient Visitor Levy(TVL)

Increasingly tourists come from all over the world to stay in Edinburgh and we need to make sure we continue to make this a great place to visit as well as ensuring we manage the impact of tourism such as cleaning our streets and collecting and recycling our waste.

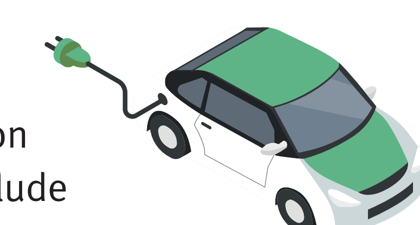
Introducing a TVL would help us to invest in and ensure sustainable tourism moving forward. We estimate introducing a levy of £1 or 2% per person per night would raise over £11 million per year. This would be a direct charge to visitors to the city and has already been used in cities across Europe in countries such as Spain, Italy, France, Germany, and Greece. We will continue to make the case for the introduction of TVL working with partners and the Scottish Government.

Work place parking levy



As part of our wider strategy to reduce emissions and congestion in the city centre we are developing options to enable us to levy a charge on larger-scale business car parking. This investment could then be used to ensure we are maximising our investment in sustainable public transport working in partnership with our stakeholders.

Energy generation



We propose moving the Council towards increased use and generation of sustainable energy. This could include investing in expanding electric vehicle charging networks, increasing the number of electric and hybrid vehicles in our fleet and installing solar panels on Council buildings to generate energy. The designing of new Council buildings could also consider the reduction of running costs through using energy generated on site.

Recovery of all our costs, increasing our charges and statutory charges

Council revenue could be increased by providing services in a different way or by recovering the cost of providing extra services. Proposals include recovering the full cost of providing services at commercial events, charging for processing pre-planning applications and applications that would result in roadworks or for expanding parking control zones into areas with known parking pressures.

Increasing our revenue fromadvertising

The Council will look to raise more money from advertising. This could include using digital formats at agreed locations in the city. Careful consideration would be given to the type, scale, and location of adverts especially in historic areas of the city.

How to get involved

How can you involved

The ideas outlined in this document Planning for Change and Delivering Services **needs your views.**

As a result of rising demand for our services and other pressures, the Council will have to make at least £106 million savings over the next 4 years.

The council has worked hard to save over £240 million since 2012. But efficiencies can only go so far and we need to change to continue to meet the needs of our citizens and be financially sustainable into the future.

Exactly how we change needs to be shaped by you. The Council is purposefully moving away from a year on year approach to the budget to agree a more long-term plan for change and delivering services. This is the start of a process by which the Council will agree a plan of action with specific proposals for change.

No decisions have been taken yet and the outcome of this initial engagement will not only shape the long-term strategy but the options to inform more detailed proposals for balancing the budget in February for 2019/20.

We need to hear from you at this early point in our thinking on your priorities for change and investment.

There are lots of ways to put forward your views whether that be by using our online planner, email, social media, print flyer, or speaking with your local councillor.

This autumn we are launching an initial engagement period so that prior toconfirmation of the Council's grant funding allocation in December, we know the areas you want us to prioritise and the approaches you want us to take.

Ways to get involved:

- **Tell us what you think about Council Strategy '*Planning for Change and Delivering Services*'**. We want to know what you think of the priorities and principles shaping that plan and the options that we are considering as part of that.
- **Council's Budget Simulator** – this interactive online tool has been used previously in the city and has proved to be a popular way of understanding individual citizens priorities and views around budget choices. Residents can use the online tool to show how they would deal with the budget gap and the consequences of making savings across council services.
- **Council's Budget Group Activity** – this is a new group based discussion to debate, consider and agree collective decisions about spending priorities within communities.

People can give their feedback online or by post for 10 weeks until midnight on Friday 7 December.

Finance and Resources Committee

10.00am, Thursday 27 September 2018

Asset Management Strategy Transformation Programme - Update

Item number	7.6
Report number	
Executive	
Wards	
Council Commitments	

Executive summary

The Asset Management Strategy (AMS) and the associated transformation programme were developed to create a credible, focused and financially sustainable delivery plan for the Property and Facilities Management (P&FM) functions of the Council and in the broadest sense. The objectives of the programme are to deliver a fit-for-purpose, optimised, effectively utilised and safe estate; providing appropriate levels of service at an acceptable and efficient cost; and, in a commercial manner, which seeks to maximise value and return for the Council.

This report presents an overview of the original strategy in the context of the changes that have taken place over the past three years and the forecast future requirement for significant new build, over the next three-year period.

·EDINBVRGH·
THE CITY OF EDINBURGH COUNCIL

Report

Asset Management Strategy Transformation Programme - Update

1. Recommendations

1.1 That the Committee:

1.1.1 Notes that members of the Finance and Resources Committee met with officers to discuss the progress and future direction of the AMS on 22 August 2018;

1.1.2 Recognises and records its awareness of the continued and ongoing challenges with the increasing size of the operational estate;

1.1.3 Approves the revised strategy to delivery property rationalisation by focusing upon service led design at a local level and the re-provisioning and co-location of existing services into single sites as well as utilising strategic reviews of specific areas, such as depots, and opportunities as they arise for individual properties;

1.1.4 Approves, as consistent Council policy across all capital build projects that a scoping exercise is undertaken to identify how co-located community facilities can be delivered as an integral feature of each project;

1.1.5 Agrees the proposal to widen the original Facilities Management (FM) scope of review to include both Catering and Security services;

1.1.6 Agrees that the strategy for the Council's property investment portfolio should remain to drive out financial return, both revenue and capital and that a review takes place to consider disinvestment if it is in the Council's financial interest to do so;

1.1.7 Notes that the AMS financial profiling of how the approved savings will be delivered will be refreshed, reflecting these updated assumptions; and

1.1.8 Refers this report to the Governance, Risk and Best Value Committee for information.

2. Background

2.1 The Asset Management Strategy (AMS) and associated transformation programme is a significant element of the wider Council Change Portfolio, aimed at achieving more effective and efficient use of the Council's asset base and associated service provision, primarily FM.

2.2 The AMS and associated transformation programme aims to create a credible, focused, and sustainable delivery plan for Property and Facilities Management in the broadest sense. It aims to deliver a fit-for-purpose, optimised, effectively utilised and safe estate; providing appropriate levels of service at an acceptable and efficient cost; and, in a commercial manner, which seeks to maximise value and return for the Council.

2.3 When the Finance and Resources Committee considered the AMS on 24 September 2015, it approved the adoption of an in-house delivery model, which included a significant investment in technical support over the next few years. At that time, the Committee requested that a status update be provided every two cycles.

2.4 The AMS update report to the Finance and Resources, on 12 June 2018, identified a number of emerging issues and significant pressures with the AMS, principally in respect of the original assumptions underpinning the financial saving targets, which were externally developed by consultants. Consequently, Members noted that the AMS would undergo a mid-point review resulting in a reprofiling of how the approved savings would be delivered and approved a refresh of the AMS to reflect updated assumptions, based on the additional and better insights gained since 2015. Members also requested a workshop to discuss the strategy in detail, which was held on 22 August 2018.

2.5 In addition, the report will seek to address a motion approved by Council, on 31 May 2018, that stated: *"Agrees that within two cycles the AMS report to the Finance and Resources Committee will review the process for assessing potential property use when property falls vacant, when a lease is terminated or when property is declared surplus to requirements. The process should look at Committee decisions or delegated decisions and consider what criteria are used in coming to a decision or recommendation, for example, local or city need and demand for services, community views and engagement, investment needs and best value."*

3. Main report

3.1 The 2015 AMS recommended a number of actions and outcomes that have been achieved as summarised below: -

- consolidation of property related budgets in Property and Facilities Management;
- adopt an in-house model for Facilities Management (FM) delivery;
- recognise and the need to address revenue based backlog maintenance across the existing operational property portfolio;
- develop a Service Level Agreement for FM service delivery;
- implement a computer aided FM system across the whole Division to capture all property data in one source;
- progress estate rationalisation opportunities; and

- consolidate the commercial investment property portfolio and reinvest sales proceeds into the acquisition of additional income generating assets.

3.2 In terms of the original plan, the strategic objectives detailed in paragraph 2.2 are as relevant today as they were at that time. However, the detail around the assumptions in the business case, and the impact this has on the financial outputs, has to be reconsidered in the context of the changes that have taken place over the past three years and the forecast future requirements for significant new builds as part of the operational property portfolio. Failure to do so will simply mean that unachievable savings will be compounded by unbudgeted pressures eventually resulting in service failure.

3.3 The savings from AMS, and additional savings allocated for financial year 2018/19, were split into three distinct but inter-related areas as follows:-

- the rationalisation of the operational property estate (£2.1m);
- the modernisation of FM Services (£2.4m); and,
- the optimisation of the investment portfolio (£2.1m).

The Rationalisation of the Operational Property Estate

3.4 The AMS is predicated on a strategy of reducing the overall operational estate size utilised by Council services. However, since 2015, the Council has built over 70,000 square metres of new floorspace. Although some of this replaces older stock, 39,000 square metres, the equivalent of three new high schools, has been added accommodation to the estate. With higher costs associated with running new floorspace, including utility costs, rates and FM services, the replacement floorspace has only compounded existing pressures on the operational property budgets, which were already significantly pressurised. The impact of demographic changes in the City, leading to rising school rolls, increased care home provision requirements and the Local Development Plan infrastructure needs, combined with the requirement to address the condition of the existing schools estate, means that a further additional 72,000 square metre of new build floorspace is estimated to be required by 2021.

3.5 While the operational property estate has been growing significantly, there has been no corresponding decrease across the operational property portfolio. Limited reductions have been achieved in the office accommodation estate, most notably the exit of Lothian Chambers, 329 High Street and 1A Parliament Square. However, the main, front facing, elements of the operational property estate of the Council remains substantial.

3.6 Strictly from a financial point of view, closing property achieves significant benefits, i.e:-

- running costs – including non-domestic rates, utilities, insurance and FM costs, such as cleaning and janitorial services;

- reductions in repairs and maintenance (revenue) spend;
- reductions in repairs and maintenance (capital) spend; and
- generating a financial return from either selling or leasing surplus assets.

3.7 Notwithstanding the financial benefits, rationalisation of the operational property portfolio is increasingly difficult due to political, local and community opposition and the fact that all the ‘low hanging fruit’ has been previously targeted. For example, in 2004 the Council owned or leased 25 corporate buildings within a mile of the city centre, by 2008 this had reduced to 8 and subsequently to 2 such properties in 2018. However, given that the current and future pattern of extensive new capital build is financially unsustainable, the rationalisation, increased utilisation and greater efficiency yield of the operational property portfolio has to remain the cornerstone of any asset management strategy for the Council.

3.8 The former Property Models approved by the Council, Alternative Business Models, Internal comparator, iPFM and AMS, all made similar assumptions around reducing the size of the estate and forecast savings that were baked into the Council’s future budget. In the main, the assumptions in these workstreams did not explicitly reveal which properties were to be exited from, rather broad and sweeping assumptions on the size and cost of the estate were made. While significant savings have been made, this has not achieved the target levels anticipated, principally due to double counting with other Directorate saving proposals; the practical political, social and community issues of closing property; and the complex offsetting needed for new budget pressures from additional accommodation.

3.9 Moving forward, and in acknowledgement of the above challenges, it is proposed to consider operational property assets and their rationalisation in a hybrid approach. Principally, at a local level the Division will employ a process of service led design whereby it is proposed to examine the services and outcomes being sought at a local level, with the communities they will serve. The principles of this approach are:-

- **People Focused** – putting citizen and service user “journeys” at the heart of the process;
- **Research Based** – building services with evidence of “lived experience” users with both quantitative and qualitative research methods;
- **Co-designed** – designing services with and not for user and organisational staff;
- **Iterative** – continually testing and developing the design of the service with the users journey in mind; and
- **Participatory** – recognising that the public services are delivered by multiple organisations, there is therefore a need to look outside the organisational boundaries to co-locate more services, to improve access and ease of use.

3.10 Initial stages of a service led design approach would not be about buildings but would focus on the outcomes to be achieved. Once these have been scoped, the required services to be provided would then be mapped against existing local assets to see how they are best used, allowing for improved synergies through co-location, and consolidation of assets. It is proposed that ‘deep dives’ into areas of change, e.g. where a new school or early years facility is required, are prioritised across the City to commence those discussions at an early stage with local communities.

3.11 In tandem with the above approach, Property and FM will continue to consider one off opportunities as and when these arise, such as the recent closure of 1A Parliament Square. Finally, a separate strand will link into other strategic objectives that do not directly impact on local communities and local service provision, e.g., an overarching and updated Depot strategy will be presented to members at the October Committee meeting.

3.12 To further address the growing budget pressures of the size of the operational property estate, whilst also improving service outcomes for local communities, it is essential that the Council explores the delivery of multi-service community hubs, rather than single purpose delivery buildings. This means that rather than delivering a new school, for example, a multi service learning campus would be developed on each occasion. This would include activities such as library, community space, early years, GP practice and local office activities, co-located in a single site. This would be predicated on the re-provisioning of existing services via the new hub and the closure of the associated venues to ensure the efficiency of the estate is maximised. It is proposed that the opportunity to adopt this type of approach must be explored at the outset of every new capital build project. The scope would include Council delivered services and those of our partner organisations, such as NHS Lothian, Police Scotland, and third sector partners. This approach fully conforms with Scottish Government's estate planning aspirations, and there is a risk that any future Scottish Government project funding will not be forthcoming unless all new projects can demonstrate a tangible commitment to this principle.

The Modernisation of FM Services

3.13 The new model for janitorial services was formally implemented and operationally deployed at the start of the new school year, following the summer break. All schools have been issued with the approved Service Level Agreement (SLA) and supporting documentation. Senior FM management have attended sessions with Head Teachers and school business managers to promote the new service and its model of operation. An end to end re-design of the helpdesk service within Customer Services and IT has also been completed to further improve efficiency.

3.14 The next phase of the FM review involves consideration of the Council’s cleaning services. There are currently over 1,000 cleaning staff engaged by the Council on a range of contracts, both as direct employees and sourced through employment agencies, with an annual cost of circa £7m. The approach that should be taken to this operational review was the subject of discussion between Finance and

Resources Committee members and the Head of Property and Facilities Management at the workshop in August. This operational review has been awaited for some considerable time and it is imperative that the process begins as soon as possible to provide clarity and certainty to Council employed staff and to help address recruitment and retention difficulties.

3.15 The savings achievable within FM are directly related to the size of the Council's operational property estate and the level of FM service provision that is acceptable to building users. Lessons learned from the recent operational review of janitorial services clearly indicated that without widespread ownership from other Council directorates and customer / end user buy in, implementing these reviews can be extremely difficult. The main outputs from the janitorial review were that while significant modernisation has been achieved, which will result future financial savings, the immediate savings impact was negligible. In practice, the service has simply been spread thinner to absorb the pressure of the newbuild estate, whilst adopting standardised working practices.

3.16 In recognition of the above, the service is having to consider how additional savings can be delivered from other elements of FM particularly, Catering and Security. While these areas were considered in the original AMS, no savings were projected due to the forecast increasing demand for early years catering and the risks associated with reducing security. While these reasons are still relevant, the financial pressures emerging from the original strategy means that these areas will need to be reconsidered and that any growth in demand arising from early years will need to fully underwrite the revenue costs of catering expansion and other FM services that this may require.

Commercial Property Investment Portfolio

3.17 As part of the Council budget setting process all political groups assume that Property and Facilities Management will generate a minimum rental income of approx. £15m in the following financial year, i.e., the income is balanced against having to make budget cuts to services. As such, any retrospective negative financial decision relating to the commercial property investment portfolio has the potential to create a new budget pressure. Typically, the Investments team in P&FM manages the risks associated with void periods (currently 2.5% against a IPD average of 7%) balanced against the additional income opportunities for rent reviews and lease renewals. The management of the commercial property investment portfolio continues to perform ahead of expectation, and an increase in excess of the 2% target for 2017/18 was achieved. However, the team is preparing for several significant lease terminations over the next few years. This includes: Castle Terrace car park lease ending in 2020 and both the Vega and Sirius office buildings in the South Gyle terminating in January 2021, a combined loss of potential rental income of approximately £1.9m per annum.

3.18 For the reasons set out in the update report at the June 2018 Committee, the proposed investment approach cannot deliver the assumed financial outcomes as set out in the 2015 approved AMS. Notwithstanding this, this workstream has delivered its savings targets and the task is therefore to assess how further savings and/or additional income can be best maximised. Consequently, the Division is considering opportunities to consolidate the portfolio, but only to the extent that it is the Council's financial interest to do so. This will form part of the business plan moving forward and, any proposed sale, will be brought before Committee for approval.

3.19 Given the benefits of additional rental income, the plan for the commercial property investment portfolio is to reconfirm the original objective of the AMS. That is to act in a commercial manner which seeks to maximise value and return to the Council and in doing so enable the protection of critical public services.

3.20 Part of the original AMS was to transfer all existing concessionary lets to market rent. At that time, there was no in-depth analysis of the legal ability of the Council to do so, nor was there consideration of the wider implications of the original political, social or community reasons why the lease was concessionary in the first place. The current position remains, in that, there are no new concessionary lets unless specifically approved by Committee. With regard to existing concessionary lets, the Division will continue to review as and when appropriate, with any proposals for changing any existing concessionary arrangements brought to Committee for separate consideration.

3.21 Work is continuing with financial savings opportunities previously identified, which are recorded in the savings tracker. The Division is active in seeking income maximisation opportunities through lease review/renewals, business park development and digital space opportunities.

3.22 A motion approved by Council, on 31 May 2018, stated "*Agrees that within two cycles the AMS report to the Finance and Resources Committee will review the process for assessing potential property use when property falls vacant, when a lease is terminated or when property is declared surplus to requirements. The process should look at Committee decisions or delegated decisions and consider what criteria are used in coming to a decision or recommendation, for example, local or city need and demand for services, community views and engagement, investment needs and best value."* This was also discussed at the recent workshop on 22 August.

3.23 Analysis of previous decisions, taken over the past 5 years, with both capital and revenue implications, has been undertaken and demonstrates that the process for engagement in both sales and leases are robust, fair, and auditable, particularly following the introduction of the Community Empowerment Act.

3.24 The majority of Council surplus sites are now transferred to the Housing Revenue Account (HRA) for housing development purposes, recognising citywide pressures on affordable housing supply. The Place Development Division (housing teams) plans their consultation depending upon the merits of each asset, for example, the Consultation and Engagement Plan for housing-led development of the former Powderhall depot proposes "Tell us about Powderhall" community events; Stakeholder 'surgeries', Client Group 'option review' workshops; and public consultation before presenting a vision to key stakeholders and the public to review and discuss.

3.25 The minority of sites marketed are subject to the requirements of the Community Empowerment Act where any community body can submit a participation request. This has happened following the recent marketing of Portobello Powerleague pitches and Comiston Farmhouse, with the output of the latter being presented to Committee in October.

3.26 The commercial property investment estate is more complicated due to the reasons relating to how the Council sets its budget as set out earlier in this report. Previous decisions, relating to concessionary or part concessionary sales/leases have been considered in recent years as below:-

- Former Grassmarket Nursery – 6VT;
- Riddle's Court, Lawnmarket – SHBT;
- Broomhouse Centre;
- Bridgend Farmhouse and Steadings;
- Former British Rubber Co. Buildings – Printmakers;
- Balerno Community Centre;
- Braidwood Gate, Dumbiedykes – Braidwood Bike Club;
- Manse Road, Kirkliston – 1st Kirkliston Scout Group;
- Portobello Toddlers Hut;
- The Venchie, Niddrie Mains Terrace, Craigmillar;
- Roseburn Park former toilets – friends of Roseburn park
- Roseburn Park Armory Building – Murrayfield DAFS Cricket Club;
- Port Edgar – Port Edgar Yacht Club;
- Thistle lawn Tennis Club; and
- Prestonfield Tennis and Sports Association.

3.27 The above demonstrates that Committee can, and should continue to authorise concessionary and/or part concessionary lets only when it considers it appropriate to do so. Analysis of the above, shows that there is no single common denominator in the decision-making process. Consequently, it is proposed that the rules in this area remain, that is, no new concessionary lets be approved unless explicitly authorised by the Finance and Resources Committee, with each case being considered on its own merits.

Summary

3.28 The original AMS approved in 2015 assumed significant financial and non-financial benefits associated with asset management and the Property and Facilities Management Service which were in line with the wider objectives of the Council's Transformation Programme, at that time. Significant non-financial benefits have been delivered as detailed in this report together with, to date, £2.68m of recurring savings.

3.29 Moving forward the underlying principles of the AMS will remain the same but the approach will adapted to seek to address the challenges identified in this report. The next steps will be translate this approach into financial realisation, which will be reported to future meetings of Committee.

4. Measures of Success

4.1 The AMS business case identified significant financial and non-financial benefits associated with the asset management and Property and Facilities Management function that are in line with the wider objectives of the Council's Transformation Programme.

5. Financial impact

5.1 The tracker below shows the consolidation of the AMS savings and the additional savings added as part of 2018/19 budget saving exercise. The movement from June shows approx. £400k moving from amber to green.

5.2 Committee should note that there is an expectation that the service will contribute significantly to future budget requirements for financial year 2019/20 and beyond and is actively working on these proposals.

CONSOLIDATED FORECAST SAVINGS

RED	0	3.106	2.739	2.424
AMBER	0	0.543	1.068	1.218
GREEN	1.603	3.383	3.595	3.790
TOTAL	**1.603**	**7.032**	**7.432**	**7.432**

6. Risk, policy, compliance, and governance impact

6.1 The following are the identified risks to the delivery of the AMS as currently defined:

- there is a risk that the financial assumptions underpinning the original business case cannot be achieved as originally anticipated;
- there is a risk that a lack of stakeholder and political support for the Property and Facilities Management transformation proposals leads to a failure to deliver the agreed cost savings;
- there is a risk that an economic downturn in the property rental market results in reduced income;
- there is a risk that proposals for estate rationalisation through a renewed locality led asset integration approach are delayed and/or re- shaped through the processes of stakeholder engagement;
- there is a risk that the additional coverage required from FM will erode savings in the AMS programme;

- there is a risk that a delay to the implementation of Computer Aided Facilities Management (CAFM) impacts on the delivery of the Blueprint and cost savings profile; and
- there is a risk that a lack of capital funding, due to budget constraints, leads to the Councils inability to reduce the backlog maintenance across the estate.

7. Equalities impact

7.1 The contents and proposals of this report have been assessed with respect to the Equality Act 2010 public sector equality duty. In this regard, an equality and rights impact assessment has been initiated, and initial findings have indicated: -

7.1.1 reducing property costs will enable greater savings to be realised, which in turn will enable more effective protection of frontline services to vulnerable citizens, and meeting demographic pressures;

7.1.2 projects exploring the feasibility of asset transfer to community groups could empower communities, particularly those in deprived communities;

7.1.3 any impacts on employment conditions as a result of different service delivery models will be assessed further through the impact assessment process;

7.1.4 any changes to concessionary lets to third sector and community groups, and consequent impacts, could be managed through the grants and contracts process;

7.1.5 co-location opportunities, if delivered, could improve and simplify access to council and partner services, especially those individuals or families who require multiple services; and

7.1.6 proposals to improve the coordination of asset management, and to drive forward property rationalisation, should lead to improvements in physical accessibility at council premises.

8. Sustainability impact

8.1 The contents and proposals contained in this report have been assessed with respect to the Climate Change (Scotland) Act 2009. In this regard, a sustainability, adaptation and mitigation impact assessment has been initiated, and initial findings have indicated:

8.1.1 proposals to improve the coordination of asset management, and to drive forward property rationalisation, should lead to improvements in physical accessibility at council premises;

8.1.2 a need to further improve energy efficiency within council buildings in order to tackle greenhouse gas emissions, and to save money on energy costs and carbon taxes;

8.1.3 a need to further improve internal waste reduction measures within council buildings, linked to the council's wider waste minimisation strategy. Such improvements will lead to savings being released from landfill taxes and carbon taxes, and will militate against greenhouse gas emission which emanate from landfill;

8.1.4 opportunities to minimise staff travel through smarter working and co-location across the council's estate should save the council money on transport costs, carbon taxes and will militate against greenhouse gas emissions; and

8.1.5 any future facility management service delivery models would need to take cognisance of the 'Food for Life' and 'Soil Association' accreditation projects to ensure the food provided in council premises was sustainable, sourced locally and seasonal.

9. Consultation and engagement

9.1 Communications have been established with the Trade Unions and regular meetings are held in relation to transformation. Engagement across the Council and with wider stakeholder groups has been, and continues to be, widespread in relation to the re-design of the FM function.

10. Background reading/external references

10.1 Please refer to: September 2015, November 2015, January 2016/March 2016, June 2016, September 2016 (item 7.2) December 2016 , February 2017, January 2018 and June 2018 Finance and Resources Committee papers.

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11. Appendices